

Annual Report Sustainability Report

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**Annual Report
Sustainability Report**



2018 Annual Report

March 6, 2019

ITALMOBILIARE

Società per Azioni

Head Office: Via Borgonuovo, 20

20121 Milan - Italy

Share Capital € 100.166.937

Milan Companies Register

Translation from the Italian original version which remains the definitive one.

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Letter to the Shareholders

2018 was another year of intense activity that saw us continue to build and develop the company's investment portfolio. The acquisitions we completed during the year through constructive relations with outstanding companies and entrepreneurs confirmed and consolidated our role as a strategic partner and long-term investor, able to provide managerial and industrial expertise as well as financial resources. Despite business and financial conditions that, contrary to the positive forecasts at the beginning of 2018, proved to be some of the most difficult of recent years, we can take satisfaction in our work.

The search for interesting, dynamic activities led us to analyze numerous dossiers, as a result of which we identified a number of valid diversification and development opportunities. The new investments were finalized with the formulation of specific targeted solutions on a basis of exclusivity, an approach consistent with our industrial and entrepreneurial vision.

In this way, in just over twelve months, we reached agreements for four acquisitions: **Tecnica Group**, acquired at the end of 2017, was joined in 2018 – for investments totaling an overall amount of around 180 million euro – by a majority holding in **Caffè Borbone** (one of Italy's leading producers and distributors of coffee pods and capsules) and a qualified minority stake in **Iseo** (active in mechatronic access control systems and present on the main European markets). Toward the end of the year, negotiations went ahead for the acquisition of a minority shareholding in **Autogas Nord** (a leading Italian LPG distributor); the transaction was completed in early January 2019, for an additional investment of approximately 60 million euro.

To respond adequately to the challenges on its core markets, Italmobiliare strengthened its management team, paying particular attention to providing its investees with management and strategic support.

During the year, in part thanks to our support for their business development, Caffè Borbone and Tecnica Group outperformed their budget growth projections, and reported significant value creation.

Italmobiliare is currently engaged in selecting operations consistent with its mission as an **active investor** in industrial companies, while investments of a purely financial nature are taking more of a secondary role.

Our NAV was 1,421.4 million euro at the end of 2018, against 1,545.2 million at the end of 2017, reflecting the evolution in the quality of the company's assets. It is important to note that the revaluations of our portfolio companies (with an increase in value of approximately 70 million euro) partly offset the writedowns on our equity investments in listed companies, notably HeidelbergCement and Mediobanca, whose stock prices were at minimum values at the end of the year, although, since then, in this first quarter, they have made a partial recovery.

Net Asset Value 2018

Real estate and related activities
51.4 million euro

Other investments
72.8 million euro

Financial assets, trading and cash
344.9 million euro



Investments in listed companies
326.0 million euro

Portfolio Companies
497.5 million euro

Private Equity
128.8 million euro

Many initiatives were launched and will be carried forward during 2019: chiefly, the consolidation of Caffè Borbone's growth in Italy on all distribution channels, the continued re-focusing of the Tecnica Group's portfolio of iconic brands, the implementation of efficiency and development plans at **Italgen**, **Sirap** and Iseo and, lastly, support for Autogas Nord, which, through its collaboration with Italmobiliare, has successfully completed the acquisition of Lampogas, positioning itself as a primary player on the Italian LPG distribution market.

Constant attention will also be devoted to the horizontal development lines identified with the management teams of all the portfolio companies: the pursuit of operational efficiency, the implementation of marketing and brand enhancement operations, as well as targeted M&A activity, in order to accelerate growth through acquisitions. Finally, we developed effective solutions to manage human resources and attract talents, which will continue this year in parallel with the implementation of management and control systems and the adoption of best corporate governance practices, which have already led the boards of our associates to introduce independent directors, risk monitoring bodies and a range of assessment and audit activities.

Risk monitoring, at the level of our overall portfolio, was further strengthened by an analysis to map key factors (regulatory, environmental, market, macro, technological) and formulate appropriate risk mitigation initiatives with the companies' management teams. The analysis showed that the Italmobiliare portfolio's overall risk level was in line with global stock indices, with adequate levels of diversification and decorrelation. Also, exposure to the Italy "country risk" was evenly spread: given 60% of investments in companies with registered offices in Italy, the actual geographical distribution of turnover reflects exposure to the Italian market limited to around 40%, with 34% arising from sales in other European countries and 26% in the rest of the world.

Backed by this analytical assessment of our portfolio, in 2019 we shall maintain a selective approach in our search for new investments – with a priority focus on businesses with an international vocation and high technology content operating in complementary sectors – to confirm a strategic approach guided by our many direct relationships with the most dynamic players in the Italian business community.

We should also underline the priority we attach to relations with our investors. As part of our initiatives to support shareholder value, after the 100 million euro voluntary public tender offer of June 2017 and the preceding conversion of savings shares into common shares, the Board of Directors will ask the AGM to cancel almost all the treasury shares held by the company.

Finally, with a view to strengthening and improving our reputation in the financial community and fostering livelier trading of Italmobiliare shares, we augmented our Investor Relations activities: our stock is now covered by analysts from several leading brokers and we have begun holding meetings with the top financial players in both Europe and the USA, so that we can share our renewed mission and development goals with a wider and more diversified investor base.



Laura Zanetti



Carlo Pesenti



Laura Zanetti
Chairperson



Carlo Pesenti
Chief Executive Officer and
Chief Operating Officer

Our achievements

Group key financial and business data

(million euro)	2018	2017	2016	2015 IFRS 5
Revenue	463.1	507.6	451.0	402.0
Gross operating profit (loss)	41.2	146.6	57.8	(2.0)
Operating profit (loss)	21.3	127.6	37.4	(19.0)
Profit (loss) for the year	31.7	115.2	68.2	54.8
Profit (loss) attributable to owners of the parent	27.7	115.0	57.0	7.0
Capital expenditure	435.8	141.8	356.0	32.3
Total equity	1,302.3	1,373.7	1,334.2	4,329.5
Equity attributable to owners of the parent	1,202.5	1,373.3	1,325.0	1,838.6
Net financial position (debt)	222.3	494.8	493.5	(2,081.7)
Dividend paid per share:				
ordinary	0.55	0.55	1.000**	0.400**
savings			***	0.478
Employees (headcount)	1,799	1,417	2,067	1,917*

* relating to continuing operations

** before share splitting 2:1 (May 2017)

*** converted into ordinary shares (September 2016)

Our investments: Portfolio Companies



Sirap

Sirap is one of the most qualified fresh food packaging producers in Europe, with 10 production plants and 32 distribution centers in 15 European countries.

The group develops innovative solutions for all fresh food packaging needs: rigid containers in XPS (polystyrene foam), PET and PP (polypropylene) for all food applications. It provides a wide range of trading products for the fresh food industry and for retail applications.

EQUITY STAKE: 100%



Italgen

Italgen is a producer and distributor of electricity from renewable energy sources.

The company manages 17 hydro power plants and over 300 kilometers transmission lines in northern Italy and has a significant stake in two wind farms in Bulgaria (18MW).

EQUITY STAKE: 100%



Caffè Borbone

Caffè Borbone, is one of the top names on the national market and the leading provider of compatible capsules and pods.

Over the last few years, the company has expanded at an annual rate of 40%, reporting turnover supported by its market position in the fastest-growing segment of capsules and pods which are distributed through specialist shops, the online channel and, more recently, the mass merchandising channel. Compatible capsules and pods are currently the most dynamic area in coffee sales, with a significative positive trend.

EQUITY STAKE: 60%



**TECNICA
GROUP**

Tecnica Group

Tecnica Group, the main Italian group in the sport sector, is the leading manufacturer of outdoor footwear and ski equipment, with a brand portfolio including some of the industry's historic names: *Tecnica* (ski boots and footwear), *Nordica* (skis and boots), *Moon Boot* (footwear), *Lowa* (trekking shoes), *Blizzard* (skis) and *Rollerblade* (inline skates).

The Group operates on all the main international markets with revenues arising for more than 90% from international sales. On the global amount, more than one third of the turnover is from winter alpine sports and the remaining is related to the outdoor and skating sectors.

EQUITY STAKE: 40%



Iseo

Iseo designs, manufactures, and distributes locks, cylinders, padlocks, and related security and safety equipment such as emergency exits devices and door closers.

Since 2010, the Group develops digital solutions and innovative security systems for access control thanks to proprietary software and firmware, and opened a dedicated research center.

Iseo is the second Italian player with a significative market share. Moreover, the company operates –also through acquired companies –in France, Germany, Spain and Middle East.

EQUITY STAKE: 40%



Clessidra

Clessidra SGR is the leading manager of Private Equity funds exclusively dedicated to the Italian market through the funds Clessidra Capital Partners, Clessidra Capital Partners II and Clessidra Capital Partners 3, where Italmobiliare is the anchor investor.

EQUITY STAKE: 100%

Sesaab Group

L'ECO DI BERGAMO

La Provincia

The Sesaab Group is a publisher in the Lombardy area (L'Eco di Bergamo, La Provincia di Como).

EQUITY STAKE: 7%

Ses

Gazzetta del Sud

GIORNALE DI SICILIA

The Società Editrice Sud publishing group covers information in a wide area of Southern Italy through La Gazzetta del Sud and Il Giornale di Sicilia.

EQUITY STAKE: 31%

Our investments: Investments

HEIDELBERGCEMENT

JAGGAER



MEDIOBANCA



Our investments: Private Equity

CLESSIDRA
Capital Partners

BDT CAPITAL
PARTNERS

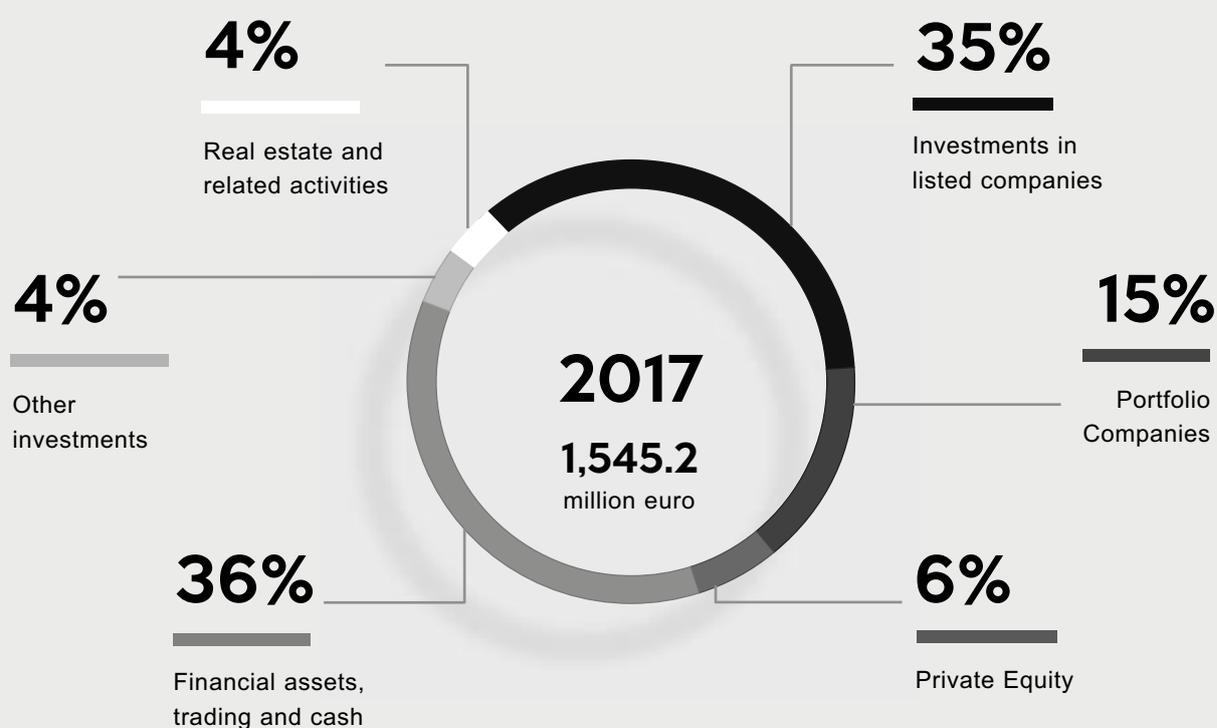
Aksia group

ISOMER
CAPITAL

Net Asset Value 2017 (not including treasury shares in portfolio)

Changes in the portfolio composition

Bravosolution	OUT
Jaggaer	IN
Tecnica Group	IN



(million euro)

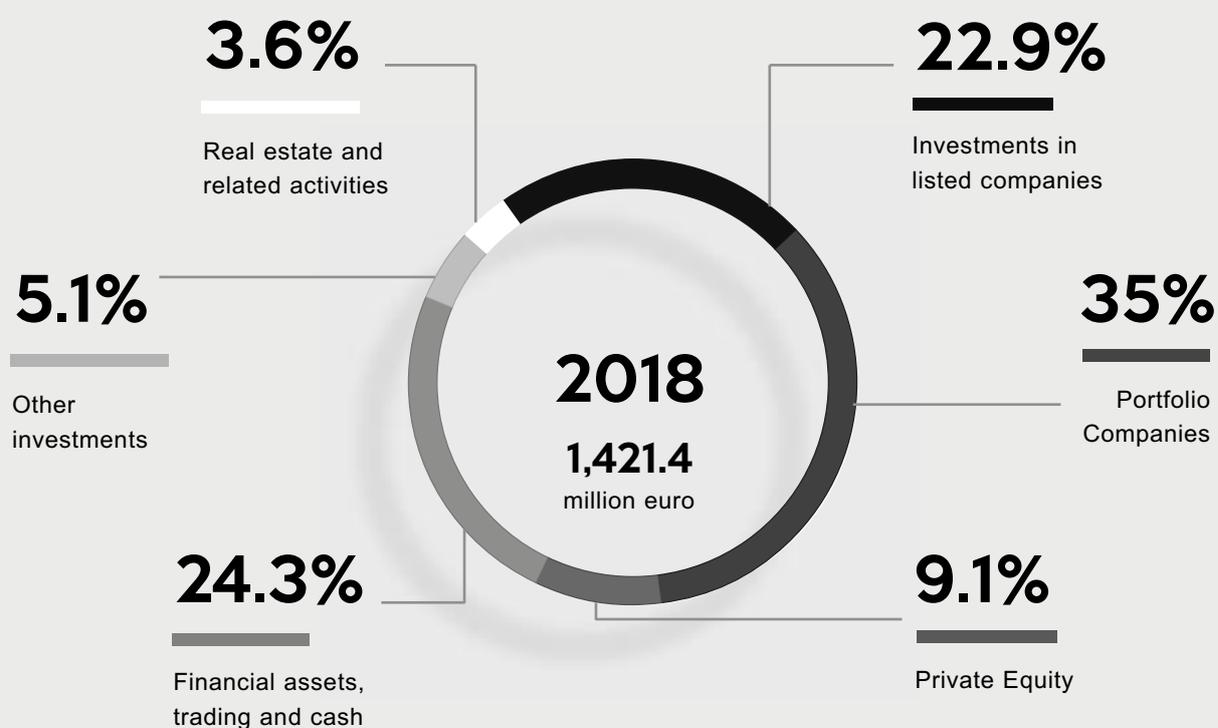
● Investments in listed companies	544.4
● Portfolio Companies	239.7
● Private Equity	95.1
● Financial assets, trading and cash	549.3
● Other investments	58.9
● Real estate and related activities	57.7
Total NAV at December 31, 2017	1,545.2

Nav per share	36.8€
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Net Asset Value 2018 (not including treasury shares in portfolio)

Changes in the portfolio composition

Iseo	◀ IN
Caffè Borbone	◀ IN



	(million euro)
● Investments in listed companies	326.0
● Portfolio Companies	497.5
● Private Equity	128.8
● Financial assets, trading and cash	344.9
● Other investments	72.8
● Real estate and related activities	51.4
Total NAV at December 31, 2018	1,421.4
Nav per share	33.9€

Our history

1946

Through an Italcementi initiative, Italmobiliare is established to manage investments other than those in the construction materials segment.



1950s/ 60s

In addition to a presence in insurance (RAS), investments are developed in banking, with shareholdings in Banca Provinciale Lombarda, Credito Commerciale and 8 banks subsequently merged into Istituto Bancario Italiano. Acquisition of equity investment in Franco Tosi.

Franco Tosi

1970s

In 1976 an important minority shareholding is acquired in Bastogi, flanking the equity investment in Falck. In 1979 Italmobiliare becomes the holding for the entire Group when it acquires the majority of the common shares in Italcementi.

Italcementi SpA

1980s

In 1980 Italmobiliare is admitted for trading on the Milan Stock Exchange. In 1984 the equity investment in RAS is sold to Allianz, and Banca Provinciale Lombarda is acquired by San Paolo di Torino. From 1988/1990, a minority shareholding is acquired in Poligrafici Editoriale.



Borsa Italiana Archive, Palazzo Mezzanotte, Sala delle Grida

1990s

Internationalization of Italcementi with the acquisition of Ciments Français. After the privatization, Italmobiliare acquires an equity investment in Credito Italiano.



2000/ 2015

Diversification of the portfolio.



2016

After acquisition of direct control of Italgas and BravoSolution, the equity investment in Italcementi is sold to the German group HeidelbergCement. Acquisition of Clessidra Sgr, Italy's largest private equity player. 'Key investor' of Clessidra Capital Partner 3 (CCP3), which holds stakes in ABM Italia, Nexi, Cavalli.



2017

Purchase of a 40% share in Tecnica Group. Sale of BravoSolution and agreement with the Jaggaer group. CCP3 withdraws from ABM Italia.



2018

Purchase of a 60% equity investment in Caffè Borbone and a 40% equity investment in ISEO serrature. Sirap acquired 4 companies across Europe. The CCP3 fund acquires a stake in Scigno.



Corporate bodies

Board of Directors

(Term ends on approval of financial statements at 12.31.2019)

Laura Zanetti	1-7	Chairperson
Livio Strazzerà	1-7	Deputy Chairman
Carlo Pesenti	1-2	Chief Executive Officer - Chief Operating Officer
Vittorio Bertazzoni	3-6	
Giorgio Bonomi	4	
Mirja Cartia d'Asero	4-5-6	
Valentina Casella	4-5-6	
Elsa Fornero	5-6	
Sebastiano Mazzoleni		
Luca Minoli	1	
Chiara Palmieri	1-3-6	
Clemente Rebecchini	7	
Antonio Salerno	6	
Paolo Sfameni	3-6-8	
Afra Casiraghi		Secretary to the Board

Board of Statutory Auditorse

(Term ends on approval of financial statements at 12.31.2019)

Standing statutory auditors

Francesco Di Carlo	Chairman
Angelo Casò	
Luciana Ravicini	

Substitute statutory auditors

Alberto Giussani
Paolo Ludovici
Giovanna Rita

Manager in charge of financial reporting

Mauro Torri

Independent Auditors

KPMG S.p.A.

1 Member of the Executive Committee

2 Director in charge of the internal control and risk management system

3 Member of the Remuneration and Nomination Committee

4 Member of the Risks and Sustainability Committee

5 Member of the Committee for Transactions with Related Parties

6 Independent director (pursuant to the Code of Conduct and Legislative Decree no. 58, February 24, 1998)

7 Independent director (pursuant to Legislative Decree no. 58, February 24, 1998)

8 Since July 31, 2018

Professional profiles of the members of the board of directors and the board of statutory

Board of Directors

Laura Zanetti

Director since November 14, 2013 and Chair since April 19, 2017

Born in Bergamo, July 26, 1970

Graduated with honors from the Bocconi University, where she is currently associate professor of corporate finance and director of the degree course in economics & finance.

Previously she was a member of the Steering Board of the Department of Finance, director of the Master of Science in finance at the Bocconi University and research fellow of the CAREFIN Center for Applied Research in Finance. She was also a visiting scholar at the Massachusetts Institute of Technology and the London School of Economics and Political Science.

She is a certified accountant and public accountant, a member of the foundation of the European Corporate Governance Institute, a director and statutory auditor of leading listed companies.

She is the author of many articles on corporate governance and company valuations.

Livio Strazzerà

Director since May 3, 2002 and Deputy Chair since April 19, 2017

Born in Trapani, July 23, 1961

Degree in economics & commerce – Luigi Bocconi University, Milan.

Accountant in Milan and registered public accountant.

Tax consultant, director and statutory auditor of a number of business corporations.

Carlo Pesenti

Director since June 17, 1999

Born in Milan, March 30, 1963

Degree in mechanical engineering – Milan Polytechnic.

Master in economics & management – Bocconi University, Milan.

He began his career in the Italcementi Group, and was Chief Executive Officer from 2004 to 2016.

Since 1999, he has been a member of the Board of Directors of Italmobiliare, an investment holding listed on the Milan Stock Exchange. In 2001 he was appointed Chief Operating Officer and in May 2014 Chief Executive Officer.

Among the Group investees, he is Chair of Clessidra SGR and a member of the Board of Directors of Tecnica Group and of Caffè Borbone.

After chairing the Confindustria Reforms Commission, he became a permanent member of the confederation's General Council, of which he was Deputy Chair (2014-2016).

Since June 2015, member of the Steering Council and Board of Assonime.

Since 2017, member of the Advisory Board of Assolombarda.

From 2006-2008, Co-President of the Italo-Egyptian Business Council. He is also a member of the board of the Italy-India CEO Forum and Co-President of the Italy Thailand Business Forum.

President of the Fondazione Cav. Lav. Carlo Pesenti, active in no-profit projects for social, economic, technological, scientific and cultural innovation.

Vittorio Bertazzoni

Director since April 19, 2017

Born in Parma, March 29, 1976

Degree in law from the University of Parma.

After graduation, he began his career at Arthur Andersen in the financial auditing sector, gaining international experience first at the New York office (USA) and later in Italy.

Subsequently, he worked with the Studies Office of Mediobanca S.p.A.

He is currently Deputy Chair and Chief Executive Officer of SMEG S.p.A., an Italian electrical household appliances manufacturer.

He is also Deputy Chair and Chief Executive Officer of ERFIN S.p.A., the family group holding company.

Giorgio Bonomi

Director since May 3, 2002

Born in Bergamo, November 2, 1955

Degree in law – Milan State University.

Law practice in Bergamo. Public accountant.

Mirja Cartia d'Asero

Director since April 19, 2017

Born in Catania, November 22, 1969

She holds a degree in law from the University of Catania, and a specialization in real estate finance. She has been a member of the Italian bar association since 1996.

From 1996 to 2005, she worked in banking and finance at the Clifford Chance law firm (Rome – London) and the Allen & Overy law firm (Milan). From 2005 to 2017 she was with Lehman Brothers (London – Milan) holding various posts in the Global Real Estate Group and – since 2008 – in Administration. Since 2014 she has been Chief Executive Officer of Restar, a non-performing loans platform she co-founded for the US Varde Fund.

She is a director of FNM S.p.A.

Valentina Casella

Director since April 19, 2017

Born in Boston (USA), October 19, 1979

She holds a degree in law from the University of Milan, and a specialization in business law and corporate economics, as well as a Master in Laws from Columbia University and an M.B.A. from INSEAD.

She has been a member of the Italian bar association since 2006 and of the New York State bar association since 2008.

From 2007 to 2012 she was an associate of the Simpson Thacher & Bartlett law firm (New York).

She has been a partner of the Casella e Associati practice since 2014.

Elsa Fornero

Director since July 27, 2017

Born in San Carlo Canavese (Turin), May 7, 1948

Full professor of political economics at the Socio-Economic and Mathematical-Statistical Department (ESOMAS) at the University of Turin; scientific coordinator of the Center for Research on Pensions and Welfare Policies; vice president of the Survey of Health, Ageing and Retirement in Europe); honorary senior fellow at the Carlo Alberto College, research fellow at the Netspar Network for Studies on Pensions, Aging and Retirement and policy fellow at the Institute for the Study of Labor (IZA) in Bonn.

She is also a member of the research committee of the International Network on Financial Education (INFE) of the OECD and of the scientific committee of the Observatoire de l'Épargne Européenne (Paris).

She is a director of Centrale del Latte d'Italia and of Buzzi Unicem.

From November 16, 2011 to April 28, 2013 she was Minister of Employment and Social Policies, with responsibility for Equal Opportunities, in the government formed by Mario Monti. As Minister, she introduced reforms in pensions and the jobs market (approved by Parliament at the end of 2011 and in mid-2012 respectively).

She has published articles on public and private pensions systems, pensions reform, the ageing population, household savings, pension and life insurance decisions.

Sebastiano Mazzoleni

Director since May 25, 2011

Born in Milan, May 11, 1968

Degree in geology - Milan State University.

Master in Business Administration – Bocconi Business School, Milan.

He began his professional career in 1996 with CTG S.p.A. as a research geologist in charge of assessing raw materials for cement production, coordinating work groups in Italy, France, Spain and Thailand.

In 2000, he moved to the Italcementi S.p.A. Marketing Division, with joint responsibility for drawing up new product marketing plans and benchmark analyses for development of competitive positioning models.

In 2003, he was involved in the creation of the new Group division “New Product Marketing”, and was head of innovation for USA, Greece, Bulgaria, Turkey, Egypt, Thailand, Kazakhstan and India until 2009. Group manager in charge of the new project for enhancement of recoverable resources.

Since 2010 he has been involved in non-profit, social entrepreneurship and consultancy on innovation.

Luca Minoli

Director since May 3, 2002

Born in Naples, January 29, 1961

Degree in law, *magna cum laude*, 1985 – Milan State University.

Member of the Italian bar association since 1988. Registered member of the Order of Cassation Lawyers since 2006.

1986 to 1987, associate of Hughes Hubbard & Reed in New York. First associate, later partner from 1991 of the Ardito law firm. Partner, from 2004 to 2012, of the Dewey & LeBoeuf law firm. Partner of the Gattai, Minoli, Agostinelli & Partners law firm.

Chiara Palmieri

Director since April 19, 2017

Born in Milan, December 9, 1970

She has worked in finance for more than twenty years and is currently Chief Operating Officer of Laprima Holding S.r.l., an Italian family office.

She is a lecturer at the Bocconi University. She is a director of Snaitech S.p.A and sits on the Management Committee of Amref Health Africa Onlus-Italia. Previously she was a director of Poste S.p.A. Earlier, she worked in London for more than ten years, at Morgan Stanley, Credit Suisse and Goldman Sachs, where she was Chief Operating Officer and an executive director of the Private Wealth Management division for Europe and Asia.

She graduated *summa cum laude* from the Bocconi University, is a certified accountant and obtained a CEMS Master from the HEC-Paris University, after an exchange on the MBA program of the Stern School – New York University.

Clemente Rebecchini

Director since May 25, 2011

Born in Rome, March 8, 1964

After graduating in economics & commerce, in 1988 he qualified as a certified accountant. In 1989 he joined Mediobanca, where he is currently Central Director with responsibility for the Principal Investing division.

He was a director of Gemina S.p.A., Atlantia S.p.A., Aeroporti di Roma and Telco S.p.A., where from 2012 to 2015 he was also Chair of the Board of Directors.

Current posts

- Deputy Chair of Assicurazioni Generali S.p.A.
- Director of Istituto Europeo di Oncologia S.r.l.
- Central Director with responsibility for the Principal Investing division at Mediobanca S.p.A.

Antonio Salerno

Director since April 19, 2017

Born in Catanzaro, May 6, 1974

He holds a degree in economics and banking science from the University of Siena, and a Master in International Finance from the University of Amsterdam.

He developed his expertise in corporate governance, strategic analysis and company valuations first at Deminor as a corporate governance consultant (2000-2004) and later as an analyst and then investment manager at Hermes European Focus Fund (2005-2012).

Since 2012 he has been investment manager at RWC European Focus Fund.

Paolo Sfamini

Director since July 31, 2018

Born in Milan, November 25, 1965

Degree in economics & commerce from the Bocconi University, Milan.

Registered on the Order of Certified Accountants and the Roll of Account Auditors.

Independent consultant on corporate law, and banking and financial market law.

He was previously a director of Italmobiliare from 2011 to 2017.

Associate professor in commercial law and professor in financial market law at the Aosta Valley University.

Adjunct professor in financial brokerage law on the jurisprudence course at the Luigi Bocconi University, Milan.

Professor on the F. Stella company's master's degree in criminal law, Milan Catholic University.

Member of the editorial committee of law journals and author of papers on corporate law.

His other positions include director of Allianz Bank Financial Advisors S.p.A., bondholders' representative at Mittel S.p.A., Chair of the Board of Statutory Auditors of Vorwerk Management S.r.l., Chair of the Compliance Committee of companies including Italmobiliare S.p.A., Bayer S.p.A., General Electric Healthcare S.r.l., General Electric Medical Systems S.p.A., Techint S.p.A. and Pirelli Tyre S.p.A.

Board of Statutory Auditors

Francesco Di Carlo

Born in Milan, October 4, 1969

Degree in economics & commerce from the Catholic University of Milan. Registered on the Milan Order of Certified Accountants and the Roll of Account Auditors.

Charter member of the Craca Di Carlo Guffanti Pisapia Tatozzi & Associati studio since January 2014, and for many years has provided consultancy for leading Italian and international corporations on corporate, banking, financial market, insurance, listed issuers and anti-laundering law.

He began his professional career in 1995. In 1996 he joined the Pirola, Pennuto, Zei e Associati studio and in 2000 was a charter member of the Annunziata e Associati practice, where he worked until December 2013.

From 2007 to 2016 he was President of the Law & Legal and Fiscal Consultancy Commission at the Italian Private Banking Association, of which he is still a member today. He is a standing auditor of Mediobanca S.p.A. and Clessidra SGR S.p.A.; a director of Milano Investment Partners SGR S.p.A.

Among previous posts, he was Chair and director of Pitagora S.p.A.; a director of Duemme SGR S.p.A.; Chair of the Board of Statutory Auditors of Equita SIM S.p.A., Equita Group S.p.A. and Idea Capital SGR S.p.A.; standing auditor of Vontobel SGR S.p.A. and Whirlpool EMEA S.p.A.; Chair of the Supervisory Body of Intek S.p.A., Kairos Partners SGR S.p.A. and Kairos Julius Baer SIM S.p.A. and Banca Leonardo S.p.A.

He has lectured at the Catholic University in Milan and at the University of Bologna, in the Economics Faculty. He has lectured on juridical issues at the Bocconi University Business School.

He speaks frequently at conferences in Italy and abroad on topics relating to his area of specialization.

Angelo Caso'

Born in Milan, August 11, 1940

Degree in economics & commerce from the Luigi Bocconi University, Milan.

Registered on the Milan Order of Certified Accountants and the Register of Account Auditors.

He chaired the Fédération des Experts Comptables Européens (F.E.E.) from 1991 to 1993, after serving as Deputy Chair for six years.

Since 1993 he has cooperated with the International Federation of Accountants (IFAC), holding a variety of roles on committees and the Board.

He was a member of the IFAC Compliance Advisory Panel Committee.

Member of the Milan Arbitration Chamber from 1998 to 2005.

Since 2008 he has chaired the Management Committee of the Organismo Italiano Contabilità (OIC), and from 2004 to 2008 chaired the OIC Scientific Technical Committee.

Board member of EFRAG since January 1, 2015.

Milan court-appointed receiver, judicial receivership commissioner, extraordinary commissioner and liquidator of insurance companies, company liquidator appointed by shareholders and the court of Milan.

He has been a certified accountant since 1965 with offices in Milan.

He is currently Chair of the Board of Statutory Auditors of Bracco Imaging S.p.A., Bracco S.p.A., Benetton Group S.r.l., Benetton S.r.l., Bic Italia S.p.A., Edizione S.r.l. and Falck S.p.A.

Luciana Ravicini

Born in Milan, January 10, 1959

Degree in economics & commerce – University of Brescia.

Registered on the Brescia Order of Certified Accountants.

Registered on the Register of Public Accountants.

She is a practicing certified accountant and public accountant.

Her professional assignments have allowed her to gain broad experience, notably in financial, fiduciary and industrial companies, and to accrue detailed knowledge in legal and tax matters.

She is currently Chair of the Board of Statutory Auditors of Berna Ernesto S.p.A., BMSP S.p.A., Bonera S.p.A., Molemab S.p.A., Saottini Auto S.p.A., Serum Italia S.p.A. and Iseo Serrature S.p.A.

She is also Sole Auditor of Autobase S.r.l., Finsippe S.r.l. and Sige S.r.l.; and Standing Auditor of Almag S.p.A., Bival S.p.A., Brawo S.p.A., Doc Servizi Soc. Coop. and Pronto Assistance Servizi Soc. Consortile a r.l. (Unipol Group).

She has also gained experience as a director in a company listed on the Milan Stock Exchange, where she also chaired the Committee of Independent Directors and was a full member of the Audit and Risk Committee.

Notice of call of Ordinary and Extraordinary Shareholders' Meeting

(published on the Company's website on March 15, 2019)

Those entitled to vote at the Italmobiliare S.p.A. Shareholders' Meeting are hereby called to attend the Ordinary and Extraordinary Shareholders' Meeting in a single call on **April 17, 2019, at 10.30 a.m.**, at the Intesa Sanpaolo Meeting Room, Piazza Belgioioso 1, Milan, to resolve upon the following

Agenda

Extraordinary Meeting

1. Proposed cancellation of 5,133,800 treasury shares without reduction of the share capital and consequent amendment of article 5 of the Company's by-laws.

Ordinary Meeting

1. Financial statements at 31 December 2018 and allocation of the net income.
2. Appointment of a director.
3. Appointment of the external auditor for the years 2019-2027.
4. Authorization to buy back and dispose of treasury shares, subject to revocation of the authorization given by the Ordinary Shareholders' Meeting held on April 18, 2018.
5. Consultation on the first section of the remuneration report pursuant to article 123-ter, subsection 6, Legislative Decree 58/1998.

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Entitlement to participate and vote at the Shareholders' Meeting

Those who hold voting rights at the end of the seventh market trading day prior to the date scheduled for the Shareholders' Meeting in a single call (8 April 2019 – Record date) are entitled to participate in the Shareholders' Meeting.

Those who prove to be holders of ordinary shares of the Company after said date will not be entitled to participate or vote at the Shareholders' Meeting.

Credit and debit entries registered in the accounts after the above-mentioned deadline shall not be considered for the purpose of legitimising the exercise of voting rights at the Shareholders' Meeting.

Entitlement to participate in the Shareholders' Meeting and to exercise the right to vote is attested by a notice served by the authorized intermediary to the Company, in compliance with the intermediary's accounting records, in favour of the person/entity entitled to vote. Said notice must reach the Company before the end of the third market trading day (i.e. by 12 April 2019) prior to the scheduled date of the Shareholders' Meeting. The right to participate and vote shall not be affected if the Company receives the notice after the above-mentioned deadline, provided that it is received before the start of the shareholders' meeting.

Procedures for voting by correspondence or by means of electronic devices are not provided for.

The regular constitution of the Shareholders' Meeting and the validity of the resolutions on the items on the agenda are governed by law.

Vote by proxy

Those entitled to participate in the Shareholders' Meeting may be represented by means of written proxy pursuant to current law, using the form available at the registered offices (**via Borgonuovo 20, 20121 Milan**) and on the Company's website www.italmobiliare.it, in the *Governance/ Shareholders' Meetings* section.

The Company may be notified of the proxy by registered letter sent to the registered offices (*Corporate Affairs Department*, at the address indicated above) or by email to the certified email address affarisocietari.italmobiliare@legalmail.it. The proxy-holder may also deliver or send to the Company a copy of the proxy in substitution of the original, on an electronic support if preferred, attesting under his/her own responsibility that the proxy is a copy of the original and the identity of the delegating party.

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Supplementation of the agenda and presentation of new resolution proposals

Shareholders who own, even jointly, at least one fortieth of the share capital represented by shares with voting rights may request, in writing, within ten days of publication of this call notice, that the agenda of the Shareholders' Meeting be supplemented, indicating in the request the additional topics they are proposing or submitting proposals for resolutions on topics that are already on the agenda. The requests must be sent by registered letter to the registered offices (*Corporate Affairs Department* - at the address indicated above) or by email to the certified email address affarisocietari.italmobiliare@legalmail.it, accompanied by the appropriate documentation attesting ownership of the aforementioned shareholding issued by the authorized intermediary and proving entitlement to exercise the aforementioned right. By said deadline and using the same procedures, the Board of Directors must be given a report on the proposed topics for discussion or the reason for the additional resolution proposals submitted on the topics already on the agenda.

Those entitled to vote may individually submit resolution proposals at the shareholders' meeting.

Any supplements made to the agenda or the submission of additional resolution proposals on items already on the agenda will be announced in the same forms laid down for the publication of this call notice, at least fifteen days prior to the date scheduled for the Shareholders' Meeting (namely 2 April 2019); at the same time, the report prepared by the shareholders making the proposal, accompanied by any assessments by the Board of Directors, will be made available to the public.

Supplements to the agenda are not accepted for items on which the Shareholders' Meeting resolves, by law, on the proposal of the directors or on the basis of a project or a report drawn up by the directors.

Right to submit questions on the items on the agenda

Those entitled to vote may submit questions on the items on the agenda even before the Shareholders' Meeting. The requests should be received by 14 April 2019, sent by registered letter to the registered offices (*Corporate Affairs Department* - at the address indicated above) or by email to the certified email address affarisocietari.italmobiliare@legalmail.it accompanied by the appropriate documentation attesting entitlement to exercise voting rights issued by the authorized intermediary.

Questions submitted by the deadline indicated shall be answered at the latest at the Shareholders' Meeting. The Company may provide a sole answer to questions with the same content.

Appointment of a Director

On 25 July 2018 Massimo Tononi resigned from the office of director with immediate effect. Thereafter, on 31 July 2018, the Board of Directors co-opted Paolo Domenico Sfameni as the new director. The Shareholders' Meeting is therefore called upon to resolve on the replacement with a relative majority of the capital represented at the Shareholders' Meeting, pursuant to art. 16 of the By-laws.

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Documentation

The documentation relating to the items on the agenda, the directors' report to the Shareholders' Meeting with the proposed resolutions, along with the other information required by current legislation, will be made available to the public within the deadlines set by law at the registered offices, on the Company's website www.italmobiliare.it in the Governance/Shareholders' Meetings section, and on the authorised storage system *eMarket-STORAGE* at the address www.emarketstorage.com.

Shareholders are entitled to examine all the documents filed at the registered offices and to obtain a copy of them at their own expense.

Documents required by article 2429 of the civil code, paragraph 3 and 4, will be made available within the deadlines set by law at the registered office.

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Information on the share capital and shares with voting rights

It is specified that at the date of publication of this notice:

the Company's share capital is divided into 47,633,800 ordinary shares without par value;

each ordinary share attributes the right to one vote;

the Company directly holds 5,685,870 treasury shares with suspended voting rights.

Any subsequent change to the number of treasury shares held will be published on the Company's website and announced at the start of the Shareholders' Meeting.

For the Board of Directors
Laura Zanetti
Chairperson

Directors' report

Foreword

The Italmobiliare Group consolidated financial statements as at and for the year ended December 31, 2018, and the corresponding figures for 2017, have been drawn up in compliance with the International Financial Reporting Standards (IFRS).

The changes and amendments in the IFRS and related interpretations (IFRIC) applicable to this Annual report are:

- IFRS 9 "Financial instruments";
- IFRS 15 "Revenue from contracts with customers" including related amendments and clarifications;
- IFRIC 22 "Foreign currency transactions and advance consideration";
- IAS 40 "Transfers of investment property";
- IFRS 2 "Classification and measurement of share-based payment transactions";
- IFRS annual improvements cycle 2014-2016;
- IFRS 4 "Applying IFRS 9 financial instruments with IFRS 4 insurance contracts".

Specifically, following the implementation of IFRS 9, the Group has taken the following accounting decisions:

1. equity investments previously classified as available-for-sale are classified at fair value through other comprehensive income (FVOCI);
2. equity investments previously classified as held for trading are classified at fair value through profit or loss (FVTPL);

Investment funds are classified at FVTPL; bonds that present the characteristics required by the standard are normally measured at amortized cost, otherwise, they are classified at FVTPL.

The consolidated financial statements as at and for the year ended December 31, 2018 also reflect significant changes in the scope of consolidation: the consolidation of Caffè Borbone as from April 30, 2018, the acquisition of four new companies by Sirap, the consolidation with the equity method of Iseo as from December 31, 2018, and the deconsolidation of BravoSolution after its sale in December 2017.

Performance indicators

To assist understanding of its consolidated financial data, for several years the Group has consistently employed a number of widely used indicators, which are not contemplated by the IFRS. In particular, the income statement presents the following intermediate indicators/results: gross operating profit/(loss) and operating profit/(loss), computed as the sum of the preceding items. On the face of the statement of financial position, similar considerations apply to net financial debt, whose components are detailed in the specific section of the notes. Since the indicators employed by the Group are not required by the IFRS, their definitions may not coincide with and therefore not be comparable to, those adopted by other companies/groups.

This report contains many financial and non-financial performance indicators, including those indicated above. These indicators, taken from the financial statements, are used in the tables summarizing the Group's financial position and performance, in relation to comparative amounts and to other amounts from the same year (e.g., change in revenue, gross operating profit/(loss) and operating profit/(loss) with respect to the previous year, and change in their return on revenue). The use of amounts not directly reflected in the financial statements (e.g., the exchange-rate effect on revenue and on profit or loss) and the presentation of comments and assessments assist qualification of the trends in the amounts concerned.

The non-financial indicators refer to external and internal elements: the general economic situation and that of the industries in which the Group operates, trends on the various markets and operating segments, trends in sales prices and cost factors, acquisitions and disposals, other significant events of the year, organizational developments, the introduction of new laws and regulations, etc. In the notes, the section on net financial debt provides information about the effects of changes in interest rates and the main exchange rates on the statement of financial position and the income statement.

Net Asset Value

Italmobiliare S.p.A. Net Asset Value at December 31, 2018, excluding treasury shares, was 1,421.4 million euro (1,545.2 million euro at December 31, 2017, restated to exclude treasury shares) and comprised the following assets:

(in millions of euro)	December 31, 2018	% of total	December 31, 2017	% of total
Listed equity investments ¹	326.0	22.9%	544.4	35.2%
Portfolio Companies ²	497.5	35.0%	239.7	15.5%
Other equity investments	72.8	5.1%	58.9	3.8%
Private equity funds	128.8	9.1%	95.1	6.2%
Real estate and related assets ³	51.4	3.6%	57.7	3.7%
Financial assets, trading, cash and cash equivalents	344.9	24.3%	549.3	35.5%
Total Net Asset Value	1,421.4	100.0%	1,545.2	100.0%

Compared with December 31, 2017, the main changes in the composition and value of NAV, which decreased by 123.8 million euro, arose from:

- acquisition of 60% of Caffè Borbone (+143.2 million euro) and 40% of Iseo (+42.6 million euro);
- increase in the fair value of the portfolio companies (+72.0 million euro), arising largely from the excellent performance of Caffè Borbone and Tecnica Group;
- reduction in the fair value of the main listed equity investments HeidelbergCement AG and Mediobanca S.p.A. (-215.1 million euro);
- increase in the value of the private equity funds (+33.7 million euro);
- reduction in financial assets, trading and cash and cash equivalents (-204.4 million euro), largely due to the investments in the newly acquired portfolio companies.

At December 31, 2018, the NAV per Italmobiliare share, excluding treasury shares, was 33.9 euro.

NAV at December 31, 2018 was computed by applying the specific procedure and, where necessary, on the basis of the valuations of independent experts, considering:

- the market price at December 31, 2018 of the equity investments in listed companies;
- the value of non-listed companies, determined through commonly used valuation methods (DCF and/or market multiples) or, when such information is not available, on the basis of equity as reflected in the most recent approved financial statements drawn up in accordance with the IFRS or with local accounting principles;
- the market value of real estate assets;
- the deferred tax effect.

¹ A new category of assets, "Listed equity investments", has been introduced, comprising the main equity investments in listed companies (HeidelbergCement AG and Mediobanca S.p.A.).

² Portfolio Companies includes the equity investments in Sirap-Gema S.p.A., Italgem S.p.A., Caffè Borbone S.r.l., Clessidra SGR S.p.A., Tecnica Group S.p.A., Iseo Serrature S.p.A., SES Società Editrice Sud S.p.A., Sesaab S.p.A. and Crédit Mobilier de Monaco.

³ Real estate and related assets previously included under "Other equity investments and assets" are shown separately.

Key consolidated figures

(in millions of euro)	2018	2017	% change
Revenue and income	463.1	507.6	(8.8)
Gross operating profit	41.2	146.6	(71.9)
<i>% of revenue</i>	8.9	28.9	
Amortization and depreciation	(21.2)	(19.0)	(11.4)
Adjustments for non- current assets	1.2	0.0	n.s.
Adjustments for Operating profit	21.3	127.6	(83.3)
<i>% of revenue</i>	4.6	25.1	
Net finance income (costs)	(4.8)	(6.3)	24.1
Impairment losses on financial assets	0.0	0.0	n.s.
Share of profit (loss) of equity- accounted investees	2.0	0.2	n.s.
Profit before tax	18.4	121.5	(84.8)
<i>% of revenue</i>	4.0	23.9	
Income tax (expense)	13.2	(6.2)	n.s.
Profit from to continuing operations	31.7	115.2	(72.5)
Profit from to discontinued operations, net of tax	0.0	0.0	n.s.
Profit for the period	31.7	115.2	(72.5)
<i>attributable:</i>			
- Owners of the parent	27.7	115.0	(75.9)
- Non- controlling interests	4.0	0.2	n.s.
Cash flow from operating activities	10.0	(4.7)	
Capital expenditure	435.8	141.8	

n.s. not significant

(in millions of euro)	December 31 2018	December 31 2017
Total equity	1,302.3	1,373.7
Equity attributable to owners of the parent	1,202.5	1,373.3
Consolidated net financial position	222.3	494.8
Number of employees at period end	1,799	1,417

The financial indicators relating to continuing operations for the year ended December 31, 2018 cannot be significantly compared with those of the previous year given the changes in the scope of consolidation and the extraordinary transactions that took place during the year, as illustrated above:

- **Revenue and income:** 463.1 million euro compared with 507.6 million euro for the year ended December 31, 2017 (-8.8%);
- **Gross operating profit:** 41.2 million euro compared with 146.6 million euro for the year ended December 31, 2017 (-71.9%);
- **Operating profit:** 21.3 million euro compared with 127.6 million euro for the year ended December 31, 2017 (-83.3%);
- **Profit before tax:** 18.4 million euro compared with 121.5 million euro for the year ended December 31, 2017 (-84.8%).

The downturn in revenue and income was largely due to the gains realized in 2017 on the sale of BravoSolution and some shares held in HeidelbergCement and Mediobanca for a total of 126.0 million euro, as well as to the

deconsolidation of BravoSolution (-71.8 million euro), partly offset by the rise in revenue at Sirap (+68.0 million euro) and the consolidation of Caffè Borbone (+92.0 million euro).

At December 31, 2018, **total equity** was 1,302.3 million euro, while **equity attributable to owners of the parent** was 1,202.5 million euro, compared with 1,373.7 million euro and 1,373.3 million euro respectively at December 31, 2017.

In 2018, **capital expenditure** totaled 435.8 million euro, up 141.8 million euro from 2017.

The consolidated **financial position** at December 31, 2018 reflected cash of 222.3 million euro, compared with 494.8 million euro at the end of 2017. The reduction of 272.5 million euro was largely due to the year's investments (notably the acquisition of Caffè Borbone and Iseo), illustrated in greater detail in the section "Capital expenditure".

Gross operating profit was 41.2 million euro, down by 105.4 million euro from 2017 (146.6 million euro) mainly because of the absence of the gains realized in 2017 (-103.8 million euro) and the change in inter-segment eliminations (-27.3 million euro), partly offset by the inclusion of Caffè Borbone in the scope of consolidation (+22.5 million euro).

After a slight increase in amortization and depreciation on 2017, **operating profit** was 21.3 million euro (127.6 million euro in 2017).

Finance costs and other items

Net finance costs amounted to 4.8 million euro, a reduction of 1.5 million euro from 2017 arising largely from exchange-rate differences and net derivatives.

The caption does not include finance income and costs at Italmobiliare since such income and costs are part of the company's core business and therefore classified under the line items constituting gross operating profit.

There were no **impairment losses on financial assets** (21 thousand euro in 2017).

The **share of profit of equity-accounted investees** amounted to of 2.0 million euro (0.2 million euro in 2017), thanks to the positive contribution of the Tecnica Group

Profit for the year

The Group posted **profit before tax** of 18.4 million euro (121.5 million euro in 2017, mainly due to the gains realized on the sale of BravoSolution and some shares in HeidelbergCement e Mediobanca).

After a positive income tax posting of 13.2 million euro (expense of 6.2 million euro in 2017), the **profit for the year from to continuing operations** totalled 31.7 million euro (115.2 million euro in 2017).

Overall, the Group's a **consolidated profit for the year** totalled 31.7 million euro, (of which 27.7 million euro attributable to owners of the parent), compared with the consolidated profit of 115.2 million euro for the year ended to December 31, 2017 (of which 115.0 million euro attributable to owners of the parent).

In order to improve its financial reporting and in accordance with IFRS 8, the Group has redetermined its operating segments, previously consisting of the **Industrial and services for industry segment**, the **Financial and Private equity segment** and **Other activities**; the operating segments now coincide with the Group's main subsidiaries and associates (Sirap, Italgem, Caffè Borbone, Tecnica Group, Iseo and Other companies). The comparative figures for 2017 have been redetermined for consistency with those of the year under review.

Revenue and operating profit for 2018

Contribution to consolidated revenue and income

(net of intragroup eliminations)

(in millions of euro)	2018		2017		Change	
		%		%		% ¹
Operating segments						
Italmobiliare	44.9	9.7	160.6	31.6	(115.7)	(72.1)
Sirap	275.1	59.3	207.1	40.8	68.0	32.8
Italgen	36.0	7.8	37.8	7.4	(1.8)	(4.7)
Caffè Borbone	92.0	19.9	-	-	92.0	n.s.
BravoSolution	-	-	71.8	14.1	(71.8)	(100.0)
Other companies	15.1	3.3	30.3	6.0	(15.2)	(50.3)
Total	463.1	100.0	507.6	100.0	(44.5)	(8.8)

¹ on a like-for-like basis and at constant exchange rates.

Revenue and operating profit (loss) by segment

(in millions of euro)	Revenue and income		Gross operating profit (loss)		Operating profit	
	2018	% change vs. 2017	2018	% change vs. 2017	2018	% change vs. 2017
Operating segments						
Italmobiliare	55.0	(61.7)	1.4	(98.6)	0.9	(99.2)
Sirap	275.1	32.8	16.3	8.1	9.2	56.0
Italgen	36.0	(4.7)	8.4	35.3	1.8	(34.6)
Caffè Borbone	92.0	-	22.5	-	16.9	-
Other companies	17.8	(43.8)	1.3	n.s.	0.9	n.s.
Inter-segment eliminations	(12.8)	(174.5)	(8.7)	n.s.	(8.4)	n.s.
Total	463.1	(8.8)	41.2	(71.9)	21.3	(83.3)

n.s. not significant.

The 8.8% reduction in **revenue and income** on 2017 was due to:

- the reduction of 134.4 million euro in revenue and income at constant exchange rates and on a like-for-like basis;
- the negative exchange-rate effect for 1.8 million euro.
- gains of 91.7 million euro on the changes in the consolidation scope;

At constant exchange rates and on a like-for-like basis, the reduction in revenue and income is mainly attributed to Italmobiliare S.p.A. (-115.7 million euro).

Breakdown of consolidated profit by segment

(in millions of euro)	2018	% of total	2017	% of total
Italmobiliare	19.8	62.5	102.1	88.6
Sirap	6.4	20.2	2.3	2.0
Italgen	0.4	1.3	1.3	1.1
Caffè Borbone	10.1	31.9	-	-
BravoSolution	-	-	(5.4)	(4.7)
Tecnica Group	2.0	6.3	(0.2)	(0.2)
Iseo	-	-	-	-
Other companies	0.8	2.5	(3.6)	(3.1)
Elimination dividends and intragroup gains/losses	(7.8)	(24.6)	18.7	16.2
Profit for the period attributable to owners of the parent	31.7	100.0	115.2	100.0

Other comprehensive expense

In 2018, other comprehensive expense relating to continuing operations amounted to 175.7 million euro (income of 56.2 million euro in 2017), mainly due to:

- fair value losses on FVOCI assets totaling 177.4 million euro, as a result of the negative performance of the HeidelbergCement and Mediobanca share prices;
- a positive tax effect of 1.4 million euro.

Considering the profit for the year attributable to owner of the parent of 31.7 million euro and the above items, the Group posted total comprehensive expense of 144.0 million euro in 2018 (income of 171.4 million euro in 2017).

The statement of comprehensive income is included with the consolidated financial statements.

Reclassified statement of financial position

(in millions of euro)	December 31, 2018	December 31, 2017
Property, plant and equipment + investment property	157.4	139.9
Intangible assets	352.0	15.4
Other non-current assets	696.7	839.9
Non-current assets	1,206.1	995.2
Current assets	554.7	681.6
Discontinued operations	6.2	5.6
Total assets	1,767.0	1,682.4
Equity attributable to owners of the parent	1,202.5	1,373.3
Non-controlling interests	99.8	0.4
Total equity	1,302.3	1,373.7
Non-current liabilities	266.3	152.6
Current liabilities	198.2	156.1
Total liabilities	464.5	308.7
Liabilities directly linked to discontinued operations	0.2	0.0
Total equity and liabilities	1,767.0	1,682.4

Equity

Total equity at December 31, 2018, was 1,302.3 million euro, down 71.4 million euro from December 31, 2017. The overall change was due to:

- the profit for the year of 31.7 million euro;
- dividends paid for 23.1 million euro;
- exchange-rate gains of 0.6 million euro;
- gain of 95.7 million euro in the consolidation scope, essentially due to the inclusion of minority interests relating to the minority shareholder of Caffè Borbone;
- loss in the FVOCI reserve, net of deferred tax, for 176.1 million euro.

Net financial position

At December 31, 2018, the **net financial position** reflected cash of 222.3 million euro, down by 272.5 million euro from the figure at December 31, 2017 (cash of 494.8 million euro).

The year's cash outflows amounted to 272.5 million euro, largely as a result of capital expenditure of 435.8 million euro, partly offset by the sale of the Caffè Borbone non controlling intese at the time of the acquisition. Other components were divestments of non-current assets for 48.5 million euro, structure and translation differences for 46.7 million euro, dividends paid for 23.1 million euro and proceeds from operating activities for 10.0 million euro.

Breakdown of the net financial position

(in millions of euro)	December 31, 2018	December 31, 2017
Current financial assets	380.6	549.2
Current financial liabilities	(83.3)	(66.6)
Non-current financial assets	38.5	58.8
Non-current financial liabilities	(113.9)	(46.6)
Debt relating to assets held for sale	0.4	-
Net financial position	222.3	494.8

Condensed statement of cash flows

(in millions of euro)	December 31 2018	December 31 2017
Net financial position at the beginning of year	494.8	493.5
Cash flows from operating activities	10.0	(4.7)
Capital expenditure:		
<i>PPE, investment property and intangible assets</i>	(15.0)	(28.9)
<i>Non-current financial assets</i>	(420.7)	(112.9)
Capital expenditure	(435.8)	(141.8)
Proceeds from sale of non-current assets	48.5	277.5
Purchase of treasury shares	(0.1)	(100.1)
Contributions from shareholders and third parties	94.2	-
Dividends paid	(23.1)	(25.6)
Translation and structure differences	46.7	1.5
Other	(11.8)	(5.5)
Net cash flows for the year	(271.2)	1.3
Cash from/(used in) relating to discontinued operations	(1.3)	0.0
Overall net financial position at the end of year	222.3	494.8

Capital expenditure

(in millions of euro)	Non-current financial assets		PPE and investment property		Intangible fixed assets		Total capital expenditure	
	2018	2017	2018	2017	2018	2017	2018	2017
Operating segments								
Italmobiliare	67.8 ¹	109.1	0.2	0.5	0.2	-	68.2	109.6
Sirap	16.8	-	5.5	12.0	1.0	0.6	23.3	12.6
Italgen	-	-	3.4	2.5	-	-	3.4	2.5
Caffè Borbone	336.1 ²	-	4.5	-	0.2	-	340.8	-
BravoSolution	-	-	-	0.5	-	6.3	-	6.8
Other companies	-	3.8	0.1	6.6	-	-	0.1	10.4
Total capital expenditure	420.7 ³	112.9	13.7	22.1	1.4	6.9	435.8	141.8

Group capital expenditure in 2018 amounted to 435.8 million euro, a significant increase from 2017 (141.8 million euro).

Capital expenditure on non-current financial assets amounted to 420.7 million euro (112.9 million euro in 2017) and related mainly to the investments in Caffè Borbone (336.1 million euro) and Iseo (42.6 million euro).

Capital expenditure on property, plant and equipment and investment property amounted to 13.7 million euro and referred mainly to the investments by Sirap for 5.5 million euro, Italgen for 3.4 million euro and Caffè Borbone for 4.5 million euro.

1. The table includes the investment in Iseo.

2. The table includes the consideration paid for the purchase of 100% of L'Aromatika S.r.l., gross of third-party contributions (Caffè Borbone non-controlling interests) now reflected directly in the financial statements of Caffè Borbone S.r.l. after the reverse merger of Caffè Borbone S.p.A. into L'Aromatika S.r.l., now Caffè Borbone S.r.l.

3. The amount includes the cash and cash equivalents of the acquired companies, totaling 33.4 million euro.

Reconciliation between the parent's profit for the year and equity, and the profit for the year and equity attributable to owners of the parent

(in millions of euro)	December 31, 2018
Profit for the year of the parent Italmobiliare S.p.A.	19.8
Consolidation adjustments	
• Profit for the year at consolidated companies (Group share)	13.7
• Adjustment to the carrying amount of equity-accounted investees	2.0
• Derecognition of dividends in the year	(9.0)
• Derecognition of intercompany gains or losses and other changes	1.2
Profit for the year attributable to owners of the parent	27.7
Equity of the parent Italmobiliare S.p.A.	1,230.1
• Derecognition of carrying amount of consolidated equity investments	(360.9)
	<i>in fully consolidated companies</i> (261.9)
	<i>in equity-accounted investees</i> (99.0)
• Recognition of equity of consolidated equity investments	296.8
	<i>in fully consolidated companies</i> 239.0
	<i>in equity-accounted investees</i> 57.9
• Gains allocated to equity of subsidiaries and associates	52.5
• Elimination of intragroup transactions and other changes	(16.1)
Consolidated equity attributable to owners of the parent	1,202.5

Risks and uncertainties

Risks and uncertainty are examined in the sections on the individual segments, since they are different and specific to each Group segment.

Information on personnel and the environment

Information on personnel and the environment is provided in the sections on the individual segments, since each segment presents its own specific characteristics.

Italmobiliare S.p.A.

Business and financial performance

(in millions of euro)	2018	2017	%
			change
Revenue and income	55.0	143.4	(61.7)
Gross operating profit	1.4	105.2	(98.6)
<i>% of revenue</i>	2.6	73.3	
Amortization and depreciation	(0.6)	(0.5)	(7.8)
Operating profit	0.8	104.6	(99.2)
<i>% of revenue</i>	1.5	72.9	
Net finance costs	(0.1)	(1.2)	88.2
Impairment losses on financial assets	-	-	n.s.
Profit before tax	0.7	103.4	(99.3)
<i>% of revenue</i>	1.3	72.1	
Income tax (expense)	19.1	(1.3)	n.s.
Profit for the period	19.8	102.1	(80.6)
n.s. not significant			
	December 31	December 31	
(in millions of euro)	2018	2017	
Equity	1,230.1	1,252.1	
Net financial position	344.9	307.9	
Number of employees at period end	37	33	

Revenue and income for the year amounted to 55.0 million euro (143.4 million euro in 2017), and consisted mainly of dividends from equity investments (23.8 million euro), realized gains and fair value gains on equity investments and securities (0.6 million euro), other finance income (29.9 million euro) and revenue for services provided (0.6 million euro).

Results in accordance with the financial model

Given the specific nature of the company, in order to allow a full understanding of the performance group's, the table below sets out its results in the format normally used for financial companies. The model reflects:

- “Net gains (losses) on equity investments” which include, with regard to FVOCI equity investments, dividends received. The corresponding 2017 amount for FVOCI equity investments (formerly “available-for-sale”) also includes gains and losses on sales of equity investments and impairment gains or losses on these financial assets which, under the new IFRS 9, are recognized directly in equity as from January 1, 2018. With regard to equity investments in subsidiaries and associates, the item includes both dividends and gains/losses realized on sales as well as any impairment losses. The amount for 2017 included gains/losses on derivatives on “available-for-sale” equity investments, which, under the new IFRS 9, have been reclassified under “Net gains (losses) on investments of cash and cash equivalents”;
- “Net gains (losses) on investments of cash and cash equivalents”, which include interest income on bank coupons and deposits, impairment losses on bonds and trading equities, gains/losses realized on the sale of trading securities, income/expense on trading derivatives and investment funds, and “net borrowing costs”. “Net borrowing costs” consist essentially of interest expense on borrowings, bank commissions and costs;
- “Other income and expense”, which includes personnel expense and operating expenses for the financial structure, net of amounts recovered from other Group companies or third parties.

(in millions of euro)	2018	2017	%
			change
Net gains on equity investments	23.8	122.6	(80.6)
Net gains on investments of cash and cash equivalents	0.1	6.0	(98.3)
Total finance income/costs	23.9	128.6	(81.4)
Other expense	(23.2)	(25.2)	7.9
Income tax (expense)	19.1	(1.3)	n.s.
Profit for the year	19.8	102.1	(80.6)

n.s. not significant

The segment posted net gains on equity investments of 23.8 million euro, a reduction from 122.6 million euro in 2017. The change was largely due to the gain on the sale of BravoSolution S.p.A. (72.0 million euro) and HeidelbergCement and Mediobanca's shares (28.4 million euro) in 2017. Net of these factors, dividends from equity investments increased from 22.4 to 23.8 million euro.

Net gains on investments of cash and cash equivalents decrease by 5.9 million euro, mainly as a result of the negative trend on trading equities (-12.6 million euro), partly offset in part by the positive trend in bonds (+2.7 million euro) and investment funds (+1.6 million euro).

Other expense amounts to 23.2 million euro, an improvement of 2.0 million euro largely as result of the reduction in personnel expense.

Income tax totalled 19.1 million euro (1.3 million euro expense in 2017) mainly as a result of the activation of tax benefits on prior-year tax losses and on deductible temporary differences in light of projected future taxable income from the tax consolidation.

Italmobiliare S.p.A. owns material equity investments, the majority classified at FVOCI. The fair value changes in these equity investments, and the gains/losses on sales, are recognized in equity under the “OCI reserve”, in accordance with the principles adopted by the Italmobiliare Group. At December 31, 2018, the OCI reserve was 177.4 million euro (35.0 million euro at December 31, 2017).

Results and significant events in the year

In February 2018, the merger by incorporation of Franco Tosi S.r.l. into the parent Italmobiliare S.p.A. was finalized. The merger simplifies the organizational structure of the Italmobiliare Group and improves administrative and management efficiency.

In May 2018 Italmobiliare S.p.A. completed the acquisition of L’Aromatika S.r.l. through the set-up of Caffè Borbone S.p.A., of which, for an investment of approximately 143 million euro, Italmobiliare S.p.A. holds 60%; the remaining 40% is held by the founder of the Neapolitan company, the leading Italian player in compatible capsules and pods. In December, Caffè Borbone S.p.A. was merged into L’Aromatika S.r.l. (now Caffè Borbone S.r.l.) of which Italmobiliare S.p.A. holds a 60% share.

In October, Italmobiliare S.p.A. signed an agreement to purchase 40% interest in Iseo, one of Europe's leading producers of mechatronic and digital solution for access control and safety.

In November, Italmobiliare S.p.A. reached an agreement, signed in January 2019, to purchase approximately 27% of Autogas Nord, one of Italy's leading LPG players. Through the investment in Autogas Nord, Italmobiliare acquired 100% ownership of Lampogas S.r.l., a company active on the LPG distribution and sales market across northern and central Italy. Italmobiliare S.p.A. invested 60 million euro in the transaction, becoming a non controlling shareholder of a group with a total turnover of approximately 500 million euro.

Italmobiliare board of directors coopted Paolo Sfamini to replace Massimo Tononi, who was appointed chairman of Cassa Depositi e Prestiti and resigned from the board on July, 25.

Italmobiliare net financial position

(in millions of euro)	December 31 2018	December 31 2017
Current financial assets	329.1	283.2
Current financial liabilities	(11.8)	(11.9)
Current net financial position	317.3	271.3
Non-current financial assets	27.6	36.6
Non-current financial liabilities	0.0	0.0
Non-current net financial position	27.6	36.6
Net financial position	344.9	307.9

The net financial position of Italmobiliare S.p.A. improved by 37.0 million euro, from 307.9 million euro at December 31, 2017 to 344.9 million euro at the end of December 2018. The merger by incorporation of the subsidiary Franco Tosi had a positive effect of 241.3 million euro on Italmobiliare’s financial position, offset almost in full by the capital expenditure: the share capital increase at Sirap-Gema S.p.A. (10.0 million euro), the investment in Caffè Borbone S.r.l. (143.2 million euro) and the investment in Iseo (42.6 million euro).

Risks and uncertainties

An integrated analysis of the main risk factors and related mitigation measures was carried out during the year. A number of analyses were performed, specifically:

- a quantitative analysis of the risk level and correlation among the various companies belonging of the Italmobiliare investment portfolio as a whole;
- a top-down analysis of the main global risk factors as a frame of reference for a bottom-up analysis of the specific risk factors for the main direct investments (portfolio companies and material listed companies);
- a specific analysis to assess the actual exposure of the investment portfolio to the various country risks.

The findings showed that the main risk indicators (VaR, CVaR and recovery time) are in line with the average risk indicators of the global share index and that they are concentrated in cyclical segments, especially in the construction materials segment, due to the presence of HeidelbergCement in the portfolio.

Not including this segment, risk is diversified, with a prevalence of the financial segment and the consumer goods segment.

Analysis of the portfolio correlations found that only 36% of the portfolio had a material correlation with HeidelbergCement.

With regard to the equity investment portfolio, significant exposure to potential regulatory risks was found in some segments of activity, relatively low exposure to cyber risk and average exposure to the other risks that were identified risks (sustainability, commodity price/availability risk, technological disruption, financial/credit risk and exposure to variations in the business cycle).

Italmobiliare S.p.A. is exposed to volatility on the financial markets, which is intrinsic to its role as a diversified holding of equity investments.

Geographically, the analysis of the portfolio by country/registered office of the equity investment greatly overestimates the portfolio exposure to the Italy country risk (59%). The NAV distribution according to the geographical diversification of the equity investments' revenue shows only 40% for Italy, while 34% of assets is concentrated in the rest of Europe and the remaining 26% in non-European countries.

The main risks to which Italmobiliare S.p.A. is exposed are described below.

Risks relating to general economic conditions

The forward-looking international economic cycle indicators suggest further weakness in the coming months, more pronounced in some areas, particularly the Eurozone, while the deceleration in the USA is curbed by domestic demand. Should the US economic downturn be confirmed as a normalization phase in the potential long-term growth trend, statistically the global slowdown would be contained in time and "magnitude": the cyclical deceleration would bottom out in the next few months, while the second half of the year would see a recovery. In this context, despite the downgrade in earnings growth, the stock markets would benefit from greater flexibility in monetary policies and valuation multiples would be supported by a stabilization in bond yields, with inflation rates anchored to the compressed dynamics that have held sway in recent years.

Nevertheless, a number of factors create uncertainty over this scenario. Specifically, the impact of the geopolitical risk in a phase of cyclical slowdown could trigger a global recession. A variety of "negotiation nodes" could heighten the fragility of the economic cycle: the US-China trade war, a no-deal Brexit, the Eurozone elections, the debt ceiling negotiations in the USA. A recessionary environment would make the high level of total world debt unmanageable in the presence of economic policies with limited countercyclical tools.

Holding company risks

Italmobiliare S.p.A., directly and through its subsidiaries, carries out investment activities involving risks arising from the difficulty of identifying new investment opportunities that respond to its objectives, or difficulty in divesting, especially in non-listed companies. The risks connected to effective management of these activities could have negative effects on the company's financial position and results of operations.

Italmobiliare S.p.A. also holds investments in listed securities. Exposure to this type of investment is part of its core business as a long-term investor, and consequently Italmobiliare manages its equity portfolio following a long-term approach. Risk is monitored constantly; nevertheless, any adverse change in the share prices of its equity investments could affect its financial position and results of operations.

The results of Italmobiliare S.p.A. also depend on:

- gains and losses on equity investments, if any, which characteristically are not of a periodical and/or recurring nature;
- consideration of dividends from non-controlling equity investments, whose distribution and payment policies are independent of the shareholder.

Consequently, business performance may not follow a linear and/or significantly comparable trend from one year to the next.

Italmobiliare S.p.A. is active in a variety of industrial and financial segments and is therefore exposed to the risks typical of the markets and segments in which its investees operate.

Financing risks

Access to the capital market and to other forms of financing, and related costs, depends on the company's creditworthiness and on the general economic conditions of the market and the credit system. Any downgrade in creditworthiness and/or a general credit squeeze can restrict access and raise the cost of borrowing, with negative repercussions on the company's financial position and results of operations.

The liquidity of the equity and bond portfolio may be influenced by contingent market situations that reduce market variety and efficiency. The Group is committed to maintain a high level of liquidity in its portfolio by diversifying investments, using financial instruments with systematic pricing, daily evaluation of resources using prudential approaches, and selection of counterparties on the basis of their creditworthiness and reliability. The volatility of the markets and, in particular, contractions in the variety of trading in the presence of systemic events mean, however, that there is no guarantee that divestment strategies can be executed as and when planned.

Risks of fluctuation in interest and exchange rates

A significant portion of cash is invested in bonds: although the interest-rate risk is contained by low average duration, a rise in interest rates could have a negative impact on the value of the bond portfolio.

There is limited exposure to the currency risk. Although exposure constitutes a factor of diversification of the overall risk, hedging transactions are arranged as market opportunities arise. Despite these hedges, sudden fluctuations in exchange rates could have a negative impact on the company's financial position and results of operations.

Legal and tax risks

Suitable provisions have been accrued with regard to existing legal and tax risks and their related economic effects. Estimates and measurements are based on available information and are in any case regularly reviewed, with immediate recognition of any effects in the financial statements. Nonetheless, it is not possible to exclude future negative impacts connected with these risks on the financial positions and results of operations of Italmobiliare S.p.A. and/or of its subsidiaries and associates.

Insurance

Italmobiliare S.p.A. has taken out policies with leading insurance providers to cover the main risks to people and property, as well as general third-party liability cover.

Environment and human resources

Given the nature of the company, there are no significant environmental problems.

At December 31, 2018 the company had 37 employees, up 4 compared the end of 2017.

Litigation and disputes

A description of the main legal and tax disputes involving Italmobiliare S.p.A. is provided in the relevant section on page 32.

Outlook

The business outlook for Italmobiliare S.p.A. is illustrated in the relevant section on page 34.

Sirap



Through its subsidiaries in Italy and abroad, Sirap is active in the production and sale of products for the packaging of fresh food.

The income statement figures for 2018 and for 2017 are not comparable, given the inclusion of the following companies in the consolidation scope since January 2018: Kama Europe Ltd. (now Sirap UK Ltd.), Reynolds Food Packaging Spain S.L.U. (now Sirap Packaging Iberica S.I.U.), Vitembal Tarascon S.a.s. and Vitembal G.m.b.H. (now Sirap G.m.b.H).

After strengthening its equity and financial structure in 2018, Sirap has launched a new industrial and product development plan.

Business and financial performance

(in millions of euro)	2018	2017	% change
Revenue and income	275.1	207.1	32.8
Gross operating profit	16.3	15.0	8.7
<i>% of revenue</i>	5.9	7.3	
Amortization and depreciation	(11.2)	(9.1)	(22.9)
Measurement gains/losses on non-current assets	4.2	-	<i>n.s.</i>
Operating profit	9.2	5.9	55.9
<i>% of revenue</i>	3.3	2.8	
Net finance costs	(3.9)	(2.9)	(35.6)
Profit before tax	5.3	3.0	75.0
<i>% of revenue</i>	1.9	1.5	
Income tax (expense)	1.0	(0.7)	<i>n.s.</i>
Profit for the period	6.3	2.3	n.s.
<i>attributable:</i>			
- Owners of the parent	6.4	2.3	<i>n.s.</i>
- Non-controlling interests	(0.1)	-	
Capital expenditure	6.5	12.6	48.0

n.s. not significant.

(in millions of euro)	December 31 2018	December 31 2017
Total equity	31.0	16.1
Equity attributable to owners of the parent	30.9	15.8
Net financial debt	(82.3)	(67.2)
Number of employees at period end	1,471	1,222

Revenue and operating performance by geographical segment

(in millions of euro)	Revenue and income		Gross operating profit		Operating profit	
	Full year 2018	%change vs. 2017	Full year 2018	%change vs. 2017	Full year 2018	%change vs. 2017
Food packaging						
- Italy	99.2	5.4	6.3	(3.7)	1.2	(5.8)
- France	53.4	20.6	1.7	(46.4)	0.1	(93.4)
- Other EU countries	137.6	88.5	7.8	62.1	7.4	155.0
- Other non- EU countries	12.1	8.6	0.6	0.5	0.6	1.7
Eliminations	(27.2)	75.7	(0.1)	n.s.	(0.1)	n.s.
Total	275.1	32.8	16.2	8.1	9.2	55.9

n.s. not significant

Segment and Group results

Demand for food packaging products in 2018 was significantly weak on Sirap's traditional markets, Italy and France, while consumption in Poland was in line with the previous year, driven by the country's healthy economic performance. In Eastern Europe, where Sirap operates through the Petruzalek subsidiaries, demand did not show particular signs of recovery, and in some countries like Ukraine and Turkey, still undergoing a political and social instability, the revenue recovery was hindered not only by economic and consumptions trends, but also by the depreciation of local currencies.

The company's performance on the main markets is analyzed below.

- In the Italian market, revenue totalled 99.2 million euro, up by 5.1 million euro (or 5.4%) from 94.2 million euro in 2017;
- In the French market, Sirap reported a revenue increase of 20.6% in 2018 (from 44.3 million euro to 53.4 million euro), largely due to the contribution of the new company Sirap Tarascon S.a.s., which recorded turnover of 10.4 million euro;
- In Poland, thanks to its strong positioning in the domestic market, Inline Poland reported overall revenue of 43.3 million euro in 2018, against 33.7 million euro in 2017 (+28.5%);
- The Petruzalek Group, which markets and distributes in many Eastern European countries, reported turnover of 54.5 million euro, up 2.9 million euro from 51.6 million euro in 2017, despite an unfavorable exchange-rate effect, estimated at around 1.8 million euro, relating mainly to Ukraine and Turkey.

As for the markets covered by the new companies, a difficult general market situation, in the U.K. affected the company's group financial performance, and had a significant impact on sales volumes and the costs of factors of production with respect to budget projections.

The results of Germany and Spain companies also showed a volume decrease, which limited margins.

Risks and uncertainties

As is clear from the above comments, uncertainty remains high with regard to the price trend for polystyrene raw materials used in production processes, which fluctuates significantly. Sirap will continue to monitor prices in order to optimize its procurement policy and to reduce, as far as possible, the impact of these items on its performance.

Sirap operates through a number of subsidiaries in countries outside the Eurozone and is therefore exposed to the risk of fluctuation in the exchange rates of local currencies.

This risk is carefully monitored by the parent Sirap Gema S.p.A. through a special internal procedure; in particular, where material, derivatives (interest-rate swaps) are used to hedge interest-rate and exchange-rate risk.

Another area of uncertainty is the collection of receivables, which is kept under careful and constant control by all Sirap companies to minimize risk.

With regard to outstanding disputes, reference should be made to the section "Litigation and disputes and pending proceedings".

A risk emerged regarding possible developments in European laws that might prohibit and/or limit use of consumer products in plastic, over the short-medium term.

Environmental initiatives

Since January 1, 2012, Sirap has had an Environmental Policy document providing visibility on its commitment and the action taken to safeguard the environment in the countries where it operates. Guidelines have been established and made known to personnel summarizing Sirap's intention of complying with local regulations and applying the best ecological standards for sustainable and responsible development.

The central role of the environment in Sirap policy was reiterated in 2018, and over the three years 2016-2018 all the production facilities, with the exception of those of the recently acquired companies, were certified for compliance with the international UNI ISO 45001:2015 standard.

Programs are being implemented to align the new production sites with Sirap standards.

Safety initiatives

In its factories, Sirap adopts the necessary measures to ensure maximum safety for its workers and property. Development continued of a Groupwide safety culture project set up in 2009, with the involvement of all senior managers: this involves dissemination of extensive information on accidents and accident statistics, and also on potential risk situations. In addition, action is promoted to prevent the risk of accidents.

The central role of quality and safety in Sirap policy was reiterated in 2018, and over the three years 2016-2018 all the production facilities, with the exception of those of the recently acquired companies, were certified for compliance with the international OHSAS 18001:2007 standard.

Programs are being implemented to align the new production sites with Sirap standards.

Research and development

Projects to support the improvement of manufacturing performance in Sirap plants continued for the two main technologies of extrusion and thermoforming.

Human resources and organization

At December 31, 2018 the Sirap workforce numbered 1,471 employees, up by 249 compared with December 31, 2017. The net increase arose from the combined effect of the entry into the consolidation scope of 284 new resources employed by the newly acquired companies, and a reduction of 35 resources in the other companies.

Litigations and disputes

With regard to the current proceeding with the European Commission (which began in 2008, for breaches of community competition laws on the plastic food packaging market), the reader is referred to the extensive information provided in previous Director's reports since no developments took place in the year under review.

Outlook

In a European market where food consumption remains flat and commodity prices are volatile, the recent operations for further geographical expansion consolidated the Group's position as an authentic pan-European player of significant size.

The company is now engaged on a three-year plan designed to bring a strong increase in operating efficiency and optimize the use of the production network in order to recover margins and competitiveness on the main markets.

By combining its objectives of developing innovative products with greater added value and a gradual re-organization of the production structure geared to "lean production" goals, the company believes it can better manage opportunities and challenges in a highly competitive area undergoing profound changes.

Italgen



Italgen produces and distributes electric energy from renewable sources in the Italian market. Its production organization consists of 17 hydroelectric plants in Lombardy, Piedmont and Veneto plus, around 300 km of proprietary transmission lines in Lombardy, and a non-controlling interests in Bulgaria (49% of two wind farms for a total of 18 MW).

Business and financial performance

(in millions of euro)	2018	2017	% change
Revenue and income	36.0	37.8	(4.7)
Gross operating profit	8.4	6.2	35.3
<i>% of revenue</i>	23.3	16.4	
Amortization and depreciation	(3.7)	(3.5)	(4.4)
Impairment losses on non-current assets	(2.9)	0.0	n.s.
Operating profit	1.8	2.7	(34.6)
<i>% of revenue</i>	4.9	7.1	
Net finance income (costs)	0.2	(1.1)	n.s.
Share of profit (loss) of equity-accounted investees	-	0.4	n.s.
Profit before tax	2.0	2.1	(4.9)
<i>% of revenue</i>	5.4	5.4	
Income tax expense	(1.6)	(0.8)	n.s.
Profit for the period	0.4	1.3	(70.8)
Capital expenditure	3.4	2.5	

n.s. not significant

	December 31 2018	December 31 2017
Total equity	20.0	25.4
Net Financial debt	(21.0)	(17.9)
Number of employees at period end	77	95

In 2018 electric power demand in Italy increased compared to 0.4% from 2017. The international balance of trade rose from 11% of overall demand in 2017, to 12.9%.

Italian hydroelectric production grew significantly (+31%) compared to 2017, a year marked by drought and reservoir levels close to record lows as from the beginning of the year.

In 2018, the average Single National Price for electricity recorded by the Borsa Elettrica (electric energy exchange) was 61.3 €/MWh, 13.6% up on the previous year, continuing the recovery from the minimum low recorded in 2016 (42.8 €/MWh).

Italgen revenue and income were down 4.7% as a result of the reduction in sales to end customers and the shift to sales to the Borsa Elettrica: this made a significant contraction possible in expense for vectoring services, where margins are nil.

Gross operating profit of 8.4 million euro went up 2.2 million euro compared to 2017, due to the rise in hydroelectric power production and higher sales prices.

After amortization and depreciation of 3.7 million euro and an impairment loss on the assets of the subsidiary Italgen Maroc Ener SA of 2.9 million euro, operating profit was 1.8 million euro (2.7 million euro in 2017).

Italgen posted net finance income of 0.2 million euro (net costs of 1.1 million euro in 2017) after the sale of the non controlling interest in i.Fotoguiglia (30% of a 6 MW solar farm in the province of Modena), which generated a gain of 0.5 million euro at consolidated level, outweighing finance costs.

The profit for the year of 0.4 million euro (1.3 million euro in 2017) was net of tax of 1.6 million euro.

The year's capital expenditure amounted to approximately 3.4 million euro; this included 2.3 million euro for the revamping of the Ponte Acqua power plant (1.2 million euro) and 1.1 million euro for the rollout of the first phase of the automation and remote control "Fiber" project involving the entire production organization.

Italgen net financial debt was 21.0 million euro, a worsening of 3.1 million euro from the end of 2017 as a result of the extraordinary effects arising from payment of prior-year credit notes connected with the Energy Decree. Dividends paid to the parent Italmobiliare S.p.A. amounted to 6.0 million euro.

Hydroelectric power production in the year from the 17 largely run-of-the-river plants (57.5 MW) was 289.4 GWh (+13.8% on 2017, which was 254.4 GWh). The average availability rate and plant use rate were 96% and 83% respectively. Revamping work continued on Italgen's power stations, under a long-term maintenance plan to safeguard plant operations and safety.

On January 12, 2018, the Lombardy Regional Authority approved the continuation of temporary operation of the major channel concessions that had expired (Vaprio d'Adda, Mazzunno and Mezzoldo) until December 31, 2020, with a probable extension until December 31, 2023. On February 12, 2019 the so-called Simplification Decree was published in the Official Gazette; this regulates a number of questions concerning major channel concessions, and amends the previous legislative decree 79/99 (the so-called Bersani Decree). It will be a few months before the first enactment provisions are published, after which any protective action that needs to be taken can be assessed.

During 2018, Italgen continued work on the projects launched in previous years and coordinated management of plants in operation.

Sustainable development and environmental policies

Italgen's sustainable development and environmental policy initiatives confirm its commitment to protect the environment through harmonious integration of its facilities with the territory, and to develop innovative technologies to save natural resources and use renewable energy sources.

Italgen has implemented an integrated quality, environmental and safety management system (with ISO 9000 and 14000 certification since 2008 and EMAS registration since 2011). Also, since 2009 it has published an annual Environmental Statement presenting the results of its hydroelectric plants after the introduction of management systems geared to continuous improvement of its environmental performance.

Research and development

Development work continued on projects in Italy and at the foreign subsidiaries during 2018.

Human resources and safety initiatives

At December 31, 2018, Italgen had 77 employees, a decrease of 18 from 2017 (95) after the implementation of the automation and remote control project, which led to a review of the organizational model.

In 2018 work continued for the continuous improvement of risk prevention and workplace safety, consisting mainly of updating of risk assessment and safety procedures, personnel training, health surveillance and regulatory updating.

Risks and uncertainties

Italgen operates on regulated markets or under regulated regimes, and changes in the rules governing such markets and regimes, and the related prescriptions and obligations, may impact its business performance and results. Among key issues subject to regulatory changes are the laws (relating to the Simplification Decree) governing the duration and conditions of major channel hydroelectric concessions (power plants with an annual average nominal power of more than 3,000 kW), which provide that, in general, concessions due to expire be put out for tender. Italgen power plants whose concessions have expired and are therefore subject to the regulatory change are Vaprio, Mazzunno and Mezzoldo, for total installed power of 33 MW out of a total of 57.5 MW. Temporary operation of these plants has been extended until December 31, 2020 with a probable extension until December 31, 2023.

In terms of sources of financing, Italgen has medium-term floating-rate loans indexed to 3- and 6-month Euribor. Consequently, the company is exposed to the risk of a possible increase in interest rates.

Italgen is exposed to a limited credit risk since customers are vetted for creditworthiness, both as a preliminary measure and during the life of the credit. The other Group subsidiaries are not exposed to credit risks.

With regard to the contingent liability risk, at December 31, 2018 Italgen had pending tax disputes for amounts totaling approximately 2 million euro.

Outlook

Performance in 2018 was substantially in line with expectations, although affected by significant seasonality during the year. Italgas expects an improvement in margins for 2019, assuming rainfall in line with the ten-year historical average and all plants in service during the year, thanks above all to expectations of a higher electric power price than in 2018, and increased organizational efficiency as a result of the roll-out of the automation and remote control project.

Caffè Borbone



The figures set out below refer to the period between April 30, 2018 (the date of the acquisition of the 60% equity investment in Caffè Borbone S.r.l.) and December 31, 2018.

Caffè Borbone S.r.l. processes and distributes own-brand coffee and is the third-largest player in Italy after Lavazza and Nespresso in single-dose coffee capsules and pods.

Business and financial performance

	May-December 2018
(in millions of euro)	2018
Revenue and income	92.0
Gross operating profit	22.5
<i>% of revenue</i>	<i>24.5</i>
Amortization and depreciation	(5.6)
Impairment losses on non-current assets	0.0
Operating profit	16.9
<i>% of revenue</i>	<i>18.4</i>
Net finance income (costs)	(1.6)
Profit before tax	15.3
<i>% of revenue</i>	<i>16.6</i>
Income tax expense	(5.2)
Profit for the period	10.1
Capital expenditure	340.8
n.s. not significant.	

	December 31
	2018
Total equity	249.2
Net financial debt	(51.2)
Number of employees at period end	154

In 2018 (12 months) Caffè Borbone reported revenue growth of 44% from 2017 (135,2 million euro in 2018 and 93.7 million euro in 2017) with solid progress on all sales channels, notably mass merchandising and on line.

Gross operating profit was 33.7 million euro in 2018 (12 months), with a 24.9% return on net revenue compared with 22% in 2017.

Profit for 2018 (12 months) was 16.5 million euro. The net financial debt at December 31, 2018 amounted 51.2 million euro due to the borrowings set up at the time of purchase.

Risks and uncertainties

The Caffè Borbone business is exposed to two main areas of risk and uncertainty: competitive pressure on market prices, and trends in commodity prices on the coffee bean procurement market.

The sustained growth of the end market addressed by the company, especially single-dose coffee, could fuel competition and pressure on prices, with a negative impact on volumes and margins. This could happen as a result of hostile pricing strategies by existing key competitors and the entry of potential new competitors. Management constantly monitors competitive dynamics on the markets where Caffè Borbone operates, and activates initiatives on an on-going basis to support the distinctive value of its products and transfer it to consumers.

This is compounded by the potential uncertainty over raw material prices (coffee beans). Generally speaking, the coffee bean market is highly volatile and subject to oscillations as a result of the strategies of large commodities investors, climate conditions in a specific year for a specific quality of bean, and geo-political conditions in the main producer countries. The risks of a rise in product purchase prices, caused in turn by higher commodity costs, are managed through appropriate commercial strategies contemplating corresponding increases in price lists where necessary.

Environmental initiatives

In 2018 the company constantly monitored the compliance of its operations with the relevant environmental laws.

Safety initiatives

During 2018 the company constantly monitored the compliance of its operations with the relevant workplace health and safety laws.

Research and development

R&D focuses primarily on the continuous improvement of product quality and on the search for new sources of procurement.

The company is heavily committed to development of sustainable and fully recyclable packaging, an area where Caffè Borbone is already one of the market leaders. Specific projects have been set up in collaboration with suppliers and research centers.

Human resources and organization

During 2018 the workforce grew by 58 employees, from 96 to 154.

Litigations and disputes

There are no pending disputes.

Outlook

In 2019, trends in revenue are expected to remain positive with a further improvement in gross operating profit. Overall growth is supported by the Italian market trend for single-dose coffee, the completion of the product line for other compatible systems on all sales channels and the development of the aromatic line. The pod segment continues to be the strongest, while compatible capsules are showing significant growth. Growth is expected in the retail channel, thanks to activation of new relations and initiatives to boost the presence of Caffè Borbone products in sales outlets. Growth is expected in the mass merchandising channel, supported by commercial investments to increase distribution coverage.

Tecnica Group



	December 31
	2018
(in millions of euro)	
Revenue and income	398.5
Gross operating profit	37.7
<i>% of revenue</i>	9.5
Amortization and depreciation	(11.8)
Operating profit	25.9
<i>% of revenue</i>	6.5
Net finance income (costs)	(7.2)
Share of profit (loss) of equity-accounted investees	(1.6)
Profit before tax	17.1
<i>% of revenue</i>	4.3
Income tax expense	(6.3)
Profit for the period	10.8
Capital expenditure	
n.s. not significant.	

	December 31
	2018
Total equity	63.9
Equity attributable to owners of the parent	38.1
Net financial debt	(113.4)
Number of employees at period end	

Tecnica Group, in which Italmobiliare S.p.A. holds a 40% equity investment, is a leading player in outdoor footwear and ski equipment, with such well-known brands as Tecnica, Blizzard, Lowa, Moon Boot, Rollerblade and Nordica.

The company is measured with the equity method. The data set out here have been prepared in accordance with the IAS-IFRS and could therefore diverge from the data published by the associate.

The company's revenue for 2018 amounted to 398.5 million euro, up 8.3% from 2017 (368.0 million euro), largely due to the increase in revenue in the outdoor summer segment and the winter alpine segment. Gross operating profit was 37.7 million euro (+19.7% from December 31, 2017). Operating profit was 25.9 million euro, an improvement from December 31, 2017 (operating loss of 12.7 million euro).

The net financial debt amount to 113.4 million euro, a strong improvement compared to December 31, 2017 (debt of 125.3 million euro).

The strengthening and relaunch of the iconic "Winter Alpine" brands continued in 2018, with the segment reporting important growth trends in both revenue and margins, while the summer outdoor segment maintained the very strong performance achieved in previous years.

In 2019, the Group will continue its efforts to maximize the potential of its brands and the strength of its distribution organization, especially on international markets, with targeted marketing and brand differentiation initiatives that will also make use of the digital platform.

It will also continue its intensive R&D work to guarantee continuous technological and product innovation, thereby further consolidating recognition of the features of excellence that distinguish the Group offer.

Other important initiatives for 2019 will include greater integration among the European subsidiaries, a reduction in overheads, a re-organization in reporting and governance processes and tools, and an optimization of logistics.

Iseo



On October 15, 2018, Italmobiliare signed the agreement for its consolidation into Iseo with a 40% shareholding.

Iseo is one of the top European producers of digital mechatronic access control solutions, in 2017 the company's turnover increased to approximately 145 million euro (with international sales accounting for around three quarters of turnover) and an gross operating profit margin of more than 12%.

The company's headquarter is in the province of Brescia. In addition to its three facilities in Italy (where it is the second-largest player on the market), it has production sites in Romania, France, Germany and Spain.

The company is consolidated with the equity method.

2018 pre-closure figures received from Iseo show a small downturn in turnover (-3%) from 2017, largely due to a slowdown in sales in the mechanical sector in the Middle East and electronic component procurement difficulties.

More detailed information on the company will be made available in the next interim financial reports.

Other Companies

Among the Italmobiliare Group's "Other Companies" are Clessidra SGR S.p.A. (an asset management company authorized and regulated by the Bank of Italy, and main private equity fund manager dedicated exclusively to the Italian market), a number of real estate companies, some service companies that operate essentially within the Group, and a bank in the Principality of Monaco. The 2017 comparative figures also include the Franco Tosi S.r.l. company, which was merged into Italmobiliare S.p.A. on January 1, 2018. The segment is of marginal importance within the Italmobiliare Group.

At December 31, 2018, overall revenue and income amounted to 17.8 million euro, down 13.8 million euro from 2017, with a gross operating profit of 1.3 million euro (operating loss of 1.3 million euro in 2017).

After amortization and depreciation of 0.4 million euro and income tax expense of 0.1 million euro, the segment's profit for the year of 0.8 million euro (a 3.6 million euro loss in 2017). The largest contributor to these results was Clessidra SGR S.p.A.

Clessidra SGR S.p.A.

2018 was characterized by the management operations of the Clessidra Capital Partners II and Clessidra Capital Partners 3 funds, and the liquidation of the Clessidra Capital Partners fund. A brief analysis of the managed funds is provide below:

- **Clessidra Capital Partners 3:** in 2018 the company finalized a new investment operation in Scigno S.p.A. and continued selecting of new investment opportunities and managing the other companies in portfolio;
- **Clessidra Capital Partners II:** in 2018 the company continued managing the companies in portfolio, notably Harmont & Blaine;
- **Clessidra Capital Partners:** on January 25, 2018, the company completed the liquidation of the fund.

Details of the main income statement captions for 2018 at Clessidra SGR are set out below:

(in millions of euro)	December 31 2018	December 31 2017	% change
Revenue and income	12.3	17.2	(28.5)
Gross operating profit	0.4	3.6	(88.9)
Operating profit	0.4	3.6	(88.9)
Income tax expense	(0.3)	(1.3)	76.9
Profit for the year	0.1	2.3	(95.7)

Main risks and uncertainties

The companies' risk factors differ, depending on the activities they perform. Specifically:

- through the funds it manages, Clessidra SGR carries out investment activities involving risks arising from the difficulty of identifying new investment opportunities that respond to its objectives, or difficulty in divesting, especially in non-listed companies. The risks connected to effective management of these activities could have negative effects on the company's financial position and results of operations;
- the service companies provide general, IT, surveillance and security services essentially within the Italmobiliare Group, charging the companies they serve on the basis of existing contracts. Consequently they are not exposed to significant risks;
- the real estate companies hold land, buildings and small quotas stakes in non-listed companies. They are exposed to market trends they operate, which could impact their asset values.

Information on personnel and the environment

Personnel are adequate for the needs of the companies in the segment. At December 31, 2018 the segment had 60 employees, down 2 from the end of 2017. No material environmental issues exist.

Main financial assets of Italmobiliare S.p.A.

HeidelbergCement

In 2018 earnings of the global share market for construction industry were significantly downwards due to the currency instability of some emerging areas and the rise in pressure on costs (energy, transport and salaries and wages), coinciding with the slowdown in world economic indicators. There was a material slackening in industry stocks: -23% against -9.5% for the global share index.

The greater volatility of the share price compared with competitors also affected share performance, which was down 40%, expanding the discount in multiples with respect to the share's historic averages and with respect to the industry.

In 2018 the share fair value fell by 190.1 million euro, from 436.1 million euro to 246.0 million euro. Net gains on share sales, recognized directly in the OCI reserve, amounted to 3.5 million euro; dividends received amounted to 9.2 million euro. Derivatives on the stock generated net gains of 5.9 million euro.

Mediobanca

The increased Italian sovereign risk had a particularly strong impact on the performance of the Italian banking sector, which was penalized by repercussions on capital and borrowing costs of banks and by the effects on profitability of slower economic growth .

The share price lost 22%, compared with 32% for the entire domestic and Eurozone banking sector; it benefited from a limited exposure on Italian treasury bonds, diversification of applications with respect to the country risk and a contained volume of non-performing loans.

In 2018 the Mediobanca and Fin.Priv. share fair value declined by 29.3 million euro, from 109.3 million euro to 80.0 million euro. Net gains on share sales, recognized directly in the OCI reserve, amounted to 1.5 million euro; dividends received amounted to 5.1 million euro. Derivatives on the stock generated net income of 0.5 million euro.

Jaggaer

After the sale of the BravoSolution Group to Jaggaer (SciQuest Inc.) at the end of 2017, Italmobiliare reinvested approximately 35 million euro, equivalent to about 9.5% of Jaggaer capital. The new Group, which has a complete e-sourcing offer, reported significant growth in revenue and margins, driving estimated fair value up by 21.6 million euro.

Private equity funds

The company has invested in a portfolio of selected Italian and international private equity funds to further sectorial and geographical diversify its investments, expand its relational network and fine new co-investment opportunities complementing its portfolio of direct equity investments. Specifically, in addition to being the "key investor" in the Clessidra CCPIII fund, it has positions in "US midcaps" (BDT Fund II), small Italian companies (Aksia capital IV) and venture capital funds (Isomer Capital I). The overall fair value of the private equity funds was 116.4 million euro at December 31, 2018, an increase of 7.8 million euro (9.2 million euro gross of the exchange-rate effect). The called-up amount was 20.6 million euro and reimbursements were 13.9 million euro.

Other significant Group information

Human resources

The Italmobiliare Group had 1,799 employees at December 31, 2018, an increase of 382 from December 31, 2017. The following table provides a breakdown of employees by operating segment.

(headcount)	December 31, 2018		December 31, 2017	
		%		%
Operating segments				
Italmobiliare	37	2.1	36	2.6
Sirap	1,471	81.8	1,222	86.2
Italgen	77	4.3	95	6.7
Caffè Borbone	154	8.6	-	0.0
Tecnica Group	-	0.0	-	0.0
Iseo	-	0.0	-	0.0
Other companies	60	3.3	64	4.5
Total	1,799	100.0	1,417	100.0

Transactions with related parties

For the purposes of the Group consolidated financial statements, transactions with related parties were with:

- associates and their subsidiaries;
- other related parties.

All transactions with related parties, whether for the exchange of goods and services or of a financial nature, are conducted at normal market conditions and in compliance with the Code of Conduct.

Highlights at December 31, 2018 for transactions with related parties are provided in the notes.

No atypical or unusual transactions took place in 2017 as defined by Consob Communication no. DEM/6064293 of July 28, 2006.

Transactions with subsidiaries, associates and their subsidiaries

Transactions with subsidiaries, associates and their non-consolidated subsidiaries are of a commercial nature (exchange of goods and/or services) or a financial nature.

The parent Italmobiliare S.p.A. also provides "administrative service" to some subsidiaries, regulated on the basis of the costs attributable to performance of the service.

Transactions with other related parties

Transactions with other related parties in 2018 were as follows:

- legal consultancy and assistance on judicial and extrajudicial matters provided to Italmobiliare S.p.A. by the Gattai Minoli Agostinelli & Partners law firm, of which the director Luca Minoli is a partner, for fees totaling 396,866 euro (of which 241,630 euro capitalized for the purchase of the equity investment in Caffè Borbone);
- legal consultancy and assistance provided to the subsidiary Italgem S.p.A. by the Gattai Minoli Agostinelli & Partners law firm, of which the director Luca Minoli is a partner, for fees totaling 379,407 euro;
- payment of insurance policy premiums to Assicurazioni Generali S.p.A., of which Clemente Rebecchini is a director, for fees of 15,683 euro;
- trust management services on securities and assets by Compagnia Fiduciaria Nazionale for considerations totaling 9,750 euro;
- a donation of 500,000 euro to the “Fondazione Cav. Lav. Carlo Pesenti”, whose Board of Directors is chaired by Carlo Pesenti.

Fees paid are in line with market conditions for the type of professional service provided.

The equity investments held by directors, Statutory Auditors, the General Manager, and the manager in charge of financial reporting in Italmobiliare S.p.A. and the subsidiaries, as well as their remuneration for the positions they hold in the Group, are set out in the Remuneration Report.

Highlights at December 31, 2018 for transactions with related parties are provided in the notes.

Legal and tax disputes

With regard to Italmobiliare S.p.A., as already illustrated in previous financial reports, the Italcementi share sales agreement signed with HeidelbergCement AG envisaged customary undertakings relating to the interim period between the signing and closing dates, some guarantees and possible indemnification duties. Most of the claims regarding the application of these undertakings were resolved in a settlement agreed and executed during 2017. The company is involved in an adversarial procedure with the purchaser and is closely monitoring developments regarding a number of claims on which an agreement has not been reached as regards the applicability of a contractual guarantee. In light of the undertakings, including the agreed contractual exemptions, the company set aside appropriate provisions relating to the claims in question.

The company also examined the effects of some disputes relating to BravoSolution S.p.A., the majority shareholding in which was sold to third parties in December 2017. Any compensation that might be due to the purchaser would be adequately covered by the provision for risks set aside by Italmobiliare S.p.A. as per its financial statements.

In June, a public hearing was held to examine the question of the 2012 CFC tax assessment notice, as a result of which the Milan Provincial Commission, with ruling no. 5644/12/2018, canceled the tax assessment notice notified on the company, deeming applicable the exception envisaged by art. 167 of the TUIR consolidated income tax act, with reference to the equity investment in Credit Mobilier. To date, the Italian Revenue Agency has not filed any appeal against the ruling. Hearings are yet to be scheduled for the other disputes.

In September the Milan Provincial Division I notified Italmobiliare S.p.A. with a CFC tax assessment notice for tax year 2013. The company filed an appeal with the Milan Provincial Tax Commission on December 10, 2018. The date of the hearing has not yet been set.

Appropriate provisions have been made on an accruals basis for legal and tax disputes concerning Group companies, in cases where, with respect to risks that have emerged and assessment of related risks, contingent liabilities are deemed probable and measurable.

Details of the main disputes are provided in the sections of individual segments.

Compliance with the conditions for listing laid out in the CONSOB market regulation

With reference to the Conditions for the listing of certain companies, laid out in art. 15 et seq. of the market regulation adopted by CONSOB with Resolution no. 20249 of December 28, 2017, on the basis of the «Audit Plan», no subsidiary headquartered in a non-European Union country is included in the scope of «material significance».

Compliance with simplified rules pursuant to arts. 70 and 71 of the Issuers Regulation

Italmobiliare S.p.A. has adopted the opt-out regime envisaged by the Consob Issuers Regulation, exercising the right to waive the obligations to publish disclosure documents required in connection with significant merger and demerger transactions, acquisitions, sales or share capital increases by contributions in kind.

In compliance with this regime, Italmobiliare S.p.A. provided appropriate disclosures to the market.

Consolidated disclosure on non-financial information

The Italmobiliare S.p.A. consolidated disclosure on non-financial information drafted pursuant to Legislative decree no. 254/16, is a separate report (Sustainability Report) from this Director's Report, pursuant to art. 5 par 3, head *b*) of legislative decree 254/16, and is available on the www.italmobiliare.it website in the “*Investor/Bilanci e Relazioni*” section.

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Information on “Significant events after the reporting date” is provided in the sections on the individual segments.

* * *

Outlook

The uncertainty of the international economy, which is expected to show an albeit contained slowdown in the first half of 2019, with a possible recovery in the second half, is exacerbated by a number of factors. Specifically, the impact of geopolitical tensions at a time of slower growth is the main risk factor for a global recession. A variety of “negotiation issued” could increase the weakness of the economic cycle: the US-China trade war, a no-deal Brexit, the Eurozone elections, the debt ceiling negotiations in the USA. A recessionary environment would make the high level of total world debt difficult to manage in the presence of economic policies with limited countercyclical tools.

For its part, the Italian economy already showed signs of a sharp slowdown in the fourth quarter of 2018, and continues to be hampered by the uncertain political climate and tensions with the European Union.

In this situation of high expected volatility in a challenging and selective scenario, Italmobiliare will continue to seek investment opportunities in Italian companies of excellence who are looking for a long-term financial and industrial partner able to accompany their growth and strategic development. Enterprises of outstanding quality are still present in Italy, in sectors with low cyclical exposure or a strong international profile, who need to accelerate their growth through the support of investors offering capital and management know-how.

At the same time, the Company’s main priority will continue to focus on providing the necessary support for companies in its portfolio through financial and strategic backing for organic growth projects and for M&A opportunities, both Italy and in the main international markets. Furthermore, consistently with its mission, Italmobiliare will guarantee to pay constant attention to research and innovation, implementation of appropriate governance measures, effective risk management tools and sustainability policies.

Specifically, its priorities will be the consolidation of the growth achieved by Caffè Borbone in Italy, the continued refocusing of Tecnica Group's portfolio of iconic brands, and the implementation of efficiency and development plans at Italgas, Sirap and Iseo.

Continuous monitoring of the stock markets will be the foundation for active and opportunistic management of the portfolio of listed equity investments, notably HeidelbergCement and Mediobanca, in order to maximize yield opportunities.

Lastly, the portfolio of private equity funds will be further developed, both through continuous support to existing funds, by means of selected potential co-investments, and through the search for new opportunities in a number of high-growth geographical areas or specific sectors, starting from hi-tech industrial segments.

Milan, March 6, 2019

for the Board of Directors
The Chief Executive Officer
(Carlo Pesenti)

Italmobiliare Group
Consolidated financial statements
as at and for the year ended December 31, 2018

Consolidated Financial statements

Statement of financial position

(in thousands of euro)	Note	December 31, 2018	December 31, 2017	Change
Non-current assets				
Property, plant and equipment	1	148,534	130,618	17,916
Investment property	2	8,864	9,240	(376)
Goodwill	3	167,141	13,302	153,839
Intangible assets	4	184,892	2,146	182,746
Equity-accounted investments	5	102,384	53,165	49,219
Other equity investments	6	404,382	610,429	(206,047)
Trade receivables and other non-current assets	7	157,057	160,096	(3,039)
Deferred tax assets	22	32,349	16,198	16,151
Non-current receivables from employees		554		554
Total non-current assets		1,206,157	995,194	210,963
Current assets				
Inventories	8	58,170	40,594	17,576
Trade receivables	9	92,043	61,911	30,132
Other current assets including derivatives	10	27,830	32,961	(5,131)
Tax assets	11	6,204	7,893	(1,689)
Equity investments, bonds and current loan assets	12	248,504	320,372	(71,868)
Cash and cash equivalents	13	121,930	217,870	(95,940)
Total current assets		554,681	681,601	(126,920)
Assets held for sale	14	6,171	5,626	545
Total assets		1,767,009	1,682,421	84,588
Equity				
Share capital	15	100,167	100,167	
Share premium	16	177,191	177,191	
Reserves	16	(31,174)	184,197	(215,371)
Treasury shares	17	(134,659)	(134,608)	(51)
Retained earnings		1,090,936	1,046,351	44,585
Equity attributable to owners of the parent		1,202,461	1,373,298	(170,837)
Non-controlling interests	18	99,775	359	99,416
Total equity		1,302,236	1,373,657	(71,421)
Non-current liabilities				
Loans and borrowings	20	113,333	46,622	66,711
Employee benefits	19	12,321	9,908	2,413
Provisions	21	77,186	76,919	267
Other non-current liabilities		5,622	2,669	2,953
Deferred tax liabilities	22	57,546	16,525	41,021
Total non-current liabilities		266,008	152,643	113,365
Current liabilities				
Bank loans and borrowings	20	25,065	14,640	10,425
Financial liabilities	20	47,173	39,759	7,414
Trade payables	23	78,200	63,143	15,057
Provisions	21	952	652	300
Tax liabilities	24	9,533	323	9,210
Other liabilities	25	37,264	37,604	(340)
Total current liabilities		198,187	156,121	42,066
Total liabilities		464,195	308,764	155,431
Liabilities directly associated to assets held for sale	14	578		578
Total equity and liabilities		1,767,009	1,682,421	84,588

Pursuant to Consob Resolution no. 15519 of July 27, 2006, the effects of transactions with related parties on the financial position and results of operations are set out in the relevant annexes.

Income statement

(in thousands of euro)	Notes	2018	%	2017	%	Change	%
Revenue		404,324		316,101		88,223	
Other income		58,745		191,524		(132,779)	
Total revenue and income	26	463,069	100.0	507,625	100.0	(44,556)	-8.8
Other revenue and income		9,453		9,629		(176)	
Changes in inventories		11,221		(424)		11,645	
Internal work capitalized		329		5,072		(4,743)	
Raw materials and ancillary materials	27	(227,350)		(136,159)		(91,191)	
Services	28	(77,326)		(67,880)		(9,446)	
Personnel expense	29	(98,676)		(139,537)		40,861	
Other operating income (expense)	30	(39,497)		(31,739)		(7,758)	
Gross operating profit		41,223	8.9	146,587	28.9	(105,364)	-71.9
Amortization and depreciation	31	(21,152)		(18,988)		(2,164)	
Impairment gains on non-current assets	32	1,218				1,218	
Operating profit		21,289	4.6	127,599	25.1	(106,310)	-83.3
Finance income	33	635		481		154	
Finance costs	33	(5,148)		(4,107)		(1,041)	
Exchange-rate differences and net gains (losses) on derivatives	33	(296)		(2,714)		2,418	
Impairment losses on financial assets	34			(21)		21	
Share of profit (loss) of equity-accounted investees	35	1,975		246		1,729	
Profit before taxes		18,455	4.0	121,484	23.9	(103,029)	-84.8
Income tax (expense)	36	13,217		(6,238)		19,455	
Profit for the year		31,672	6.8	115,246	22.7	(83,574)	-72.5
Attributable to:							
Owners of the parent		27,701	6.0	114,972	22.6	(87,271)	-75.9
Non-controlling interests		3,971	0.8	274	0.1	3,697	n.s.
Earnings per share	38						
Basic ordinary shares		0.660 €		2.632 €			
Diluted ordinary shares		0.658 €		2.623 €			

n.s. not significant

Statement of comprehensive income

(in thousands of euro)	Notes	2018	%	2017	%	Change	%
Profit for the year		31,672	6.8	115,246	22.7	(83,574)	-72.5
Other comprehensive income (expense) from to continuing operations	37						
Items that will never be reclassified to profit or loss							
Remeasurement of the liability/(asset) for employee benefits		219		594		(375)	
Remeasurement of the liability (asset) for employee benefits - investments in equity-accounted investees							
Income taxes		(99)		(53)		(46)	
Fair value gains (losses) on financial assets measured at FVOCI		(177,448)		37,924		(215,372)	
Fair value gains (losses) on financial assets measured at FVOCI - investments in equity-accounted investees							
Income taxes		1,366		18,992		(17,626)	
Total items that will never be reclassified to profit or loss		(175,962)		57,457		(233,419)	
Items that might be reclassified to profit or loss subsequently							
Translation reserve on foreign operations		55		(1,379)		1,434	
Translation reserve on foreign operations - investments in equity-accounted investees		541				541	
Fair value gains (losses) on cash flow hedging		(559)				(559)	
Fair value gains (losses) on cash flow hedging - investments in equity-accounted investees		226		85		141	
Items that might be reclassified to profit or loss subsequently		263		(1,294)		1,557	
Other comprehensive income (expense) from to continuing operations net of tax effect		263		(1,294)		1,557	
Other comprehensive income (expense)		(175,699)		56,163		(231,862)	
Comprehensive income (expense)		(144,027)	-31.1	171,409	33.8	(315,436)	-184.0
Attributable to:							
ow ners of the parent		(148,145)		171,323		(319,468)	
non-controlling interests		4,118		86		4,032	

Consolidated statement of changes in equity

	Attributable to owners of the parent										Non-controlling interests	Total equity	
	Share capital	Share premium	AFS fair value reserve	FVOCI fair value reserve	Hedging reserve	Actuarial gains/losses on defined benefit plans	Other reserves	Treasury shares	Translation reserve	Retained earnings			Total share capital and reserves
(in thousands of euro)													
Balance at December 31, 2016	100,167	177,191	116,104		-491	-1,134	12,977	-34,568	-5,075	959,784	1,324,955	9,212	1,334,167
Profit for the year										114,972	114,972	274	115,246
Total other comprehensive income (expense) from continuing operations			56,916		85	540			-1,190		56,351	-188	56,163
Comprehensive income (expense)			56,916		85	540			-1,190	114,972	17,132,3	86	171,409
Dividends paid										-22,960	-22,960	-2,669	-25,629
Purchase of treasury shares								-100,158			-100,158		-100,158
Sale of treasury shares								51			51		51
%change in control and consolidation scope and reclassifications			7			97	-904	67	-1,336	2,156	87	-6,270	-6,183
Balance at December 31, 2017	100,167	177,191	173,027		-406	-497	12,073	-134,608	-7,601	1,053,952	1,373,298	359	1,373,657
Profit for the year										27,701	27,701	3,971	31,672
Total other comprehensive income (expense) from continuing operations				-176,082	-109	110			235		-175,846	147	-175,699
Comprehensive income (expense)				-176,082	-109	110			235	27,701	-148,145	4,118	-144,027
Dividends paid										-23,071	-23,071		-23,071
Sale of treasury shares								-51			-51		-51
Reclassifications following first-time adoption of IFRS 9			-173,027	133,836						38,684	-507		-507
%change in control and consolidation scope and reclassifications					-104	6	-1		1,028	8	937	95,298	96,235
Balance at December 31, 2018	100,167	177,191		-42,246	-619	-381	12,072	-134,659	-6,338	1,097,274	1,202,461	99,775	1,302,236

Statement of cash flows

(in thousands of euro)	Note	2018	2017
A) Cash flows from operating activities:			
Profit before tax		18,455	121,484
Adjustments for:			
Amortization, depreciation and impairment losses		19,935	19,473
Reversal of share of profit (loss) of equity-accounted investees		(1,975)	(196)
Gains on sale of non-current assets		(2,033)	(128,533)
Change in employee benefits and other provisions		2,517	(26,474)
Reversal of net finance costs and income		(20,614)	(22,341)
Cash flows from (used in) operating activities before tax, finance income/costs, change in working capital		16,285	(36,587)
Change in working capital:			
Inventories		(13,171)	(4,865)
Trade receivables		(10,414)	4,333
Trade payables		918	14,646
Other receivables/payables, prepayments and accrued income, accrued expense and deferred income		8,924	3,606
Cash flows from operating activities before tax and finance income/costs		2,542	(18,867)
Net finance costs paid		1,473	1,711
Dividends received		14,869	14,736
Taxes paid		(2,339)	(2,390)
		14,003	14,057
Total A)		16,545	(4,810)
B) Cash flows from investing activities:			
Capital expenditure:			
PPE and investment property		(13,631)	(22,070)
Intangible assets		(1,345)	(6,879)
Financial assets (equity investments and funds) net of cash acquisitions (*)		(387,335)	(125,942)
Total capital expenditure		(402,311)	(154,891)
Proceeds from sale of non-current assets and loan repayments		42,011	154,594
Proceeds from discontinued operations		6,450	97,307
Total sales		48,461	251,901
Total B)		(353,850)	97,010
C) Cash flows from financing activities:			
Change in financial liabilities		82,337	(486)
Change in financial assets		75,544	(21,764)
Change in current equity investments		8,913	(7,191)
Purchase of treasury shares		(51)	(100,107)
Dividends paid		(23,071)	(25,629)
Third-party contributions (Caffè Borbone non-controlling interests)		94,237	(6,089)
Total C)		237,909	(161,266)
D) Translation differences and other changes			
Translation differences and other changes		5,101	1,431
Translation differences and other changes relating to assets held for sale		(1,645)	
Total D)		3,456	1,431
E) Cash flows for the year	(A+B+C+D)	(95,940)	(67,635)
F) Cash and cash equivalents at the beginning of the year		217,870	285,505
Cash and cash equivalents at the end of the year	(E+F) 13	121,930	217,870
(*) cash and cash equivalents from acquired and consolidated companies		33,446	

Cash flows from investing activities and from divestments are discussed in the relevant section of the notes.

Notes

The consolidated financial statements of Italmobiliare S.p.A. as at and for the year ended December 31, 2018 were approved by the Board of Directors on March 6, 2019. At the meeting, the Board authorized publication of a press release dated March 6, 2019, containing key information from the financial statements.

As required by IAS 10, attention is drawn to the fact that these consolidated financial statements may be amended by the Shareholders' Meeting.

The financial statements have been drawn up on a going-concern basis. Despite the difficult general economic and financial situation, the Group has no material uncertainties about its going-concern status, by virtue of the action already taken to respond to the changes in demand, and its industrial and financial flexibility.

Core businesses

Italmobiliare S.p.A. is a legal entity established in accordance with the laws of the Republic of Italy. It has been listed on the Milan Stock Exchange since 1980.

Italmobiliare S.p.A. is an investment holding, and consequently manages a diversified portfolio of investments and equity investments.

Accounting policies

These consolidated financial statements have been drawn up in compliance with the International Financial Reporting Standards (IFRS) applicable at December 31, 2018 as endorsed by the European Union, and with the dispositions for enactment of article 9 of Legislative Decree no. 38/2005. The term IFRS also includes all revised international accounting standards (IAS) and all the interpretations issued by the IFRIC/SIC.

The Italian laws that enact EU Directive 2013/34 also apply, where compatible, to companies that draw up financial statements in accordance with the IFRS. Consequently, the financial statements are compliant with the Italian Civil Code and the corresponding indications of the Consolidated Finance Act (TUF, *Testo Unico della Finanza*) for listed companies with regard to the directors' report, the statutory audit and the publication of the financial statements. The consolidated financial statements and related notes also set out the details and additional disclosures required under the articles of the Italian Civil Code governing financial statements, since such requirements are not in conflict with the IFRS, and under other Consob regulations and dispositions governing financial statements.

In compliance with European Regulation no. 1606 of July 19, 2002, the policies adopted do not include the standards and interpretations published by the IASB and the IFRIC through December 31, 2018, that had not been endorsed by the European Union at that date.

Since January 1, 2018, the Group has adopted the new standards and changes described below, including the changes arising therefrom applied to other standards:

- IFRS 9 "Financial instruments";
- IFRS 15 "Revenue from contracts with customers" including related amendments and clarifications;
- IFRIC 22 "Foreign currency transactions and advance consideration";
- Amendments to IAS 40 "Transfers of investment property";
- Amendments to IFRS 2 "Classification and measurement of share-based payment transactions";
- IFRS annual improvements cycle 2014-2016;
- Amendments to IFRS 4 "Applying IFRS 9 financial instruments with IFRS 4 insurance contracts".

The new international accounting standard IFRS 9 “Financial instruments” has replaced IAS 39 “Financial instruments: recognition and measurement” and introduced new requirements for the recognition and measurement of financial assets and financial liabilities.

IFRS 9 substantially retains the requirements of IAS 39 for the classification and measurement of financial liabilities. With regard to financial assets, on the other hand, the new standard eliminates the categories envisaged by IAS 39: held-to-maturity investments, loans and receivables, and available for sale. The adoption of IFRS 9 does not have material effects on the measurement criteria applied by the Group to financial liabilities.

Under IFRS 9, on initial recognition, a financial asset is classified according to its measurement: at amortized cost; at FVOCI – debt instrument; at FVOCI – equity instrument; or at FVTPL. Classification under IFRS 9 is usually based on the entity’s business model for management of financial assets and on the contractual cash flow characteristics of the financial asset.

A financial asset must be measured at amortized cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held under a business model whose objective is to hold financial assets in order to collect the related contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset must be measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the Group may elect irrevocably to present subsequent changes in the fair value in other comprehensive income. This decision is made for each investment.

All financial assets not classified at amortized cost or at FVOCI, as indicated above, are measured at FVTPL. This includes all derivatives.

Furthermore, IFRS 9 replaces the ‘incurred loss model’ envisaged by IAS 39 with an ‘expected credit loss’ or ECL model. The new impairment model applies to financial assets measured at amortized cost, to contracts assets and to debt instruments at FVOCI, with the exception of equity instruments. Under IFRS 9, expired credit losses are recognized earlier than previously required under IAS 39.

Financial assets measured at amortized cost include trade receivables, cash and cash equivalents and corporate debt instruments.

In accordance with the new standard, the Group has elected the following accounting treatment:

- equity investments previously classified as available-for-sale (AFS) are classified as financial assets measured at fair value through other comprehensive income (FVOCI);
- equity investments previously classified as held for trading are classified as financial assets measured at fair value through profit or loss (FVTPL);

Investment funds are classified as financial assets measured at FVTPL; bonds that met the conditions required by the standard are normally classified as financial assets measured at amortized cost; otherwise, they are classified as financial assets measured at FVTPL; trade receivables are classified as financial assets measured at amortized cost.

The Group has decided not to restate the comparative data.

IFRS 15 introduces a single general model specifying if, when and the extent to which revenue is recognized. It replaces IAS "18 Revenue", IAS "11 Construction contracts", and the related interpretations.

Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer. Determination of when control is transferred, either at a specific point in time or over time, involves an assessment by the management of the entity.

The Group has decided to apply the retrospective method.

IFRS 15 has not had material effects on the measurement criteria applied by the Group companies.

The information relating to 2017 has therefore been presented in accordance with the standards and interpretations ruling at the reporting date of the previous financial year.

The accounting treatment arising from the amendments to the other standards, effective as from January 1, 2018, has not had material effects on the Group companies.

Standards and interpretations that have been issued and endorsed but are not yet in effect

The new policies or amendments to policies applicable in annual reporting periods beginning after January 1, 2019, early application of which may be elected, are indicated below. The Group has decided not to elect early application in the preparation of these consolidated financial statements:

- IFRS 16 "Leases";
- Amendments to IFRS 9 "Prepayment features with negative compensation";
- IFRIC 23 "Uncertainty over income tax treatments";
- Amendments to IAS 28 "Long-term interests in associates and joint ventures".

IFRS 16 replaces the current requirements governing leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases – incentives", and SIC 27 "Evaluating the substance of transactions in the legal form of a lease".

IFRS 16 introduces a single lessee accounting model, requiring the lessee to recognize an asset representing the right of use of the underlying asset and a liability reflecting the obligation to pay the minimum rental rates. Leases with a term of 12 months or less and leases where the underlying asset has a low value are exempted from application of IFRS 16. Lessor accounting is substantially similar to that of the standard currently in effect, whereby the lessor continues to classify leases as operating leases or finance leases.

The Group intends to apply IFRS 16 from the date of first time adoption, that is, January 1, 2019, utilizing the modified retroactive method without restating the comparative information.

From a preliminary assessment of the potential effects on the consolidated financial statements, IFRS 16 "Leases" is expected to generate an increase in non-current assets and financial liabilities for an amount estimated at approximately 15 million euro with reference to the existing finance and operating leases.

Standards and interpretations published by the IASB and the IFRIC at December 31, 2018, but not endorsed by the European Union at that date

- IFRS 17 "Insurance contracts" issued in May 2018, a complete new standard relating to insurance contracts, which covers measurement and recognition, presentation and disclosure;
- IFRS annual improvements 2015-2017 cycle issued in December 2017;
- Amendments to IAS 19 "Plan amendment, curtailment or settlement" issued in February 2018;
- Amendments to the references to the Conceptual Framework for Financial Reporting issued in March 2018;
- Amendments to IFRS 3 "Business combinations" issued in October 2018;
- Amendments to IAS 1 and IAS 8 "Definition of material" issued in October 2018.

The above standards or amendments are not expected to have material impacts on the Group consolidated financial statements.

Measurement criteria and basis of presentation

The consolidated financial statements adopt the cost principle, with the exception of derivatives and financial assets, which are stated at fair value. The carrying amounts of hedged assets and liabilities are adjusted to reflect changes in fair value on the basis of the hedged risks. The consolidated financial statements are presented in euro, the functional currency of the parent Italmobiliare S.p.A.. All amounts in the accounting schedules and in the notes are rounded to thousands of euro, unless otherwise specified.

The basis of presentation of the Group financial statements is as follows:

- current and non-current assets and current and non-current liabilities are presented as separate classifications on the statement of financial position. Current assets, which include cash and cash equivalents, are assets that the Group intends to realize, sell or consume during its normal business cycle; current liabilities are liabilities that the Group expects to settle during the normal business cycle or in the twelve months after the end of the reporting period;
- on the income statement, costs are analyzed by nature;
- with regard to comprehensive income, the Group presents two statements: the first statement reflects traditional income statement components and the profit (loss) for the year, while the second statement, beginning with the profit (loss) for the year, presents other comprehensive income, previously reflected only in the statement of changes in consolidated equity: fair value gains/losses on available-for-sale financial assets and derivatives, translation differences;
- on the statement of cash flows, the indirect method is used.

Use of estimates

The preparation of the consolidated financial statements and the notes in conformity with the IFRS requires management to make discretionary assessments and estimates that affect the values of assets, liabilities, income and expense, such as amortization and depreciation, and the disclosures on contingent assets and liabilities in the notes. Since these estimates are determined on a going-concern basis, using the information available at the time, they could diverge from the actual future results. This is particularly evident in the present climate of financial and economic uncertainty, which could generate situations diverging from those estimated today and require currently unforeseeable adjustments, including adjustments of a material nature, to the carrying amounts of the items in question.

Assumptions and estimates are particularly sensitive with regard to measurement of non-current assets, which depends on forecasts of future results and cash flows, measurement of contingent liabilities, provisions for litigation and disputes and restructurings and commitments in respect of pension plans and other long-term benefits. Management conducts regular reviews of assumptions and estimates, and immediately recognizes any adjustments in the financial statements.

Since the Italmobiliare Group applies IAS 34 “Interim financial reporting” to its interim reports, with consequent identification of a six-month interim period, any impairment losses are recorded at period end.

The items that require greater subjectivity from the directors in making estimates and for which a change in the conditions underlying the assumptions could have a material impact on the financial statements are listed below:

- Goodwill;
- Brands with an indefinite useful life;
- Provisions.

Basis of consolidation

The consolidated financial statements are based on the financial statements as at and for the year ended December 31, 2018 of the parent Italmobiliare S.p.A. and the consolidated companies, in compliance with the Group accounting policies.

Subsidiaries

Subsidiaries are companies in which the Group is exposed to variable returns, or holds rights to such returns, by virtue of its relationship with the companies in question, and simultaneously has the ability to affect such returns by exercising its power.

The Group ascertains the existence of control on the basis of the existence of three elements:

- power: the current ability of the Group, arising from substantial rights, to determine the key operations of operations that have a material impact on the company's returns;
- the exposure of the Group to the variability of the returns of the investee;
- correlation between power and returns, the Group has the ability to exercise its power to affect the returns arising from the relationship.

Subsidiaries are consolidated on a line-by-line basis as from the date at which control is obtained and until control is transferred out of the Group.

Associates

Associates are companies in which the Group has significant influence over administrative and management decisions even though it does not hold control. Generally speaking, significant influence is assumed to exist when the Group holds, directly or indirectly, at least 20% of voting rights or, even if it holds a lower percentage of voting rights, when it is entitled to take part in financial and management policy decisions by virtue of a specific juridical status including, but not limited to, participation in shareholders' agreements or other forms of material exercise of rights of governance. Investments in associates are measured using the equity method, whereby they are recognized initially at cost, and subsequently adjusted to reflect changes in the value of the Group's interest in the associate's equity. The Group's share of an associate's profit or loss is recognized in a specific income statement caption from the date at which the Group exerts significant influence until it relinquishes such influence.

Joint arrangements

A joint arrangement is a contractual arrangement that attributes joint control of the arrangement to two or more parties.

A joint arrangement may be a "joint operation" or a "joint venture".

Joint operations

A joint operation is a joint arrangement in which a Group company, together with other parties who hold joint control, has rights to the assets and obligations for the liabilities to which the arrangement refers; the parties are called joint operators.

With regard to recognition in the consolidated and separate financial statements, the joint operator recognizes, in relation to its interest, its assets and liabilities, including its share of assets held jointly and liabilities incurred jointly, its revenue and expense relating to its part of the output and its share of the revenue and expense relating to the output obtained jointly.

A party to a joint operation that does not hold joint control recognizes its interest in the arrangement as illustrated in the previous paragraph if it has rights to the assets and obligations for the liabilities relating to the joint operation.

Joint ventures

Joint ventures are companies regarding which the Group has entered into a joint arrangement giving it rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method, except in cases when there is evidence that the interest has been acquired and is held with the intention of selling it within twelve months of purchase and that the Group is actively seeking a buyer.

Furthermore, if the Group has an interest in a joint venture without holding joint control, since such control is held by other parties, the joint venture is accounted for in accordance with:

- IAS 28, if significant influence is exercised;
- IFRS 9, in the case of a simple financial asset.

The statements of financial position and income statements of joint ventures are consolidated from the date on which joint control is assumed and until such control is relinquished.

Transactions eliminated during consolidation

All intragroup balances and transactions, including any unrealized gains in respect of third parties, are eliminated in full. Unrealized losses in respect of third parties deriving from intragroup transactions are eliminated, except in cases where it will not subsequently be possible to recover such losses.

Unrealized gains in respect of third parties deriving from transactions with associates are eliminated against the equity investment carrying amount. Losses are eliminated proportionately to the Group's interest, unless it will not subsequently be possible to recover such losses.

Consolidation scope

A list of consolidated companies, proportionately consolidated companies and companies consolidated using the equity method is provided in the annex to these notes.

Non-current assets held for sale and discontinued operations

Assets and liabilities held for sale and discontinued operations are classified as such when their carrying amount will be recovered chiefly through sale rather than through continuing use; such operations must be an important autonomous business operation or geographical area of operation.

The conditions indicated are deemed to exist when the sale is considered highly likely and the assets and liabilities are immediately available for sale in their current condition.

Available-for-sale assets are recognized at the lower of carrying amount and fair value less costs to sell.

Once property, plant and equipment, and intangible assets, have been classified as available-for-sale, no further amortization and depreciation may be applied.

In the income statement, profit (loss) relating to discontinued operations, together with fair value gains (losses) less costs to sell and gains or losses arising from the sale of the operation, are reflected in a single item separately from profit (loss) relating to continuing operations.

Cash flows relating to discontinued operations are shown separately in the statement of cash flows.

A similar disclosure is also presented for the comparative period.

Business combinations

On first-time adoption of the IFRS, as allowed by IFRS 1, the Group elected not to apply IFRS 3 retrospectively to business combinations that took place before January 1, 2004.

Until December 31, 2009, business combinations were accounted for using the purchase method under IFRS 3.

Since January 1, 2010, business combinations have been accounted for using the acquisition method under IFRS 3 revised.

Cost of business combinations

Under IFRS 3 revised, acquisition cost is the sum of the acquisition-date fair value of the contingent consideration and the amount of any non-controlling interests in the acquired entity. For each business combination, any non-controlling interests in the acquired entity must be measured at fair value or in proportion to their non-controlling interest in the identifiable net assets of the acquired entity.

IFRS 3 revised provides that costs relating to the acquisition be expensed in the periods in which they are incurred and the services are received.

Allocation of the cost of business combinations

Goodwill is measured as the positive difference between:

- the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquired entity, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired entity, and
- the net amount of identifiable assets acquired and liabilities assumed at the acquisition date.

Negative differences are recognized immediately in profit or loss.

If on initial recognition the acquisition cost of a business combination can only be determined provisionally, the allocated amounts are adjusted within twelve months of the acquisition date (measurement period).

Business combinations achieved in stages

When a business combination is achieved in stages, through a series of share purchases, for each transaction the fair value of the previously held interest is re-determined and any gain or loss is taken to profit or loss.

Purchase of non-controlling interests

Acquisitions of additional shares after acquisition of control do not require re-determination of identifiable asset and liability amounts. The difference between the cost and the acquired equity interest is recognized as equity attributable to owners of the parent. Transactions that reduce the percentage interest held without loss of control are treated as sales to non-controlling interests and the difference between the interest sold and the price paid is recognized in equity attributable to the owners of the parent.

Commitments to purchase non-controlling interests

A put option granted to non-controlling interests of a company controlled by the Group is initially recognized by recording the purchase value as a liability, since the value in question is the present value of the put option exercise price.

The complementary acquisition of non-controlling interests with put options is recognized in the financial statements:

- the non-controlling interests to which the put refers are eliminated from equity and reclassified under liabilities and the difference between the fair value of the purchase commitment liabilities and the carrying amount of the non-controlling interests is recognized under equity attributable to owners of the parent;
- subsequent changes in liabilities are recognized under equity attributable to owners of the parent with the exception of adjustments to the present value, which are taken to profit or loss.

Transactions in currencies other than the functional currency

The functional currency of the subsidiaries located outside the Eurozone is usually the local currency. Foreign currency transactions are initially translated into the functional currency using the exchange rate at the transaction date. At the reporting date, foreign currency monetary assets and liabilities are translated into the functional currency at the closing rate. Exchange-rate gains and losses are taken to profit or loss. Non-monetary foreign currency assets and liabilities measured at cost are translated at the exchange rate ruling at the transaction date; those measured at fair value are translated with the exchange rate at the date fair value was determined.

Translation of the financial statements of foreign operations

At the reporting date, the assets, including goodwill, and liabilities of consolidated companies that report in currencies other than the euro are translated into the presentation currency of the Group's consolidated accounts at the closing rate. Income statement items are translated at the average rate for the year. Gains and losses arising from the translation of opening equity at the closing rates and those arising from the different method used to translate profit or loss for the year are recognized in a specific equity item. In the event of subsequent disposal of a foreign operation, the cumulative translation differences are taken to profit or loss.

As allowed under IFRS 1, cumulative translation differences at the date of first-time adoption of the IFRS have been reclassified to "Retained earnings" under equity and therefore will not be taken to profit or loss in the event of subsequent disposal.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are recognized at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase or production cost and the directly attributable costs of bringing the asset to the location and the conditions required for its operation. Production cost includes the cost of materials and direct labor costs. Finance costs relating to the purchase, construction and production of qualifying assets are capitalized. The carrying amount of some assets existing at the IFRS first-time adoption date of January 1, 2004, reflects revaluations applied in prior periods in connection with specific local laws, based on the real economic value of the assets in question. The revalued amount recognized in accordance with IFRS 1 was assumed as cost at the IFRS transition date.

Assets acquired through business combinations are stated at fair value, determined on a provisional basis at the acquisition date and subsequently adjusted where necessary within the following twelve months.

Subsequent to initial recognition, property, plant and equipment are carried at cost and depreciated over the asset's useful life, less any impairment losses.

Assets under construction are recognized at cost; depreciation begins when the assets enter useful life.

When an asset consists of components with a significant cost and different useful lives, initial recognition and subsequent measurement are carried out separately for each component.

Subsequent expense

Repair and maintenance expense is normally recognized as incurred. Component replacement costs are treated as separate assets and the carrying amount of the replaced component is eliminated with a balancing entry in profit loss.

Depreciation

Depreciation is generally calculated on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Land is not depreciated, with the exception of land used for quarrying operations. Asset's useful life determines the depreciation rate until a subsequent review of residual useful life. The useful life range adopted for the various categories of assets is disclosed in the notes.

Leases

Finance leases, which substantially transfer to the Group all risks and rewards incidental to ownership of the leased asset, are recognized from the lease inception date at the lower of the leased asset fair value or the present value of the lease payments. Lease payments are apportioned between finance costs and reductions against the residual liability so as to obtain a constant rate of interest on the outstanding liability.

The policies used for depreciation and subsequent measurement of leased assets are consistent with those used for the Group's own property, plant and equipment.

Leases where all risks and rewards incidental to ownership are retained by the lessor are classified as operating leases.

Operating lease payments are recognized as expense on a straight-line basis over the lease term.

Investment property

Investment property is land and/or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods and services. Investment property is initially recognized at purchase cost, including costs directly attributable to the purchase. Subsequent to initial recognition, investment property is measured at amortized cost, based on the asset's useful life less any impairment losses.

Goodwill

Goodwill recognized in accordance with IFRS 3 revised is allocated to the cash-generating units that are expected to benefit from the synergies created by the acquisition. Goodwill is stated at the original value less any impairment losses identified through tests conducted on an annual basis or more frequently if indications of impairment emerge.

When goodwill is allocated to a cash-generating unit part of whose assets are disposed of, the goodwill associated with the sold assets is taken into account when determining any gain or loss arising from the transaction.

Intangible assets

Intangible assets acquired separately are capitalized at cost, while those acquired through business combinations are recognized at fair value estimated on a provisional basis at the acquisition date and adjusted where necessary within the following twelve months.

Subsequent to initial recognition, intangible assets are carried at cost amortized over the asset's useful life.

Other than goodwill, the Group has identified brands as intangible assets with an indefinite useful life.

Impairment

Goodwill is systematically tested for impairment on an annual basis or more frequently if indications of impairment emerge.

Property, plant and equipment and investment property, and amortizable intangible assets, are tested for recoverability if indications of impairment emerge.

An impairment loss is the difference between the asset carrying amount and its recoverable amount. Recoverable amount is the greater of fair value, less costs to sell, of an asset or cash-generating unit, and its value in use, determined as the present value of future cash flows. Fair value less costs to sell is determined through application of suitable valuation models, adopting appropriate income multipliers, quoted share prices on an active market for similar enterprises, comparable transactions on similar assets or other available fair value indicators applicable to the assets being measured.

In determining value in use, assets are measured at the level of cash-generating units, on the basis of their operating attribution. Estimated future cash flows are discounted at a rate determined for each cash-generating unit using the weighted average cost of capital method (WACC).

If an impairment loss on an asset other than goodwill subsequently reverses in full or in part, the asset carrying amount is increased to reflect the new estimated recoverable amount, which may not exceed the amount that would have been reflected in the absence of the impairment loss. Impairment losses and reversals of impairment losses are taken to profit or loss.

Impairment losses on goodwill may not be reversed.

Financial assets

All financial assets are recognized initially at cost at the trade date. Cost corresponds to fair value plus additional costs attributable to the purchase with the exception of financial assets held for trading (fair value through profit or loss).

Subsequent to initial recognition, assets are classified in accordance with the entity's business model for the management of financial assets, depending on the characteristics of the assets' contractual cash flows.

The reader is referred to the previous section "Accounting policies" for details.

On initial recognition, financial assets are designated by measurement method: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets designated at FVOCI are measured at fair value and any changes in value, as well as gains or losses arising on sale, are recognized directly under a separate equity caption. Any dividends collected are recognized in profit or loss.

Financial assets designated at FVTPL generate fair value gains or losses, trading gains or losses and dividends recognized in profit or loss.

Inventories

Inventories are measured at the lower of purchase/production cost (using the weighted average cost method) and net realizable value.

Purchase cost includes costs incurred to bring assets to the warehouse, less allowances for write-downs of obsolete and slow-moving items.

Production cost of finished goods and semi-finished goods includes the cost of raw materials, direct labour and a portion of general production costs, determined on the basis of normal plant operations. Financial costs are not included.

The net realizable value of raw materials, consumables and supplies is their replacement cost.

The net realizable value of finished goods and semi-finished goods is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs to sell.

Trade receivables and other non-current assets

Trade receivables and other receivables are initially recognized at fair value plus transaction costs, and subsequently measured at amortized cost less allowances for impairment, which are provided for as bad debts are identified.

Allowances for impairment of trade receivables are determined in accordance with Group procedures. At the end of the reporting period, the Group companies conduct a customer-by-customer analysis of doubtful overdue receivables and adjust the carrying amount of (overdue) receivables that present risks accordingly.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank demand deposits and other treasury investments with original maturity of not more than three months. Current account overdrafts are treated as source of financing and not as cash and cash equivalents.

The definition of cash and cash equivalents in the statement of cash flows is identical to that in the statement of financial position.

Derecognition of financial assets

The Group derecognizes financial assets in whole or in part when:

- the contractual rights attributable to the assets in question have expired;
- it transfers the risks and rewards incidental to ownership of the asset or does not transfer and does not even substantially maintain all the risks and rewards but transfers control of the assets.

Employee benefits

The Group operates pension plans and post-employment benefits. It also has other commitments, in the form of bonuses payable to employees on the basis of length of service in some Group companies (“Other long-term benefits”).

Defined contribution plans

Defined contribution plans are structured post-employment benefit programs where the Group pays fixed contributions to an insurance company or pension fund and will have no legal or constructive obligation to pay further contributions if the fund does not dispose of sufficient assets to pay all the employee benefits accruing in respect of services rendered during the current year and in previous years.

These contributions are paid in exchange for the services rendered by employees and recognized as an expense as incurred.

Defined benefit plans

Defined benefit plans are structured post-employment benefit programs that constitute a future obligation for the Group. In substance, the company assumes the actuarial and investment risks of the plan. In accordance with IAS 19, the Group uses the unit credit projection method to determine the present value of obligations and the related current service cost.

These actuarial calculations require use of consistent and objective actuarial assumptions about demographic variables (mortality rate, personnel turnover rate) and financial variables (discount rate, future increases in salaries and medical benefits).

When a defined benefit plan is funded in full or in part by contributions paid to a fund that is a separate legal entity or to an insurance company, the plan assets are estimated at fair value.

Benefit obligations are therefore recognized net of the fair value of the plan assets that will be used to settle the obligations.

Employment termination plans

Employment termination plans include provisions for restructuring costs recognized when the Group company in question has approved a detailed formal plan that has already been implemented or notified to the third parties concerned.

Actuarial gains and losses

Actuarial gains and losses on post-employment defined benefit plans may arise as a result of changes in the actuarial assumptions used in two consecutive years or as a result of changes in the obligation value or in the fair value of any plan asset in respect of the actuarial assumptions used at the beginning of the year.

Actuarial gains and losses are recognized immediately under other comprehensive income (expense).

Actuarial gains and losses relating to "Other long-term benefits" (service medals, length of service benefits) and to early retirement benefits are recognized in profit or loss immediately.

Past service cost

Changes in liabilities resulting from a change to an existing defined benefit plan are recognized in profit or loss for the year, as are costs that vest immediately upon changes to a plan.

Curtailement and settlement

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized as profit or loss when the curtailment or settlement occurs. The gain or loss includes changes in the present value of the obligation, changes in the fair value of plan assets, actuarial gains or losses and past service costs not previously accounted for.

At the curtailment or settlement date, the obligation and the fair value of the plan assets are re-measured using current actuarial assumptions.

Net finance costs

Net finance costs on defined benefit plans consist of the following measurements:

- finance costs computed on the present value of the defined benefit plan liability;
- finance income arising from measurement of the plan assets;
- finance costs or income arising from any limits on recognition of plan surpluses.

Net finance costs are determined by applying to all the above items the discount rate adopted at the beginning of the year to measure the defined benefit plan obligation.

Net finance costs on defined benefit plans are recognized under finance income/costs on the income statement.

Share-based payments

The Group has applied IFRS 2 as from January 1, 2004.

Options for the subscription and purchase of shares granted by Group companies to employees and directors give rise to recognition of a cost classified under personnel expense, with a corresponding increase in equity.

In accordance with IFRS 2, only options granted after November 7, 2002, whose rights had not vested at December 31, 2003, have been measured and recognized at the transition date. Options for the subscription and purchase of shares are measured at fair value at the grant date and amortized over the vesting period. Fair value at the grant date is determined using the binomial method, and taking account of dividends. Future volatility is determined on the basis of historic market prices, after adjustment for non-recurring events or factors.

The cost of granted options is reviewed on the basis of the actual number of options that have vested at the beginning of the exercise period.

Provisions for risks and charges

The Group recognizes provisions for risks and charges when a present or constructive obligation arises as a result of a past event, the amount of which can be reliably estimated, and use of resources is probable to settle the obligation. Provisions reflect the best estimate of the amount required to settle the obligation or transfer it to third parties at the reporting date. If the present value of the financial resources that will be used is material, provisions are determined by discounting expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting is performed, movements in provisions due to the effect of time or changes in interest rates are recognized in financial items.

Changes in estimates are recognized in profit or loss in the year in which the change occurs.

Pending publication of a standard/interpretation on accounting treatment of greenhouse gas emission allowances, after the withdrawal of IFRIC 3 by the International Accounting Standards Board, the Group recognizes a separate provision when emissions are greater than the allowance.

Restructuring costs are provided when the Group company concerned has approved a detailed formal plan that has already been implemented or notified to the relevant third parties.

Loans and borrowings

Loans and borrowings are initially recognized at the fair value of the consideration paid/received less charges directly attributable to the financial asset/liability.

After initial recognition, loans and borrowings are measured at amortized cost using the effective interest-rate method.

Trade payables and other payables

Trade payables and other payables are stated initially at the fair value of the original consideration received and subsequently measured at amortized cost.

Revenue, other revenue, interest income and dividends

Sale of goods and services

Revenue is measured taking into account the consideration specified in the contract with the customer. The Group recognizes revenue when the control of the goods or service is transferred.

Revenue is recognized by applying a five-stage model:

- Identification of the contract with the customer;
- Identification of the performance obligations set out in the contract;
- Determination of the transaction consideration;
- Apportionment of the consideration to the individual performance obligations;
- Recognition of revenue upon (or during) satisfaction of the individual performance obligation.

Revenue is recognized to the extent that it is probable that the economic benefits associated with the sale of goods or rendering of services are collected by the Group and the amount in question can be reliably determined.

Revenue is recognized at the fair value of the consideration received or due, taking account of any trade discounts given and volume discounts.

Revenue from the sale of goods is recognized when the company transfers the material risks and rewards incidental to ownership of the goods to the purchaser.

In the caption "Revenue and income" the sub-item "income" includes dividends received, interest and commission income earned by the financial and banking companies, and measurement gains and gains realized on financial assets measured at FVTPL.

Rental income

Rental income is recognized as other revenue, as received, at constant amounts over the rental period.

Costs

Costs are recognized on an accruals basis in accordance with the cost and revenue matching principle, whereby they are matched with revenue.

Interest income

Interest income earned by companies that are not financial or banking companies is recognized as finance income on an accruals basis using the effective interest method.

Dividends

Dividends are recognized as shareholders' right to receive payment arises, in accordance with local laws, and are classified under "Finance income and costs", with the exception of dividends earned by banking and finance companies, which are classified under "Revenue".

Government grants

Government grants are recognized when there is a reasonable certainty that they will be received and all the requirements on which receipt depends have been fulfilled.

Grants related to the purchase or production of non-current assets (grants related to assets) are recognized as deferred income and taken to profit or loss over the useful life of the underlying assets.

Derivatives

The Group uses derivatives such as options and futures to manage market risks.

Derivatives are measured and recognized at fair value.

Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The fair value of foreign-currency forward contracts is determined on the basis of the current forward exchange rates for contracts with similar maturity profiles.

The fair value of derivatives is determined using the swap curve weighted to take account of the counterparty credit risk.

The fair value of interest-rate contracts is determined on the basis of discounted flows using the zero coupon curve.

Derivatives, with the exception of those that qualify for hedge accounting, are classified under current assets and fair value gains and losses are taken directly to profit or loss.

Hedging transactions

Under IFRS 9, derivatives may be designated as hedging instruments when:

- the hedging relationship is formally designated and documented at inception;
- the hedging relationship is expected to be highly effective;
- effectiveness can be reliably measured;
- the hedging relationship can pass effectiveness tests at its inception in all the accounting periods in which it is in operation.

For accounting purposes, hedges are classified as “fair value hedges”, as “cash flow hedges” or as “hedges of investments in foreign operations”.

Fair value hedges hedge Group exposure to fair value changes on a recognized asset or liability or an unrecognized firm commitment, or on an identified portion of such an asset, liability or firm commitment, subject to a particular risk that could affect profit or loss.

The carrying amount of the hedged item is adjusted for the gains or losses attributable to the hedged risk, the hedging instrument is re-measured at fair value, and any gains and losses on the derivative and on the underlying item are taken to profit or loss.

For hedged items measured at amortized cost, the adjustment to the carrying amount is amortized through profit or loss over the residual term to maturity. Any adjustment to the carrying amount of a hedged financial instrument, for which the effective interest method is used, is amortized through profit or loss. Amortization may begin as soon as an adjustment arises but no later than when the hedged item ceases to be adjusted for fair value changes attributable to the hedged risk.

When an unrecognized commitment is designated as a hedged item, the subsequent cumulative fair value change attributable to the hedged risk is recognized as an asset or liability, with a corresponding gain or loss in profit or loss. Fair value changes of a hedged instrument are also taken to profit or loss.

The Group discontinues fair value hedge accounting if the derivative expires, is sold, is settled or exercised, if the hedge no longer qualifies for hedge accounting or if the Group revokes designation.

Cash flow hedges are hedges of exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or with a highly probable forecast transaction that could affect profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized under comprehensive income (expense), while the non-effective component is recognized in profit or loss.

Amounts deferred in equity are transferred to profit or loss when the hedged transaction affects profit or loss. When the hedged item is the cost of a non-financial asset or liability, the amounts recognized in equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer highly probable, the amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires, is sold, settled or exercised without replacement, or if the hedge designation is revoked, the amounts previously recognized in equity are retained in equity until the forecast transaction takes place. If the highly probable forecast transaction will no longer take place, the amounts in question are taken to profit or loss.

Hedges of net investments in foreign operations, including hedges of a monetary item accounted for as a part of a net investment, are treated in the same way as cash flow hedges. The effective component of the gain or loss on the hedging instrument is recognized in equity, while the non-effective component is recognized in profit or loss. On disposal of the foreign operation, the cumulative gain or loss recognized in equity is taken to profit or loss.

Income taxes

Current income taxes are provided in accordance with local tax laws in the countries where the Group operates.

Deferred tax is recognized on the basis of temporary differences between the tax base of assets and liabilities and their carrying amount in the statement of financial position.

Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax assets, to the extent that it is probable that future taxable income will be available against which such differences, losses or credits may be reversed.

Taxable or deductible temporary differences do not generate recognition of deferred tax liabilities or assets only in the following cases:

- taxable temporary differences arising from the initial recognition of goodwill, except when such goodwill is tax-deductible;
- taxable or deductible temporary differences arising from initial recognition of an asset or a liability in transactions that are not business combinations and affect neither accounting profit nor taxable profit at the transaction date;
- equity investments in subsidiaries, associates and joint ventures when:
 - the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that such differences will not reverse in the foreseeable future;
 - it is not probable that the deductible temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference can be reversed.
- deferred tax assets are reviewed at each reporting date and reduced to the extent that sufficient taxable income is no longer likely to be available in the future against which the assets can be used in full or in part.

Deferred tax assets and liabilities are determined at tax rates expected to apply when the deferred tax asset (liability) is realized (settled), based on rates that have been enacted or substantially enacted at the reporting date.

Taxes relating to items recognized directly in equity are recognized in equity, not in profit or loss.

Deferred tax assets and deferred tax liabilities are not discounted to present value.

Management of capital

The net financial debt reflects financial liabilities less cash and cash equivalents and other assets of a financial nature. Equity consists of all the items indicated on the statement of financial position.

The primary objective of Group capital management is to guarantee a solid credit rating and to maintain financial indicators at appropriate levels to ensure smooth running of business operations, funding of planned investments and creation of maximum shareholder value.

The Group manages and amends the capital structure to take account of changes in economic and financial conditions, in relation to its international presence and growth plans. To maintain or modify its capital structure, the Group may adjust dividends paid to shareholders, reimburse capital, issue new shares, raise or reduce equity investments in subsidiaries, purchase/sell equity investments.

Exchange rates used to translate the financial statements of foreign operations

Exchange rates for 1 euro:

Currencies	Average rate		Closing rate	
	2018	2017	December 31, 2018	December 31, 2017
Czech crown	25.64700	26.32837	25.72400	25.53500
Serbian dinar	118.23647	121.36576	118.31090	118.63860
UAE dirham	4.33706	4.14666	4.20500	4.40440
Moroccan dirham	11.08174	10.94961	10.93900	11.23600
Australian dollar	1.57968	1.47281	1.62200	1.53460
US dollar	1.18095	1.12945	1.14500	1.19930
Hungarian florin	318.88969	309.17732	320.98000	310.33000
Swiss franc	1.15496	1.11144	1.12690	1.17020
Ukrainian hryvnia	32.10914	30.01425	31.73620	33.73180
Croatian kuna	7.41816	7.46338	7.41250	7.44000
Moldavian leu	19.83507	20.84146	19.54190	20.52710
Bulgarian lev	1.95583	1.95583	1.95583	1.95583
Egyptian pound	21.04142	20.15363	20.51080	21.33090
Bosnian mark	1.95583	1.95583	1.95583	1.95583
New Turkish lira	5.70767	4.11867	6.05880	4.54640
New Romanian leu	4.65401	4.56853	4.66350	4.65850
Mexican peso	22.70543	21.32289	22.49210	23.66120
Brazilian real	4.30849	3.60437	4.44400	3.97290
Chinese renminbi	7.80808	7.62800	7.87510	7.80440
Pound sterling	0.88471	0.87656	0.89453	0.88723
Polish zloty	4.26149	4.25702	4.30140	4.17700

The exchange rates used to translate the financial statements of foreign operations are those published by the Bank of Italy.

Significant events and changes in the consolidation scope

Changes in the scope of consolidation

The main changes with respect to December 31, 2017 are as follows:

- the line-by-line consolidation of Sirap GmbH (Germany);
- the line-by-line consolidation of Sirap Packaging Iberica SLU (Spain);
- the line-by-line consolidation of Sirap UK Limited (United Kingdom);
- the line-by-line consolidation of Caffè Borbone S.r.l. (Italy) in which Italmobiliare holds 60%;
- the equity measurement of Iseo Serrature S.p.A. (Italy).

With effect from January 1, 2018, the Franco Tosi S.r.l. company has been merged into and with Italmobiliare S.p.A. (Italy).

Business combinations

On May 3, 2018, the Group acquired control of Caffè Borbone as already described in the “Directors’ report”. The company management believes that if the acquisition had taken place on January 1, 2018, consolidated revenue would have amounted to 503,249 thousand euro and consolidated profit would have been 38,040 thousand euro.

The table below sets out the assets acquired, the liabilities assumed and the apportionment of the price paid at the acquisition date:

(in millions of euro)	Carrying amount of acquisitions	Fair value adjustment	Fair value attributed to acquisition
Net PPE, investment property other non-current assets	17,597		17,597
Intangible assets	101	186,237	186,338
Trade receivables and other current assets	18,340		18,340
Cash and cash equivalents	37,194		37,194
Trade payables and other current liabilities	(19,191)		(19,191)
Provision for risks and charges and deferred tax liabilities	(609)	(53,953)	(54,562)
Employee benefits	(398)		(398)
Financial payables and other financial liabilities (current and non-current)	(3,043)		(3,043)
Non-controlling interests			
Fair value of net assets acquired	49,991	132,284	182,275
Goodwill	286,123	(132,284)	153,839
Total cost of acquisition	336,114		336,114

The measurement method used to determine the fair value of the main assets acquired are the “Discounted royalty savings method” for the brand and the “Multi-period excess earnings method” for business relations.

The first method is based on the present value of estimated royalty payments expected to be avoided by virtue of the brands owned. The second method is based on the current value of the net cash flows expected to arise from customer relations.

Goodwill arising from the acquisition has been recognized as illustrated in the previous table, using the “Full goodwill method”.

The net outlay for the acquisition was as follows:

(in thousands of euro)	
Securities purchase price	336,114
Cash and cash equivalents acquired	(30,683)
Share capital increase subscribed by third parties	(94,932)
Net outlay on acquisition	210,499

In January 2018, as mentioned in the previous section, the Sirap group acquired control of four companies. The table below sets out the assets acquired, the liabilities assumed and the apportionment of the price paid at the acquisition date for the four companies:

(in thousands of euro)	Book value of companies acquired	Fair value adjustment	Fair value attributed to acquisition
Net property, plant and equipment and other non-current assets	12,786	1,700	14,486
Intangible assets	184	615	799
Trade receivables and other current assets	20,391		20,391
Cash and cash equivalents	2,763		2,763
Trade payables and other current liabilities	(11,765)	(286)	(12,051)
Provisions for risks and charges	(92)		(92)
Employee benefits	(390)		(390)
Financial payables and other financial liabilities (current and non-current)	(5,037)		(5,037)
Non-controlling interests			
Fair value of net assets acquired	18,840	2,029	20,869
Badwill	(2,153)	(2,029)	(4,182)
Total cost of acquisition	16,687		16,687

The fair value of property, plant and equipment and investment property was calculated on the basis of the size, characteristics, capacity for use and residual life of the assets in question, assuming continuous use in the present production context.

The estimate applied generally accepted measurement methods and policies, with particular use of:

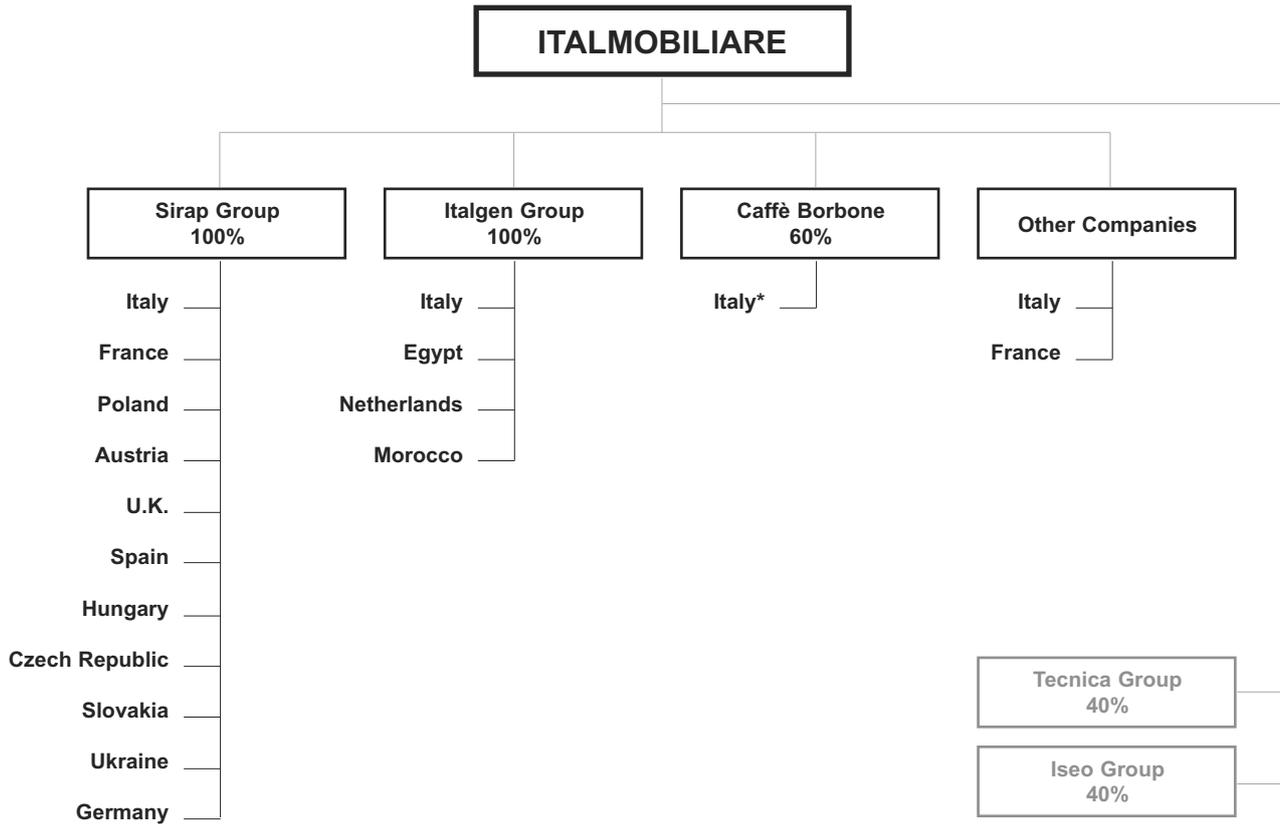
- the Comparative (or Market) Method, based on a comparison between the asset being measured and other similar assets recently sold or acquired or currently on offer on the same market or competitive markets;
- the Cost Method, based on the cost that would be incurred to replace an asset with a new asset with the same characteristics and use, decreased to take account of factors such as physical wear and tear and functional obsolescence.

The net disbursement for the acquisition was as follows:

(in thousands of euro)	
Securities purchase price	16,687
Cash and cash equivalents acquired	(2,763)
Net outlay on acquisition	13,924

Subsidiaries with non-controlling interests

The chart below illustrates the structure of the Italmobiliare group:



- Consolidated line-by-line
- Consolidated with equity

* countries where non-controlling interests are present

At December 31, 2018, the majority of non-controlling interests refer to the 40% of the Caffè Borbone company whose financial data are set out below:

	Caffè Borbone May-Dec 2018
(in thousands of euro)	
Revenue	92,020
Profit for the period	10,132
Profit attributable to non-controlling interests of the Italmobiliare group	4,053
Total comprehensive income	9,588
Total comprehensive income attributable to non-controlling interests of the Italmobiliare group	3,835
Non-current assets	359,231
Current assets	36,768
Non-current liabilities	(120,510)
Current liabilities	(26,321)
Net assets	249,168
Net assets attributable to non-controlling interests of the Italmobiliare group	99,667
Dividends paid	-
Dividends paid to non-controlling interests of the Italmobiliare group	-

In the BravoSolution group, sold at the end of 2017, there were material non-controlling interests in the United Arab Emirates in a 51% held investee.

The table below sets out the key figures of this company with material non-controlling interests:

	TejariSolution FZ LLC Jan-Oct 2017
(in thousands of euro)	
Revenue	8,384
Profit for the period	2,962
Profit attributable to non-controlling interests of the BravoSolution group	1,451
Profit attributable to non-controlling interests of the Italmobiliare group	1,712
Total comprehensive income	2,010
Total comprehensive income attributable to non-controlling interests of the BravoSolution group	985
Total comprehensive income attributable to non-controlling interests of the Italmobiliare group	1,162
Dividends paid	5,676
Dividends paid to non-controlling interests of the BravoSolution group	2,871
Dividends paid to non-controlling interests of the Italmobiliare group	3,281

Operating segment disclosure

The businesses in which the Group operates that constitute its reportable segments, as required by IFRS 8 correspond to the main subsidiaries and associates (Sirap, Italgem, Caffè Borbone, Tecnica Group, Iseo and “Other companies”). The comparative figures for 2017 have been restated for consistency with those of the year under review.

The Group management and organizational structure reflects the disclosure by reporting segment described above. Identification of the operating segments is based on the elements used by Group senior management to take decisions regarding allocation of resources and evaluation of results.

Operating segment disclosure

The table below sets out revenue and income and performance by segment for 2018:

	Revenue and income	Intragroup sales	Contribution revenue	Gross operating profit (loss)	Operating profit (loss)	Finance income (costs)	Impairment losses on financial assets	Share of profit (loss) of equity-accounted investees	Profit (loss) before tax	Income tax (expense)
(in thousands of euro)										
Italmobiliare	54,960	(10,086)	44,874	1,442	853					
Sirap	275,083		275,083	16,264	9,212					
Italgem	36,018		36,018	8,390	1,757			(4)		
Caffè Borbone	92,020		92,020	22,534	16,924					
Tecnica Group								1,989		
Other companies	17,764	(2,690)	15,074	1,301	892			(10)		
Unallocated items and adjustments	(12,776)	12,776		(8,708)	(8,349)	(4,809)			18,455	13,217
Total	463,069		463,069	41,223	21,289	(4,809)		1,975	18,455	13,217

The table below sets out revenue and income and performance by segment for 2017:

	Revenue and income	Intragroup sales	Contribution revenue	Recurring gross operating profit (loss)	Operating profit (loss)	Finance income (costs)	Impairment losses on financial assets	Share of profit (loss) of equity-accounted investees	Profit (loss) before tax	Income tax expense
(in thousands of euro)										
Italmobiliare	143,449	17,139	160,588	105,031	104,485		(21)			
Sirap	207,099	3	207,102	15,048	5,906					
Italgem	37,784		37,784	6,202	2,688			444		
BravoSolution	70,568	1,232	71,800	2,890	(2,889)					
Tecnica Group								(198)		
Other companies	31,891	(1,540)	30,351	(955)	(2,236)					
Unallocated items and adjustments	16,834	(16,834)		18,371	19,645	(6,340)			121,484	(6,238)
Total	507,625		507,625	146,587	127,599	(6,340)	(21)	246	121,484	(6,238)

The table below sets out other segment figures at December 31, 2018:

	December 31, 2018		December 31, 2018			
	Total assets	Total liabilities	Capital expenditures	Non-current financial investments	Amortization and depreciation	(Impairment and losses)/measurement gains on non-current assets
(in thousands of euro)						
Italmobiliare	1,295,671	65,582	344	67,796	(275)	
Sirap	244,984	213,950	6,541	16,826	(11,241)	4,183
Italgen	59,610	45,486	3,391		(3,668)	(2,965)
Caffè Borbone	395,999	146,831	4,629	336,114	(5,610)	
Tecnica Group	46,041					
Iseo	42,601					
Other companies	69,442	17,634	86	45	(358)	
Inter-segment eliminations	(393,510)	(24,958)				
Total	1,760,838	464,525	14,991	420,781	(21,152)	1,218
From assets held for sale	6,171	248				
Total	1,767,009	464,773	14,991	420,781	(21,152)	1,218

The table below sets out other segment figures at December 31, 2017:

	December 31, 2017		December 31, 2017			
	Total assets	Total liabilities	Capital expenditures	Non-current financial investments	Amortization and depreciation	(Impairment and losses)/measurement gains on non-current assets
(in thousands of euro)						
Italmobiliare	1,324,104	72,020	464	109,129	(233)	
Sirap	208,712	192,566	12,590		(9,144)	
Italgen	72,018	46,597	2,541		(3,514)	
BravoSolution			6,749		(5,779)	
Other companies	334,583	19,703	6,623	3,797	(318)	
Inter-segment eliminations	(262,622)	(22,122)				
Total	1,676,795	308,764	28,967	112,926	(18,988)	
From assets held for sale	5,626					
Total	1,682,421	308,764				

Assets

Non-current assets

1) Property, plant and equipment

	Land and buildings	Technical plant, materials and equipment	Other property, plant and equipment	Total
(in thousands of euro)				
Gross amount	80,611	225,406	36,659	342,676
Accumulated depreciation	(29,116)	(157,845)	(25,097)	(212,058)
Carrying amount at December 31, 2017	51,495	67,561	11,562	130,618
Increases	614	8,319	4,713	13,646
Change in scope of consolidation, reclassifications, other	10,793	16,221	(4,937)	22,077
Decreases	(73)	(254)	(31)	(358)
Depreciation	(2,140)	(13,043)	(687)	(15,870)
Impairment losses			(3,004)	(3,004)
Reversal of impairment losses		1,700		1,700
Translation differences	(284)	(225)	234	(275)
Carrying amount at December 31, 2018	60,405	80,279	7,850	148,534
Gross amount	94,145	278,785	33,295	406,225
Accumulated depreciation	(33,740)	(198,506)	(25,445)	(257,691)
Carrying amount at December 31, 2018	60,405	80,279	7,850	148,534

Non-current assets held under finance leases and rental contracts were carried at 8,559 thousand euro at December 31, 2018 (1,400 thousand euro at December 31, 2017). They consisted of buildings for 7,881 thousand euro and plant for 678 thousand euro.

“Other property, plant and equipment” includes assets under construction for 4,831 thousand euro.

The useful lives adopted by the group for the main asset categories are as follows:

Civil and industrial buildings	10 – 33 years
Plant and machinery	5 – 30 years
Other property, plant and equipment	3 – 10 years

The range between the above minimum and maximum limits indicates the presence of components with separate useful lives within each asset category.

2) Investment property

(in thousands of euro)	
Gross amount	9,668
Accumulated depreciation	(428)
Carrying amount at December 31, 2017	9,240
Depreciation and impairment losses	(375)
Reclassifications and other changes	(1)
Carrying amount at December 31, 2018	8,864
Gross amount	9,668
Accumulated depreciation	(804)
Carrying amount at December 31, 2018	8,864

Investment property, with an estimated useful life of 33 years, is measured at amortized cost.

Fair value of investment property at December 31, 2018 was 26,026 thousand euro, in line with the fair value at December 31, 2017).

3) Goodwill

(in thousands of euro)	
Carrying amount at December 31, 2017	13,302
Additions	153,839
Carrying amount at December 31, 2018	167,141

The change in goodwill arose from the effects of the business combination following the acquisition of the equity investment in Caffè Borbone (formerly L'Aromatika) during the year. Further details are provided in the note "Business combinations".

Goodwill impairment testing

Goodwill acquired in a business combination is allocated to the cash-generating units (CGUs). The Group tests goodwill recoverability at least once a year or more frequently if indications of impairment emerge. The method used to determine the recoverable amount of goodwill is described in the section "Basis of consolidation" under the heading "Impairment".

The following table sets out post-impairment test goodwill:

(in thousands of euro)	Carrying amount of goodwill	
	December 31, 2018	December 31, 2017
Cash-generating units		
Sirap	10,308	10,308
Caffè Borbone	153,839	
Other companies	2,994	2,994
Total	167,141	13,302

Caffè Borbone

Goodwill (including non-controlling interests) recognized in the Italmobiliare Group consolidated financial statements after the acquisition of Caffè Borbone S.p.A. on May 3, 2018, amounted to 153,839 thousand euro. As previously noted, after the merger of Caffè Borbone S.p.A. into the subsidiary L'Aromatika S.r.l., (the post-merger company, in which Italmobiliare S.p.A. holds 60%), took the name Caffè Borbone S.r.l. The financial statements of this company therefore reflect the same goodwill amount as that shown in the consolidated financial statements of the Italmobiliare Group.

The goodwill allocated in full to the subsidiary Caffè Borbone, which is a single cash generating unit (CGU) for the purposes of the Italmobiliare Group consolidated financial statements, was tested for impairment in accordance with IAS 36. Specifically, the recoverable amount of the CGU was estimated with the assistance of an independent expert using the value in use configuration, based on the present value of expected future cash flows. The analytical projections of future cash flows (unlevered) were based on 2019 budget data and the plan of financial and business projections for the period 2020-2022. The cash flows were discounted using a post-tax discount rate (WACC) of 10.10%, including an additional premium with respect to the Capital Asset Pricing Model (CAPM) for the specific risk (so-called "execution risk"). Terminal value was estimated with reference to a long-term sustainable growth rate (g) of 1%. The test did not find any evidence of goodwill impairment losses.

The sensitivity analysis showed that an increase of 100 basis points (+1%) in the discount rate (WACC), at the same growth rate (g) in the terminal value, would generate a decrease of 46.3 million euro in the recoverable amount, without generating any impairment loss.

Sirap

For the Sirap group, impairment testing verified whether the recoverable amount of each Sirap Gema S.p.A. CGU with allocated goodwill was higher than the respective CGU carrying amount. The test assumed the same level of analytical detail for the CGUs as that adopted by the Sirap group to test goodwill impairment for its own financial statements.

Before the impairment test at December 31, 2018, the goodwill amounts allocated to the individual CGUs of the Sirap group were as follows:

(in thousands of euro)	Carrying amount of goodwill	
	December 31, 2018	December 31, 2017
Cash-generating units		
Petruzalek group CGU	1,589	1,589
Rigid division CGU	8,719	8,719
Total	10,308	10,308

For all the CGUs with allocated goodwill, recoverable amount was estimated by an independent expert using the value in use configuration, based on the present value of expected future cash flows.

The analytical projections of future cash flows (unlevered) arising from 2019 budget data and the plan of financial and business projections for the period 2020-2023. These analytical projections for each CGU are the best estimates of Sirap Gema S.p.A. management consistently with current market trends, the assumptions underlying the 2019 budget and the strategic measures envisaged by the plan.

The Rigid division CGU, to which approximately 85% of the overall goodwill of the Sirap group had been allocated before the impairment test at December 31, 2018, consists of two lower-level CGUs: the Sirap Gema S.p.A. unit active in rigid containers (Rigid Division Italy CGU) and the Inline Poland CGU (Rigid Poland CGU). The value in use of the net operating assets of the Inline Poland CGU was estimated using cash flow projections, the discount rate and the nominal growth rate in the terminal value (rate g) expressed in local currency (zloty); the resulting value in use was then translated into euro at the closing rate.

Since the Petruzalek Group CGU is a group composed of a number of subsidiaries operating mainly in Eastern European countries and headed by a parent in Austria, reference was made to cash flow projections from the budget/plan expressed in euro. The discount rate (post-tax WACC) applied to estimate the CGU's recoverable amount (value in use) was therefore a weighted average (assuming as weightings the relative share of the revenue in euro of each subsidiary with respect to total Group revenue in euro) of the WACC of each subsidiary, denominated in euro.

The table below sets out the post-tax discount rates (post-tax weighted average cost of capital) and the nominal growth rate used in the terminal value employed to determine value in use of each CGU (data relating to the Inline Poland CGU refers to cash flows in local currency):

in %	Post-tax discount rate		Growth rate on terminal value	
	2018	2017	2018	2017
Cash-generating units				
Petruzalek group CGU	10.1	9.7	2.2	2.3
Rigid Division Italy CGU	9.2	8.9	0.7	0.9
Rigid Poland CGU (local currency)	9.0	8.4	2.0	2.5

The test found no evidence of any goodwill impairment loss for either the Petruzalek Group CGU or the Rigid Division CGU.

The sensitivity analyses showed that an increase of 100 basis points (+1%) in the discount rate (WACC), at the same growth rate (g) in the terminal value, would generate a decrease in the recoverable amount of 3.2 million euro for the Petruzalek Group CGU and 8.3 million euro for the Rigid Division CGU. No goodwill impairment loss would be generated in either case.

Other companies

With reference to the other companies, goodwill was attributable only to the CGU coinciding with the subsidiary Clessidra SGR S.p.A.; an impairment test was carried out in accordance with IAS 36, to determine recoverable amount (equity value) on the basis of the estimated present value of future cash flows.

Recoverable amount was estimated with the assistance of an independent expert using the value in use configuration, based on analytical future cash flow projections taken from 2019 budget data and from financial and business projections for the period 2019-2023. Cash flows were discounted using an 11.6% discount rate (including an additional premium with respect to the Capital Asset Pricing Model (CAPM) for the specific risk) and terminal value was estimated with reference to a long-term sustainable growth rate (rate g) of 1.20%. The test did not generate any goodwill impairment losses.

The sensitivity analysis showed that an increase of 100 basis points (+1%) in the discount rate, at the same growth rate (g) in the terminal value, would generate a decrease of 1.8 million euro in recoverable amount, without generating any impairment loss.

Market capitalization

During the year Italmobiliare S.p.A. recorded a decrease in market capitalization with respect to December 31, 2017, mainly as a result of the downturn in the stock market (FTSE All-Share -16.71%), and in the main listed stocks held (HeidelbergCement -40.85% and Mediobanca -22.03%).

There was a decrease in NAV, illustrated in the Directors' report, which was smaller than the decrease in market capitalization; consequently the discount was increased.

Management believes, nevertheless, that the difference between the two decreases is characteristic of the current situation and that the amounts reflected by the valuations, which were also based on external and market parameters, confirm consistency with the equity amounts recognized in the Group consolidated financial statements.

4) Intangible assets

(in thousands of euro)	Brands, patents and licenses	Other intangible assets	Total
Gross amount	15,514	424	15,938
Accumulated amortization	(13,369)	(423)	(13,792)
Carrying amount at December 31, 2017	2,145	1	2,146
Increases	572	773	1,345
Acquisitions after business combinations and other	92,115	94,240	186,355
Decreases	(22)		(22)
Amortization and impairment losses	(596)	(4,311)	(4,907)
Translation differences	(25)		(25)
Carrying amount at December 31, 2018	94,189	90,703	184,892
Gross amount	108,170	95,277	203,447
Accumulated amortization	(13,981)	(4,574)	(18,555)
Carrying amount at December 31, 2018	94,189	90,703	184,892

Intangible assets increased upon recognition of the business combination after the acquisition of the Caffè Borbone S.r.l. company (formerly L'Aromatika), stating the "Caffè Borbone" brand at 91,995 thousand euro and business relations at 94,242 thousand euro, with amortization of 4,189 thousand euro over the year.

Since an indefinite useful life was attributed to the Caffè Borbone brand on apportionment of the acquisition price, the Group conducts an impairment test to check the recoverability of the carrying amount at least on an annual basis, or more frequently if events or circumstances suggest on impairment. For the impairment test at December 31, 2018, conducted with the assistance of an independent expert, brand recoverable amount was estimated using the relief-from-royalty method, consistently with the results of the apportionment of the acquisition price.

Specifically, the analytical projections of future cash flows (unlevered) were based on 2019 budget data and the plan of financial and business projections for the period 2020-2022. The cash flows were discounted using a rate of 11.0% equivalent to the post-tax unlevered cost of capital, including an additional premium with respect to the Capital Asset Pricing Model (CAPM) for the specific risk (so-called "execution risk"). Terminal value was estimated with reference to a long-term sustainable growth rate (g rate) of 1%. The test confirmed the full recoverability of the brand carrying amount.

The sensitivity analysis showed that an increase of 100 basis points (+1%) in the discount rate, at the same royalties rate of 4.5%, would generate a decrease of 11.3 million euro in the recoverable amount, without generating any impairment loss.

Since business relations are an intangible asset with a definite life and therefore subject to amortization, no explicit impairment test was conducted at December 31, 2018. There is ample evidence indicating that the actual performance of the subsidiary Caffè Borbone S.r.l. in 2018, and the updated 2019 budget projections, are higher than the projections used during apportionment of the acquisition price to estimate the fair value of this intangible asset. Furthermore, the positive turnover trend for 2018 was analytically checked for a very large portion of the Caffè Borbone S.r.l. customer portfolio. Based on the evidence considered and the checks performed, management deemed that any impairment loss can be ruled out; consequently, in accordance with IAS 36, no formal impairment test was performed on the customer portfolio.

5) Equity-accounted investees

This caption reflects equity interests in equity-accounted investees. The main equity-accounted investees are listed below:

	Carrying amount		Share of profit (loss)	
	December 31, 2018	December 31, 2017	2018	2017
(in thousands of euro)				
Associates				
Tecnica Group	46,042	43,315	1,989	(198)
Iseo	42,601			
S.E.S.	9,600	9,600		
Other	4,141	250	(14)	444
Total associates	102,384	53,165	1,975	246

Information on the main associates is set out below:

	Tecnica Group 2018
(in thousands of euro)	
Revenue	398,474
Profit (loss) for the year attributable to owners of the parent	4,972
Profit (loss) for the year attributable to non-controlling interests	5,812
Profit (loss) for the year	10,784
Other comprehensive income (expense)	1,177
Comprehensive income (expense)	11,961
Non-current assets	70,109
Current assets	233,374
Non-current liabilities	(57,268)
Current liabilities	(182,340)
Non-controlling interests	(25,748)
Net assets	31,127
Equity interest	40.0%
Value of equity interest at the beginning of year	43,315
Adjustment for compliance with Group policies	2,727
Value of equity interest at the end of year	46,042
Dividends received in the year	

The table below shows the apportionment of the price paid to acquire the non-controlling interest in Tecnica Group:

	Book value of companies acquired	40% share of book value of companies acquired	Fair value adjustment	Fair value attributed to acquisition
(in thousands of euro)				
Net property, plant and equipment investment properties and other non-current assets	45,724	18,290		18,290
Intangible assets	17,461	6,984	30,790	37,774
Trade receivables and other current assets	197,326	78,930		78,930
Cash and cash equivalents	14,431	5,772		5,772
Trade payables and other current liabilities	(74,797)	(29,919)		(29,919)
Provisions for risks and charges	(6,392)	(2,557)		(2,557)
Employee benefits	(2,246)	(898)		(898)
Financial payables and other financial liabilities (current and non-current)	(139,747)	(55,899)		(55,899)
Non-controlling interests	(20,447)	(8,179)		(8,179)
Fair value of net assets acquired	31,313	12,524	30,790	43,314
Goodwill		30,790		
Total cost of acquisition		43,314	30,790	43,314

The largest amount was attributed to the brands with an indefinite useful life (Tecnica, Nordica, Lowa, Blizzard and Moon Boot).

The table below sets out the highlights for the Iseo group:

	Iseo group Jan-Sept 2018
(in thousands of euro)	
Revenue	101,079
Profit for the year	1,851
Other comprehensive income (expense)	
Total comprehensive income	1,851
Non-current assets	58,934
Current assets	108,517
Non-current liabilities	(40,142)
Current liabilities	(67,999)
Non-controlling interests	(7,163)
Net assets	52,147
Equity interest	40.0%
Value of equity interest at end of year	42,601

Since Italmobiliare acquired the equity investment on October 15, 2018, the share of the profit indicated in the above table was not recognized in the consolidated financial statements.

(in thousands of euro)	S.E.S.	
	2018 *	2017 **
Revenue	13,037	6,145
Loss for the year	(1,482)	(674)
Other comprehensive income (expense)		
Total comprehensive expense	(1,482)	(674)
Non-current assets	50,467	45,014
Current assets	47,039	13,694
Non-current liabilities	(19,030)	(5,061)
Current liabilities	(16,912)	(2,843)
Non-controlling interests	(8,066)	
Net assets	53,498	50,804
Equity interest net of treasury shares	33.7%	33.7%
Value of equity interest at beginning of the year	9,600	8,811
Additions		789
Value of equity interest at end of the year	9,600	9,600
Dividends received in the year		

* figures at June 30, 2018

** figures at December 31, 2016

6) Other equity investments

This non-current asset caption reflects equity investments measured at FVOCI as required by IAS 9.

(in thousands of euro)	
At December 31, 2017	610,429
Increases	4,561
Sales and repayments	(24,761)
Fair value changes taken to equity reserves	(182,237)
Translation differences	(4)
Other	(3,606)
At December 31, 2018	404,382

The increases relate to investments in NewFlour for 2,767 thousand euro, Unicredit for 1,617 thousand euro and Piaggio for 177 thousand euro.

The decreases relate mainly to the partial sale of shares in HeidelbergCement for 15,281 thousand euro, in Mediobanca for 4,733 thousand euro and the total sale of Banca Leonardo for 4,669 thousand euro.

“Fair value changes taken to equity reserves” relate essentially to stock in SciQuest for +21,582 thousand euro, HeidelbergCement for -174,802 thousand euro, Mediobanca S.p.A. for -20,264 thousand euro, Fin Priv S.p.A. for -4,320 thousand euro, Unicredit for -1,402 thousand euro, Vontobel for -902 thousand euro and Coima Res for -783 thousand euro. The above amounts include the fair value differentials taken to equity as a result of sales.

The changes in FVOCI relating to listed securities recognized during 2018 amounted overall to 191,803 thousand euro.

“Other” refers mainly to the reclassification of the Dokimé investee to equity-accounted investees for 3,713 thousand euro.

Other equity investments at December 31, 2018 were as follows:

(in thousands of euro)	Number of shares/quotas	December 31, 2018
Investments in listed companies		
HeidelbergCement	4,608,162	245,984
Mediobanca	8,737,720	64,425
Vontobel	115,238	5,154
Coima Res	412,332	2,893
Ideami	300,000	2,790
Unicredit	204,331	2,009
Cairo Communication	189,198	647
Piaggio	369,699	675
UBI	117,142	297
	Total	324,874
Investments in non-listed companies		
Sciquest Inc.		56,410
Fin Priv		15,568
New Flour		2,767
Sesaab		1,982
Other		2,781
	Total	79,508
at December 31, 2018		404,382

The fair value of listed companies is determined on the basis of the official share price on the last accounting day. The methods used to measure non-listed investments depend on the characteristics of the companies and the data available, in accordance with IFRS 9.

7) Trade receivables and other non-current assets

The balance on this caption was as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Non-current receivables	21,771	20,376	1,395
Financial assets measured at amortized cost	13,439	9,417	4,022
NFP FVTPL financial assets	3,163	27,238	(24,075)
non-NFP FVTPL financial assets	115,562	99,305	16,257
Guarantee deposits	534	910	(376)
Other	2,588	2,850	(262)
Total	157,057	160,096	(3,039)

The main movements on this caption were:

- the purchase of mutual fund units, bonds and private equity funds, for +28,544 thousand euro;
- the partial reimbursement of private equity funds, for -12,131 thousand euro;
- the sale of mutual fund units and bonds, for -31,086 thousand euro;
- impairment losses on financial assets measured at FVTPL, for 4,033 thousand euro;
- measurement gains on financial assets measured at FVTPL, for 9,559 thousand euro.

Current assets

8) Inventories

“Inventories” are made up as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Raw materials, consumables and supplies	19,791	13,781	6,010
Work in progress and work in progress	11,195	6,345	4,850
Finished goods	26,023	20,069	5,954
Payments on account	1,161	399	762
Total	58,170	40,594	17,576

Inventories are stated net of allowances totaling 3,427 thousand euro (3,113 thousand euro at December 31, 2017) mainly against the risk of slow-moving supplies, spare parts and other consumables.

Spare parts at December 31, 2018 were carried at 850 thousand euro (606 thousand euro at December 31, 2017).

9) Trade receivables

This caption is made up as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Gross amount	95,253	64,369	30,884
Loss allowance	(3,210)	(2,458)	(752)
Total	92,043	61,911	30,132

The change refers largely to the consolidation of Caffè Borbone for 18,634 thousand euro and the consolidation of the new companies of Sirap group for 13,963 thousand euro.

10) Other current assets including derivatives

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Receivables from employees and social security bodies	846	272	574
Indirect tax credits	2,893	3,548	(655)
Prepaid expenses	2,192	1,016	1,176
Accrued income	319	201	118
Short-term derivatives	2,391	2,827	(436)
Other loan assets and financial instruments	8,606	8,059	547
Other receivables	10,583	17,038	(6,455)
Total	27,830	32,961	(5,131)

Derivatives

The method adopted by the group to determine the impact of credit/counterparty risk on its measurements at the reporting date applies a default probability to each flow in order to incorporate the adjustment for credit/counterparty risk into the measurement.

Default probabilities are computed using secondary bond market data through calculation of the implicit "credit default swaps" (CDS).

The loss given default (LGD) is set at 60% in line with market standards.

The table below shows the fair value of the financial instruments recognized in the statement of financial position, subdivided by type of hedge:

(in thousands of euro)	December 31, 2018		December 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Interest-rate derivatives for trading			20	(46)
Interest-rate derivatives			20	(46)
Derivatives on shares and securities	2,391	(1,954)	2,807	(3,918)
Total current instruments	2,391	(1,954)	2,827	(3,964)
Interest-rate cash flows hedging derivatives		(559)		
Interest-rate derivatives		(559)		
Total long-term instruments		(559)		
Total	2,391	(2,513)	2,827	(3,964)

Interest-rate derivatives for trading refer to assets that do not qualify for accounting as future cash flow hedges, although they are transacted for that purpose.

Interest-rate cash flows hedging derivatives refer to a floating-rate to fixed-rate IRS stipulated by Caffè Borbone.

Derivatives on equities and securities refer mainly to purchases of put options and sales of call options on shares.

Derivatives are stated at fair value, including the impact of the counterparty risk.

11) Tax assets

Tax assets totaled 6,204 thousand euro (7,893 thousand euro at December 31, 2017) and consisted largely of tax credits.

12) Equity investments, bonds and current loan assets

This caption is broken-down as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Equity investments measured at FVTPL	34,601	42,633	(8,032)
Financial assets at amortized cost	364	27,249	(26,885)
Funds and other financial instruments	211,849	250,395	(38,546)
Other loan assets	1,690	95	1,595
Net amount	248,504	320,372	(71,868)

“Funds and other financial instruments” includes the Vontobel Fund for 172,370 thousand euro (177,960 thousand euro at December 31, 2017), a reduction reflecting the fair value loss; this is an open-ended fund (“Multi Asset Defensive”, set up by the Vontobel Fund open-ended collective investment scheme based in Luxembourg) with a conservative risk profile aligned with the company’s investment policies; it is subject to the supervision of the Luxembourg stock exchange authority and its NAV is published daily. The fund yield is published twice a year at annual closure (August 31) and at half-year closure (February 28).

The decrease in “Funds and other financial instruments” was largely due to the sale of financial instruments and the reimbursement of assets at amortized cost.

13) Cash and cash equivalents

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Cash and checks in hand	1,518	269	1,249
Bank and postal accounts	120,412	217,601	(97,189)
Net amount	121,930	217,870	(95,940)

Cash and cash equivalents are also shown under “Cash and cash equivalents at the end of the year” on the statement of cash flows.

14) Assets held for sale

The Morocco and Egypt assets of the Italgem group were reclassified under this caption for 6,171 thousand euro. At December 31, 2017 the caption included a property (from “Property, plant and equipment”) and a building (from “Investment property”), which were sold in January 2018.

The Morocco and Egypt liabilities of the Italgem group were reclassified to “Liabilities directly linked to assets held for sale” at 578 thousand euro.

Equity and liabilities

Share capital, reserves and retained earnings

15) Share capital

At December 31, 2018, the parent's fully paid-up share capital amounted to 100,166,937 euro represented by 47,633,800 no-par ordinary shares.

	December 31, 2018	December 31, 2017	Change
Number of shares			
Ordinary shares	47,633,800	47,633,800	
Total	47,633,800	47,633,800	

16) Reserves

Share premium

The share premium stood at 177,191 thousand euro, unchanged from December 31, 2017.

Other reserves

The main change on this caption is the decrease of 176,082 thousand euro in the reserve for financial assets measured at FVOCI and a reclassification to "Retained earnings" for 34,232 thousand euro, reflecting the amount, net of the related provision for deferred tax, of the fair value reserve of the private equity funds, measured at FVTPL starting from 2018.

17) Treasury shares

At December 31, 2018 treasury shares in portfolio stood at 134,659 thousand euro, a slight increase from December 31, 2017. The change was due to the exercise of stock options by some senior managers. Treasury shares were as follows:

	No. of ordinary shares	Carrying amount (000 euro)	No. savings of shares	Carrying amount (000 euro)	Total carrying amount
At December 31, 2017	5,690,870	134,608			134,608
Increases		169			169
Decreases	(5,000)	(118)			(118)
At December 31, 2018	5,685,870	134,659			134,659

Ordinary treasury shares in portfolio at December 31, 2018 are partly devoted to stock option plans for directors and managers.

Dividends paid

The parent Italmobiliare S.p.A. paid the following ordinary dividends in 2018 and 2017:

	2018 (euro per share)	2017 (euro per share)	2018 (000 euro)	2017 (000 euro)
Ordinary shares	0.550	0.500	23,071	22,960
Total dividends			23,071	22,960

Translation reserve

This reserve includes differences on the translation of the financial statements of consolidated foreign operations. At December 31, 2018, the balance on the reserve was negative, at 6,357 thousand euro, referring to the currencies of the following countries:

(in millions of euro)	December 31, 2018	December 31, 2017	Change
Egypt (Pound)	(4,446)	(4,518)	72
USA and Canada (Dollar)		207	(207)
Ukraine (Hryvnia)	(2,171)	(2,250)	79
Poland (Zloty)	(786)	(370)	(416)
Other countries	1,046	(646)	1,692
Net amount	(6,357)	(7,577)	1,220

18) Non-controlling interests

Equity attributable to non-controlling interests at December 31, 2018 amounted to 99,775 thousand euro, up by 99,416 thousand euro from December 31, 2017, largely for the 40% non-controlling interest in the Caffè Borbone company.

The increase in the translation reserve was 361 thousand euro (a decrease of 1,044 thousand euro at December 31, 2017), as a result of the performance of the euro against the currencies in countries where the group has non-controlling interests.

Non-current and current liabilities

19) Employee benefits

Employee benefits at December 31, 2018 amounted to 12,321 thousand euro (9,908 thousand euro at December 31, 2017).

The group's main employee benefit plans are described below.

Defined benefit plans

The group operates pension plans and other long-term benefits

Plans in favour of employees are mainly not funded.

All the other plans envisage payment of a one-off benefit on termination of employment, in some cases before retirement, or payment of a bonus during the period of employment, once a specific length of service has been reached.

With regard to the post-employment benefits for personnel of the Group's Italian companies, liabilities in respect of post-employment benefits accrued and optioned by employees as from 2007 no longer qualify as defined benefit plans. They are treated as quotas of defined contribution plans.

In some companies in Austria, France, Germany and Italy, the Group also recognizes liabilities in respect of future commitments, in the form of bonuses payable to employees on the basis of length of service; these liabilities are measured with actuarial assumptions. Net liabilities for pension plans and post-employment benefit plans are determined with actuarial calculations performed by independent actuaries.

In the tables set out below, the column “Pension plans and other long-term benefits” includes, besides pension plans, post-employment benefits other than medical care, termination benefits and employee length-of-service bonuses.

The movements in defined benefit obligations during the year are shown below:

(in thousands of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Defined benefit obligations at the end of previous year	9,587	11,827
Service cost:		
current service cost	617	619
past service cost	(4)	
Finance costs	181	174
Cash flow s:		
amounts paid by employer	(1,143)	(1,113)
Other significant events:		
(increase)/decrease due to business combinations, investments and disposals	931	(1,270)
Changes arising from remeasurement:		
effects due to change in demographic assumptions	(5)	
effects due to change in financial assumptions	75	(149)
experience adjustments (change since previous measurement not in line with assumptions)	(50)	(501)
Closing defined benefit obligations	10,189	9,587

The movements in plan asset fair values during the year are shown below:

(in thousands of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Fair value of plan assets at the end of previous year		
Finance income	21	
Cash flow s:		
contributions paid by employer:	18	
payments made directly by employer	1,143	1,113
benefits paid by employer	(1,143)	(1,113)
Other significant events:		
increase/(decrease) due to business combinations, investments and disposals	571	
Changes arising from remeasurement:		
yield of plan assets (excluding finance income)	(56)	
Closing defined benefit obligations	554	

The net liability arising from defined benefit obligations recognized in the statement of financial position is shown below:

(in thousands of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Plans for defined benefit obligations	10,189	9,587
Fair value of plan assets	554	
Carrying amount of liabilities/(assets)	9,635	9,587

The components of cost of services of defined benefit plans are set out below:

(in thousands of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Service cost:		
current service cost	617	619
past service cost	(4)	
Total service cost	613	619
Net finance costs:		
finance costs on defined benefit plans	181	174
finance (income)/costs on plan assets	(21)	
Total net finance costs	160	174
Effect of new treatment on other long-term benefits	(17)	44
Defined benefit plan costs reflected in income statement	756	837
Gains (losses) reflected in other comprehensive income:		
effects due to change in demographic assumptions	(8)	
effects due to change in financial assumptions	78	(139)
experience adjustments (change since previous measurement not in line with assumptions)	(33)	(524)
yield on plan assets (excluding finance income)	55	
Total gains (losses) reflected in other comprehensive income	92	(663)
Total defined benefit plan costs reflected in the income statement and in other comprehensive income	848	174

Service cost is a component of “Personnel expense”, while net finance costs are recognized under “Finance costs”; gains and losses on re-measurement are reflected in other comprehensive income (expense).

The movements in the net liability for defined benefit obligations during the year are shown below:

(in thousands of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Defined benefit plan net liabilities (assets) at end of previous year	9,587	11,827
Defined benefit plan costs reflected in income statement	756	836
Total gains (losses) reflected in other comprehensive income	92	(660)
Other significant events:		
net transfers (including effects of business combinations/sales)	361	(1,303)
Cash flow s:		
employer contributions	(18)	
benefits paid directly by employer	(1,143)	(1,113)
Closing defined benefit obligations	9,635	9,587

Distribution of defined benefit obligations among plan participants:

(in millions of euro)	Pension plans and other long-term benefits	
	Dec.31,18	Dec.31,17
Employees on payroll	9,642	9,587
Former employees with unvested right	547	
Closing defined benefit obligations	10,189	9,587

Actuarial assumptions

The actuarial assumptions used to determine obligations arising from the Group's pension plans and other long-term benefits are set out below:

(in %)	Europe	
	2018	2017
Inflation rate	1.50 – 1.75	0.00 – 1.50
Future wage and salary increases	2.00 – 2.50	2.00 – 2.84

Discount rates:

Discount rate in %	2018	2017
Europe		
Italy	1.85	1.73
Austria	1.90	1.75
France	1.50	1.30
Germany	1.73	-

The discount rate was determined with reference to market yields on high-quality corporate bonds, using the market yields on government bonds.

Future cash flows

The table below sets out expected plan contributions for next year and a year-by-year breakdown of benefit payments:

(in millions of euro)	Pension plans and other long-term benefits	
	Dec. 31, 2018	
Expected plan contributions for next year	338	
Benefit payment maturities:		
2018	377	
2019	271	
2020	311	
2021	309	
2022	439	
2023-2027	2,487	
Total	4,532	

Sensitivity analysis

The table below sets out the sensitivity analysis for the key assumptions at December 31, 2018:

(in thousands of euro)	Pension plans and other long-term benefits	
	-0.25%	+0.25%
Change	-0.25%	+0.25%
Discount rate	10,531	9,862
Average duration of defined benefit obligation (in years)	13.24	13.02
Inflation rate	9,215	9,433
Wage and salary increases	10,072	10,309

Termination plans

At December 31, 2018, provisions for termination plans totaled 1,491 thousand euro (106 thousand euro at December 31, 2017).

Stock options

The Group has arranged stock option plans for directors and managers who hold specific roles in Italmobiliare S.p.A..

The stock options granted by the parent Italmobiliare S.p.A. refer to ordinary shares: they may be exercised between the beginning of the fourth year and the end of the tenth year after the grant date; Directors whose term of office is not renewed may exercise their options immediately, and in any case within ten years of the grant date; as a general rule, unexercised stock options assigned to managers are not recognized in the event of termination of employment in the Group, except in the case of retirement.

Stock options are exercised at a rate of one share per option.

The terms and conditions of Italmobiliare S.p.A. stock option plans at December 31, 2018, are set out below:

Grant date	No. of options granted	Exercise period	Exercised options	Canceled options	Unexercised options	Unit subscription price
March 25, 2009	38,700	3/25/2012 - 3/24/2019	30,800		7,900	€ 10.2630
March 24, 2010	248,770	3/24/2013 - 3/23/2020	62,270		186,500	€ 14.4170
March 30, 2011	225,800	3/30/2014 - 3/29/2021	59,500		166,300	€ 13.7350
Total	513,270		152,570	-	360,700	

The grant date is the date of the Board of Directors' meeting that approved the stock option plan.

The table below sets out the number and average exercise price of stock options in the years in question:

	2018		2017	
	Number of options	Average subscription price	Number of options	Average subscription price
Unexercised options at beginning of year	614,100	€ 21.0642	916,048	€ 25.7239
Exercised during year	(5,000)		(56,990)	
Expired during year	(248,400)		(244,958)	
Unexercised options at end of year	360,700	€ 15.2875	614,100	€ 21.0642
Vested options at end of year	360,700		614,100	

The average ordinary share price in financial year 2018 was 21.12 euro (23.787 euro in 2017).

The weighted average residual life of unexercised options is 10 months.

The option exercise price at December 31, 2018 was between 10.263 euro and 14.417 euro.

Only options granted after November 7, 2002, that had not vested at December 31, 2003, were measured and recognized at the date of transition to the IFRS.

No costs relating to stock options are carried under "Personnel expense" in 2018.

Stock option plan fair value at the grant date is estimated using a binomial model that takes dividends into account. The total option term is ten years. Volatility projections assume that past volatility, computed as the annual average on a past period of three years net of extraordinary events, is indicative of future trends.

No other stock option plan feature is taken into consideration when measuring fair value.

The following table sets out the assumptions used and results obtained in measuring stock options:

	2010 Plan	2009 Plan	2008 Plan
Option value at grant date	8.81	9.28	3.78
Share value	28.39	31.10	21.59
Exercise price	27.469	28.834	20.526
Volatility in %	26.2%	24.3%	25.0%
Option term (years)	10.00	10.00	10.00
Dividends in %	3.01%	2.75%	7.41%
10-year BTP risk-free rate	4.775%	3.920%	4.485%

20) Non-current and current financial liabilities and bank loans and borrowings

Loans and borrowings are shown below by category, broken down by current and non-current liabilities:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Bank loans and borrowings	109,959	45,409	64,550
Other loans and borrowings	1,658	998	660
Finance lease payables	1,716	215	1,501
Non-current financial liabilities	113,333	46,622	66,711
Fair value of hedging derivatives	559		559
Total non-current financial liabilities	113,892	46,622	67,270
Bank loans and borrowings	25,065	14,640	10,425
Current portion of borrowings	38,298	38,154	144
Other loans and borrowings	17,115	9,441	7,674
Finance lease payables	364	85	279
Accrued interest expense	464	366	98
Bank loans and borrowings and current financial liabilities	81,306	62,686	18,620
Fair value of derivatives	1,954	3,964	(2,010)
Total current financial liabilities	83,260	66,650	16,610
Total financial liabilities	197,152	113,272	83,880

Non-current loans and borrowings by currency were as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Euro	109,212	41,691	67,521
Polish zloty	4,121	4,892	(771)
Other		39	(39)
Total	113,333	46,622	66,711

Non-current loans and borrowings by maturity were as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
2019		19,920	(19,920)
2020	20,218	14,817	5,401
2021	25,845	8,195	17,650
2022	31,286	1,501	29,785
2023	33,390	580	32,810
2024	643	542	101
2025	643	542	101
Beyond	1,308	525	783
Total	113,333	46,622	66,711

Main bank loans, drawings on lines of credit, available lines of credit:

- a) in December 2018, a securities-backed floating-rate loan for 7,112 thousand euro maturing on January 31, 2019 was renegotiated with Mediobanca. 170,000 HeidelbergCement AG shares were provided as collateral;
- b) Italmobiliare has undrawn uncommitted lines of credit with a number of banks, totaling 208 million euro;
- c) In June 2016 Italgem S.p.A. arranged a floating-rate loan maturing on June 26, 2021, with UBI Banca; net of the amortization effective at December 31, 2018, the loan stood at a residual amount of 8.4 million euro;
- d) In June 2016, Italgem S.p.A. arranged a floating-rate loan maturing on June 30, 2021 with Banco Popolare; net of the amortization effective at December 31, 2018, the loan stood at a residual amount of 10 million euro;
- e) on October 30, 2014, Sirap Gema S.p.A. arranged a loan with Banca Intesa for 6 million euro, maturing on December 31, 2019;
- f) on December 16, 2014, Sirap Gema S.p.A. arranged a loan with Unicredit for 5 million euro, maturing on December 31, 2019;
- g) on March 10, 2015, Sirap Gema S.p.A. arranged a loan with Banco BPM for 4 million euro, maturing on March 31, 2019;
- h) on June 11, 2015, Sirap Gema S.p.A. arranged a loan with UBI Banca for 4 million euro, maturing on June 11, 2019;
- i) on March 17, 2016, Sirap Gema S.p.A. arranged a loan with Banco BPM for 5 million euro, maturing on March 31, 2021;
- j) on June 9, 2016, Sirap Gema S.p.A. arranged a loan with UBI Banca for 5 million euro, maturing on June 9, 2021;
- k) on July 6, 2016, Sirap Gema S.p.A. arranged a loan with Credito Cooperativo di Brescia for 0.5 million euro, maturing on January 31, 2019;
- l) on October 19, 2016, Sirap Gema S.p.A. arranged a loan with Unicredit for 5 million euro, maturing on October 31, 2021;
- m) on February 22, 2017, Sirap Gema S.p.A. arranged a loan with Banco BPM for 5 million euro, maturing on March 31, 2021;
- n) on July 27, 2017, Sirap Gema S.p.A. arranged a loan with Mediocredito Italiano for 6 million euro, maturing on June 30, 2022.
- o) on May 18, 2018, Sirap Gema S.p.A. arranged a loan with Credito Cooperativo di Brescia for 0.3 million euro, maturing on May 31, 2021;
- p) on June 21, 2018, Sirap Gema S.p.A. arranged a loan with UBI Banca for 5 million euro, maturing on June 27, 2021;
- q) on December 20, 2018, Sirap Gema S.p.A. arranged a loan with Unicredit for 25.0 million euro, maturing on December 31, 2023;
- r) on April 27, 2018, Caffè Borbone arranged a loan with Unicredit for 80 million euro, maturing on April 27, 2023.

21) Provisions

Non-current and current provisions totaled 78,138 thousand euro at December 31, 2018, an increase of 567 thousand euro from December 31, 2017.

	Opening amount	Increases	Decreases	Unused amounts released to income statement	Other changes	Total changes	Closing amount
<i>(in thousands of euro)</i>							
Environmental restoration	500	150	(254)			(104)	396
Disputes	51,810	765	(83)		(951)	(269)	51,541
Other provisions	25,261	3,718	(237)	(2,720)	179	940	26,201
Total	77,571	4,633	(574)	(2,720)	(772)	567	78,138
Non-current portion	76,919	4,294	(536)	(2,720)	(771)	267	77,186
Current portion	652	339	(38)		(1)	300	952
Total	77,571	4,633	(574)	(2,720)	(772)	567	78,138

“Disputes” largely reflects provisions for tax risks deemed probable as a result of tax audits and adjustments to tax returns, provisions relating to antitrust proceedings and provisions for disputes with employees.

“Other provisions” reflects amounts provided in connection with contractual and commercial liabilities.

22) Deferred tax assets and deferred tax liabilities

Total deferred tax liabilities net of deferred tax assets amounted to 25,197 thousand euro at December 31, 2018, as follows:

	December 31, 2017	Result	Other changes	December 31, 2018
<i>(in thousands of euro)</i>				
Benefit on tax loss carryforwards	12,510	16,297	(6,418)	22,389
Property, plant and equipment	(3,155)	561	(200)	(2,794)
Other equity investments	(12,468)		11,854	(614)
Inventories	572	58	123	753
Financial liabilities	(218)	10		(208)
Non-current provisions and Employee benefits	(357)	5,259	1,421	6,323
Other	2,789	1,113	(54,948)	(51,046)
Total	(327)	23,298	(48,168)	(25,197)
of which:				
Deferred tax assets	16,198			32,349
Deferred tax liabilities	(16,525)			(57,546)
Total	(327)			(25,197)

Deferred tax assets consist largely of amounts computed on tax losses posted chiefly by the parent. The assets were recognized on the basis of a forecast made by the companies included in the current and soon-to-be-renewed domestic tax consolidation system, which considers that in future years taxable income is likely to be realized against which the past tax losses can be utilized.

The change in deferred tax liabilities arose from deferred tax relating to the intangible assets recognized during apportionment of the price paid for the acquisition of Caffè Borbone.

At December 31, 2018, equity reserves reflected net deferred tax liabilities of 509 thousand euro (13,305 thousand euro at December 31, 2017); the decrease was largely due to the transfer to retained earnings of the provision for deferred tax relating to the fair value reserve deemed of fiscal relevance of the private equity funds designated as financial assets at FVTPL as from 2018.

Unrecognized deferred tax assets relating to losses for the year and previous years amounted to 2,084 thousand euro (12,425 thousand euro at December 31, 2017); the amount referred to losses reported by Group companies not included in the Italian tax consolidation, the reversal of which is not considered probable today.

23) Trade payables

“Trade payables” consisted entirely of amounts due to suppliers, and totaled 78,200 thousand euro (63,143 thousand euro at December 31, 2017).

24) Tax liabilities

Tax liabilities amounted to 9,533 thousand euro (323 thousand euro at December 31, 2017) and reflected amounts due to tax authorities for income taxes accrued in the year.

25) Other liabilities

The balance on this caption was as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Due to employees	8,974	7,342	1,632
Due to social security bodies	5,827	4,724	1,103
Due to tax authorities	4,477	4,600	(123)
Accrued expenses and deferred income	3,301	2,772	529
Derivatives	1,954	3,964	(2,010)
Due to financial and private equity companies	9,068	8,287	781
Advances from customers	438	1,392	(954)
Due to suppliers for non-current assets	1,137	1,353	(216)
Other liabilities	2,088	3,170	(1,082)
Total	37,264	37,604	(340)

Commitments

(in thousands of euro)	December 31, 2018	December 31, 2017
Collateral given	108,404	46,741
Deposits, guarantees, sureties, commitments and other	225,033	221,830
Total	333,437	268,571

The change in “Collateral given” referred to the pledge set up on Caffè Borbone shares.

Tecnica Group S.p.A. shares, acquired in 2017, have been pledged as collateral for bank loans granted to Tecnica Group S.p.A.

The second item includes guarantees provided by Italmobiliare S.p.A. for subsidiaries and guarantees provided in connection with the ongoing proceeding with the European Commission on breaches of competition laws. The usual guarantees are provided on the sale of equity investments.

Commitments include a residual amount of 65,781 thousand euro (66,367 thousand euro at December 31, 2017) for subscription of private equity funds, and future operating lease payments of 16,031 thousand euro (3,654 thousand euro to be paid within 12 months, 8,922 thousand euro between 2 and 5 years, and 3,455 thousand euro after 5 years).

Income statement

26) Revenue and income

Revenue from sales and services and income totaled 463,069 thousand euro, as follows:

	2018	2017	Change	% change
(in thousands of euro)				
Industrial revenue				
Product sales	366,923	206,994	159,929	77.3%
Services provided	37,104	108,817	(71,713)	-65.9%
Other revenue	188	138	50	36.2%
Total	404,215	315,949	88,266	27.9%
Financial revenue and income				
Interest	2,447	1,796	651	36.2%
Dividends	14,869	14,736	133	0.9%
Gains realized and other revenue	27,871	157,194	(129,323)	-82.3%
Commissions	12,025	16,309	(4,284)	-26.3%
Total	57,212	190,035	(132,823)	-69.9%
Revenue other activities				
Interest	1,533	1,489	44	3.0%
Other revenue	109	152	(43)	-28.3%
Total	1,642	1,641	1	0.1%
Grand total	463,069	507,625	(44,556)	-8.8%

The increase in product sales is due to the consolidation of the new companies of the Sirap group and Caffè Borbone, for amounts totaling 153,564 thousand euro; the reduction in "Services provided" is due to the deconsolidation of the BravoSolution group, sold at the end of 2017 for 70,568 thousand euro.

"Gains realized and other revenues" included, in 2017, a net gain of 97,601 thousand euro on the sale of the BravoSolution group, and a gain of 26,027 thousand euro on the sale of HeidelbergCement and Mediobanca shares.

27) Raw materials and supplies

Raw materials and supplies amounted to 227,350 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Raw materials and work in progress goods	117,029	61,539	55,490	90.2%
Fuel	880	420	460	n.s.
Materials and machinery	30,347	7,565	22,782	n.s.
Finished goods	51,792	44,928	6,864	15.3%
Electricity and water	22,939	26,404	(3,465)	-13.1%
Change in inventories of raw materials, consumables and other	4,363	(4,697)	9,060	n.s.
Total	227,350	136,159	91,191	67.0%

The increase in “Raw materials and semifinished goods” related to the consolidation of the new companies in the Sirap group and the Caffè Borbone company for 100,742 thousand euro.

28) Services

Expense for services amounted to 77,326 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
External services and maintenance	16,650	12,590	4,060	32.2%
Transport	20,657	13,313	7,344	55.2%
Legal fees and consultancy	9,421	16,178	(6,757)	-41.8%
Rents	8,693	11,069	(2,376)	-21.5%
Insurance	2,125	2,140	(15)	-0.7%
Subscriptions	362	294	68	23.1%
Other expense	19,418	12,296	7,122	57.9%
Total	77,326	67,880	9,446	13.9%

“Other expense” consisted largely of commission expense on trading activities, communication and marketing expense, and entertainment expense, mainly relating to the Group industrial companies.

Expense for services increased as a result of the consolidation of the new companies in the Sirap group and the Caffè Borbone company, for 28,225 thousand euro, offset in part by the deconsolidation of the BravoSolution group, sold at the end of 2017 (an effect of 17,465 thousand euro).

29) Personnel expense

Personnel expense totaled 98,676 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Wages and salaries	70,231	98,424	(28,193)	-28.6%
Social security contributions	21,465	27,729	(6,264)	-22.6%
Other expense	6,980	13,384	(6,404)	-47.8%
Total	98,676	139,537	(40,861)	-29.3%

“Other expense” related mainly to costs of temporary personnel, canteen costs, employee insurance costs, travel costs and personnel training and recruitment costs.

Personnel expense decreased as a result of the deconsolidation of the BravoSolution group, sold at the end of 2017, for 53,965 thousand euro, partly offset by the consolidation of new companies in the Sirap group and Caffè Borbone, for 18,148 thousand euro.

The number of employees is shown below:

(headcount)	2018	2017	Change
Number of employees at year end	1,799	1,417	382
Average number of employees	1,818	2,078	(260)

The change in the number of employees at year end reflected the consolidation of the new companies in the Sirap group and the Caffè Borbone company, for 438 heads.

The change in the average number of employees was due to the consolidation of the new companies in the Sirap group and the Caffè Borbone company, for 428 heads, and the decrease relating to the deconsolidation of the BravoSolution group, sold at the end of 2017, for 668 heads.

30) Other operating (income) and expense

Other operating expense net of other operating income amounted to 39,497 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Other taxes	6,286	5,057	1,229	24.3%
Accrual to loss allowance	107	855	(748)	-87.5%
Interest expense and other expense financial companies	31,505	29,263	2,242	7.7%
Amounts set aside to provisions and other expense	3,801	3,945	(144)	-3.7%
Other income	(3,682)	(4,692)	1,010	-21.5%
Net gains on the sale of non-current assets	(981)	(4)	(977)	n.s.
Personnel expense for re-organizations	115	50	65	n.s.
Other (income) expense	2,346	(2,735)	5,081	n.s.
Total	39,497	31,739	7,758	24.4%

“Interest expense and other expense financial companies” included impairment losses on financial assets measured at FVTPL for 23,915 thousand euro (11,250 thousand euro at December 31, 2017).

31) Amortization and depreciation

The total amount of 21,152 thousand euro (18,988 thousand euro in 2017) reflects depreciation of property, plant and equipment for 15,870 thousand euro (12,949 thousand euro in 2017), depreciation of investment property for 375 thousand euro (360 thousand euro in 2017) and amortization of intangible assets for 4,907 thousand euro (5,679 thousand euro in 2017).

32) Impairment losses on non-current assets

In 2018 there were measurement gains of 4,182 thousand euro on property of the Sirap group and impairment losses of 2,964 thousand euro on plant of the Italgem group (no movements in 2017).

33) Finance income, costs, exchange-rate differences and net gains (losses) on derivatives

Net finance costs amounted to 4,809 thousand euro, as follows:

(in thousands of euro)	2018		2017	
	Income	Costs	Income	Costs
Interest income	57		465	
Interest expense		(2,850)		(2,027)
Dividends and income (costs) from equity investments	513			(348)
Other finance income	65		16	
Other finance costs		(2,298)		(1,732)
Total finance income (costs)	635	(5,148)	481	(4,107)
Net exchange-rate differences		(296)		(2,714)
Exchange-rate differences and net gains (losses) on derivatives		(296)		(2,714)
Total finance income (costs), exchange-rate differences and net gains (losses) on derivatives		(4,809)		(6,340)

“Other finance costs” includes net finance costs of 20 thousand euro on employee defined benefit plans (16 thousand euro in 2017).

34) Impairment losses on financial assets

No impairment losses were applied to financial assets in 2018 (21 thousand euro in 2017).

35) Share of profit (loss) of equity-accounted investees

(in thousands of euro)	2018	2017	Change	% change
Dokimè	(10)		(10)	n.s.
I.FotoGuiglia	(99)	96	(195)	n.s.
Gardaw ind	95	348	(253)	-72.7%
Tecnica Group	1,989	(198)	2,187	n.s.
Total	1,975	246	1,729	n.s.

36) Income tax

There was a positive income tax posting of 13,217 thousand euro for 2018, as follows:

(in thousands of euro)	2018	2017	Change	% change
Current tax	5,587	4,499	1,088	24.2%
Prior-year tax and other prior-year tax items	60	(145)	205	n.s.
Deferred tax	(18,864)	1,884	(20,748)	n.s.
Total	(13,217)	6,238	(19,455)	n.s.

In Italy, the IRES tax rate applied by the Italian companies on estimated taxable profit for the year was 24%. Taxes for Group companies in other countries are calculated using local tax rates.

The reconciliation between the tax charge reflected in the income statement and the theoretical tax charge does not consider IRAP, since IRAP uses a taxable base other than profit before tax.

The change in deferred tax arose from the activation of tax benefits on prior-year tax losses and on deductible temporary differences as a result of the projection of future taxable income at the companies included in the domestic tax consolidation.

The reconciliation between the theoretical tax charge and the tax charge reflected in the income statement is set out below:

(in thousands of euro)	2018
Consolidated profit (loss) before tax relating to continuing operations	18,455
Current IRES tax rate	24.0%
Theoretical tax charge	(4,429)
Tax effect on permanent differences	
- foreign dividends and other exempt income	(8,050)
- non-deductible costs	1,840
Net effect for the year of unrecognized deferred taxes on temporary differences (*)	59
Recovery in year of deferred tax assets not recognized in previous years on deductible temporary differences and/or tax losses	17,002
Withholdings on foreign dividends	(197)
Effect of estimate adjustments and/or recognition of previously unrecognized deferred tax	(271)
Effect of difference between Italian and foreign tax rate	204
Other taxes	9,581
Effective income tax charge	-85.3% 15,739
Effective IRAP tax charge	(2,065)
Other components not related to income for the year	(457)
Total income tax relating to continuing operations	-71.6% 13,217

(*) Refers mainly to unrecognized deferred tax assets on losses for the year in Italy.

37) Other comprehensive income

(in thousands of euro)	Gross amount	Tax	Net amount
Fair value gains (losses) on:			
Financial assets measured at FVOCI	(177,448)	1,366	(176,082)
Derivatives	(333)		(333)
Translation differences	596		596
Actuarial gains (losses) on defined benefit plans	219	(99)	120
Other comprehensive income (expense)	(176,966)	1,267	(175,699)

38) Earnings per share

Earnings per share at December 31, 2018 and 2017, were determined on the parent profit for the respective periods.

Basic earnings per share

The weighted average number of shares and attributable profit are shown below:

	2018	2017
	Ordinary shares	Ordinary shares
(no. shares in thousands)		
No. shares at January 1	47,634	47,634
Treasury shares at January 1	(5,691)	(1,677)
Weighted average number of treasury shares sold in the year	4	(2,291)
Total	41,947	43,666
Attributable profit in thousands of euro	27,701	114,972
Basic earnings per share in euro	0.660	2.632

Profit attributable by share category was determined as follows:

	2018	2017
	Ordinary shares	Ordinary shares
(in thousands of euro)		
Residual profit apportioned to all shares	27,701	114,972
Total	27,701	114,972

Diluted earnings per share

Diluted earnings per share are computed in the same way as basic earnings per share, taking account of the dilutive effect of stock options.

The weighted average number of shares and attributable profit are shown below:

	2018	2017
	Ordinary shares	Ordinary shares
(thousands of shares)		
Weighted average number of shares at December 31	41,947	43,685
Dilutive effect of stock options	124	151
Total	42,071	43,836
Attributable profit for diluted earnings per share in thousand euro	27,701	114,972
Diluted earnings per share in euro	0.658	2.623

Profit attributable by share category was determined as follows:

	2018	2017
	Ordinary shares	Ordinary shares
(in thousands of euro)		
Residual profit apportioned to all shares	27,701	114,972
Total	27,701	114,972

IFRS 7

Net financial position

The net financial position at December 31, 2018 is set out below:

	Statement of financial position caption	Non NFP	NFP	Current assets	Current liabilities	Non- current assets	Non- current liabilities	NFP held for sale
(in thousands of euro)								
Trade receivables and other non-current assets	157,057	118,530	38,527			38,527		
Other current assets including derivatives	27,830	16,833	10,997	10,997				
Equity investments, bonds and Current loan assets	248,504	880	247,624	247,624				
Cash and cash equivalents	121,930		121,930	121,930				
Non-current financial liabilities	(113,333)		(113,333)				(113,333)	
Other non-current liabilities	(5,622)	(5,063)	(559)				(559)	
Bank loans and borrowings	(25,065)		(25,065)		(25,065)			
Current financial liabilities	(47,173)		(47,173)		(47,173)			
Other liabilities	(37,264)	(26,242)	(11,022)		(11,022)			
Total	326,864	104,938	221,926	380,551	(83,260)	38,527	(113,892)	
Assets held for sale	6,171	5,837	334					334
Liabilities directly linked to assets held for sale	(578)	(578)						
Total	332,457	110,197	222,260	380,551	(83,260)	38,527	(113,892)	334

The net financial position at December 31, 2018 amounted to, at 222,260 thousand euro, as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Current financial assets	380,551	549,209	(168,658)
Cash and cash equivalents	121,930	217,870	(95,940)
Derivatives - assets	2,391	2,827	(436)
Other current financial assets	256,230	328,512	(72,282)
Current financial liabilities	(83,260)	(66,650)	(16,610)
Bank loans and borrowings	(25,065)	(14,640)	(10,425)
Current loans and borrowings	(56,241)	(48,046)	(8,195)
Derivatives - liabilities	(1,954)	(3,964)	2,010
Non-current financial assets	38,527	58,842	(20,315)
Non-current financial assets	38,527	58,842	(20,315)
Non-current derivatives			
Non-current financial liabilities	(113,892)	(46,622)	(67,270)
Non-current financial liabilities	(113,333)	(46,622)	(66,711)
Non-current derivatives	(559)		(559)
Net financial position relating to continuing operations	221,926	494,779	(272,853)
Assets held for sale	334		334
Liabilities directly linked to assets held for sale			
Net financial position relating to discontinued operations	334		334
Total net financial position	222,260	494,779	(272,519)

The net financial position at December 31, 2018, computed in compliance with Consob communication no. DEM/6064293 of July 28, 2006 (i.e., not including non-current financial assets and assets held for sale) was positive at 183,399 thousand euro (positive at 435,937 thousand euro at December 31, 2017).

Comparison between fair value and carrying amount and hierarchy

The table below compares the carrying amount and the fair value of financial assets and liabilities at December 31, 2018, subdivided on the basis of the new IFRS 9 categories and the related hierarchy:

	Carrying amount					Total	Fair value			Total
	FVTPL	FVOCI	Amortized cost	FV hedges	Other financial liabilities		level 1	level 2	level 3	
<i>(in thousands of euro)</i>										
Financial assets										
Other equity investments		404,382				404,382	324,872	15,568	63,942	404,382
Trade receivables and other non-current assets	118,725		38,332			157,057		3,163	115,562	118,725
<i>Financial assets at amortized cost</i>			13,439			13,439				
<i>Financial assets FVTPL nfp</i>	3,163					3,163		3,163		3,163
<i>Financial assets FVTPL non-nfp</i>	115,562					115,562			115,562	115,562
<i>Non-current receivables</i>			21,771			21,771				
<i>Trade receivables</i>			2,588			2,588				
<i>Guarantee deposits</i>			534			534				
Trade receivables			92,043			92,043				
Other current assets including derivatives	2,391		25,439			27,830		2,391		2,391
<i>Derivatives</i>	2,391					2,391		2,391		2,391
<i>Trade receivables</i>			8,606			8,606				
<i>Other amounts due</i>			16,833			16,833				
Equity investments, bonds and Current loan assets	246,450		2,054			248,504	70,002	173,078	3,370	246,450
<i>NFP Equity investments FVTPL</i>	34,601					34,601	33,713		888	34,601
<i>Financial assets at amortized cost</i>			364			364				
<i>NFP Financial assets FVTPL</i>	211,849					211,849	36,289	173,078	2,482	211,849
<i>Loan assets and financial accruals</i>			1,690			1,690				
Cash and cash equivalents			121,930			121,930				
Total	367,566	404,382	279,798			1,051,746	394,874	194,200	182,874	771,948
Financial liabilities										
Non-current financial liabilities					113,333	113,333		113,333		113,333
<i>Bank loans and borrowings</i>					109,959	109,959		109,959		109,959
<i>Finance lease payables</i>					1,716	1,716		1,716		1,716
<i>Other loans and borrowings</i>					1,658	1,658		1,658		1,658
Other non-current liabilities			5,063	559		5,622		559		559
<i>Derivatives</i>				559		559		559		559
<i>Other non-current liabilities</i>			5,063			5,063				
Current bank loans and borrowings					25,065	25,065		25,065		25,065
Current financial liabilities					47,173	47,173		47,173		47,173
<i>Bank loans and borrowings</i>					38,298	38,298		38,298		38,298
<i>Finance lease payables</i>					364	364		364		364
<i>Other loans and borrowings</i>					618	618		618		618
<i>Other financial liabilities</i>					7,893	7,893		7,893		7,893
Trade payables			78,200			78,200				
Other liabilities	1,954		35,310			37,264		1,954		1,954
<i>Derivatives</i>	1,954					1,954		1,954		1,954
<i>Trade receivables</i>			9,068			9,068				
<i>Other liabilities, accruals and deferrals</i>			26,242			26,242				
Total	1,954		118,573	559	185,571	306,657		188,084		188,084

The table below compares the carrying amount and the fair value of financial assets and liabilities at December 31, 2017, subdivided on the basis of the new IAS 39 categories and the related hierarchy:

	Carrying amount					Total	Fair value			Total
	Held for trading	Available for sale	Held to maturity	Loans and receivables	Other financial liabilities		level 1	level 2	level 3	
<i>(in thousands of euro)</i>										
Financial assets										
Other equity investments		610,429				610,429	541,772	19,888	48,769	610,429
Trade receivables and other non-current assets		126,543	9,417	24,136		160,096		6,876	119,667	126,543
<i>Financial assets held to maturity</i>			9,417			9,417				
<i>Financial assets AFS nfp</i>		27,238				27,238		6,876	20,362	27,238
<i>Financial assets AFS non-nfp</i>		99,305				99,305			99,305	99,305
<i>Non-current receivables</i>				20,376		20,376				
<i>Trade receivables</i>				2,850		2,850				
<i>Guarantee deposits</i>				910		910				
Trade receivables				61,911		61,911				
Other current assets including derivatives	4,156			28,805		32,961	20	2,807	1,329	4,156
<i>Derivatives</i>	2,827					2,827	20	2,807		2,827
<i>Financial assets held for trading non nfp</i>	1,329					1,329			1,329	1,329
<i>Trade receivables</i>				8,059		8,059				
<i>Other amounts due</i>				20,746		20,746				
Current equity investments, bonds and loan assets	290,212	20,065	10,000	95		320,372	128,380	178,186	3,711	310,277
<i>Trading equity investments</i>	42,633					42,633	42,625		8	42,633
<i>Financial assets held to maturity</i>	364	16,885	10,000			27,249	17,249			17,249
<i>Financial assets</i>	247,215	3,180				250,395	68,506	178,186	3,703	250,395
<i>Loan assets and financial accruals</i>				95		95				
Cash and cash equivalents			217,870			217,870				
Total	294,368	757,037	237,287	114,947		1,403,639	670,172	207,757	173,476	1,051,405
Financial liabilities										
Non-current financial liabilities					46,622	46,622		46,622		46,622
<i>Bank loans and borrowings</i>					45,409	45,409		45,409		45,409
<i>Finance lease payables</i>					215	215		215		215
<i>Other loans and borrowings</i>					998	998		998		998
Other non-current liabilities				2,669		2,669				
<i>Derivatives</i>										
<i>Other non-current liabilities</i>				2,669		2,669				
Current bank loans and borrowings					14,640	14,640		14,640		14,640
Current financial liabilities					39,759	39,759		39,759		39,759
<i>Bank loans and borrowings</i>					38,154	38,154		38,154		38,154
<i>Finance lease payables</i>					85	85		85		85
<i>Other loans and borrowings</i>					1	1		1		1
<i>Other financial liabilities</i>					1,519	1,519		1,519		1,519
Trade payables			63,143			63,143				
Other liabilities	3,964			33,640		37,604	46	3,918		3,964
<i>Derivatives</i>	3,964					3,964	46	3,918		3,964
<i>Trade receivables</i>				8,287		8,287				
<i>Other liabilities, accruals and deferrals</i>				25,353		25,353				
Total	3,964		63,143	36,309	101,021	204,437	46	104,939		104,985

Trade receivables and payables are current assets and liabilities and are carried at amounts that are reasonable approximations of their fair value.

Derivatives are measured and recognized at fair value.

The fair value of foreign-currency assets and liabilities is determined using the closing rates. The fair value of fixed-rate assets and liabilities is determined using a fixed rate with no credit margin, net of transaction costs directly attributable to the financial assets and financial liabilities.

In determining and documenting the fair value of financial instruments, the Group uses the following hierarchy based on different measurement methods:

- level 1: financial instruments with prices quoted on active markets;
- level 2: prices quoted on active markets for similar financial instruments, or fair value determined with other measurement methods where all significant inputs are based on observable market data;
- level 3: fair value determined with measurement methods where no significant input is based on observable market data.

Information on the fair value of financial assets and financial liabilities not measured at fair value is excluded, when carrying amount is a reasonable approximation of fair value.

Movements on level 3 financial instruments at December 31, 2018 were as follows:

	Level 3 12/31/2017	Increases					Decreases					Level 3 12/31/2018		
		Purchases	Gains on disposals in income statement	Other gains in income statement	Gains in equity	Other changes	Transfers from other levels	Sales	Repayments	Losses on disposals in income statement	Other losses in income statement		Losses in equity	Other changes
(in thousands of euro)														
Non-current equity investments	48,769	2,767			21,701	109			(4,947)			(1,017)	(3,440)	63,942
Receivables and other non-current ink loans and borrowings assets	119,667	28,544		9,472		14,16			(28,336)	(12,131)		(3,070)		115,562
Loan assets and other receivables	1,329					(1,329)								
Equity investments, bonds and current loan assets	3,711	264		1,683		1,329			(1,001)	(1,905)	(708)	(3)		3,370

No reclassifications from categories measured at fair value to categories measured at amortized cost were made in the year under review or in the previous year, in the Group financial asset portfolio.

The fair value of level 3 non-current equity investments was estimated with reference to market multiples and, where possible, comparable transactions.

Currency risk hedges and Hedge accounting

The Group has no currency risk hedges.

A floating-rate to fixed-rate IRS contract was arranged by Caffè Borbone for a nominal amount of 60 million euro.

Financial risk management policy and objectives

Introduction

The Italmobiliare Board of Directors defines general Group principles and management policy for the parent. In the other Group segments, management policy for financial risks and financial instruments is defined by the parent of each segment or by individual companies on the basis of the characteristics of the segment, and consistently with general Group principles.

The “Other companies” segment does not present material financial risks and therefore does not formulate a specific policy.

For discussion of management policies and objectives in each segment, the reader is referred to the specific section.

Notional amount of derivatives

Financial risk management is an integral part of Group asset management, and is conducted by each segment on the basis of the guidelines drawn up with reference to the type of business. The Group uses derivatives to optimize its risk/yield profile.

The notional amount of derivative contracts at December 31, 2018, is set out below, subdivided by operating segment and maturity:

(in millions of euro)	Notional amounts				
	Italmobiliare	Sirap	Italgen	Caffè Borbone	Total
Derivatives on interest rates				60.0	60.0
Derivatives on shares	70.3				70.3
Derivatives on indices					
Derivatives on commodities					
Total	70.3			60.0	130.3

(in millions of euro)	Notional amounts				
	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Derivatives on interest rates	6.0	6.0	48.0		60.0
Derivatives on shares	70.3				70.3
Derivatives on indices					
Derivatives on commodities					
Total	76.3	6.0	48.0		130.3

Financial risks

Credit risk

Credit risk is the risk that a counterparty might default on its obligations and generate a financial loss for the Group.

Credit risk is managed by each segment in relation to its type of business.

Liquidity risk

Liquidity risk is the risk that due to an inability to raise new funds or sell assets on the market, the company might be unable to settle its payment obligations. This would impact on the results of operations if the group was obliged to sustain additional costs to meet its commitments, or conditions of insolvency putting the company's ability to continue as a going concern at risk.

The table below shows consolidated net financial debt by maturity (without the fair value of derivatives and loan assets) compared with undrawn lines of credit and cash and cash equivalents.

At December 31, 2018:

(in millions of euro)	Maturity				Total
	< 1 year	1 - 2 years	2 - 5 years	Beyond	
Total financial liabilities	(81.3)	(20.2)	(90.5)	(2.6)	(194.6)
Undrawn committed lines of credit	10.0				10.0
Cash and cash equivalents	121.9				121.9

The group also has uncommitted lines of credit for 247.5 million euro.

At December 31, 2017:

(in millions of euro)	Maturity				Total
	< 1 year	1 - 2 years	2 - 5 years	Beyond	
Total financial liabilities	(62.0)	(19.9)	(24.5)	(2.9)	(109.3)
Undrawn committed lines of credit					
Cash and cash equivalents	217.9				217.9

The group also has uncommitted lines of credit for 242.3 million euro.

Market risk

Interest-rate risk

The Group is exposed to the risk of changes in market interest rates, as follows:

- the risk of variations in the fair value of fixed-rate financial assets and liabilities. A change in interest rates affects the fair value of fixed-rate assets and liabilities;
- the risk linked to future cash flows on floating-rate financial assets and liabilities. A change in interest rates has a limited impact on the fair value of floating-rate rate financial assets and liabilities, but may affect future cash flows and profits.

In the industrial companies, management of the interest-rate risk has a dual purpose, to minimize the cost of net financial debt and reduce exposure to fluctuation.

In the financial companies, interest-rate risk management is an integral part of the core business, and is based on investment and debt policies established by the governing bodies of the companies in question.

The Group may hedge interest-rate risks with derivatives such as interest-rate swaps, forward rate agreements, futures and interest-rate options arranged from time to time with leading banks.

Net financial debt at inception and after interest-rate hedging was as follows at December 31, 2018:

(in millions of euro)	
Balance at December 31, 2018	
Fixed-rate financial liabilities	(20.7)
Fixed-rate financial assets	19.3
Fixed-rate NFP at inception	(1.4)
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	(60.0)
Fixed-rate NFP after hedging	(61.4)
Floating-rate financial liabilities	(165.3)
Floating-rate financial assets	39.4
Floating-rate NFP at inception	(125.9)
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	60.0
Floating-rate NFP after hedging	(65.9)
Other instruments not subject to interest-rate risk	349.6
Total NFP	222.3

Currency risk

The table below details consolidated net exposure by currency, showing financial assets and liabilities denominated in currencies other than the local currency.

(in millions of euro)	euro (*)	USD (*)	Others (*)
Financial assets (**)	0.3	90.1	5.2
Financial liabilities (**)	(0.5)		
Net exposure by currency	(0.2)	90.1	5.2

(*) assets and liabilities are stated at their nominal amount in euro when the local currency is not euro

(**) excluding trade payables and receivables

Group companies are structurally exposed to currency risk on cash flows from operating activities and on financing activities denominated in currencies other than their respective functional currencies.

The impact of currency translation on subsidiaries' equity is recorded in a separate equity reserve.

Equity price risk

The Group is exposed to the risk of market fluctuations on listed equities and other instruments in portfolio.

Exposure is concentrated in Italmobiliare, to which reference should be made for further details.

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Equity investments FVOCI	324,874	541,772	(216,898)
Equity investments FVTPL	33,713	42,625	(8,912)
Overall exposure	358,587	584,397	(225,810)

Commodity price risk

The Group is exposed to a commodity price risk on raw materials and energy products.

These risks are managed by the individual segments, through diversification of procurement sources.

Italmobiliare

Risk management policies

Objectives

For Italmobiliare, exposure to financial risk is an opportunity to generate profits within the constraints established for the purposes of careful and prudent management of financial resources.

Financial instruments

Group guidelines define the types of financial instruments allowed, maximum amounts, counterparties and methods of approval.

Derivatives may be used both as risk management instruments and as instruments relating to market positioning.

Credit risk

Italmobiliare is exposed to credit risk with respect to issuers of financial instruments and counterparties on financial transactions.

The guidelines establish minimum rating levels for individual investments (where applicable), for type of instrument, for rating class and maximum exposure in relation to individual counterparties.

A monitoring and reporting system has also been established for senior management.

Italmobiliare has no significant exposure to trade credit risks.

The table below illustrates the level of credit risk exposure for each instrument (bonds, deposits, other financial assets) and with respect to the counterparties to derivatives.

(in millions of euro)	Fair Value	Average rating	Average outstanding life (in years) (*)
Bonds FV/TPL	21.0	Baa1	32.00
Bonds at amortized cost	9.8	n/a	3.74
Deposits	90.1	n/a	n/a
Other financial assets	0.7	n/a	n/a
Derivatives on shares	0.4	n/a	< 1

(*) determined on first call

Assuming a parallel shift of +100 bp in the credit curve, the estimated total change in financial instruments would be -1.3 million euro, reflected entirely in the income statement.

Deposits are subject to counterparty risk, but a shift of +100 bp in the curve would not have an impact on the amount thereof.

Other financial assets and derivatives are excluded from the sensitivity analysis since their fair value does not depend on the creditworthiness of the counterparty.

Liquidity risk

Italmobiliare risk management policy is designed to optimize financial resources through effective management (in terms of maturities, costs and liquidity) of the segment's assets and liabilities.

The Net Financial Position (hereinafter "NFP") at December 31, 2018 reflected a strong positive position: a regular report is drawn up analyzing the NFP trend in relation to the segment's requirements.

The table below sets out debt by maturity (residual life) compared with financial assets and undrawn lines of credit.

(in millions of euro)	Maturity				Total
	< 1 year	1 - 2 years	2 - 5 years	Beyond *	
Total financial liabilities	(11.8)				(11.8)
Total financial assets	132.4		24.0	200.3	356.7
Total NFP	120.6		24.0	200.3	344.9
Undrawn committed lines of credit					

* including financial assets with no maturity

Short-term drawings on committed lines of credit are reclassified on expiry of the respective facility. Undrawn uncommitted lines of credit stand at 208.0 million euro.

Market risks

Interest-rate risk

Fluctuations in interest rates affect the fair value of financial assets and liabilities and the level of net finance costs.

Regular reports are drawn up analyzing the NFP and detailing asset and liability management.

The table below illustrates the NFP of Italmobiliare at December 31, 2018, and exposure to interest-rate risk; reference should be made to the specific note for a detailed breakdown of the NFP.

(in millions of euro)	
Balance at December 31, 2018	
Fixed-rate financial liabilities	
Fixed-rate financial assets	9.8
Fixed-rate NFP at inception	9.8
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	
Fixed-rate NFP after hedging	9.8
Floating-rate financial liabilities	(2.7)
Floating-rate financial assets	21.9
Floating-rate NFP at inception	19.2
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	
Floating-rate NFP after hedging	19.2
Assets not exposed to interest-rate risk	325.0
Liabilities not exposed to interest-rate risk	(9.1)
Total NFP	344.9

Floating-rate assets include cash and cash equivalents, amounts due from Group companies and floating-rate bonds; fixed-rate liabilities include amounts due to third parties and Group companies.

A sensitivity analysis was performed to determine the change in the fair value of the total net financial position caused by an instantaneous shift of 100 bps in forward interest rates (assuming a parallel shift in the curve). Modified Duration was used as the sensitivity criterion.

The analysis found an overall estimate of -1.5 million euro, with an effect exclusively on the income statement.

On demand and time deposits, an instantaneous shift in the curve would not generate an automatic effect on the income statement.

Symmetrical results would be generated by an instantaneous parallel downward shift in the rate curve.

Currency risk

Overall exposure to the currency risk is limited. Currency positions are limited and used with the objective of de-correlating the risk of traditional financial assets in the liquidity management portfolio.

Other price risks

Italmobiliare is particularly exposed to the risk of fluctuations in the prices of listed equities carried at fair value.

Since Italmobiliare is a holding company, exposure to the equity risk is inherent to its core business. In some cases, for limited amounts, the Policies set out procedures and approvals for the use of derivatives to reduce this risk.

At December 31, 2018, listed financial assets exposed to price risk amounted to 358.6 million euro, of which 324.9 million euro measured at FVOCI and 33.7 million euro measured at FVTPL.

A hypothetical reduction of 5% in share prices would have a negative impact of 17.9 million euro on the assets' fair value, of which 16.2 million euro on equity and 1.7 million euro on the income statement.

	Fair Value	Share price delta	Impact on income statement	Impact on equity
(in millions of euro)				
Shares FVTPL	33.7	-5%	(1.7)	
Shares FVOCI	324.9	-5%		(16.2)

Italgen

The segment is exposed to the following risks arising from use of financial instruments:

- credit risk;
- market risk.

Information about group exposure to each of the listed risks, the goals and processes of risk management policy and the methods used to assess risk is provided below.

Credit risk

The group is exposed to a limited credit risk, since its customers are vetted for creditworthiness, both on a preliminary basis and during the life of the credit, through monitoring of receivable balances by the administrative department.

Market risk

Market risk is the risk of fluctuation in the fair value or future cash flows of a financial instrument due to variations in market prices as a result of changes in exchange and interest rates. The aim of market risk management is to keep exposure to the risk within acceptable limits and, at the same time, to optimize return on investment.

Interest-rate risk

Italgen is exposed to an interest-rate risk since its total gross debt is at a floating rate, indexed to 3- and 6-month Euribor.

One loan contract includes covenants requiring compliance with financial indicators typically determined on an annual basis. The reference indicator is leverage (gross financial debt net of cash and cash equivalents / gross operating profit), with a top limit of 4.5. Failure to comply with covenants leads to termination and consequent early repayment, although the covenants include a stand-by period prior to actual execution. Italgen complied with the covenants at December 31, 2018.

At December 31, a Euribor increase of 1% in the reference rates would have had an impact of approximately 250 thousand euro. A decrease in the already negative reference rates would not have had any impact given the 0% floor on the reference Euribor rate.

Currency risk

Italgen operates in some emerging countries (Egypt and Morocco) through subsidiaries, some of which have financial assets denominated in currencies other than the local currency, with no hedges. Adverse political or economic developments in those regions could have a negative impact on the company's prospects and operations, and on its results of operations and financial position.

Sirap

Risk management policy

In order to adopt a uniform financial risk management policy for the Sirap group, on July 31, 2013, the Sirap Gema S.p.A. Board of Directors approved the Italmobiliare Group's "Financial Resources Management Regulation: structure of investment process governance and portfolio constraints", to be extended to all companies it controls directly and indirectly in the food packaging segment. An update to the regulation was issued on December 6, 2013, and was adopted by the Board of Directors on February 28, 2016.

Objectives

The objective of the above policy is to reduce the financial risks to which the Sirap group is exposed in its operations, by indicating application procedures, instruments and limits.

Since the Sirap group's activities are mainly business operations in food packaging, use of instruments will be limited to hedging risks associated with its core business, excluding speculative policies or policies designed purely to maximize financial profit.

Financial instruments

The financial instruments adopted in the segment are intended solely to provide it with the funds required to conduct its core business. Consequently, amounts, terms and conditions of financial instruments are designed to meet the needs of the transaction to which they refer.

Financial risk management

Credit risk

The segment is exposed to credit risk on sales of products and services on its core markets.

The policy sets out criteria for establishing customer creditworthiness, credit limits and risk containment measures. It also assigns responsibility for approving amounts in excess of such limits and for drafting management reports.

An analysis of overdue receivables for the main companies in the Sirap group found the following due day situation:

(in millions of euro)	0-30 days	31-60 days	61-90 days	more than 90 days	Total
Sirap Gema	1.7	0.2			1.9
Sirap Gema France	1.2	0.1		0.2	1.5
Inline Poland	0.9	0.1			1.0
Sirap Gmbh	0.3		0.1		0.4
Sirap Tarascon	0.3			0.1	0.4
Sirap Packaging Iberica	0.7	0.3			1.0
Total	5.1	0.7	0.1	0.3	6.2

Total non-overdue trade receivables stood at 58.0 million euro.

Since Sirap group trade receivables refer in the main to leading Italian and international mass merchandisers and to food distributors, non-overdue receivables are analyzed by debtor ratings; the probability of material solvency risks may be reasonably excluded. Individual cases are systematically reviewed and a specific allowance set aside where necessary.

The generic risk on overall credit exposure is determined on a statistical basis, considering historical annual insolvency and loss, correlated with average probable uncollectibility percentages computed in relation to the age of the receivable.

Movements on the allowance for impairment of trade receivables in 2018 were as follows:

(in millions of euro)	Opening balance	Changes in scope of consolidation	Increases	Applications	Closing balance
Sirap Gema	0.8				0.8
Sirap Gema France	0.1				0.1
Sirap UK		0.1			0.1
Petruzalek group	1.6			(0.2)	1.4
Total	2.5			(0.2)	2.4

As part of the action taken to contain the credit risk, during the year credit control committees continued to operate in almost all the Sirap group companies; the committees conduct monthly reviews and analyses of situations at greatest risk. During the year, credit insurance policies were taken out by Sirap Gema S.p.A. in the manner deemed appropriate.

Liquidity risk

The Sirap group is exposed to a liquidity risk (the risk of being unable to meet its financial obligations) on its net financial debt.

The policy provides criteria for definition of financing amounts, terms and conditions, in relation to conditions on the markets on which it operates.

In the Sirap group, loans and borrowings have been set up with financial covenants, as illustrated below:

Sirap Gema S.p.A. has arranged a 25,000 thousand euro loan (of which 15,000 thousand euro disbursed at December 31, 2018), with a repayment date of December 31, 2023; the agreement envisages covenants on:

- o NFP/ EBITDA
- o EBITDA / Finance costs

Sirap France SAS has arranged a 3,000 thousand euro loan, with a repayment date of December 31, 2023; the agreement envisages covenants on:

- o NFP / EBITDA
- o NFP / Equity

The subsidiary Inline Poland Sp z.o.o. has three loans with financial covenants:

- o a residual loan of 2,001 thousand euro maturing on January 31, 2027;
- o a residual loan of 1,798 thousand euro maturing on August 31, 2027;
- o a residual loan of 1,056 thousand euro maturing on February 28, 2023.

The loans have covenants on: total annual revenue, percentage net profit, current ratio, receivables and current investments/current liabilities. All covenants have been complied with.

Market risk

Interest-rate risk

This is the risk of changes in the value or future cash flows of a financial instrument, due to changes in interest rates.

The policy sets out criteria and procedures to mitigate/neutralize the interest-rate risk, that is, to minimize the difference between interest income and expense rates in relation to operating requirements, taking into account that since the group is structurally in debt, the presence of liquidity may only be temporary.

Currency risk

The segment is exposed to currency risk especially with regard to the East European currencies and the pound sterling.

During 2018 there was no material worsening in these currencies' exchange rates with the euro, with the exception of the Turkish lira, whose impact on the group accounts was immaterial.

The policy sets out criteria and procedures to mitigate/neutralize the effects, and instruments and limits on use of hedging derivatives.

Other price risks

This category includes risks related to fluctuations in market prices, which may have a material impact on the value or future cash flows of the operating companies.

Specifically, the segment is exposed mainly to price fluctuations on polymer raw materials and energy, with the prices of the former, notably PET, rising during 2018.

The prices of these production factors and the related market indicators are monitored continually to mitigate risks and negative effects on results of operations wherever possible.

Generally speaking, the risk also extends to the value of equity investments in the operating companies (equity risk). In view of the fact that investment in new markets to achieve business growth is a strategic objective in this group, exposure to equity risk on investments in operating companies is maintained and the policy does not envisage specific criteria to reduce risk.

Caffè Borbone

Risk management policy

By its nature, the company is exposed on a daily basis to risks arising from its operations, as regards both the more traditional area of hygiene-health risks that could affect the quality of the products, and the risks to the health and safety of people directly or indirectly involved in the production process.

One of the company's objectives is the ability to prevent and control the spread of risks connected with its operations, with a specific focus on the quality of its products in the interests of consumer health.

This is achieved through "exclusion" and "precaution" measures during planning, and "prevention" measures during production.

Financial risk management

Credit risk

The company has established procedures for constant vetting of the creditworthiness of its customers, to whom it grants extended terms of payment, and limits product sales to customers with inadequate creditworthiness and guarantees. Customer vetting is based on the collection of data and information on new customers, and on monthly analyses of individual credit positions in order to check for any anomalies in average collection time, with investigation of material bad debts. The company has also arranged insurance cover against credit risk.

Liquidity risk

The company manages liquidity risk through an efficient liquidity management policy and planning designed to establish short-term financial commitments as well as extraordinary measures to identify the most appropriate solutions.

Market risks

Interest-rate risk

The company is exposed to interest-rate risk to the extent that part of its borrowings are not hedged by swaps. The percentage of hedged borrowings is 93%.

Currency risk

The segment is exposed to currency risk particularly as regards the euro/dollar exchange, since coffee-bean prices are quoted in dollars.

The risks of a rise in raw material prices are managed through appropriate commercial strategies contemplating corresponding adjustments to price lists where necessary.

Other price risks

Specifically, the segment is exposed to variations in the price of coffee, plastic and paper. The prices of these production factors and related market indicators are monitored continually in order to mitigate negative impact on results of operations through appropriate commercial strategies contemplating corresponding adjustments to price lists where necessary.

Transactions with related parties

Data relating to transactions with related parties in 2018 were not significant. They are detailed in the table below:

(in thousands of euro)	Income and Revenue (expense)	Trade receivables (payables)	Financial assets (liabilities)	Finance income (costs)	Other operating income (expense)
Italmobiliare Group					
Associates not fully consolidated	2,293	152	14,234	16	
Other related parties	(1,060)	15			(18)
Total	2,293	167	14,234	16	(18)
% impact on financial statement items	0.5%	0.2%	3.4%	2.5%	0.2%
	0.2%	0.0%			

The comparatives for 2017 are set out below:

(in thousands of euro)	Income and Revenue (expense)	Trade receivables (payables)	Financial assets (liabilities)	Finance income (costs)	Other operating income (expense)
Italmobiliare Group					
Subsidiaries and associates not fully consolidated	88	2	14,339	15	
Subsidiaries of associates					
Other related parties	(363)	(1)			
Total	88	2	14,339	15	(1)
% impact on financial statement items	0.0%	0.0%	2.4%	3.1%	0.1%
	0.1%	0.0%			

The impact on the financial statements items for 2017 is not shown due to the inconsistency between numerator (transactions with related parties with all group companies) and the numerator (IFRS 5 financial statement data not including assets held for sale).

During 2018, the Italmobiliare Group disbursed funds totaling 500 thousand euro to the Fondazione Italcementi Cav. Lav. Carlo Pesenti (no disbursement in 2017).

The percentage impact of the above-mentioned transactions with related parties on cash flows was negligible.

Remuneration of key management personnel

The table below sets out amounts accrued during the year by key management personnel: the Directors, the Chief Operating Officer and the Italmobiliare S.p.A. manager in charge of financial reporting, for positions held in the Group:

(in thousands of euro)	2018	2017
Short-term benefits: fees and remuneration	7,566	9,741
Other long-term benefits: length-of-service bonuses and incentives	2,391	1,817
Share-based payments	65	308
Total	10,022	11,866

Non-recurring transactions

The following tables itemize the most significant non-recurring transactions and their impact on the Group's equity, financial position and results of operations:

(in thousands of euro)	2018					
	Equity		Profit (loss) for the period		Net financial position (debt)	
	amount	%	amount	%	amount	%
Carrying amounts	1,302,236		31,672		222,260	
Net gains on the sale of non-current assets	981	0.08%	981	3.10%	981	0.44%
Non-recurring personnel expense for re-organizations	(115)	0.01%	(115)	0.36%	(115)	-0.05%
Other non-recurring income (expense)	(2,346)	0.18%	(2,346)	7.41%	(1,526)	0.69%
Tax on non-recurring transactions						
Total	(1,480)	0.11%	(1,480)	4.67%	(660)	0.30%
Figurative amount without non-recurring transactions	1,303,716		33,152		222,920	

(in thousands of euro)	2017					
	Equity		Profit (loss) for the period		Net financial position (debt)	
	amount	%	amount	%	amount	%
Carrying amounts	1,373,657		115,246		494,779	
Net gains on the sale of non-current assets	4	0.00%	4	0.01%		
Non-recurring personnel expense for re-organizations	(1,192)	0.09%	(1,192)	3.76%	(673)	-0.30%
Income (expense) on distribution to shareholders						
Other non-recurring income (expense)	2,735	0.21%	2,735	8.64%	528	0.24%
Tax on non-recurring transactions						
Total	1,547	0.11%	1,547	1.34%	(145)	0.03%
Figurative amount without non-recurring transactions	1,372,110		113,699		494,924	

Audit fees

The table below sets out details of the fees paid in 2018 by the Italmobiliare Group to the independent auditors KPMG and the foreign companies of the KPMG network, pursuant to art. 149-duodecies par 1 CONSOB Resolution no.11971 of May 14, 1999:

(in thousands of euro)	KPMG S.p.A.	Other Italian companies in the KPMG network	Other foreign companies in the KPMG network
Audit services	648	-	252
Other attestation services	96	-	-
Other legal, tax and corporate services	-	-	3
Expenses	79	-	15
Total	823	-	270

Grants from public authorities

After the approval of the annual competition law no.124/2017 designed to ensure transparency with regard to grants received from public authorities, attention is drawn to the following:

- during the year, the Sirap Gema S.p.A. company collected personnel training grants of 56 thousand euro from Fondimpresa and 10 thousand euro from Fondirigenti, and set aside a provision of 563 thousand euro for the 2017 energy grant, which has not yet been collected;
- during the year, the Rosa Plast Due S.r.l. company collected contributions totaling 35 thousand euro gross of tax withholdings from the Gestore dei Servizi Energetici S.p.A. company with tax code 05754381001, for electric power incentives through photovoltaic installations, under convention no.102130037507;
- the Italgas S.p.A. company received from the Gestore dei Servizi Energetici S.p.A. company with tax code 05754381001, GRIN incentives (a new form of incentive provided under ministerial decree 06/07/2012 for all IAFR ex Green Certificates plant, effective as from 2016) totaling 8,498 thousand euro gross of tax withholdings and operating expense as per art. 4 of the incentivized tariff agreement, as well as electric energy sales at the All-Inclusive Tariff, that is, tariffs for withdrawal of power sent to the grid whose value includes both the price component and the incentivized component, also from the Gestore dei Servizi Energetici S.p.A. company, for 998 thousand euro, and FER-E incentivized electric energy sales for 447 thousand euro, also from the Gestore dei Servizi Energetici S.p.A. company.

Statement of cash flows

B) Cash flow from investing activities

The table below itemizes the main equity investments acquired by the Group in 2018:

(in millions of euro)	2018	2017
Caffè Borbone	305.4	
Iseo group	42.6	
Private equity funds	20.6	21.9
Sirap UK	10.5	
Sirap Iberica	3.4	
New Flour	2.8	
Unicredit	1.6	1.2
Sirap Tarascon	0.3	
Sirap Gmbh	(0.3)	
Petruzalek Ukraine	0.1	
Misr for Energy	0.1	
Tecnica Group		43.3
Sciquest		35.0
Bond loans		9.0
Mediobanca		7.0
Dokimé		3.7
Ideami		3.0
SES		0.8
Piaggio	0.2	0.7
Clessidra		0.2
Ubi		0.1
Total	387.3	125.9

Equity investments are shown net of the cash and cash equivalents of the companies acquired and the change in payables for equity investment acquisitions.

Events after the reporting date

In November, Italmobiliare S.p.A. reached an agreement, closed in January 2019, for the purchase of a share of approximately 27% in Autogas Nord S.p.A., one of Italy's leading LPG players. Through the investment in Autogas Nord S.p.A., Italmobiliare was able to acquire 100% ownership of Lampogas S.r.l., a company active on the LPG distribution and sales market across northern and central Italy. Italmobiliare S.p.A. invested 60 million euro in the operation, becoming a non controlling shareholder of a group with turnover totaling approximately 500 million euro.

Milan, March 6, 2019

For the Board of Directors
The Chief Executive Officer
(Carlo Pesenti)

Annex

The table below sets out equity investments held in companies when such investments exceed 10% of voting capital. It also indicates the consolidation method and non-controlling interests.

Company	Registered office		Share / quota capital		Interest held by Group companies			Method	Non-controlling interests %
					Direct	Indirect	%		
Parent									
Italmobiliare S.p.A.	Milan	I	EUR	100,166,937.00					
Atmos Venture S.p.A. winding up	Milan	I	EUR	880,040.00	10.13	-	10.13	Italmobiliare S.p.A.	Cost
Beijing Tecnica Sport Equip. Co. Ltd	Beijing	RC	CNY	25,727,280.00	-	50.00	50.00	Tecnica Group Spa	Equity
Blizzard Sport Liegenschaftsverwaltungs	Mittersill	A	EUR	36,336.00	-	99.00	99.00	Blizzard Sport Gmbh	Equity
Blizzard Produktions GmbH	Mittersill	A	EUR	5,301,701.00	-	100.00	100.00	Blizzard Sport Gmbh	Equity
Blizzard Sport Gmbh	Mittersill	A	EUR	36,336.00	-	100.00	100.00	IQ-Sports Verwaltungs GmbH	Equity
Burgo Group S.p.A.	Altavilla Vicentina	I	EUR	20,000,000.00	11.68	-	11.68	Italmobiliare S.p.A.	Fair Value
Caffè Borbone S.r.l.	Caivano (Naples)	I	EUR	1,000,000.00	60.00	-	60.00	Italmobiliare S.p.A.	Line-by-line 40.00
Cerraduras Iseo Iberica S.L.	Ajalvir - Madrid	E	EUR	300,500.00	-	90.00	90.00	Iseo Serrature S.p.A.	Equity
Clessidra Società di Gestione del Risparmio S.p.A.	Milan	I	EUR	3,000,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line
CJSC INLINE-R	Moscow	RU	RUB	30,230,640.00	-	23.99	23.99	Inline Poland Sp. z.o.o.	Cost
Compagnia Fiduciaria Nazionale S.p.A.	Milan	I	EUR	90,000.00	16.67	-	16.67	Italmobiliare S.p.A.	Fair Value
Crédit Mobilier de Monaco S.A.	Montecarlo	MC	EUR	5,355,000.00	99.91	-	99.91	Italmobiliare S.p.A.	Line-by-line 0.09
Dokimè S.r.l.	Milan	I	EUR	100,000.00	20.63	-	20.63	Italmobiliare S.p.A.	Equity
Eco Park Wind Power	Sofia	BG	BGN	5,000.00	-	100.00	100.00	Gardawind S.r.l.	Equity
Energy for MISR B.V.	Amsterdam	NL	NLG	1,000.00	-	100.00	100.00	Italgen S.p.A.	Line-by-line
Feroneria Prod. S.A.	Arad	RO	RON	11,128,634.40	-	100.00	99.9999 0.0001	Iseo Serrature S.p.A. Microhard S.r.l.	Equity
Finimage 15 Sagi winding up	Lugano	CH	CHF	20,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line
Fin.Priv. S.r.l.	Milan	I	EUR	20,000.00	14.28	-	14.28	Italmobiliare S.p.A.	Fair Value
Gardawind S.r.l.	Vipiteno (BZ)	I	EUR	100,000.00	-	49.00	49.00	Italgen S.p.A.	Equity
Haekon Eood	Sofia	BG	BGN	5,000.00	-	100.00	100.00	Gardawind S.r.l.	Equity
ICS Petruzalek Srl	Chisinau	MD	MDL	81,518.50	-	100.00	100.00	Petruzalek Com S.r.l. (Romania)	Line-by-line
Immobiliare Lido di Classe S.r.l. winding up	Rome	I	EUR	255,000.00	18.04	-	18.04	Italmobiliare S.p.A.	Cost
Inline Poland Sp. z.o.o.	Murawana Goslina	PL	PLN	3,846,000.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line
Italgen Maroc Ener S.A.	Casablanca	MAR	MAD	39,100,000.00	-	100.00	99.99 0.01	Italgen S.p.A. Italmobiliare Servizi S.r.l.	Line-by-line
Italgen Maroc S.A.	Casablanca	MAR	MAD	1,800,000.00	-	100.00	99.99 0.01	Italgen S.p.A. Italmobiliare Servizi S.r.l.	Line-by-line
Italgen Misr for Energy SAE	Cairo	EGY	LE	76,940,000.00	-	100.00	98.00 1.00 1.00	Energy for MISR B.V. Italmobiliare S.p.A. Italmobiliare Servizi S.r.l.	Line-by-line
Italgen S.p.A.	Bergamo	I	EUR	20,000,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line
Italmobiliare Servizi S.r.l.	Milan	I	EUR	3,520,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line
IQ-Sports Verwaltungs GmbH	Mittersill	A	EUR	17,500.00	-	100.00	100.00	Tecnica Group Spa	Equity
Iseo Asia Limited	Puchong, Selangor D.E.	MAL	MYR	1,000,000.00	-	70.00	70.00	Iseo Serrature S.p.A.	Equity
Iseo Asia Pacific Sdn Bhd	Puchong, Selangor D.E.	MAL	MYR	715,560.00	-	100.00	100.00	Iseo Asia Limited	Equity
Iseo Beijing Architectural Hardware Co. Ltd	Beijing	RC	CNY	500,000.00	-	100.00	100.00	Iseo Asia Limited	Equity
Iseo Colombia S.A.S.	Bogotá	CO	COP	528,080,000.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
Iseo Denmark A.P.S.	Copenhagen	DK	EUR	18,000.00	-	55.00	55.00	Iseo Serrature S.p.A.	Equity
Iseo Deutschland Gmbh	Gera	D	EUR	1,000,000.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
Iseo France S.A.S.	Vaux Le Pénil	F	EUR	1,075,440.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
Iseo Galvanica S.r.l.	Vanatori	RO	RON	2,800,000.00	-	99.50 0.50	99.50 0.50	Iseo Serrature S.p.A. Microhard S.r.l.	Equity
Iseo Gulf LLC	Dubai	UAE	AED	300,000.00	-	100.00	100.00	Iseo Middle East FZE	Equity
Iseo Middle East FZE	Dubai	UAE	AED	1,000,000.00	-	100.00	100.00	Iseo Denmark A.P.S.	Equity
Iseo Projects And Access Control DMCC	Dubai	UAE	AED	75,000.00	-	80.00	80.00	Iseo Serrature S.p.A.	Equity
Iseo PVC S.r.l.	Pisogne (Brescia)	I	EUR	50,000.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
Iseo Serrature S.p.A.	Pisogne (Brescia)	I	EUR	23,969,040.00	40.00	-	40.00	Italmobiliare S.p.A.	Equity
Iseo South Africa Proprietary Limited	Cape Town	ZA	ZAR	1,136.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
Liras S.A.S.	Courbevoie	F	EUR	16,151,640.00	-	60.62	60.62	Iseo Serrature S.p.A.	Equity
Locken Iberica S.L.	Madrid	ES	EUR	5,000.00	-	96.00	96.00	Liras S.A.S.	Equity
Locken Services S.A.	Courbevoie	F	EUR	100,000.00	-	99.20	99.20	Liras S.A.S.	Equity
Locken UK Limited	London	GB	GBP	1,000.00	-	99.20	99.20	Liras S.A.S.	Equity
Lowa Boots LLC	Stamford	USA	USD	35,000.00	-	100.00	99.90 0.10	Lowa Sportschuhe GmbH Tecnica Group S.p.A.	Equity
Lowa Schuhe AG	Wengelacher	CH	CHF	1,100,000.00	-	100.00	100.00	MM Holding AG	Equity
Lowa Sportschuhe GmbH	Jetzendorf	D	EUR	5,000,000.00	-	60.00	60.00	Teclor Srl	Equity
Mesomarket Eook	Sofia	BG	BGN	5,000.00	-	100.00	100.00	Gardawind S.r.l.	Equity
MFS Web S.r.l.	Milan	I	EUR	40,000.00	-	50.00	50.00	Caffè Borbone S.r.l.	Equity
Microhard S.r.l.	Rovellasca (Como)	I	EUR	100,000.00	-	100.00	100.00	Iseo Serrature S.p.A.	Equity
MM Holding AG	Stans	CH	CHF	100,000.00	-	100.00	100.00	Lowa Sportschuhe GmbH	Equity
New Flour S.p.A.	Milan	I	EUR	160,000.00	17.29	-	17.29	Italmobiliare S.p.A.	Fair Value
Norfin S.r.l.	Giavera del Montello	I	EUR	95,000.00	-	100.00	100.00	Tecnica Group Spa	Equity
Olso Meccanica S.r.l.	San Cesario sul Panaro (Modena)	I	EUR	10,400.00	-	80.00	80.00	Iseo Serrature S.p.A.	Equity

Company	Registered office		Share / quota capital		Interest held by Group companies			Method	Non-controlling interests %	
					Direct	Indirect	%			
Petruzalek Ltd (Turkey)	Istanbul	TR	TRY	2,806,000.00	-	100.00	99.90 0.10	Petruzalek Gesellschaft mbH (Austria) Petruzalek Com S.r.l. (Romania)	Line-by-line	
Petruzalek e.o.o.d. (Bulgaria)	Sofia	BG	BGN	5,000.00	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek Com S.r.l. (Romania)	Bucharest	RO	RON	6,374,380.00	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek d.o.o. (Croatia)	Zabok	HR	HRK	129,500.00	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek d.o.o. (Serbia)	Zemun (Batajnica)	RS	EUR	1,066,060.09	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek d.o.o. (Slovenia)	Maribor	SI	EUR	9,959.08	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek Gesellschaft mbH (Austria)	Tattendorf	AT	EUR	1,000,000.00	-	100.00	99.00 1.00	Sirap Gema S.p.A. Sirap Remoulins S.A.S.	Line-by-line	
Petruzalek Kft (Hungary)	Budapest	HU	HUF	300,000,000.00	-	100.00	75.00 25.00	Petruzalek Gesellschaft mbH (Austria) Petruzalek spol. S.r.o. (Czech Republic)	Line-by-line	
Petruzalek o.o.o. (Ukraine)	Odessa	UA	UAH	214,831.00	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek S.r.o. (Czechia)	Bratislava	SK	EUR	15,269.20	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Petruzalek S.r.o. (Czech Republic)	Breclav	CZ	CZK	2,300,000.00	-	100.00	100.00	Petruzalek Gesellschaft mbH (Austria)	Line-by-line	
Punta Ala Promozione e Sviluppo Immobiliare S.r.l.	Milan	I	EUR	1,300,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line	
Rosa Plast Due S.r.l.	Bovezzo	I	EUR	15,000.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line	
Schöffel-Lowa-Sportartikel & Co. KG	Schwabmünchen	D	EUR	1,892,216.00	-	50.00	50.00	Lowa Sportschuhe GmbH	Equity	
S.E.S. Società Editrice Sud S.p.A	Messina	I	EUR	10,695,505.08	31.10	-	31.10	Italmobiliare S.p.A.	Equity	
Sirap France SAS	Noves	FR	EUR	3,520,000.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line	
Sirap Gema S.p.A.	Verolanuova (BS)	I	EUR	5,000,000.00	100.00	-	100.00	Italmobiliare S.p.A.	Line-by-line	
Sirap GmbH	Bergheim	D	EUR	153,388.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line	
Sirap Packaging Iberica SLU	Colonia Vidal	ES	EUR	993,387.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line	
Sirap Remoulins S.A.S.	Remoulins	FR	EUR	500,000.00	-	100.00	100.00	Sirap France S.A.S.	Line-by-line	
Sirap Tarascon S.A.S.	Tarascon	FR	EUR	525,640.00	-	100.00	100.00	Sirap France S.A.S.	Line-by-line	
Sirap UK Limited	Sedgefield	UK	£	7,667,666.00	-	100.00	100.00	Sirap Gema S.p.A.	Line-by-line	
Société d'Etudes de Participations et de Courtages S.A.	Montecarlo	MC	EUR	1,290,000.00	99.98	-	99.98	Italmobiliare S.p.A.	Line-by-line	0.02
Teclor Srl	Gaivera del Montello	I	EUR	10,000,000.00	-	100.00	100.00	Tecnica Group Spa	Equity	
Tecnica Group Canada Inc	St Lauren	CA	CAD	1,000,000.00	-	100.00	100.00	Tecnica Group Spa	Equity	
Tecnica Group Germany GmbH	Jetzendorf	D	EUR	715,808.00	-	100.00	100.00	Blizzard Sport GmbH	Equity	
Tecnica Group France S.a.r.l.	Annecy le Vieux	FR	EUR	1,000,000.00	-	100.00	100.00	Tecnica Group Spa	Equity	
Tecnica Group Japan Ltd	Tokyo	JP	YEN	100,000,000.00	-	99.90	99.90	Tecnica Group Spa	Equity	
Tecnica Group USA Ski Boots Corp.	West Lebanon	USA	USD	5,800,000.00	-	100.00	100.00	Tecnica Group Spa	Equity	
Tecnica Group Schweiz AG	Zurich	CH	CHF	500,000.00	-	100.00	100.00	Tecnica Group Spa	Equity	
Tecnica Ungheria Kft	Nagykallo	H	EUR	48,352.00	-	100.00	99.00 1.00	Tecnica Group Spa Norfin S.r.l.	Equity	
Tecnica Ungheria Logistic Kft	Nagykallo	H	EUR	3,406,070.00	-	100.00	99.00 1.00	Tecnica Group Spa Norfin S.r.l.	Equity	
Tianjin Tecnica International Co. Ltd	Tianjin Port	RC	CNY	2,417,770.00	-	50.00	50.00	Tecnica Group Spa	Equity	
Tecnica Group Spa	Gaivera del Montello	I	EUR	25,000,000.00	40.00	-	40.00	Italmobiliare S.p.A.	Equity	
Universal Imballaggi Sr.l. winding up	Palermo	I	EUR	1,731,588.00	-	92.64	92.64	Sirap Gema S.p.A.	Line-by-line	7.36

ITALMOBILIARE

INVESTMENT HOLDING

Certification pursuant to art. 154-bis paragraph 5 of the Italian Consolidated Law on Finance (TUF) regarding the consolidated financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. The undersigned Carlo Pesenti, Chief Executive Officer, and Mauro Torri, Manager in charge of financial reporting of Italmobiliare S.p.A., hereby certify, also in consideration of art. 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the actual applicationof the administrative and accounting procedures adopted for the preparation of the **consolidated financial statements** during the period from January 1, 2018 to December 31, 2018.
2. The assessment of the adequacy of the administrative and accounting procedures adopted for the preparation of the consolidated financial statements as at and for the year ended December 31, 2018 is based on a model identified by Italmobiliare in accordance with the CoSO framework (illustrated in the *CoSO Report*) and also takes into account the document "*Internal Control over Financial Reporting – Guidance for Smaller Public Companies*", both issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represent a generally accepted international framework.
3. It is also certified that:
 - 3.1 the consolidated financial statements as at and for the year ended December 31, 2018:
 - a) have been prepared in compliance with the applicable International Financial Reporting Standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of July 19, 2002;
 - b) correspond to the contents of the accounting books and records;
 - c) are suitable to provide a true and fair view of the financial position, results of operations and cash flows of Italmobiliare S.p.A. and of the group of companies included in the consolidation scope;
 - 3.2 the Director's report includes a reliable analysis of the performance and results of operations, as well as of the situation of Italmobiliare S.p.A. in its capacity as an issuer, and of the group of companies included in the scope of consolidation scope, together with a description of the main risks and uncertainties to which they are exposed.

March 6, 2019

Chief Executive Officer

Manager in charge of
financial reporting

Carlo Pesenti

Mauro Torri



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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
Italmobiliare S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Italmobiliare Group (the "Group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Italmobiliare Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of Italmobiliare S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of financial assets (securities, fund units, loan assets and other equity investments)

Notes to the consolidated financial statements, paragraphs "Use of estimates", "6) Other equity investments", "7) Trade receivables and other non-current assets" and "12) Equity investments, bonds and loan assets"

Key audit matter	Audit procedures addressing the key audit matter
<p>The Group's main business activities include the acquisition, sale and holding of financial assets. At 31 December 2018, its consolidated financial statements include financial assets (securities, fund units, loan assets and other equity investments) of €809.9 million equal to 46% of total assets.</p> <p>At 31 December 2018, the Group's portfolio of financial assets measured at fair value totals €769.6 million and comprises:</p> <ul style="list-style-type: none"> — listed securities of €394.9 million, net of fair value losses of €205.6 million recognised during the year, classified at level 1 in the fair value hierarchy and almost measured at fair value through other comprehensive income (FVOCI), and — financial assets of €374.7 million, identified by directors at fair value levels 2 and 3, which do not have quoted prices in an active market. <p>Given the composition of the above-mentioned portfolio of financial assets, the Group is particularly exposed to the price fluctuation risk of listed securities measured at fair value.</p> <p>Measuring financial assets at fair value levels 2 and 3 entails a significant level of judgement by the directors, as the definition of the relevant valuation techniques and significant inputs is fairly complex.</p> <p>Considering the above, we believe that the classification and measurement of financial assets is a key audit matter.</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none"> — understanding the processes adopted for the acquisition, sale, classification and measurement of financial assets; — assessing the appropriateness of the accounting rules adopted in relation to the requirements of IFRS 9 "Financial instruments"; — checking, on a sample basis, the appropriateness of the classification of financial assets into the fair value levels; — analysing, for a sample of listed securities with fair value level 1 classified as at FVOCI, the year-end quoted prices and the recognition of fair value changes in equity (OCI); — analysing, for a sample of financial assets with fair value levels 2 and 3, the reasonableness of the valuation techniques, the significant inputs and their actual application by the directors for measurement purposes; — assessing the appropriateness of the disclosures provided in the notes about financial assets and their fair value levels.

Recoverability of the carrying amount of goodwill and intangible assets with an indefinite useful life

Notes to the consolidated financial statements, paragraphs "Use of estimates", "3) Goodwill", and "12) Intangible assets"

Key audit matter	Audit procedures addressing the key audit matter
<p>In the consolidated financial statements at 31 December 2018, intangible assets comprise goodwill of €167.1 million and the "Caffè Borbone" trademark with an indefinite useful life of €92 million.</p> <p>These intangible assets mainly derive from the acquisition of Aromatika S.r.l., now Caffè Borbone S.r.l., and the related purchase price allocation.</p> <p>The directors, assisted by an advisor, tested goodwill for impairment in order to identify any impairment losses resulting if the CGUs' carrying amount, including the related goodwill, exceeds their recoverable amount. The directors estimated the recoverable amount based on its value in use, calculated using the discounted cash flow model by discounting the cash flows that are expected to be generated by the CGUs over an explicit forecast period and in subsequent periods ("terminal value"). The criteria applied and related results were approved by the Company's board of directors on 24 January 2019 and 6 March 2019, respectively.</p> <p>For impairment testing purposes, the directors used the forecast cash flows set out in the 2019 budgets approved by the group companies' boards of directors and the relevant projections prepared by them (the "Plans").</p> <p>The trademark with an indefinite useful life has been tested for impairment in order to identify any impairment losses resulting if its carrying amount exceeds its recoverable amount. The directors estimated the recoverable amount based on their value in use, calculated using the relief from royalty method by discounting the theoretical royalties calculated on the turnover set out in the Plans that is expected to be generated by the Caffè Borbone trademark over an explicit forecast period and in subsequent periods ("terminal value").</p> <p>Impairment testing entails a high level of judgement, in addition to the uncertainty inherent in any forecast, especially in relation to:</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none"> — understanding the processes adopted for impairment testing and the preparation of the plans; — analysing the directors' review process in relation to the discrepancies between the 2018 actual data and the related previous forecasts; — analysing the reasonableness of i) the key assumptions used by the directors to determine the expected cash flows and value in use and ii) the valuation models adopted. We also compared the key assumptions used to the subsidiaries' historical figures and external information, where available — analysing the reasonableness of i) the key assumptions used by the directors to identify the trademark with an indefinite useful life and determine the related royalties and their value in use and ii) the valuation models adopted; — checking the sensitivity analysis made by the directors in relation to the key assumptions used to test goodwill and the trademark with an indefinite useful life for impairment; — assessing the appropriateness of the disclosures provided in the notes about the trademark with an indefinite useful life and the impairment test.

Key audit matter	Audit procedures addressing the key audit matter
<ul style="list-style-type: none"> — the expected cash flows and royalties, calculated by taking into account the general economic performance and that of the subsidiaries' sector and the actual cash flows in recent years; — the financial parameters to be used to discount the above cash flows. <p>Considering the above, we believe that the recoverability of goodwill and the trademark with an indefinite useful life is a key audit matter.</p>	

Assessment of pending litigation and disputes

Notes to the consolidated financial statements, paragraphs "Use of estimates" and "21) Provisions"

Key audit matter	Audit procedures addressing the key audit matter
<p>The consolidated financial statements at 31 December 2018 comprise provisions for litigation and disputes of a contractual, tax and legal nature amounting to €78.1 million. Measuring these provisions is complex and requires a high level of subjectivity and uncertainty from directors in assessing the outcome of litigation and disputes, the risk of losing and the timing for their settlement. For the above reasons, we believe that the measurement of provisions for pending litigation and disputes is a key audit matter.</p>	<p>Our audit procedures, which also involved our own tax specialists, included:</p> <ul style="list-style-type: none"> — understanding the process for measuring provisions for litigation and disputes and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls; — analysing the discrepancies between the past years' estimates of the effect of litigation and disputes and actual figures resulting from their subsequent settlement, in order to check the effectiveness of the estimation process; — sending written requests for information to the legal advisors assisting the Group about the assessment of the risk of losing pending litigation and disputes and the quantification of the related liability; — for the main litigation and disputes, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and advisors and analysis of the supporting documentation; — discussing assumptions or scenarios alternative to those used to calculate the effect of litigation and disputes and the reasons for their rejection with the relevant internal departments;

Key audit matter	Audit procedures addressing the key audit matter
	<ul style="list-style-type: none">— analysing the events after the reporting date that provide information useful for an assessment of the provisions;— assessing the appropriateness of the disclosures provided in the notes about provisions.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Italmobiliare S.p.A. for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;



- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 29 April 2010, the shareholders of Italmobiliare S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ended from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.



We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Italmobiliare S.p.A. are responsible for the preparation of the Group's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Group's consolidated financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the consolidated financial statements of the Italmobiliare Group at 31 December 2017 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob Regulation implementing Legislative decree no. 254/16

The directors of Italmobiliare S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the consolidated non-financial statement separately.

Milan, 25 March 2019

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

Directors' report

The changes in the key standards and regulations compared to 2017 are detailed in the notes in the section “Statement of compliance with the IFRS”. In accordance with the provisions of EU Regulation 1606/2002, the policies to be adopted do not include the standards and interpretations published by the International Accounting Standards Board (IASB) and by the International Financial Reporting Interpretations Committee (IFRIC) at December 31, 2018, but not endorsed by the European Union at that date. Furthermore, the European Union has endorsed additional standards/interpretations that Italmobiliare S.p.A. will apply at a subsequent time, having decided not to elect early application.

Performance indicators

To assist understanding of its financial data, Italmobiliare S.p.A. employs a number of widely used indicators, which are not contemplated by the IAS/IFRS.

In particular, the income statement presents the following intermediate indicators/results: gross operating profit (loss) and operating profit (loss), computed as the sum of the preceding items. On the statement of financial position, similar considerations apply to net financial debt, whose components are detailed in the specific section of the notes relating to IFRS 7.

Since the indicators employed by the company are not required by the IFRS, their definitions may not coincide with and therefore not be comparable to those adopted by other companies/groups.

In the notes, the section on IFRS 7 provides information on the effects of changes in interest rates and share prices on the financial position and results of operations.

Overview

Performance

The slowdown in the global economic during 2018 was generated by the manufacturing sector in Europe and China. The weakening, geographically synchronized between developed and emerging countries, was associated simultaneously with the restrictive action on interest rates by the Fed and the increase in the premium for the geopolitical risk in a number of regions. In the context of the slowdown and the downgrade in earnings growth forecasts, starting from the summer of 2018 the stock markets entered a “bear” cycle, reflected in an average 20% compression in the index valuation multiples. Over the full year, the world stock market recorded a 9.5% downturn in prices, with a particularly marked decrease in the fourth quarter. The decline was a general phenomenon, exacerbated by the emerging countries facing the appreciation of the dollar and the Chinese slowdown, and by the Eurozone market. The tensions on the Italian sovereign risk had repercussions on the Eurozone market and consequently on the national share index, which fell by 16.2%.

In this economic context, Italmobiliare S.p.A. reported a profit for the year of 19.8 million euro (102.1 million euro in 2017, generated by gains realized on the sale of BravoSolution and some shares held in HeidelbergCement and Mediobanca).

Condensed income statement

(in millions of euro)	2018	2017	% change
Revenue and income	55.0	143.4	(61.7)
Gross operating profit	1.4	105.2	(98.6)
<i>% of revenue</i>	2.6	73.3	
Amortization and depreciation	(0.6)	(0.5)	(7.8)
Operating profit	0.8	104.6	(99.2)
<i>% of revenue</i>	1.5	72.9	
Net finance costs	(0.1)	(1.2)	88.2
Impairment losses on financial assets	-	-	n.s.
Profit before tax	0.7	103.4	(99.3)
<i>% of revenue</i>	1.3	72.1	
Income tax (expense)	19.1	(1.3)	n.s.
Profit for the period	19.8	102.1	(80.6)

n.s. not significant

(in millions of euro)	December 31 2018	December 31 2017
Equity	1,230.1	1,252.1
Net financial position	344.9	307.9
Number of employees at period end	37	33

Revenue and income for the year amounted to 55.0 million euro (143.4 million euro in 2017), and consisted mainly of dividends from equity investments (23.8 million euro), gains and fair value gains on equity investments and securities (0.6 million euro), other finance income (29.9 million euro) and revenue from services provided (0.6 million euro).

Results in accordance with the financial model

Given the specific nature of the company, in order to allow a full understanding of the company's performance, the table below sets out its results in the format normally used for financial companies. The model reflects:

- "Net gains (losses) on equity investments" which includes, with regard to FVOCI equity investments, dividends received. The corresponding 2017 amount for FVOCI equity investments (formerly "available-for-sale") also includes gains and losses realized on sales of equity investments and impairment losses on these financial assets which, in under the new IFRS 9, are recognized directly in equity as from January 1, 2018. With regard to equity investments in subsidiaries and associates, the item includes both dividends and gains/losses realized on sales as well as any impairment losses. The amount for 2017 included gains/losses on derivatives on "available-for-sale" equity investments, which, under the new IFRS 9, have been reclassified under "Net gains (losses) on investments of cash and cash equivalents";
- "Net gains (losses) on investments of cash and cash equivalents", which includes interest income on bank coupons and deposits, impairment gain or losses on bonds and trading equities, gains/losses realized on the sale of trading securities, income/expense on trading derivatives and investment funds, and "net borrowing costs". "Net borrowing costs" consist essentially of interest expense on borrowings, bank commissions and costs;
- "Other income and expense", which includes personnel expense and operating expenses for the financial structure, net of amounts recovered from other Group companies or third parties.

(in millions of euro)	2018	2017	%
			change
Net gains on equity investments	23.8	122.6	(80.6)
Net gains on investments of cash and cash equivalents	0.1	6.0	(98.3)
Total finance income/costs	23.9	128.6	(81.4)
Other expense	(23.2)	(25.2)	7.9
Income tax (expense)	19.1	(1.3)	n.s.
Profit for the year	19.8	102.1	(80.6)

n.s. not significant

The company posted net gains of 23.8 million euro on equity investments, a reduction from 122.6 million euro in 2017. The change was largely due to the gain on the sale of BravoSolution S.p.A. (72.0 million euro) and of HeidelbergCement and Mediobanca's shares (28.4 million euro) in 2017. Net of these factors, dividends from equity investments increased from 22.4 to 23.8 million euro.

Net gains and losses on investments of cash and cash equivalents decrease by 5.9 million euro, mainly as a result of the negative trend on trading equities (-12.6 million euro) partly, offset in part by the positive trend in bonds (+2.7 million euro) and investment funds (+1.6 million euro).

Other income and expense amounted to 23.2 million euro, an improvement of 2.0 million euro largely as result of the reduction in personnel expense.

Income tax posting totaled 19.1 million euro (1.3 million euro expense in 2017) mainly as a result of the activation of tax benefits on prior-year tax losses and on deductible temporary differences in light of projected future taxable income from the tax consolidation.

Italmobiliare S.p.A. owns material equity investments, the majority classified at FVOCI. Fair value changes on these equity investments, and the gains/losses on sales, are recognized in equity under the “OCI reserve”, in accordance with the principles adopted by the Italmobiliare Group. At December 31, 2018, the OCI reserve was 177.4 million euro (35.0 million euro at December 31, 2017).

Results and significant events in the year

In February 2018, the merger by incorporation of Franco Tosi S.r.l. into the parent Italmobiliare S.p.A. was finalized. The merger simplifies the organizational structure of the Italmobiliare Group and improves administrative and management efficiency.

In May 2018 Italmobiliare S.p.A. completed the acquisition of L’Aromatika S.r.l. through the formation of Caffè Borbone S.p.A., of which, for an investment of approximately 143 million euro, Italmobiliare S.p.A. holds 60%; the remaining 40% is held by the founder of the Neapolitan company, the leading Italian player in compatible capsules and pods. In December, Caffè Borbone S.p.A. was merged into L’Aromatika S.r.l. (now Caffè Borbone S.r.l.) of which Italmobiliare S.p.A. holds a 60% share.

In October, Italmobiliare S.p.A. signed an agreement to purchase 40% interest in Iseo, one of Europe's leading producers of mechatronic and digital solutions access control and safety.

In November, Italmobiliare S.p.A. reached an agreement, signed in January 2019, to purchase approximately 27% of Autogas Nord, one of Italy's leading LPG players. Through the investment in Autogas Nord, Italmobiliare acquired 100% ownership of Lampogas S.r.l., a company active on the LPG distribution and sales market across northern and central Italy. Italmobiliare S.p.A. invested 60 million euro in the transaction, becoming a non-controlling shareholder of a group with a total turnover of approximately 500 million euro.

The Italmobiliare Board of Directors coopted Paolo Sfameni to replace Massimo Tononi, who was appointed chairman of Cassa Depositi e Prestiti and resigned from the board on July, 25.

Risks and uncertainties

An integrated analysis of the main risk factors and related mitigation measures was carried out during the year. A number of analyses were performed, specifically:

- a quantitative analysis of the risk level and correlation among the various companies belonging of the Italmobiliare investment portfolio as a whole;
- a top-down analysis of the main global risk factors as a frame of reference for a bottom-up analysis of the specific risk factors for the main direct investments (portfolio companies and material listed companies);
- a specific analysis to assess the actual exposure of the investment portfolio to the various country risks.

The findings showed that the main risk indicators (VaR, CVaR and recovery time) are in line with the average risk indicators of the global share index and that they are concentrated cyclical segments, especially in the construction materials segment, due to the presence of HeidelbergCement in the portfolio.

Not including this segment, risk is diversified, with a prevalence of the financial segment and the consumer goods segment.

Analysis of the portfolio correlations found that only 36% of the portfolio had a material correlation with HeidelbergCement.

With regard to the equity investment portfolio, significant exposure to potential regulatory risks was found in some segments: relatively low exposure to cyber risk and average exposure to the other identified risks (sustainability, commodity price/availability risk, technological disruption, financial/credit risk and exposure to variations in the business cycle).

Italmobiliare S.p.A. is exposed to volatility on the financial markets, which is intrinsic to its role as a diversified holding of equity investments.

Geographically the analysis of the portfolio by country registered office of the equity investment greatly overestimates portfolio exposure to the Italy country risk (59%). The NAV distribution according to the geographical diversification of the equity investments' revenue shows only a 40% exposure for Italy, while 34% of assets is concentrated in the rest of Europe and the remaining 26% in non-European countries.

The main risks to which Italmobiliare S.p.A. is exposed are described below.

Risks relating to general economic conditions

The forward-looking international economic cycle indicators suggest further weakness in the coming months, more pronounced in some areas, particularly the Eurozone, while the deceleration in the USA is curbed by domestic demand. Should the US economic downturn be confirmed as a normalization phase in the potential long-term growth trend, statistically the global slowdown would be contained in time and "magnitude": the cyclical deceleration would bottom out in the next few months, while the second half of the year would see a recovery. In this context, despite the downgrade in earnings growth, the stock markets would benefit from greater flexibility in monetary policies and valuation multiples would be supported by a stabilization in bond yields set against inflation rates anchored to the compressed dynamics that have held sway in recent years.

Nevertheless, a number of factors create uncertainty over this scenario. Specifically, the impact of the geopolitical risk in a phase of cyclical slowdown could trigger a global recession. A variety of “negotiation nodes” could heighten the fragility of the economic cycle: the US-China trade war, a no-deal Brexit, the Eurozone elections, the debt ceiling negotiations in the USA. A recessionary environment would make the high level of total world debt unmanageable in the presence of economic policies with limited countercyclical tools.

Holding company risks

Italmobiliare S.p.A., directly and through its subsidiaries, carries out investment activities involving risks arising from the difficulty of identifying new investment opportunities that respond to its objectives, or difficulty in divesting, especially in non-listed companies. The risks connected to effective management of these activities could have negative effects on the company's financial position and results of operations.

Italmobiliare S.p.A. also holds investments in listed securities. Exposure to this type of investment is part of following a core business as a long-term investor, and consequently Italmobiliare manages its equity portfolio long-term approach. Risk is monitored constantly; nevertheless, any adverse change in the share prices of its equity investments could affect its financial position and results of operations.

The results of Italmobiliare S.p.A. also depend on:

- gains and losses on equity investments if any, which characteristically are not of a periodical and/or recurring nature;
- consideration of dividends from non-controlling equity investments, whose distribution and payment policies are independent of the shareholder.

Consequently, business performance may not follow a linear and/or significantly comparable trend from one year to the next.

Italmobiliare S.p.A. is active in a variety of industrial and financial segments and is therefore exposed to the risks typical of the markets and segments in which its investees operate.

Financing risks

Access to the capital market and to other forms of financing, and related costs, depends on the company's creditworthiness and on the general economic conditions of the market and the credit system. Any downgrade in creditworthiness and/or a general credit squeeze can restrict access and raise the cost of borrowing, with negative repercussions on the company's financial position and results of operations.

The liquidity of the equity and bond portfolio may be influenced by contingent market situations that reduce market variety and efficiency. The Group is committed to maintain a high level of liquidity in its portfolio by diversifying investments, using financial instruments with systematic pricing, daily evaluation of resources using prudential approaches, and selection of counterparties on the basis of their creditworthiness and reliability. The volatility of the markets and, in particular, contractions in the variety of trading in the presence of systemic events mean, however, that there is no guarantee that divestment strategies can be executed as and when planned.

Risks of fluctuation in interest and exchange rates

A significant portion of cash is invested in bonds: although the interest-rate risk is contained by low average duration, a rise in interest rates could have a negative impact on the value of the bond portfolio.

There is limited exposure to the currency risk. Although exposure constitutes a factor of diversification of the overall risk, hedging transactions are arranged as market opportunities arise. Despite these hedges, sudden fluctuations in exchange rates could have a negative impact on the company's financial position and results of operations.

Legal and tax risks

Suitable provisions have been accrued with regard to existing legal and tax risks and their related economic effects. Estimates and measurements are based on available information and are in any case regularly reviewed, with immediate recognition of any effects in the financial statements. Nonetheless, it is not possible to exclude future negative impacts connected with these risks on the financial positions and results of operations of Italmobiliare S.p.A. and/or of its subsidiaries and associates.

Insurance

Italmobiliare S.p.A. has taken out policies with leading insurance providers to cover the main risks to people and property, as well as general third-party liability cover.

Environment

Given the nature of the company, there are no significant environmental problems.

Main financial assets of Italmobiliare S.p.A.

HeidelbergCement

In 2018 earning of the global share market for construction industry were a significantly revised downwards due to the currency instability of some emerging areas and the rise in pressure on costs (energy, transport and salaries), coinciding with the slowdown in world economic indicators. There was a material slackening in industry stocks: -23% against -9.5% for the global share index.

The greater volatility of the share price compared with competitors also affected share performance, down 40%, expanding the discount in multiples with respect to the share's historic averages and with respect to the industry.

In 2018 the share fair value fell by 190.1 million euro, from 436.1 million euro to 246.0 million euro. Net gains realized on share sales, recognized directly in the OCI reserve, amounted to 3.5 million euro; dividends received amounted to 9.2 million euro. Derivatives on the stock generated net gains of 5.9 million euro.

Mediobanca

The increased Italian sovereign risk had a particularly strong impact on the performance of the Italian banking sector, which was penalized by repercussions on capital and borrowing costs of banks and by the effects on profitability of slower economic growth .

The share price lost 22%, compared with 32% for the entire domestic and Eurozone banking sector, having benefited from a limited exposure on Italian treasury bonds, diversification of applications with respect to the country risk and a contained volume of non-performing loans.

In 2018 the Mediobanca and Fin.Priv. share fair value declined by 29.3 million euro, from 109.3 million euro to 80.0 million euro. Net gains on share sales, recognized directly in the OCI reserve, amounted to 1.5 million euro; dividends received amounted to 5.1 million euro. Derivatives on the stock generated net income of 0.5 million euro.

Jaggaer

After the sale of the BravoSolution Group to Jaggaer (SciQuest Inc.) at the end of 2017, Italmobiliare reinvested approximately 35 million euro, equivalent to about 9.5% of Jaggaer capital. The new Group, which has a complete e-sourcing offer, reported significant growth in revenue and margins, driving estimated fair value up by 21.6 million euro.

Private equity funds

The company has invested in a portfolio of selected Italian and international private equity funds to further sectorial and geographical diversify of its investments, expand of its relational network and new co-investment opportunities complementing its portfolio of direct equity investments. Specifically, in addition to being the "key investor" in the Clessidra CCPIII fund, it has positions in "US midcaps" (BDT Fund II), small Italian companies (Aksia capital IV) and venture capital funds (Isomer Capital I). The overall fair value of the private equity funds was 116.4 million euro at December 31, 2018, an increase of 7.8 million euro (9.2 million euro gross of the exchange-rate effect). The called-up amount was 20.6 million euro and reimbursements were 13.9 million euro.

Total comprehensive income

In 2018, starting from the profit for the year, other comprehensive expense 175.9 million euro (income of 54.9 million euro in 2017), mainly due to:

- fair value losses on FVOCI assets totaling 177.4 million euro, as a result of the negative performance of the stock markets;
- a positive tax effect of 1.4 million euro.

Considering the profit for the year of 19.8 million euro and the above items, 2018 total comprehensive expense amounts 156.2 million euro (157.0 million euro in 2017), largely due to the fair value losses on the equity investments in HeidelbergCement and Mediobanca.

The statement of comprehensive income is included with the consolidated financial statements schedule.

Reclassified statement of financial position

The statement of financial position at December 31, 2018 and December 31, 2017 is set out below.

(in millions of euro)	December 31, 2018	December 31, 2017
Non-current assets	18.9	19.2
Investments in subsidiaries associates	360.8	289.1
Other equity investments	403.9	599.7
Receivables and other non-current assets	171.9	119.0
Non-current assets	955.5	1,027.0
Current assets	340.2	297.1
Total assets	1,295.7	1,324.1
Equity	1,230.1	1,252.1
Non-current liabilities	42.8	49.3
Current liabilities	22.8	22.7
Total liabilities	65.6	72.0
Total equity and liabilities	1,295.7	1,324.1

Equity

Equity at December 31, 2018 decreased by 22.0 million euro from December 31, 2017, going from 1,252.1 million euro to 1,230.1 million euro. The main positive components were:

- the profit for the year of 19.8 million euro;
- the Franco Tosi merger reserve of 154.6 million euro.

The main negative components were:

- the dividend payment of 23.1 million euro approved by the General Shareholder's Meeting in April 2018;
- the decrease of 176.1 million euro in financial assets measured at FVOCI, net of the tax effect.

The company's share capital of 100,166,937 euro is represented by 47,633,800 no-par shares.

Net financial position

(in millions of euro)	December 31 2018	December 31 2017
Current financial assets	329.1	283.2
Current financial liabilities	(11.8)	(11.9)
Current net financial position	317.3	271.3
Non-current financial assets	27.6	36.6
Non-current financial liabilities	0.0	0.0
Non-current net financial position	27.6	36.6
Net financial position	344.9	307.9

The net financial position of Italmobiliare S.p.A. improved by 37.0 million euro, from 307.9 million euro at December 31, 2017 to 344.9 million euro at the end of December 2018. The merger for incorporation of the subsidiary Franco Tosi had a positive effect of 241.3 million euro on Italmobiliare's financial position, offset almost in full by capital expenditure: the share capital increase at Sirap-Gema S.p.A. (10.0 million euro), the investment in Caffè Borbone S.r.l. (143.2 million euro) and the investment in Iseo (42.6 million euro).

Transactions on equity investments

For details on transactions on equity investments, reference should be made to the consolidated Directors' report, in the section "Significant events in the year".

At December 31, 2018, the company had 5,685,870 treasury shares, representing 11.94% of the share capital (down from 5,690,870 treasury shares at December 31, 2017).

During 2018, a total of 5,000 options were exercised, for the purchase of a corresponding number of Italmobiliare ordinary shares, under stock options granted in previous years.

Research and development

Given its nature, Italmobiliare S.p.A. does not undertake any research and development project.

Human resources and information on personnel

At December 31, 2018, the number of people employed at Italmobiliare S.p.A. was 37 (33 at the end of December 2017).

Transactions with related parties

Italmobiliare S.p.A. transactions with related parties concerned:

- the subsidiaries of Italmobiliare S.p.A.;
- other related parties.

Transactions with related parties reflect Italmobiliare S.p.A.'s interest in leveraging the synergies within the Group to integrate services, employ competences efficiently and rationalize use of corporate divisions and financial resources.

No atypical or unusual transactions took place in 2018 as defined by Consob Communication no. DEM/6064293 of July 28, 2006.

All transactions with related parties, whether for the exchange of goods and services or of a financial nature, are conducted at normal market conditions and in compliance with the Code of Conduct.

Analytical data on transactions with related parties and the impact of such transactions on the company's financial position and results of operations are set out in the notes.

As part of the actions taken on corporate governance, Italmobiliare S.p.A. has adopted the "Procedure for transactions with related parties" illustrated in the "Corporate governance".

Transactions with subsidiaries, associates and their subsidiaries of such companies

Italmobiliare S.p.A. provides administrative, fiscal and legal services to subsidiaries and their investees with no specific internal competences.

In addition, it has relations with some subsidiaries involving the exchange of services. Specifically:

- through its legal service, Italmobiliare S.p.A. provided group companies with specific assistance and leased a number of properties it owns to subsidiaries;
- Italmobiliare Servizi S.r.l. provided Italmobiliare S.p.A. and some of its subsidiaries with IT support services and some general services.

Italmobiliare S.p.A. provides Financial guidance and assistance for some subsidiaries with regard to financing and the issue of guarantees, and optimizes cash management through current accounts and intragroup loans.

Financial intragroup transactions are conducted at normal market conditions; services are generally regulated on the basis of costs of service provided.

Domestic tax consolidation

2018 was the third tax year of the 2016/2018 three-year period of the Italian tax consolidation system envisaged by art. 117 et seq. of the Consolidated Income Tax Act (*TUIR, Testo Unico delle Imposte sui Redditi*), renewed in 2016 by the parent Italmobiliare S.p.A. – which acts as the parent-consolidating company – and by some directly controlled subsidiaries

In February 2018 the Franco Tosi S.r.l. company was merged into Italmobiliare S.p.A. For accounting and tax purposes, the merger was effective retroactively as from January 1, 2018.

The current scope of the domestic tax consolidation comprises the following consolidated subsidiaries:

- Sirap Gema S.p.A.;
- Punta Ala Promozione e Sviluppo Immobiliare S.r.l.;
- Italmobiliare Servizi S.r.l.;
- Italgen S.p.A.;
- Clessidra S.G.R. S.p.A.

Economic and financial relations among the directly consolidated companies, connected with and arising from participation of the tax unit and from management of the tax consolidation scheme described above are governed by a special “Regulation for implementation of infragroup relations arising from participation in the domestic tax consolidation scheme”, signed by each of the companies concerned.

The tax consolidation will be renewed for the 2019-2021 three-year period, and will include the new subsidiary Caffè Borbone S.r.l.

Transactions with other related parties

Transactions with other related parties concerned:

- legal consultancy and assistance on judicial and extrajudicial matters provided to Italmobiliare S.p.A. by the Gattai Minoli Agostinelli & Partners law firm, of which the director Luca Minoli is a partner, for fees totaling 396,866 euro (of which 241,630 euro capitalized for the purchase of the equity investment in Caffè Borbone);
- payment of insurance policy premiums to Assicurazioni Generali S.p.A., of which Clemente Rebecchini is a director, for fees of 15,683 euro;
- trust management services on securities and assets by Compagnia Fiduciaria Nazionale for considerations totaling 9,750 euro;
- a donation of 500,000 euro to the “Fondazione Cav. Lav. Carlo Pesenti”, whose Board of Directors is chaired by Carlo Pesenti.

Fees paid are in line with market conditions for the type of professional service provided.

The equity investments held by Directors, Statutory Auditors, the General Manager, and the manager in charge of financial reporting in Italmobiliare S.p.A. and subsidiaries, as well as their remuneration for the positions they hold in the Group, are set out in the Remuneration Report.

Highlights at December 31, 2018 for transactions with related parties are provided in the notes.

Fondazione Cav. Lav. Carlo Pesenti

The foundation was established in 2004 and is named after Carlo Pesenti (1907-1984), Cavaliere del Lavoro one and of the protagonist of Italian industry and finance in the twentieth century. Its areas of activity (besides the traditional interest in safeguarding Italy's historical and artistic heritage, scientific-educational programs, divulgatory congresses and publications, humanitarian and social solidarity projects) aim to promote and support initiatives with a positive impact in creating new enterprises with significant social content, led primarily by the new generations. The foundation's commitment is to consolidate its position as a true local resource with an international profile, skilled in using an entrepreneurial approach for the development of economic and social initiatives.

The Board of Directors in office for three years as from July 25, 2016, is as follows:

- Carlo Pesenti (chair)
- Giovanna Mazzoleni (deputy chair)
- Italo Lucchini
- Giorgio Barba Navaretti
- Ferruccio De Bortoli
- Matteo Kalchschmidt
- Marco Imperadori
- Donato Masciandaro

Giampiero Pesenti is Honorary Chair of the foundation; the Secretary General is Sergio Crippa, who is responsible for management of the organization's operations.

The foundation's main activities are:

- **Education, training and scientific research.** Collaboration continued with the University of Bergamo on the "Bergamo 2.035 – Real Cities – Smarter Citizens" project promoted with Harvard University Graduate School of Design. The edition completed in June 2018 (academic year 2017/2018) examined the theme of "Technological Longevity"; the focus for academic year 2018/2019 is "The Future of Air Travel". Beginning in 2018, collaboration with the University of Bergamo also included support from the Fondazione Pesenti for the "Start Cup Bergamo" initiative. With the Bocconi University, the foundation continued its support (for the three years 2018/20) for the university's "Una sfida possibile" project, and began collaboration to assist 3 new companies/start-ups as part of the "Speed Mi Up" project. Support also continued for the Milan Politecnico Graduate School of Business. A project was launched with the University of Brescia/MISTRAL center to set up a scholarship named after Silvestro Capitanio, a prominent figure in the Group, in the three-year degree course in Environmental and Workplace Prevention Techniques. With the Milan State University, support was launched (planned for three years) for the winner of the fellowship promoted by the Fondazione Pesenti, with research in the area of behavioral economics. An agreement was also reached with the SIE (Società Italiana degli Economisti) to support the Gender Commission's projects for the three years 2018-20. In science and education, in addition to the customary contribution to the projects of BergamoScienza, support was provided for the Intercultura association, with three scholarships awarded to outstanding students in Bergamo and the surrounding province for a year-long scholastic program in the USA and Germany, and three summer scholarships in Ireland, for Italmobiliare Group employees' children. Support continued for the Amici della Pediatria association, which began in 2014 with the creation of a scholarship for medical studies in pediatrics, named for Franca Natta Pesenti.

- **Enhancement of art and culture** In addition to the customary annual support to the “Fondazione Bergamo nella Storia”, contributions were made to publishing initiatives promoted by the “Fondazione per la Storia Economica e Sociale di Bergamo” and the “Amici della Scala association”. The Foundation also sponsored an important exhibition organized by the Carrara Academy, “Raffello e l’eco del mito”, which, two years ahead of the celebrations to mark the 500th anniversary of his death, looked at Raphael from his early years through to references to his work in contemporary art.
- **Cultural events and conferences** The Foundation continued its activities to bring people, especially younger generations, closer to classical music, with the support to the “Festival Pianistico Internazionale di Brescia e Bergamo” and the “Festival Internazionale dei Concerti d’Autunno”. “*Molte Fedi sotto lo stesso cielo. Beati i Costruttori*” is the title of a series of meetings promoted by the ACLI Christian workers associations to promote the culture of inclusion, to which the foundation made a contribution with other local groups and associations. In 2018 an important cooperation agreement was built with the Fondazione Corriere della Sera. The new strategic initiative intends to promote a series of meetings on current issues, enhanced renewed mission of the Fondazione Pesenti. This agreement has enabled the Fondazione Pesenti to make a significant change in its organizational approach to these events, increasing the number from one to four per year and considering the possibility to organize at least one “itinerant” event each year, with the partnership in which both foundations are engaged in publicizing their initiatives beyond the area in which they have operated so far. The four meetings organized in 2018 were: “*Bit Generation. Criptovalute tra tecnologia, legalità e libertà*”, March 15 in Milan; “*L’Utopia Sostenibile*”, May 30 in Milan; “*Scuola e Lavoro. Cosa ci devono chiedere i giovani*”, October 11 in Bergamo; “*Grandi rischi. Sempre più emergenza*”, December 13 in Milan.
- **Humanitarian and social support initiatives.** Initiatives promoted in 2018 included support for the Giorgio Ambrosoli civil association on the organization of the “Giornata della Virtù Civile 2018”, support for the work of the Vidas association, and a contribution to the humanitarian and social support initiatives of the Amref Onlus, Cometa Onlus, Costa Family Foundation and Flying Angels associations.
- **Charity.** Support continued for the “Viaggio della Parola” initiative promoting the re-location of the signage of the Holy See’s pavilion at the 2015 Milano Expo. This project was joined by numerous charity initiatives to support the Bergamo area, with particular reference to assistance to local organizations and residents.

Outlook

For more information on the outlook for Italmobiliare S.p.A., please refer to the consolidated Directors’ report on Group operations.

**Report On Corporate Governance and Ownership Structure
Year 2018
Traditional Administration and Control Model
Approved by the Board of Directors on March 6, 2019**



REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE YEAR 2018

This report on corporate governance and ownership structure (the "**Report**") describes the corporate governance system adopted by Italmobiliare S.p.A. ("**Italmobiliare**" or the "**Company**")

The Report contains information on the ownership structure and methods for applying the Corporate Governance Code for listed companies promoted by the Corporate Governance Committee (the "**Corporate Governance Code**" or the "**Code**," available on the Borsa Italiana website at <https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>), to which the Company adheres.

The Report also sets out the reasons for the non-application of those recommendations of the Code that the Company's Board of Directors (the "**Board of Directors**") decided not to adopt, describes the corporate governance practices actually applied and provides a description of the main characteristics of the internal control and risk management system adopted by Italmobiliare (the "**Internal Control and Risk Management System**" or "**ICRMS**"), also in relation to the financial and non-financial reporting processes.

The Report refers to the financial year ended on December 31, 2018 and is nevertheless updated with the most significant events that occurred up to the date of its approval.

I. GENERAL INFORMATION AND OWNERSHIP STRUCTURE

Issuer Profile

Founded in 1946 and listed on the Milan stock exchange since 1980, Italmobiliare is an investment holding that holds and manages a diversified investments and equities portfolio with a strategic vision backed by a financial and industrial history of over one hundred and fifty years. The Company plays an active and continuous role in the process of growing and enhancing its portfolio, combining development, internationalisation and innovation with an effective governance and risk management model.

Italmobiliare adopts a traditional governance model, characterised by the presence of a Board of Directors and a Board of Statutory Auditors ("**Board of Statutory Auditors**"), both appointed by the shareholders' meeting (the "**Shareholders' Meeting**"), deeming this corporate governance system the most suitable to combine "efficient management" with "effective controls" and at the same time to seek to satisfy the interests of Italmobiliare's shareholders (the "**Shareholders**") and enhance management value.

The Company's Corporate Governance system is defined not only by the Bylaws (the "**Bylaws**") but also by the set of the following documents, codes and internal regulations:

- a) the organisation, management and control model pursuant to Legislative Decree 231/2001 and the Ethics Code;
- b) the procedure for the management of relevant and inside information.
- c) the code of conduct on internal dealing;
- d) the related party transactions procedure
- e) the insider list procedure
- f) the market sounding procedure;
- g) the regulations of the manager in charge of preparing the company's financial reports ("**Manager in Charge**").

The texts of the above mentioned documents are available on the Company's website, except for: (i) the Regulations of the Manager in Charge, made available to the members of the Board of Directors (the "**Directors**" or "**Board Directors**") and the Board of Statutory Auditors (the "**Statutory Auditors**"), the Manager in Charge and the Heads of Finance, Administration and Control of the group companies headed by Italmobiliare (the "**Group**") through distribution in electronic format; and (ii) just the Special Section of the Organisation, Management and Control Model, made available to the Directors, Statutory Auditors and all employees of the Company electronically.

Information on the ownership structure pursuant to Art. 123-bis of the Consolidated Law on Finance (CLF)

a) Share capital structure, indicating the various share categories, related rights and obligations, as well as the percentage of share capital represented

The share capital of Italmobiliare amounts to euro 100,166,937, fully subscribed and paid in, divided into 47,633,800 ordinary shares without a nominal value, with the right to vote at the Company's ordinary and extraordinary Shareholders' Meeting. The shares are listed on the electronic share market (Mercato Telematico Azionario - MTA) – Borsa Italiana.

Each share gives entitlement to one vote. Holders of Italmobiliare shares may vote at the ordinary and extraordinary Shareholders' Meetings of the Company and exercise the corporate and equity rights attributed to them by current legislation, in compliance with the law and Bylaws. The Company has not currently issued savings shares nor other categories of shares other than ordinary shares.

As of today, there is no stock option plan in force. Moreover, on the basis of the plans approved in the past, served by treasury shares in the Company's portfolio, as of today there are 360,700 exercisable stock options.

b) Restrictions on share transfers

No restrictions exist on share transfers, such as limits to the possession of shares or acceptance clauses, by the Company or other shareholders.

c) Significant shareholders as disclosed pursuant to Article 120 of the CLF (Consolidated law on finance)

Below is a list of the Shareholders with major shareholdings above 3% of the share capital at the date on which the Report was approved, as per the communications received pursuant to art. 120 of the CLF and the other information in the possession of the Company.

RELEVANT SHAREHOLDINGS			
Shareholder	Number of shares	% of share capital	% of voting capital
Efiparind B.V. (indirectly and through Compagnia Fiduciaria Nazionale S.p.A)	20,969,250	44.022%	49.989%
Serfis S.p.A.	4,765,000	10.003%	11.359%
Mediobanca S.p.A.	2,894,044	6.076%	6.899%
First Eagle Investment Management, LLC	1,780,034	3.737%	4.243%
Italmobiliare S.p.A. (treasury shares)	5,685,870	11.937%	

d) Shares that confer special control rights

No shares conferring special control rights have been issued.

There are no special powers and the Bylaws do not provide for shares with multiple or increased votes.

e) Employee shareholdings: mechanism for exercising voting rights

There is no specific shareholdings' system for employees.

f) Restrictions on voting rights

There are no restrictions on the exercise of voting rights.

g) Shareholders' agreements pursuant to Article 122 of the CLF, of which the company is aware

As far as the Company is aware, there are no agreements of any kind regarding the exercise of voting rights assigned to the shares and the transfer of such shares or any of the situations envisaged by Art. 122 of the CLF.

h) Change of control clauses and By-laws provisions on takeover bids

The Company and some of its subsidiaries have signed loan agreements which, according to normal business practice, grant the lender, should the control of the Company change, the right to withdraw from or terminate the loan agreement in advance, with the consequent power to demand the remaining financed capital and the interest accrued, or, in the case of derivative-based agreements, the right to terminate the outstanding derivative agreements.

The Bylaws, with regard to public tender offers, do not derogate from the provisions of the CLF in relation to the passivity rule or application of the neutralisation rules.

i) Authority to increase the share capital and authorizations to purchase treasury shares

There are no mandates for share capital increase.

The Shareholders' Meeting of April 18, 2018 resolved to authorise, pursuant to and for the purposes of art. 2357 of the Italian Civil Code, the purchase of ordinary shares of the Company, in one or more tranches, for a period of 18 months with effect from the date of the resolution, up to a maximum number that, taking account of the Italmobiliare S.p.A. treasury shares held on each occasion in the portfolio by the Company and by its subsidiaries, does not exceed the maximum number specified in the law applicable at the time, giving a mandate to the Board of Directors to identify the number of shares to be purchased before starting each of the individual purchase programmes.

At the date of this report the Company holds 5,685,870 treasury shares, acquired under the authorisations previously approved by the shareholders' meeting.

The Shareholders' Meeting convened on April 17, 2019 for the approval of the 2018 financial statements shall also resolve upon: the renewal of the authorisation to buy back and dispose of treasury shares; the cancellation of 5.133.800 treasury shares, with no reduction of the issued share capital.

l) Management and coordination activity

On the basis of the information and disclosures received from the Company pursuant to art. 120 of the CLF, Efi-parind B.V. has an indirect stake in Italmobiliare of 44% of the voting share capital through the subsidiaries Cemital S.p.A., Privital S.p.A., Finanziaria Aureliana S.p.A. and through the nominee trust company Compagnia Fiduciaria Nazionale S.p.A.

On February 14, 2019 the Board of Directors assessed that neither Efi-parind B.V. nor any other bodies or companies exercise direction and coordination over Italmobiliare pursuant to articles 2497-2497-septies of the Italian Civil Code. In fact:

(a) Italmobiliare does not receive from companies or bodies in the investment chain that leads to Efi-parind BV any instructions, directives or constraints regarding the preparation or approval of business, financial or strategic plans, or regarding the approval of budgets or the definition of investment or divestment plans, or regarding the choice of counterparties with whom to perform its business activities;

(b) Italmobiliare is not part of any industrial or financial policy or practices performed under the direction or through the coordination of companies or bodies of the aforementioned investment chain, such as, by way of example, the sharing of financial or treasury functions (*cash pooling*), tax (tax consolidation) or similar functions;

(c) there is no trace of any contractual relations in place or that have been in place between the Company and other companies or bodies in its investment chain, nor with other companies or bodies subject to control by, or connected to, companies or bodies in the aforementioned investment chain;

(d) there is no trace of requests for prior approval, by companies or bodies included in the aforementioned investment chain, of ordinary or extraordinary transactions completed or the completion of which has been assessed by the Company;

(e) the Company has not received any policies, regulations or organisational charts from companies or bodies belonging to the aforementioned investment chain;

(f) there is no commonality of executive directors among companies or bodies belonging to the aforesaid investment chain and Italmobiliare; incidentally, the commonality of non-executive directors is reduced to one sole director out of the 14 making up the Board of Directors of Italmobiliare, Luca Minoli, who has not been conferred powers in Italmobiliare or in any of the three companies Cemital S.p.A., Privital S.p.A. and Finanziaria Aureliana S.p.A. on whose Boards of Directors he sits.

It is specified that the information required by article 123-bis, first subsection, letter i) on the agreements between the Company and the directors which provide for compensation in the case of resignation or dismissal without just cause or if their employment relationship is terminated following a public tender offer are contained in the remuneration report published pursuant to art. 123-Ter of the CLF.

The information required by article 123-bis, first subsection, letter l) on the appointment and replacement of directors and the amendment of the Bylaws is outlined below, in the section on the Board of Directors in this Report.

II. BOARD OF DIRECTORS

Role and Duties

The Board of Directors has the task of defining the strategic guidelines of the Company and of the Group and is responsible for the management. It is vested with all the powers for the ordinary and extraordinary administration of the Company, since all matters not expressly reserved for the Shareholders' Meeting by law and the Bylaws fall under its remit.

In addition to the powers bestowed on it by law and the Bylaws, resolutions on the following matters are referred to the remit of the Board of Directors, without prejudice to the concurrent remit of the Shareholders' Meeting: the incorporation of companies that are wholly owned or at least 90% owned; transfer of the registered offices, provided that this occurs within Italy; the establishment or closure of branches, both in Italy and abroad; reduction of share capital in the case of withdrawal by a shareholder; amendment of the Bylaws to comply with mandatory regulatory provisions.

The examination and approval of the Company's strategic plans and the regular monitoring of their implementation are reserved to the Board of Directors.

The Board of Directors is also responsible, *inter alia*, for *i)* assessing the overall operating performance; *ii)* assessing the adequacy of the organisational, administrative and accounting structure with particular reference to the Internal Control and Risk Management System supervised by the Director in Charge, *iii)* defining the Company's corporate governance system, *iv)* assigning powers to the Executive Directors and *v)* defining the remuneration policy for Executive Directors and key management personnel as well as determining the remuneration of Directors vested with special powers. The Board of Directors resolves on transactions of significant strategic, economic, equity or financial

importance for Italmobiliare, implemented not only by the Company itself but also by the subsidiaries, and on transactions with related parties, according to the terms of the specific procedure adopted by the Company and in compliance with the processes specified therein.

The Board of Directors, on the basis of information received during the financial year and reports received from the CEO and the Risks and Sustainability Committee, has acknowledged the essential adequacy of the organisational, administrative and accounting structure of the Company, with particular reference to the internal control and risk management system.

The Directors act and make decisions on an informed basis and independently pursuing the primary objective of creating value for Shareholders. They hold their office dedicating the necessary time for the diligent performance of their duties.

The Chairman, or if she is absent, the Deputy Chairman, coordinates the activities and conducts the meetings of the Board of Directors and ensures that the documentation relating to items on the agenda is disclosed to the Directors and Statutory Auditors properly in advance, when there are no grounds for confidentiality such so as not to permit advance distribution of the material.

The Board of Directors has established that support documentation, outlining the items on the agenda of meetings, must be sent at least two days before the meeting. This minimum period was complied with in 2018; only in limited cases, for confidentiality reasons, was the support documentation made available within a shorter period or at the board meeting, during which all the clarifications were then provided and the adequate in-depth analyses ensured to allow the Board to resolve in an informed manner. When the material is particularly complex, specific explanatory notes prepared by the company departments are also sent in order to facilitate the adoption of resolutions by the Directors.

As recommended in the communication from the Chairman of the Corporate Governance Committee dated December 21, 2018, at the meeting on February 14, 2019 the Board of Directors made a specific assessment of the information provided prior to the Board Meeting which was deemed adequate.

The Board of Directors meets regularly at least quarterly to approve the annual and half-year financial reports and the quarterly data relating to the additional periodic information. At those meetings, the delegated bodies report on the activities performed by virtue of their respective powers. In any case, pursuant to the Bylaws, the Board of Directors shall meet each time it is deemed necessary by the Chairman, or the person acting in place of the Chairman, or at the request of each Statutory Auditor after notifying the Chairman of the Company.

The Board of Directors, during the examination and approval of the accounting situations for the period, in light of the information received by the delegated bodies, assesses the overall operating performance by comparing the results achieved with those planned during the definition of the annual budget.

The Shareholders' Meeting has not authorised a derogation from the competition prohibition pursuant to art. 2390 of the Italian Civil Code nor is one provided for in the Bylaws. Moreover, no Director is an unlimited liability shareholder in a competitor company, operates a competitor business for themselves or on behalf of third parties, or is a director or general manager in competitor companies.

The Board of Directors, over the course of the financial year 2018, held ten meetings in the presence of the Board of Statutory Auditors with an average duration of over three hours; the attendance percentages of the individual Board Directors are indicated in the table set out at the end of this Report. Nine Board of Directors meetings were attended by all the members of the Board of Statutory Auditors; one Statutory Auditor was absent from one meeting.

During the financial year, all the Board of Directors meetings were attended by the Manager in Charge, the assistant to the CEO and the Head of Corporate Affairs. The Head of Investments Management, the Head of IR, the Head of Legal Affairs, the Head of Internal Audit, the managers of the Development and Investments Department, the Head of Finance and Treasury, and the Head of Human Resources also attended, for the areas within their remit.

In December 2018, the Company released the calendar of corporate events for the year 2019, which is available on the website www.italmobiliare.it. In 2019, until approval of this Report, the Board of Directors met three times.

Appointment and replacement of the directors

Directors are appointed by the Shareholders' Meeting on the basis of slates submitted by the Shareholders.

The slates must be filed at the registered offices at least 25 days prior to the date set for the Shareholders' Meeting in a single call; this is mentioned in the call notice along with the procedures and shareholding required for their submission.

Only Shareholders who, alone or together with others, own a stake in the share capital with voting rights no lower than that set by Consob pursuant to current regulations are entitled to present slates. No shareholder may file or participate in the filing of more than one slate, directly or through a nominee or trust company, or vote for different slates. Shareholders belonging to the same group and shareholders who join a shareholders' agreement on the Company shares may not file or vote for more than one slate, not even through a nominee or trust companies. Slates filed in violation of these restrictions will not be accepted. Each candidate may be on one slate only under penalty of ineligibility.

Pursuant to the By-laws, the slates that have a number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that one or the other gender may be represented by at least one third (rounded upwards) of the candidates.

At the time of their filing, slates must include:

- a) the statements in which the individual candidates accept their candidacy and declare, under their own responsibility, that there are no grounds for ineligibility, that they possess the integrity requirements established by law, and whether they possess the requirements of independence envisaged by law and in the Code. With reference to this last aspect, it is specified that in the past this principle was contained in the Corporate Governance Code and that the Board of Directors deemed it appropriate to maintain it;
- b) a brief curriculum on the personal and professional skills of each candidate with an indication of their position as director and statutory auditor in other companies;
- c) information on the identity of the shareholders who have presented slates. The certification or statement proving ownership of the shareholding prescribed by the law in force when the slate is presented may also be produced after the filing of the slate provided that it reaches the company within the term envisaged by the regulation in force for the publication of slates by the Company;
- d) a statement by the shareholders who do not hold, even jointly, a controlling or majority stake, bearing witness to the absence of any connection, as defined by the law in force.

The Bylaws do not set integrity and independence requirements additional to those laid down for Statutory Auditors in the CLF. Any Director elected who, during their term of office, ceases to hold the integrity requirements set by law or the Bylaws shall be debarred from holding office.

A number of Directors that is not less than the minimum amount required by law must possess the independence requirements provided under current legislation.

If the slate filed does not comply with the above provisions will be considered as not presented.

At least 21 days prior to the date set for the Shareholders' Meeting called to resolve on the appointment of the management bodies, the Company shall make the slates of candidates filed by shareholders and the relative documentation available to the public at the registered offices, the market management company and on its website.

In the event of filing of more than one slate:

- a) all the Directors are elected from the slate that obtains the highest number of votes at the Shareholders' Meeting, in the order in which they are listed, except for the minimum number reserved by law for the minority shareholders' slate;
- b) the minimum number of Directors reserved by law to minority shareholders are elected from the minority shareholders' slate that obtains the highest number of votes and is not connected in any way, directly or indirectly, with the majority shareholders;
- c) should more than one slate obtain the same number of votes, a runoff is held on these slates among all the shareholders present at the Shareholders' Meeting, and the candidates are elected from the slate that obtains the majority of the share capital represented at the Shareholders' Meeting.

For the purposes of the apportioning of the Directors to be elected, the slates that have not achieved a percentage of votes at least equal to half of the percentage required for the presentation of slates will not be considered.

Should a party connected to a majority shareholder vote for a slate of the minority shareholders, the connection is significant for the purposes of excluding the minority shareholders' elected Director only if this vote was crucial for the election of said Director.

Should a single slate be presented, all the candidates included in that slate are elected with a simple majority vote of the share capital represented at the Shareholders' Meeting.

If as a result of the voting based on slates or the voting on the only slate presented, the composition of the Board of Directors does not meet the current regulations regarding gender balance, the necessary replacements will be carried out within the slate that has obtained the highest number of votes or within the only slate presented, starting from the candidate in the last place of the same slate. Subsequently, if compliance with the requirement concerning the balance between genders is not ensured in the minimum number required by law, there will be similar replacements, again within the slate that has obtained the highest number of votes, or within the only slate presented.

In the absence of slates, and whenever by means of the slate voting mechanism, the number of candidates elected is lower than the minimum number envisaged by the By-laws for its composition, the Board of Directors is respectively appointed or supplemented by the Shareholders at their meeting with the legal majority, provided that the gender balance set forth by current legislation in force is ensured and at least the minimum number of Directors holding the independence qualification required by the law is guaranteed.

If during the year one or more Directors should cease to hold office, due to resignation or any other reason, the others shall make provision to replace them with a resolution approved by the Board of Statutory Auditors, provided that the Directors appointed by the Shareholders' Meeting continue to constitute the majority. Directors are replaced, in compliance with the above requirements of good reputation and independence, with the appointment of unelected candidates belonging to the same slate as the Directors who no longer serve, following the original order of presentation. Should this not be possible, the Board of Directors will act pursuant to the law. All this, in any case, in compliance with the current regulations on gender balance. Directors appointed in this manner hold office until the following Shareholders' Meeting.

The Shareholders' Meeting resolves upon the replacement of Directors, in compliance with the above principles, with a simple majority of the share capital represented at the Shareholders' Meeting. The term of office of Directors appointed this way will end at the same time as that of the Directors serving at the time of their appointment.

No limits are set on the re-electability of Directors even if having held the same office for more than nine years in the last twelve years could represent a non-peremptory reason for exclusion from the independence requirement pursuant to the Code.

During the last renewal of the corporate bodies, the Board of Directors decided not to give shareholders guidelines on the managerial and professional figures whose presence was deemed appropriate.

Composition

The Bylaws state that the Company shall be governed by a Board of Directors made up of between five and fifteen members, who shall remain in office for the period established at the time of appointment, in any case not exceeding three financial years, and shall cease to hold office on the date of the Shareholders' Meeting called to approve the financial statements relating to the last financial year of the term of office, and they can be re-elected.

The Board of Directors currently in office, appointed by the Shareholders' Meeting on April 19, 2017 up until approval of the financial statements at December 31, 2019, is made up of fourteen members. The Shareholders' Meeting also appointed Giampiero Pesenti as honorary Chairman, highlighting his fifty years of passionate service dedicated to the Company. The honorary Chairman was not assigned powers, executive duties or remuneration. He is not a member of the Board of Directors.

For details on the composition of the Board and participation at Board and Committee meetings, refer to the table provided as an annex to this Report.

At the Shareholders' Meeting in 2017 eleven of the fourteen Directors currently in office were selected from the slate submitted by the majority shareholder Compagnia Fiduciaria Nazionale S.p.A.: Laura Zanetti, Carlo Pesenti, Livio Strazzerà, Vittorio Bertazzoni, Giorgio Bonomi, Mirja Cartia d'Asero, Valentina Casella, Sebastiano Mazzoleni, Luca Minoli, Chiara Palmieri, and Clemente Rebecchini. Antonio Salerno was selected from the minority slate submitted by RWC Asset Management LLP. Elsa Fornero was co-opted by the Board of Directors on July 27, 2017, following the resignation of Livia Pomodoro, and subsequently confirmed by the Shareholders' Meeting on April 18, 2018 at the proposal of the Board of Directors. Finally, following the resignation of Massimo Tononi, on July 25, 2018, the Board of Directors meeting of July 31, 2018, in compliance with the provisions of article 16 of the Bylaws, co-opted Paolo Domenico Sfameni, whose appointment shall expire with the approval of the financial statements at December 31, 2018. As Mr Sfameni was in fact the first and only candidate not elected from the majority slate submitted by Compagnia Fiduciaria Nazionale S.p.A. at the Shareholders' Meeting in 2017, he took over from the outgoing Massimo Tononi who was also selected from the same slate. The Board of Directors, at the meeting on March 6, 2019, resolved to propose that the Shareholders' Meeting confirm Mr Sfameni.

When the corporate bodies were renewed in 2017, the minimum stake in the capital established by CONSOB required to submit a slate was 1%. The slates and relative support documentation, filed and published within the deadlines set by law during the nomination, are available on the website www.italmobiliare.it in the "Governance/Shareholders' Meeting/Shareholders' Meetings Archive/2017" section.

The curriculum vitae of each director is available in the "Governance/Organization" section of the website www.italmobiliare.it and also provided in the incipit of the Annual Financial Report. The offices held by the same in other listed, financial, banking and insurance companies or companies of significant size are indicated in the following sections of the Report.

Of the fourteen Directors in office, thirteen are non-executive; seven of the latter are independent pursuant to both the CLF and the Code, and three are independent pursuant to the CLF only. In compliance with the provisions on gender quotas, one third of the positions are reserved for the less represented gender.

The composition of the Board of Directors at the date of approval of this Report, specifying the office held and membership in Committees, is indicated below.

Laura Zanetti*	Chairman, and Chairman of the Executive Committee
Livio Strazzera*	Deputy Chairman, and member of the Executive Committee
Carlo Pesenti	Chief Executive Officer – Chief Operating Officer and member of the Executive Committee
Vittorio Bertazzoni**	Member of the Remuneration and Nomination Committee
Giorgio Bonomi	Member of the Risks and Sustainability Committee
Mirja Cartia d’Asero**	Chairman of the Risks and Sustainability Committee and member of the Committee for Transactions with Related Parties
Valentina Casella**	Chairman of the Committee for Transactions with Related Parties and member of the Risks and Sustainability Committee
Elsa Fornero**	Member of the Committee for Transactions with Related Parties
Sebastiano Mazzoleni	
Luca Minoli	Member of the Executive Committee
Chiara Palmieri**	Member of the Remuneration and Nomination Committee and member of the Executive Committee
Clemente Rebecchini*	
Antonio Salerno**	
Paolo Sfameni**	Chairman of the Remuneration and Nomination Committee

* Director in possession of the independence requirements as laid down in the CLF

** Director in possession of the independence requirements as laid down in the CLF and the Corporate Governance Code

Diversity policies

The composition of the Board of Directors has evolved over time in accordance with best practices, in order to ensure adequate representation in terms of experience, age and gender. The Company has not approved specific diversity policies relating to the composition of the Board of Directors and the Board of Statutory Auditors but, in light of the recommendations of the Code, it reserves the right to assess this aspect in the broader context relating to the adoption of a Group policy on sustainability, and this also in view of the renewal of the corporate bodies scheduled to take place in 2020.

Limits on the accumulation of appointments and offices of the directors

The Board of Directors, with a view to efficiency and clarity, with a resolution passed on March 6, 2018, set the maximum number of offices held in listed companies in regulated markets, even foreign, as four, including the office in Italmobiliare S.p.A., excluding the companies of the Italmobiliare Group, which can be considered compatible with the efficient performance of the office of Director and Statutory Auditor of Italmobiliare. All the Directors and Statutory Auditors comply with this limit.

The offices as Director or Statutory Auditor held by each Director in other listed companies in regulated markets, even foreign, as well as financial, banking and insurance companies or companies of significant size, are set out below:

Laura Zanetti	Italgas S.p.A.	Standing Auditor
Livio Strazzerà	Serfis S.p.A.	Sole Director
Carlo Pesenti	Clessidra SGR S.p.A.	Chairman
	Tecnica Group S.p.A.	Director
Vittorio Bertazzoni	Erfin S.p.A.	Deputy Chairman and CEO
	SMEG S.p.A.	Deputy Chairman and CEO
Mirja Cartia d'Asero	FNM S.p.A.	Director
Elsa Fornero	Buzzi Unicem S.p.A.	Director
	Centrale del Latte d'Italia S.p.A.	Director
Luca Minoli	Cemital S.p.A.	Chairman
	Finanziaria Aureliana S.p.A.	Chairman
	Privital S.p.A.	Chairman
Chiara Palmieri	Snaitech S.p.A.	Director
Clemente Rebecchini	Assicurazioni Generali S.p.A.	Deputy Chairman
Paolo Sfameni	Allianz Bank S.p.A.	Director
	Investitori SGR S.p.A.	Chairman of the BoD
	WISE SGR S.p.A.	Chairman of the Board of Statutory Auditors
	Vorwerk Management S.r.l.	Chairman of the Board of Statutory Auditors

Executive Directors

Of the fourteen directors in office, only Carlo Pesenti, Chief Executive Officer and Chief Operating Officer, qualifies as an executive director. The Board of Directors has assigned him duties and powers, last amended on June 7, 2018, identifying the limits on amounts for their exercise.

Executive Committee, Chairman and Chief Executive Officer

Within the scope of the Board of Directors, powers have been granted as described below.

The **Executive Committee**, made up of Laura Zanetti, Carlo Pesenti, Livio Strazzerà, Luca Minoli and Chiara Palmieri (who replaced Massimo Taroni as of July 31, 2018), was granted all the powers and attributions of the Board of Directors, except for those which under the law and Bylaws cannot be delegated, to be exercised with the amount limit of 300 million euros, as last resolved on June 7, 2018. The Executive Committee must report to the Board of Directors on the resolutions passed at the first possible meeting.

In 2018 the Executive Committee held a meeting, which lasted 2 hours, to examine an investment proposal.

To the **Chairman**, Ms Laura Zanetti, duties have been attributed to submit proposals for resolutions of the Board of Directors and/or the Executive Committee; duties to supervise and ensure the compliance with Corporate Governance principles approved by the Company, proposing any amendment to them to be submitted to the Board of Directors for approval; to supervise the regularity of the meetings and actions of the corporate bodies and supervise the actions of the Chief Operating Officer with reference to real estate management transactions. In addition to the representation powers envisaged by the Company By-laws, the Chairman was granted, among others, the powers to act, including before the criminal court, to protect the Company's interests, with the broadest mandate in terms of the capacity to lodge actions in criminal court, including the right to sign and submit charges and lawsuits against those liable for offences to the detriment of the Company and with all ensuing and subsequent powers, including the right to appear as a civil party against those liable, as well as grant special power of attorney with such powers to trusted individuals and appoint attorneys and proxies; to appoint consultants in general, establishing the relative remuneration, compensation and any deposits, suspending, concluding and changing the relationship, with the right to grant special powers of attorney with such powers to other people; to grant special and general powers of attorney, also granting the corporate signature, individual or joint, and with the powers and attributions that will be considered necessary for the best performance of the company; to negotiate and conclude any transaction or contract for real estate purchase or sale, exchange and property division, for the establishment of easements or property rights in general, permitting and requesting mortgage registrations, cancellations and entries, waiving legal mortgages and releasing the real estate registrar from all liability and with the right to appoint to replace her, for each transaction or contract, one or more special attorneys with all required powers, with the limit of euro 20 million with joint signature with the Chief Operating Officer;

The **Chief Executive Officer and Chief Operating Officer** Carlo Pesenti, was granted, inter alia, the duties of putting forward proposals to be resolved on by the Board of Directors and/or Executive Committee; overseeing the execution and implementation of investment plans as defined by the Board of Directors and/or Executive Committee; dealing with the managerial policies and corporate development strategies of Italmobiliare and the main direct and indirect subsidiaries; overseeing and directing the activities of Italmobiliare and the main subsidiaries; defining the guidelines for managing the main companies in which Italmobiliare directly or indirectly holds an equity investment that allows it to exercise significant influence; dealing with the company organisation and proposing the main organisational changes to the Board of Directors. This figure was granted, inter alia, in addition to the representation powers established in the Bylaws, the powers to carry out all tasks relating to administration and arrangements concerning the management of the Company including performing transactions on securities and credit, assume any form of obligations in the name of the Company, even accompanied by collateral security, accept guarantees, provide collateral security and guarantees for third parties as long as they are direct or indirect subsidiaries of Italmobiliare, buy and sell government bonds, bonds, mortgage bonds, stock, company shares, carry out asset and liability carry-over transactions and advance on security transactions.

The powers granted for the office of Chief Operating Officer can be exercised within the amount limit of 20 million euros per single transaction; the powers granted for the office of Chief Executive Officer can be exercised within the amount limit of 20 million euros, except for funding transactions and transactions on derivatives which can be made within the amount limit of 50 million euros, and transactions to sell the securities of listed companies, which can be made within the amount limit of 100 million euros per single trading day. The Chief Executive Officer - Chief Operating Officer may be qualified as the main party responsible for company management.

The Chief Executive Officer - Chief Operating Officer is not a Director in another listed company not belonging to the Group at which a Company Director is the chief executive officer.

To manage current operations proxies were granted to managers of the Company, within the scope of their respective remits.

Succession plans

The Board of Directors has assigned the Remuneration and Nomination Committee the task of drawing up any succession plans for executive directors which the Board of Directors should decide to adopt.

In consideration of the Company's organisational structure, the Board of Directors, upon the Committee's recommendation, as of today has not adopted a succession plan, although it has ensured that, should an extraordinary situation occur, all the oversights are in place that would enable it to manage the Company in a transition phase (emergency plan).

Independent Directors

According to the provisions of the CLF, at least one of the members of the Board of Directors, or two if it is made up of more than seven members, must have the independence requirements laid down by law for the members of the Board of Statutory Auditors. The Code also states that the number and the expertise of the independent Directors must be satisfactory in relation to the size of the Board of Directors and the activities carried out by the Company and must enable the establishment of Committees within the Board of Directors; also pursuant to the Code, there must be at least two independent Directors.

If the independence requirements laid down by law cease to be valid, the Director concerned must immediately notify the Company's Board of Directors. This circumstance entails the removal from office of such Director, except in cases where such requirements are still met by at least the minimum number of Directors required by current legislation.

Immediately after its appointment in April 2017, the Board of Directors assessed the independence of its members, on the basis of the provisions of the CLF and the criteria laid down in the Code, the results of which were disclosed to the market.

The Board of Directors last assessed the existence of the independence requirements of each of the non-executive Directors on February 14, 2019.

As a result of these assessments, the following qualify as independent Directors pursuant to the provisions of the CLF and the criteria laid down in the Code: Vittorio Bertazzoni, Mirja Cartia d'Asero, Valentina Casella, Elsa Fornero, Chiara Palmieri, Antonio Salerno, and Paolo Sfameni. These independent Directors met twice during the 2018 financial year in the absence of the other Directors.

The following qualify as independent Directors only pursuant to the provisions of the CLF: Laura Zanetti, Livio Strazzerà and Clemente Rebecchini.

The Board of Statutory Auditors checked the correct application of the criteria and the assessment procedures adopted by the Board of Directors to assess the independence of its members.

Lead Independent Director

The Code provides that, should the Chairman of the Board of Directors be the main officer in charge of company management, and also when the position of Chairman is held by the person who controls the Company, the Board of Directors should appoint an independent Director as "Lead independent director", to provide a reference for and coordinate requests and contributions of non-executive Directors and, in particular, independent Directors.

As these conditions were not met, the Board of Directors, at the meeting on April 19, 2017, resolved not to appoint a "Lead Independent Director" for the 2017-2019 term of office.

Self-assessment

The Directors are required to perform an assessment each year on the composition, role and operation of the Board and its Committees. With reference to 2018, the self-assessment was also extended to the Board of Statutory Auditors. The Chairman of the Board of Directors supervised and coordinated the process, with the support of the Corporate Affairs Department.

At the close of the 2018 financial year, the Company distributed a questionnaire to all Directors and Statutory Auditors, which had been prepared in-house with the help of the Chairman and without assistance from an external consultant, and concerned a full evaluation of the operation and composition of the Board of Directors and its Committees, with the possibility of making recommendations or comments. Each recipient was asked to make their assessment based on a scale of values ranging from 1 to 5.

The questionnaire was returned anonymously by fifteen of the seventeen persons consulted.

The results of the self-assessment were presented to the Board of Directors at the meeting on February 14, 2019. The Board took note of the opinions expressed by the Directors and Statutory Auditors and of the suggestions made to improve the operation of the corporate governance bodies.

In general terms, the opinions of the Directors and Statutory Auditors confirmed the widespread satisfaction with the procedural and operational aspects, the frequency and duration of the meetings, the role of the Chairman and her relations with the Directors as well as the contribution and effectiveness of the Committees.

Induction programme

The Chairman, through the relevant company departments, works to ensure that the Directors and the Board of Statutory Auditors participate in initiatives aimed at increasing their knowledge of the company situation and dynamics and are informed about the main legislative and regulatory changes that concern the Company and corporate bodies.

In 2018, two induction sessions were held in the presence of some members of the management, the purpose of which was to promote knowledge about the activities of the investee companies Tecnica Group S.p.A. and Caffè Borbone S.r.l.

Internal Committees of the Board of Directors

In addition to the Executive Committee mentioned above, the Board of Directors has also set up the following Committees within it: the Remuneration and Nomination Committee and the Risks and Sustainability Committee, whose duty is to provide consultancy and proposals to the Board of Directors; and, in application of the regulatory provisions on transactions with related parties, the Committee for Transactions with Related Parties.

In carrying out their functions, the Committees are entitled to access corporate information and functions necessary for the performance of their duties and may use external consultants at the expense of the Company.

Each Committee appoints a Secretary, who does not need to be a member thereof and is entrusted with the task of drawing up the minutes of the meetings.

Detailed information on the Remuneration and Nomination Committee and the Risks and Sustainability Committee is provided in the remaining part of this section of the Report, whereas details of the Committee for Transactions with Related Parties can be found in the “Code of conduct, procedures and other corporate governance practices” section.

Remuneration and Nomination Committee

During the financial year 2018, the Company's Board of Directors assigned the responsibilities that the Code recognises to the "Nomination Committee" to the already existing Remuneration Committee (established since 2000), which therefore assumed the name "Remuneration and Nomination Committee."

The Committee, made up solely of independent directors in possession of the requirements laid down in the code and in the CLF, is currently made up of Paolo Sfameni, Chairman, Vittorio Bertazzoni and Chiara Palmieri. Until July 25, 2018 the Committee was chaired by the independent Director Massimo Tononi, who resigned on that date. To replace him, following co-optation resolved on July 31, 2018, the Board of Directors appointed Paolo Sfameni as a member, and then appointed him Chairman of the same Committee.

All the members have adequate experience with accounting, financial and remuneration policy matters. The meetings are regularly minuted and the Chairman informs the Board of the meetings held at the first possible meeting.

The Board of Statutory Auditors and the Head of Human Resources are regularly invited to attend the Committee meetings. No director participates in the part of the meetings that involves formulating proposals on his/her remuneration.

The Committee has regular access to the company information and departments necessary to perform its tasks, and it has an annual budget of 50,000 euros assigned by the Board of Directors. The Committee may seek assistance from independent consultants.

Its work is governed by regulations approved by the Board of Directors, at the proposal of the Committee itself, on September 25, 2018.

The Committee performs the following functions, among others: formulates proposals to the Board to define a remuneration policy for the executive directors, directors vested with special powers and key management personnel; submits proposals to the Board of Directors on the remuneration of executive directors and the other directors vested with special powers; assesses proposals to introduce short and long-term incentive systems, monetary and share-based, to be submitted for the approval of the Board of Directors; proposes performance objectives to the Board, linked to the variable component of the remuneration of executive directors, directors vested with special powers and key management personnel; checks, even using information received from the relevant company departments, whether the performance objectives linked to the incentive plans and variable remuneration have been achieved. The Committee also formulates opinions on its size and composition and expresses recommendations on the professional figures whose presence on the Board is deemed appropriate and conducts preliminary investigations in order to prepare and review any succession plans for executive directors which the Board of Directors should decide to adopt.

During the financial year the Committee met twice, in the presence of the Board of Statutory Auditors; the average duration of the meetings was one hour.

In 2018 the Committee, inter alia, examined the remuneration policy of the executive directors and key management personnel to be submitted to the Board of Directors and to the subsequent advisory vote of the Shareholders' Meeting; checked whether the performance objectives had been achieved in order to determine the short-term variable remuneration to be assigned to the Chief Executive Officer and key management personnel (2017 MBO); formulated a proposal for the Board of Directors on the fixed remuneration and the variable remuneration of the Chief Executive Officer for the financial year 2018; examined the variable remuneration proposals for key management personnel for the financial year 2018; formulated a proposal for the Board of Directors to adopt its own regulations. During the financial year the Committee did not seek assistance from external consultants.

In 2019, up until the approval of this Report, the Committee met twice. It examined, inter alia, the remuneration policy to be submitted to the Board of Directors and to the subsequent advisory vote of the shareholders' meeting, checked whether the performance objectives had been achieved in order to determine the short-term variable remuneration to be assigned to the Chief Executive Officer and key management personnel (2018 MBO); formulated a proposal for the Board of Directors on the fixed remuneration and the variable remuneration of the Chief Executive Officer for the financial year 2019; examined the variable remuneration proposals for key management personnel for the current financial year (2019 MBO). The Committee also examined the parts within its remit of the letter of the Chairman of the Corporate Governance Committee dated December 21, 2018.

For further information on the duties of the Remuneration and Nomination Committee, and in general on the remuneration policy for directors and key management personnel, approved by the Board of Directors upon the Committee's proposal, refer to the remuneration report drawn up pursuant to art. 123-*ter* of the CLF.

Risks and Sustainability Committee

The Board of Directors established within it a Risks and Sustainability Committee, made up of Mirja Cartia d'Asero, Chairman, Valentina Casella, both independent Directors, and Giorgio Bonomi, non-executive Director.

As recommended by the Code, with reference to at least one member, the requirement of adequate experience in accounting and financial matters was complied with.

The Committee has a duty to provide the Board with consultancy and proposals on: i) the Internal Control and Risk Management System; ii) periodic financial reporting; and iii) social sustainability matters linked to the exercise of the Company's business activities, also for non-financial reporting purposes. In particular, the Committee also performs its duties on the basis of information flows received from the Head of Internal Audit of the Company, as regards Italmobiliare S.p.A. and its subsidiaries that do not have autonomous third-level control systems and structures. As regards the other subsidiaries, which may also include entities subject to monitoring by national or foreign control authorities, the Committee uses the information flows defined in the guidelines of the ICRMS and in particular information received from the homologous structures, where present.

The Committee provides the Board with a preventive opinion on:

- a) the definition of the ICRMS guidelines, so that the main risks pertaining to the Company and its subsidiaries are correctly identified and adequately measured, handled and monitored, determining the degree of compatibility of these risks with a business management consistent with the strategic objectives identified;
- b) the assessment of the adequacy and efficiency of the ICRMS with respect to the business characteristics and the risk profile assumed;
- c) approval of the work plan prepared by the Head of Internal Audit;
- d) adequate representation in the annual report on corporate governance of the main characteristics of the internal control and risk management system and the methods of coordination between the subjects involved in it;
- e) the assessment, after having consulted the Board of Statutory Auditors, of any issues that emerged during the external audit;
- f) the non-financial statement pursuant to Legislative Decree 254/2016.

The Committee, in assisting the Board, shall also perform the following functions:

- a) assess with the Manager in charge of preparing the company's financial reports, after having consulted the Board of Statutory Auditors and the external auditor, the correct use of the accounting standards and their consistency in the drafting of the financial statements;
- b) express opinions on specific aspects regarding the identification, assessment and monitoring of the main company risks;
- c) monitor the existence of adequate oversights for managing sustainability issues linked to the exercise of the business activities of the Company, also for the purposes of non-financial reporting, as well as the dynamics of interaction with stakeholders, understanding the latter to be the recipients of non-financial reporting;
- d) examine the periodic reports concerning the assessment of the ICRMS and those of particular importance, prepared by the Internal Audit Department;
- e) monitor the independence, adequacy, efficiency and effectiveness of the Internal Audit department;
- f) support, with adequate preparatory work, the assessments and decisions of the Board on the management of risks deriving from prejudicial actions the Board has come to know about;
- g) examine the periodic information reports on internal control and risk management and on sustainability issues received from the subsidiaries of Italmobiliare S.p.A. and in particular those prepared by the homologous Committees;
- h) report to the Board of Directors, at least once every six months, usually during the approval of the financial statements and the interim report, on the activities carried out as a whole and on the adequacy of the ICRMS and, through its Chairman, inform it about the meetings held at the first possible Board of Directors meeting;
- i) carry out the additional tasks assigned to it by the Board.

The Committee, finally, shall express its opinion on the appointment and removal of the Head of Internal Audit, also in relation to the definition of the remuneration of this figure in keeping with company policies.

The meetings are regularly minuted and the Chairman provides the Board of Directors with information on them at the first possible meeting. The Company managers responsible each time for the items on the agenda are regularly invited to participate in the meetings of the Risks and Sustainability Committee to provide the appropriate in-depth analyses; in any case, the Manager in Charge and the Head of Internal Audit attend all the meetings. The Committee has an annual budget of 50,000 euros assigned by the Board of Directors.

In 2018, the Committee held a total of nine meetings, the average duration of which was two and a half hours, always with all its members in attendance. The Board of Statutory Auditors always attended the meetings: eight meetings were attended by three statutory auditors, while one meeting was attended by two out of three statutory auditors.

During fiscal year 2018, the Committee, among other things:

- a) examined and approved the methodology used by the Company for the preparation of the non-financial report pursuant to Legislative Decree 254/2016 and the impairment tests, and examined and shared the results;
- b) examined the 2017 consolidated non-financial statement, which was subsequently approved by the Board of Directors;
- c) proposed amendments, subsequently approved by the Board of Directors, to the Internal Control and Risk Management System Guidelines in order to incorporate activities relating to the non-financial statement;
- d) proposed the adoption of regulations aimed at governing the functions of the Committee, subsequently approved by the Board of Directors;
- e) assessed the correct use of the accounting standards and their consistency for financial reporting purposes;

- f) examined the Audit Plan for 2018, subsequently approved by the Board of Directors, and monitored its implementation;
- g) analysed the outcomes of the risk management activities, with particular reference to Information Technology risks;
- h) examined and agreed on the method used by the Company to adapt to the new General Data Protection Regulation and acknowledged the completion of the relative project, given the entry into force of the new provisions in May 2018;
- i) examined the reports prepared by the Head of Internal Audit in order to check the adequacy, efficiency and effective operation of the Internal Control and Risk Management System;
- j) met the homologous departments of the main subsidiaries;
- k) examined the method for measuring and representing the NAV and examined Italmobiliare's Investment Guidelines, subsequently approved by the Board of Directors;
- l) received periodic updates from the Head of Legal Affairs on the state of the active and passive disputes in progress;

In 2019, up until the approval of this Report, the Committee met four times in the presence of the Board of Statutory Auditors to examine, inter alia: the impairment test methodology for the 2018 financial year and the relative results; the results of the risk management activities; the accounting criteria adopted for drafting the 2018 financial report; the draft 2018 non-financial statement; the updates on the disputes in progress; the final figures of the 2018 Audit activities and the 2019 Audit Plan. The Committee also examined the section of this Report on the description of the Internal Control and Risk Management System, agreeing on its content.

On the basis of the calendar of meetings approved by the Committee, a total of eight meetings are scheduled for 2019.

III. THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Definition and objectives

The Internal Control and Risk Management System ("**ICRMS**") of Italmobiliare is an essential part of the corporate governance system and is a set of organizational rules, procedures and structures intended to enable the identification, measurement, management and monitoring of the main risks facing the Company and its subsidiaries.

The Board of Directors, in compliance with the recommendations of the Code and having obtained the favourable opinion of the Risks and Sustainability Committee, defined and continuously updated the Internal Control and Risk Management System Guidelines (the "**Guidelines**"). The Guidelines, taking into account the specific structure of the Group, which includes companies - among which there may be entities subject to the supervision of national supervisory authorities - with internal control systems and structures in turn responsible for overseeing the ICRMS of their respective sub-groups (so-called "Group of groups"), seek to ensure consistency and harmonization between various existing control tools, establishing, therefore, the roles and departments involved in the identification, measurement, management and monitoring of the main risks of the Company and its subsidiaries.

The Guidelines were sent to the subsidiaries so that the latter could take account of them in the definition and maintenance of their own ICRMS, without prejudice to the autonomy and independence of each company.

The ICRMS must contribute to the running of the Company in line with the company objectives defined by the Board of Directors, encouraging informed decision-making. It helps to ensure the safeguarding of company assets, the efficiency and effectiveness of company processes, the reliability of financial reporting, and compliance with the laws and regulations and with the Bylaws and internal procedures.

The ICRMS, in line with the best national and international standards and with the provisions of the organisation, management and control model pursuant to Legislative Decree 231/2001, is broken down into three levels of control:

1st level: represented by line checks aimed at ensuring the correct performance of company operations, in line with the company's business and governance objectives; these checks are carried out by the heads of the operating areas who identify and assess the risks and define specific actions for managing them;

2nd level: departments in charge of the definition of methodologies and tools for risk management and performance of risk monitoring activities;

3rd level: the Internal Audit Department, as well as any other parties that provide objective and independent assessments (so-called assurance) on the design and operation of the overall System.

The Guidelines envisage the involvement of the following company bodies and departments:

Board of Directors, with the following tasks:

- examining and approving the strategic plan, monitoring periodically the related implementation;
- periodically examining the main company risks and processes implemented to prevent, reduce and manage them;
- defining the risk profile, both as to nature and level of risks, in a manner consistent with the Company's strategic objectives, as determined by the same Board of Directors at the time of approval, amendment or revision of the Strategic Plan;
- evaluating the adequacy of the organizational, administrative and accounting structure of the Company as well as of its strategically significant subsidiaries in particular with regard to the Internal Control and Risk Management System;
- examining and approving the financial statements for the period;

Board of Directors, having obtained the opinion of the Risks and Sustainability Committee, with the following tasks:

- define, in keeping with the Company's risk profile, the Internal Control and Risk Management System Guidelines and also ensure it is updated, so that the main risks pertaining to the Company and its subsidiaries are correctly identified and adequately measured, handled and monitored, also determining the degree of compatibility of these risks with a business management consistent with the strategic objectives identified;
- assessing, at least annually, the adequacy and effectiveness of the Internal Control and Risk Management System with respect to the Company's characteristics and the risk profile assumed, ensuring that:
 - duties and responsibilities are allocated in a clear and appropriate manner;
 - the control departments, including the Head of Internal Audit, the Manager in Charge and the supervisory body ("**Supervisory Body**"), are provided with adequate resources to perform their respective duties and have an appropriate level of autonomy within the corporate structure.
- approving, at least annually, the work plan (which must also concern the reliability of the IT systems) proposed by the Head of Internal Audit, having consulted the Director In Charge and the Board of Statutory Auditors;

Board of Directors, upon the proposal of the director in charge of the ICRMS (the **Director In Charge**), having also consulted the Board of Statutory Auditors and the Risks and Sustainability Committee, with the following tasks:

- appointing and removing the Head of Internal Audit, ensuring that the latter has adequate resources to carry out the responsibilities of this role and define the remuneration for this role in line with company policies.

The Board of Directors, with the assistance of the Risks and Sustainability Committee, also determines the compatibility criteria of the risks pertaining to the Company and its subsidiaries and assesses, annually, also on the basis of the report prepared by the Committee itself, the adequacy, efficiency and effective operation of the ICRMS with respect to the characteristics of the company.

With reference to subsidiaries with autonomous internal control structures with similar tasks to those assigned by the Code to the Control and Risk Committee, the activities performed by the Risks and Sustainability Committee of Italmobiliare consist of the examination and assessment of the reports received by these structures.

Over the course of the financial year, the Board of Directors and the Executive Committee, during the investments analysis, did not detect risk profiles incompatible with the strategic objectives of the Company, also in view of sustainability over the medium to long-term.

The Board of Directors approved the work plan prepared by the Head of Internal Audit, having consulted the Board of Statutory Auditors and the Director In Charge.

This process is operating in the main subsidiaries.

The director in charge of the internal control and risk management system (“Director In Charge”)

At the meeting on April 19, 2017 the Board of Directors identified the Director In Charge as the Chief Executive Officer - Chief Operating Officer, Carlo Pesenti.

He has the task of:

- a) identifying the main business risks, taking into account the characteristics of the activities carried out by the Company and its subsidiaries, and submitting them periodically to the review of the Board of Directors;
- b) executing the Guidelines, overseeing the planning, implementation and management of the ICRMS, checking its adequacy and effectiveness on an ongoing basis;
- c) proposing to the Board of Directors, after having obtained the opinion of the Risks and Sustainability Committee and having consulted the Board of Statutory Auditors, the appointment, removal and remuneration of the Head of Internal Audit and ensuring the independence of this figure and its operating autonomy from each head of the operating areas, checking that it has the appropriate means to effectively perform the tasks assigned to it;
- d) adjusting the Internal Control and Risk Management System to the dynamics of operating conditions and the legislative and regulatory framework;
- e) promptly reporting to the Risks and Sustainability Committee (or to the Board of Directors) issues and problems identified during his activity or of which he became aware in order for the Committee (or the Board of Directors) to take the appropriate actions.

The Director in Charge can also ask the Internal Audit department to carry out reviews of specific operational areas and on the compliance of business operations with rules and internal procedures, giving simultaneous notice to the Chairman of the Board of Directors, the Chairman of Risks and Sustainability Committee and the Chairman of the Board of Statutory Auditors.

The Director In Charge has the task of issuing, with the Manager in Charge, statements referring to the adequacy and effective application of the administrative and accounting procedures, the compliance of the documents with the applicable international accounting standards, that the documents correspond to the contents of the accounting books and records, and the suitability of the documents to provide a truthful and correct representation of the equity, economic and financial position of the Company and of the Group.

The Head of the Internal Audit department

The Board of Directors meeting on April 19, 2017 confirmed, as proposed by the Director In Charge and having consulted the Board of Statutory Auditors, Delia Strazzarino as the Head of the Internal Audit Department.

The Board of Directors, at the proposal of the Director In Charge and having consulted the Board of Statutory Auditors and the Risks and Sustainability Committee, defined the remuneration of the Head of Internal Audit in line with company policies and ensured that this figure has adequate resources to fulfil the responsibilities of the role.

The Head of Internal Audit is tasked with checking that the ICRMS is operational and adequate, providing the corporate bodies and top management with an objective assessment. She therefore has direct access to all information useful for the performance of her role, she is not responsible for any operating area and reports hierarchically to the Board of Directors.

The Head of Internal Audit reports on the methods used to conduct the risk management, compliance with the plans defined to contain the risks, and informs the Board of Directors, the Risks and Sustainability Committee, the Director In Charge and the Board of Statutory Auditors of her assessment of the suitability of the ICRMS. The Head of Internal Audit provides the Board of Directors with an annual outline, as part of the audit plan, of the structure of her department which she deems fit, in both numerical and professional terms, to perform the tasks assigned to it. She prepares periodic reports containing adequate information on its activities, the methods used to conduct risk management and compliance with the plans defined to contain the risks, in addition to an assessment of the suitability of the ICRMS and any reports on particularly important events, and sends them to the Chairman of the Board of Statutory Auditors, the Chairman of the Risks and Sustainability Committee and the Chairman of the Board of Directors, as well as the Director In Charge. She also verifies the reliability of the information systems, including the accounting reporting systems.

As part of its "Quality assurance and improvement Programme," the Internal Audit department must undergo, at least once every five years, a Quality Assurance Review by an independent external body; this process has been scheduled for the first half of 2019.

The Board of Directors, after obtaining the opinion of the Risks and Sustainability Committee and having consulted with the Director in Charge and the Board of Statutory Auditors, approved:

- the mandate of the Internal Audit department, last amended with a resolution on March 2, 2017, which formally defines the mission, objectives, organisational context and responsibilities of the department in line with the definition of Internal Auditing, with the Code of Ethics and the international standards set out in the International Professional Practices Framework of the Institute of Internal Auditors;
- the work plan for the year 2019 prepared by the Head of Internal Audit, examined at the meeting on January 24, 2019.

The Internal Audit Function performs its activities directly with reference to Italmobiliare Group, except for the subsidiaries that have an independent Internal Audit function.

At Group level, the Internal Audit department coordinates with the homologous departments of the subsidiaries in order to encourage a uniform approach to the operational and adequacy checks of the ICRMS, taking into account the autonomy, independence and responsibilities of the subsidiaries themselves and their relative bodies in charge.

The organisation, management and control Model pursuant to Legislative Decree 231/2001 and the supervisory body

In order to make the controls and Corporate Governance system more effective, with the aim of preventing the perpetration of corporate offences and those against the Public Administration, since 2004 the Company has adopted, in application of Legislative Decree 231/01, an organisation, management and control Model (the '**Model**') updated over the years and last amended with a resolution of the Board of Directors on July 11, 2018.

By adopting the Model, the Company intends to disseminate and establish a corporate culture based on legality, with the express censure of all conduct contrary to the law and the regulations contained in the Model itself.

There have been several updates to incorporate changes made to the law which have gradually extended the scope of application of Legislative Decree 231/01 to additional categories of offences with respect to those originally included. All updates to the Model, except those of a purely formal nature, have been carried out on the basis of targeted risk assessments performed by consultants specialized in the matters taken into consideration on each occasion.

In 2018 the changes subject to the approval of the Board involved:

- simplifying the structure of the Model and updating the General Section, in light of the new organisational structure and regulatory changes (for example, on whistleblowing).
- updating the special section in light of the corporate reorganisation and the regulatory changes made, which included the expansion of the types of offences provided for under Legislative Decree 231/2001 (in particular, self-laundering).

The General Section of the Model is available on the Company's website www.italmobiliare.it, in the "Governance/Documentation" section.

The main subsidiaries also have an organisation, management and control model pursuant to Legislative Decree 231/01.

The task of continuously supervising the effective operation and compliance with the Model, as well as proposing updates to it, is assigned to the Supervisory Body, appointed by the Board of Directors to which it reports directly, and granted autonomy, professionalism and independence in the exercise of its duties.

The Supervisory Body is currently made up, in compliance with the provisions of the same Model, of Paolo Domenico Sfamini (Chairman), independent Board Director, Dino Fumagalli, external professional, and Delia Strazzarino, Head of Internal Audit at the Company.

As part of its duties, the Supervisory Body periodically meets with executives of the Company in charge of sensitive areas under Legislative Decree no. 231/01, the Board of Statutory Auditors, the Risks and Sustainability Committee, the Manager in charge and the representatives of the Independent Auditors in respect of any matters relevant to the prevention of offenses specified in the Model, including those relating to financial reporting. The Supervisory Body is granted autonomous initiative and control powers within the Company in order to efficiently exercise its functions.

The Supervisory Body periodically, and at least every six months, prepares a written report on its activities sending it, together with a documented statement of expenses incurred, to the Chairman of the Board of Directors, the Chairman of the Board of Statutory Auditors, the Chairman of the Risks and Sustainability Committee and the Manager in charge. Such reports may contain proposals for additions and amendments to the Model. The aforementioned periodic report must at least contain or highlight:

- a) any problems that arise with regard to the methods of implementing the procedures laid down in the Model;
- b) the warning reports received from internal and external parties with regard to the Model;
- c) disciplinary procedures and penalties, if any, applied by the Company, with exclusive reference to activities at risk;
- d) a complete assessment of the operation of the Model with any indications for supplements, corrections or amendments.

Internal control and equity, economic and financial reporting

The Internal Control and Risk Management System relating to the process of equity, economic and financial reporting is made up of the set of company rules and procedures adopted by the various operating departments and aimed at ensuring the soundness, accuracy, reliability and promptness of the financial reporting.

Italmobiliare has defined its own operating Model to comply with the Law on savings (hereinafter, in short, "Operating Model"), detailing the operational approach for the performance of activities. This Model is based on the principles contained in the CoSO framework and in the document "Internal Control over Financial Reporting - Guidance for Smaller Public Companies", also developed by CoSO.

In this operating Model, the Internal Control and Risk Management System is considered together with the internal control system in relation to the financial reporting process.

The Operating Model defined by Italmobiliare is based on the following main elements:

- a) **Preliminary analysis.** This activity, carried out on an annual basis and whenever deemed necessary, is aimed at identifying and assessing the risks related to the Internal Control and Risk Management System with regard to financial reporting, in order to determine priorities for the actions related to documentation, assessment and testing of administrative and accounting procedures and related controls. The identification of the relevant entities and processes is based on quantitative (weight of revenue and assets of a single entity on consolidated amounts, the carrying amount of consolidated financial statement items related to a particular process) and qualitative (the Country in which an entity operates, specific risks, risk levels assigned to the various items) factors;
- b) **Operational planning.** Every year the activities are planned on the basis of the priorities identified through the preliminary analysis and other assumptions, if any;
- c) **Analysis of controls at company level.** The individual companies within the intervention scope, identified during the preliminary analysis, are responsible for activities linked to i) the assessment of the effectiveness of the Internal Control and Risk Management System in relation to the governance principles operating at company level (*Entity Level Controls*), as well as ii) overall management of the information IT systems used in processes relevant for *financial reporting* and the related IT infrastructure (*Information Technology General Controls*), to be carried out in accordance with the timing established during the operational planning phase and on the basis of the guidelines, instructions and templates provided by the Manager in Charge;
- d) **Analysis of controls at process level.** The individual companies, within the area of action identified in the preliminary analysis, are responsible for the related activities: i) documenting, with varying levels of detail depending on the level of risk allocated, the identified administrative and accounting processes, ii) performing tests to check the effective operation of controls, in accordance with the deadlines established during operational planning and on the basis of guidelines, instructions and templates provided by the Manager in charge;

- e) **Assessment of the adequacy and effective operation of the administrative and accounting procedures and the related controls.** In order to guarantee compliance with the key requirements for financial reporting ("financial statement assertions"), the Manager in charge, on the basis of the results of the carried out activities and the obtained documentation, assesses the overall adequacy and effective operation of the system of administrative and accounting procedures and the related controls, and more generally, the Internal Control System for these areas.

The ICRMS, with reference to the financial reporting process, also benefited from: the continuous development of an integrated corporate governance system (Service Orders, company processes and procedures); more accurate organisation and programming in relation to the provisions of Law no. 262 of December 28, 2005, containing "Provisions on the protection of savings and the regulation of financial markets" and subsequent corrective decrees (hereinafter shortened to "Savings Law"), issued by the legislator for the purpose of increasing transparency in corporate reporting and strengthening the internal control systems of listed issuers.

Independent Auditor

The auditing of the company's accounts, as required by the current applicable laws, was entrusted to independent auditors appointed at the Shareholders' Meeting, upon proposal of the Board of Statutory Auditors. The assignment to audit the separate financial statements of Italmobiliare, the condensed consolidated financial statements of the Group and the assignment to perform a limited audit of the abbreviated half-year condensed consolidated financial statements of the Group for the financial years 2010-2018 was awarded to KPMG S.p.A. by the Shareholders' Meeting on April 29, 2010. The Board of Directors supplemented the assignment conferred on KPMG S.p.A. following the entry into force of Legislative Decree 254/2016 on non-financial statements.

The assignment to KPMG expires with the approval of the financial statements at 31 December 2018. The Shareholders Meeting called to approve the 2018 financial statements will therefore be called on to resolve on the conferral of the new assignment.

Manager in charge of preparing the company's financial reports

The Board of Directors, at the meeting held on June 21, 2017, appointed Mauro Torri as the Manager in Charge, pursuant to art. 154-bis of the CLF and art. 29 of the Bylaws, effective as of July 1, 2017. Pursuant to the Bylaws, the Manager in Charge must be a director and hold the integrity requirements established by law for members of the Board of Directors, and must have acquired overall experience of at least three years in administrative/accounting and/or financial and/or control matters at the Company itself and/or its subsidiaries and/or at other public limited companies.

The Manager in Charge of Italmobiliare receives and assesses the reports on the activities performed by the internal control and risk management bodies of the Group companies identified as significant entities.

The Board of Directors, at the time of the appointment, at the proposal of the then Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, defined the compensation of the Manager in Charge and granted him full spending autonomy to exercise the powers conferred on him, with the obligation to report to the Board of Directors on a half-yearly basis on the financial means employed.

The Company, in connection with the provisions of the Law on Savings, adopted a specific Regulation which, in compliance with legal provisions, the By-laws and following current best practices, among other things:

- a) defines the responsibilities of the Manager in charge of Italmobiliare and specifies his/her related powers;
- b) identifies the responsibilities and method for the appointment, removal and termination of office of the Manager in charge, the length of service and the requirements in terms of professional skills and good reputation;
- c) reports on the principles of conduct which the Company Manager in charge must comply with in the event of conflicts of interest as well as the confidentiality obligations to be observed in carrying out his/her activities;

- d) indicates the responsibilities, powers, and resources granted to the Manager in charge for the exercise of his/her duties, identifying the financial and human resources needed to carry out the mandate;
- e) defines dealings with other Company bodies/functions, with the Corporate Bodies, the internal and external control Bodies and with subsidiaries, regulating information flows;
- f) illustrates the internal and external attestation process in reference to: the statements of the Manager in charge regarding the correspondence of the Company's acts and communications disclosed to the market with its documents and accounting books and entries; the statements of the Manager in charge and of the executives, relating to the financial statements, the condensed and interim financial statements and the consolidated financial statements.

The Regulations, last updated in January 2019, apply to all entities, departments and corporate bodies of Italmobiliare, as well as all its direct or indirect subsidiaries. The Regulation has been circulated to the staff of the Company, the subsidiaries, as well as to all those considered affected by its contents.

The functions and duties of the Manager in Charge laid down in the Regulations include:

- a) ensuring there are adequate administrative and accounting procedures for the drafting of the financial statements, the condensed and interim financial statements and the consolidated financial statements, as well as any other financial reporting and non-financial reporting drafted pursuant to Legislative Decree 254/2016, by updating such procedures and ensuring dissemination and compliance, as well as verifying their effective application;
- b) assessing, together with the Risks and Sustainability Committee and the independent auditor, the correct application of the accounting standards and their consistency for the purpose of the financial statements mentioned above;
- c) handling the periodic reporting to top management and the Board of Directors on the activities undertaken;
- d) managing the periodic review of the risks' assessment activities and updating the mapping of financial reporting risks;
- e) participating in the design of IT systems that have an impact on the economic, equity and financial position of the Company.

Risk Management

Within the scope of business risk management, the Company has launched an Enterprise Risk Management process, identifying as responsible of the risk management the Administrative Director. In the context of the ICRMS, the responsible of the risk management:

- a) defines and updates the appropriate governance of the Enterprise Risk Management (ERM): process, roles, responsibilities relating to the main risks;
- b) supports the various company and Group departments in integrating risk assessment within the strategic planning and business processes;
- c) ensures awareness of risk management and the efficiency of the process through the development of an ERM community whose members operate at the level of both the parent company and of each subsidiary;
- d) oversees the continuous improvement of the methods and process tools consistent throughout the Group to identify, assess and measure the key risks in collaboration with the Primary Risk Owners and the relative operating references;
- e) prepares and distributes ERM reporting to top management and submits it to the Risks and Sustainability Committee and the Board of Directors;
- f) guarantees regular follow-up of the action plans to mitigate the risk for the whole Group;
- g) helps to disseminate the ERM tools and methods, such as risk assessment and quantification.

In 2018 and up until approval of this Report, the analysis of risk events and opportunities capable of influencing the achievement of the economic objectives of the Company and of the Group was continued.

Coordination between subjects involved in the internal control and risk management system

Coordination between the various subjects involved in the Internal Control and Risk Management System (Board of Directors, Director In Charge, Risks and Sustainability Committee, Internal Audit Department, Manager in Charge, the Board of Statutory Auditors, Supervisory Body and other roles and company departments with specific duties regarding internal control and risk management) occurs through the exchange of information and meetings scheduled ad hoc or at the meetings of the individual bodies.

Assessment of the Internal Control and Risk Management System

The Board of Directors, on the basis of the assessments and information gathered, with the support of the activities carried out by the Risks and Sustainability Committee, and with the contribution of the Director In Charge, the Head of Internal Audit and the Manager in Charge, acknowledged that no problems were reported that would invalidate the overall adequacy and efficiency of the Internal Control and Risk Management System with respect to the structure of the Company and of the Group and the characteristics of the business. The Internal Control and Risk Management System, on the other hand, is subject to ongoing improvement by means of the systematic monitoring and planning of improvement initiatives, in line with the international reference models.

IV. BOARD OF STATUTORY AUDITORS

Appointment of Statutory Auditors

The members of the Board of Statutory Auditors are appointed on the basis of slates submitted by the Shareholders, according to a system designed to allow the minority to appoint a Standing Auditor, who assumes the office of Chairman, and an Alternate Auditor. The appointment is made in accordance with current regulations on gender balance.

The slates must be filed at the Company's registered offices or sent to the certified email address indicated in the call notice of the Shareholders' Meeting, at least 25 days prior to the date set for the Shareholders' Meeting; this is mentioned in the call notice along with the procedures and shareholding required for their submission.

Slates may only be presented by Shareholders who, alone or together with other shareholders, are able to provide evidence that they hold a percentage of the share capital with voting rights no lower than that determined by Consob pursuant to the regulations in force concerning the appointment of the Board of Directors.

No shareholder may file or participate in the filing of more than one slate, directly or through a nominee or trust company, or vote for different slates. Shareholders belonging to the same group and shareholders who join a shareholders' agreement on the Company shares may not file or vote for more than one slate, not even through a nominee or trust companies. Slates filed in violation of these restrictions will not be accepted.

Each candidate may be on one slate only under penalty of ineligibility.

Slates that have a total number of candidates equal to or greater than three must be composed of candidates belonging to both genders, so that one or the other gender is represented by at least one third (rounded upwards) of candidates for the office of Standing Auditor and at least one third (rounded upwards) of the candidates for the office of Alternate Auditor. At the time of their filing, slates must include:

- a) the statements in which the individual candidates accept their candidacy; declare, under their own responsibility, that they possess the professionalism requirements laid down in the Bylaws, that there are no grounds for ineligibility or incompatibility, that they possess the integrity requirements established by law, and whether they possess the requirements of independence envisaged by law and in the Code;

- b) a brief curriculum on the personal and professional skills of each candidate with an indication of their position as director and statutory auditor in other companies;
- c) information on the identity of the shareholders who have presented slates. The certification or statement proving ownership of the shareholding prescribed by the law in force when the slate is presented may also be produced after the filing of the slate provided that it reaches the company within the term envisaged by the regulation in force for the publication of slates by the Company;
- d) a statement by the shareholders who do not hold, even jointly, a controlling or majority stake, bearing witness to the absence of any connection, as defined by the law in force.

A filed slate that does not comply with the above provisions will be considered not filed.

In the event that, by the deadline of 25 days preceding the date of the Shareholders' Meeting, a single slate has been filed, or only slates presented by shareholders who are connected to each other pursuant to current regulations, further slates can be presented until the following third day and the participation threshold indicated in the notice of call will be halved.

At least 21 days before the date envisaged for the Shareholders' Meeting which is called to appoint the Board of Statutory Auditors, the Company shall make available the slates of candidates which have been submitted by shareholders and the accompanying documentation at its head offices, at the Italian stock exchange and on its website.

In the event of filing of more than one slate:

- the slate that obtains the highest number of votes at the Shareholders' Meeting elects two Standing Auditors and two Alternate Auditors, in the order in which they are listed in the sections of the slate;
- the minority shareholders' slate that obtains the highest number of votes among the slates presented and voted by shareholders who are not connected in any way, directly or indirectly, with the majority shareholders, elects the third Standing Auditor and the third Alternate Auditor, in the order in which they are listed in the sections of the slate;
- should more than one slate obtain the same number of votes, a runoff is held on these slates among all the shareholders present at the Shareholders' Meeting, and the candidates are elected from the slate that obtains the majority of the share capital represented at the Shareholders' Meeting.

Should a party connected to a majority shareholder vote for a slate of the minority shareholders, the connection is relevant for the purposes of excluding the minority shareholders' elected Auditor only if this vote was crucial for the election of said auditor.

Should a single slate be presented, all the candidates included in that slate are elected with a simple majority vote of the share capital represented at the Shareholders' Meeting.

If, as a result of voting several slates or voting the only slate presented, the composition of the Board of Statutory Auditors, as to its standing members, does not meet the current regulations regarding balance between genders, the necessary replacements will be made choosing from among candidates to the office of standing auditor on the slate that has obtained the highest number of votes or from within the only slate presented starting from the last candidate from that slate.

Should no slates be presented, the Shareholders' Meeting appoints the Board of Statutory Auditors with a simple majority vote of the share capital represented at the Shareholders' Meeting, provided gender balance is ensured pursuant to current legislation in force.

The Chairmanship of the Board of Statutory Auditors lies with the person indicated in first place on the slate presented and voted by the minority shareholders, or with the first name in the single slate presented or with the person appointed as such by the Shareholders' Meeting should no slates be presented.

Pursuant to the Bylaws, those who find themselves in an incompatible situation as defined by law, or those who have exceeded the limit on the accumulation of appointments established by current regulations may not be elected as Statutory Auditors, and if they are elected shall forfeit their position. Should an elected Statutory Auditor during his/her term of office no longer meet the requirements envisaged by the law or the By-laws, his/her office terminates.

When it is necessary to replace a Standing Auditor, the Alternate Auditor belonging to the same slate as the removed Statutory Auditor takes over. In the absence thereof, in accordance with the original order of presentation, the candidate from the same slate as the outgoing Auditor takes over, without taking the initial section into account. Should the replacement concern the Chairman of the Board of Statutory Auditors, the position will be taken over by the Statutory Auditor of the minority shareholders. The Statutory Auditors appointed in this manner hold office until the following Shareholders' Meeting.

Should it be necessary to supplement the Board of Statutory Auditors:

- to replace a Statutory Auditor elected from the majority shareholders' slate, the appointment takes place with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the original majority Shareholders' slate;
- to replace a Statutory Auditor elected from the minority shareholders' slate, the appointment takes place with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the original minority shareholders' slate;
- for the simultaneous replacement of Auditors elected in the majority and the minority shareholders' slates, the appointment occurs with a simple majority vote of the share capital represented at the Shareholders' Meeting, choosing from among the candidates indicated in the slate which each Statutory Auditor to be replaced was part of, with a number of Statutory Auditors equal to the number of ceased Statutory Auditors belonging to the same slate.

Where it is not possible to proceed as described above, the Shareholders' Meeting called to supplement the Board of Statutory Auditors shall decide by relative majority of the share capital represented at the Shareholders' Meeting, without prejudice to the principle according to which the minority shall always be entitled to appoint one Standing Auditor and one Alternate Auditor. In any case, the Chairmanship of the Board of Statutory Auditors must be assigned to the Statutory auditor representing the minority shareholders. The procedures on replacements as indicated in the previous paragraphs must in any case ensure compliance with current legislation regulating gender balance.

Pursuant to the Code, the Statutory Auditors are chosen from among people who may qualify as independent also on the basis of criteria established by said code for Directors.

Composition and operation of the Board of Statutory Auditors

The Board of Statutory Auditors, in office for the duration of three financial years up to the approval of the financial statements at December 31, 2019, was appointed by the Shareholders' Meeting on April 19, 2017 and is made up of Francesco Di Carlo, Chairman, Angelo Casò and Luciana Ravicini. The Alternate Auditors are Paolo Ludovici, Alberto Giussani, and Giovanna Rita.

The Board of Statutory Auditors in office was appointed using the slate voting system: Angelo Casò, Luciana Ravicini, Alberto Giussani and Giovanna Rita were selected from the majority slate submitted by Compagnia Fiduciaria Nazionale S.p.A.; Francesco Di Carlo and Paolo Ludovici were selected from the minority slate submitted by various institutional investors (Amber Capital UK LLP, Fidelity Funds International and RWC Asset Management LLP). The slates are available in the "Governance/Shareholders' Meeting Archive/2017" section of the Company's website. Further detailed information on the Board of Statutory Auditors is provided in the table set out at the end of this Report.

All members are independent pursuant to the CLF and also possess all the independence requirements laid down by the Code for Directors. The Board of Statutory Auditors checks the existence of the independence requirements annually. The continuation of the requirements was last checked also by the Board of Directors on February 14, 2019.

In compliance with the provisions on gender quotas, one third of the positions are reserved for the less represented gender.

The curriculum vitae of each Standing Auditor is available in the “Governance/Organisation” section of the website www.italmobiliare.it and also provided in the incipit of the Annual Financial Report together with the offices they hold.

The Board of Statutory Auditors, in 2018, held a total of 11 meetings with an average duration of around two hours, in the presence of all its members, in addition to participating in all the meetings of the Company's Board Committees. The independent auditor KPMG, the Chief Executive Officer, the Manager in Charge, the Head of Internal Audit and other department managers of the Company were invited to participate in the meetings of the Board of Statutory Auditors to provide appropriate insights on the items placed on the agenda each time.

For 2019 the Board has planned 14 meetings.

The Board of Statutory Auditors, pursuant to the CLF, oversees: i) compliance with the law and the Bylaws; ii) compliance with correct administration standards; iii) the adequacy of the Company's organisational structure as regards the aspects within its remit, the internal control system and the administrative-accounting system, as well as the reliability of the latter in correctly representing the management operations; iv) the methods of actual implementation of the corporate governance rules laid down in the Corporate Governance Code to which the Company adheres; v) the adequacy of the instructions given by the Company to the subsidiaries to ensure the correct fulfilment of the reporting obligations laid down by law.

Moreover, pursuant to art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, as the “Internal Control and Auditing Committee” is responsible for:

- a) informing the Board of Directors of the outcome of the external audit, sending it the additional report prepared by the independent auditor accompanied by any observations;
- b) monitoring the financial disclosure process and presenting recommendations or proposals intended to ensure its integrity;
- c) checking the efficiency of the internal quality control and business risk management systems and of the internal audit, as regards the financial reporting of Italmobiliare, without infringing their independence;
- d) monitoring the statutory audit of the financial statements and the consolidated financial statements, also taking into account any results and conclusions of the quality checks carried out by Consob;
- e) checking and monitoring the independence of the independent auditor, in particular as regards the adequacy of the provision of services other than the audit;
- f) the procedure to select the external auditors or independent auditors, recommending to the Shareholders' Meeting, once the selection is complete, the external auditors or independent audit firms on which to confer the assignment.

The Chairman of the Board of Directors has arranged for the Statutory Auditors to participate in the most appropriate forms in initiatives aimed at providing them with adequate knowledge of the sector in which the Company operates, the company dynamics and their evolution, the correct risk management principles and the regulatory and self-regulatory framework of reference. In particular, in 2018, Statutory Auditors were able to participate in the induction meetings organised by the Company for the directors and to hold meetings with the Chief Executive Officer for the purpose of exchanging information.

The remuneration of Statutory Auditors is commensurate with the commitment required, the relevance of their role and the size and sector-related characteristics of the business.

The Company requires a Statutory Auditor who, on his or her own behalf or on behalf of third parties, has an interest in a specific Company transaction, to promptly and exhaustively inform the other Statutory Auditors and the Chairman of the Board of Directors about the nature, terms, origin and extent of such interest.

In performing its activities, the Board of Statutory Auditors coordinated with Internal Audit and with the Risks and Sustainability Committee. This coordination is guaranteed by the attendance of the Board of Statutory Auditors at all meetings of the Risk and Sustainability Committee, further ongoing exchanges of information between the chairmen of the two corporate bodies as necessary, regarding issues of interest to both, and frequent meetings with the Head of Internal Audit at meetings of the Board of Statutory Auditors and those of the Risks and Sustainability Committee.

Diversity policies

The composition of the Board of Statutory Auditors has evolved over time in accordance with best practices, in order to ensure adequate representation in terms of experience, age and gender. The Company has not approved specific diversity policies relating to the composition of the Board of Directors and the Board of Statutory Auditors but, in light of the recommendations of the Code, it reserves the right to assess this aspect in the broader context relating to the adoption of a Group policy on this matter, also in view of the renewal of the corporate bodies scheduled to take place in 2020.

V. RELATIONS WITH SHAREHOLDERS

The Company acts to establish continuous dialogue with Shareholders, and with the market, in compliance with the laws and regulations on the disclosure of inside information. The Company's behaviour and procedures are designed, among other things, to avoid information asymmetries and to ensure the effectiveness of the principle whereby all investors and potential investors are entitled to receive the same information in order to make sound investment decisions.

With regard to market relations, the Chairman and the Chief Executive Officer - Chief Operating Officer, within their respective responsibilities, provide the guidelines that the responsible structures should follow in dealing with institutional investors and other shareholders. The Investor Relations department was established for this purpose.

To provide timely and easy access to information concerning the Company and to allow Shareholders to exercise their rights in an informed manner, a specific section was created on the website, which is easy to identify and access, and that contains information on the Shareholders' Meetings, with particular reference to the procedures for participating and exercising the right to vote at Shareholders' Meetings, documentation relating to the items placed on the agenda, including the reports on the items on the agenda and the slates of candidates for the offices of Director and Statutory Auditor, indicating their personal and professional characteristics.

Shareholders' Meeting

The Shareholders' Meeting is called, according to the laws and regulations provided for companies whose shares are listed on regulated markets, to pass resolutions on matters reserved to it by law. The decisions taken in accordance with the law and the By-laws are binding on all shareholders, including those absent or dissenting, except the right of withdrawal in allowed cases. The majorities required to amend the Bylaws are those established by law.

The Board of Directors recommends to all of its members to regularly participate in Shareholders' Meetings and seeks to encourage and facilitate the widest possible participation of Shareholders and to facilitate the exercise of voting rights.

The Board of Directors reports to the Shareholders' Meeting on the activities performed and planned and acts to ensure that the Shareholders have adequate information to allow them, with knowledge of the facts, to make the decisions within the remit of the shareholders' meeting.

All those who have the right to vote as attested by the communication required by current laws received by the Company by the end of the third trading day prior to the date fixed for the Shareholders' Meeting on single call, are entitled to attend the Shareholders' Meeting. The right to attend and vote is retained if the communications are received by the Company after the deadline, as long as they are received by the beginning of the Shareholders' Meetings proceedings of each call.

Shareholders who, even jointly, own at least one fortieth of the share capital represented by shares with voting rights, may ask, within the deadlines envisaged by the law in force, for the items on the agenda of the shareholders' meeting to be supplemented, stating in their request which further issues are being suggested or for further resolutions' proposals on the items already on the Agenda.

The Company may designate a person, giving a clear indication thereof in the notice of call, for each Shareholders' Meeting to whom all eligible parties may grant a proxy with voting instructions on all or some of the proposals on the agenda, in the manner provided for by applicable law.

Shareholders' meeting regulations have not been adopted as the extensive powers attributed to the Chairman under case law and doctrine, and under the statutory provision (art. 13) that expressly attributes this figure the power to direct the discussion and establish order and the voting methods, as long as they are clear, are deemed adequate enough to ensure the orderly conduct of the Shareholders' Meetings.

In 2018 the ordinary session of the shareholders' meeting was convened on April 18 to resolve on the following agenda:

- 1) Reports of the Board of Directors and the Board of Statutory Auditors on operations in 2017: examination of the financial statements at December 31, 2017; consequent resolutions;
- 2) Remuneration Report;
- 3) Authorisation to purchase and dispose of the company's own shares, after revocation of the authorisation resolved by the Ordinary and Extraordinary Shareholders' Meeting on April 19, 2017: related and consequent resolutions;
- 4) Resignation of a Director; related and consequent resolutions.

VI. PROCEDURES, CODES OF CONDUCT AND OTHER CORPORATE GOVERNANCE PRACTICES

Procedures for managing inside information and the insider list

On November 29, 2016 the Board of Directors of the Company, following the entry into force of EU Regulation 596/2014 (market abuse regulations) and the relative applicable provisions, approved a procedure for managing inside information, that is information of a specific nature, not yet made public, directly or indirectly concerning Italmobiliare or the related financial instruments and capable, if made public, of having a significant effect on the price of the listed financial instruments issued by Italmobiliare, or on the prices of connected derivative instruments. The procedure, available on the Company's website in the "Governance/Documentation" section, was last updated in 2018 for the purpose, inter alia, of incorporating the Consob Guidelines on inside information and relevant information, as well as the provisions of Legislative Decree 107/2018.

The rules of conduct and principles set out in the procedure aim to:

- guarantee the utmost confidentiality of the inside information and relevant information (namely information likely to become inside information later, or even soon), balancing the interest in ensuring the confidentiality of the information during its gradual formation with the duty to ensure non-selective disclosure;
- protect investors and market integrity, preventing situations of information asymmetry and preventing some subjects from using non-public information to operate on the markets;
- define the process for identifying and managing relevant information;
- define the processes for identifying and managing inside information;
- protect the Company in relation to any liability it might incur as a result of unlawful conduct involving market abuse adopted by persons traceable to the Company and, in more general terms, as a result of conduct that violates the principle of confidentiality.

The Procedure is an essential component of the Company's Internal Control and Risk Management System and of the overall system for preventing offences referred to in Legislative Decree 231/2001 and, in particular, in the Organisational Model adopted by the Company for this purpose.

The rules of procedure referred to herein bind all Company employees, the members of the Board of Directors and of the Board of Statutory Auditors, and all those who maintain an advisory relationship or collaboration with the Company and/or the Group.

With the entry into force of the market abuse regulations (MAR), the Company also adopted a new procedure for registering individuals with access to inside information (insider list procedure) which is strictly linked to internal regulations on the management and disclosure to the public of inside information. The procedure, also updated in 2018, was adopted in order to fulfil the obligation to draw up a list of people who, based on their work or professional activities, or on the basis of the functions they perform, have access to inside information concerning Italmobiliare. It is available on the Company's website in the "Governance/Documentation" section.

Code of conduct on internal dealing

The code of conduct on internal dealing, adopted by the Company in 2016 in compliance with the MAR and last amended on July 31, 2018, governs the conduct and information obligations relating to transactions involving financial instruments issued by the Company carried out by "relevant persons" – identified as Directors, Statutory Auditors of the Company and key management personnel – and people closely related to them, or by those who hold a number of shares amounting to or exceeding 10% (ten per cent) of the Company's share capital, represented by shares with voting rights, as well as any other controlling entity of the Company.

The code of conduct is an essential component of the Company's Internal Control and Risk Management System and of the overall system for preventing offences referred to in Legislative Decree 231/2001 and, in particular, in the Organisational Model adopted by Italmobiliare for this purpose.

According to the provisions of the code, the reporting obligation applies if the overall amount of the transactions involving Italmobiliare shares has reached the threshold of 20,000 euros per annum. More specifically, it applies to all subsequent transactions once a total of 20,000 euros has been reached during any calendar year.

The code of conduct also stipulates that relevant persons and persons closely related to them must abstain from carrying out transactions on the listed financial instruments issued by Italmobiliare in the 30 calendar days prior to the Board of Directors meeting of Italmobiliare called to approve the financial statements for the year and the interim report, up until the publication of the press release pertaining to the results.

The Code is available on the Company's website www.italmobiliare.it in the "Governance/Documentation" section.

Interests of the directors and transactions with related parties

On November 12, 2010, the Company's Board of Directors, having obtained the favourable opinion of the specifically appointed Committee for Transactions with Related Parties, adopted the Related Parties Transactions Procedure, according to the provisions laid down by Consob in the Regulation of March 12, 2010.

The Procedure aims to ensure that transactions implemented with related parties and with subjects comparable to them, directly or through the subsidiaries of Italmobiliare, are carried out in a transparency way and in compliance with the criteria of substantial and procedural correctness, also in order to facilitate the identification and allow the adequate management of situations in which a Director has an interest, on his/her own behalf or on behalf of third parties.

The Procedure was initially amended in 2013 with the extension of the correlation scope to members of the Supervisory Body and the introduction of a differentiation between the minimum thresholds to assess relevance for transactions in which the counterparty is a natural person and those in which the counterparty is a legal entity.

It was then updated in 2014 to confirm the Company's commitment to adhere to the best practice rules and the guidelines of the Supervisory Authority. The main changes concern: specification of the notion of ordinary transaction; identification of some correlation indexes which would permit specific monitoring by the Company of transactions implemented with counterparties who are not formally related but who, on a substantial level, could influence the decision-making process; the provision of an informative quarterly report for members of the Committee on the transactions implemented with counterparties with a correlation index; the provision of the power of the Committee to identify – on the basis of significance indexes relating to transactions implemented with counterparties with a correlation index – the transactions to be submitted preventively to the preliminary procedure established for transactions of lesser importance.

In 2018, the Board of Directors, having obtained the favourable opinion of the Committee for Transactions with Related Parties, made up of the independent directors Valentina Casella, Chairman, Elsa Fornero and Mirja Cartia d'Asero, further updated the Procedure in light of the changed operating context of Italmobiliare S.p.A. and its subsidiaries, following, inter alia, the sale of Italcementi and the acquisition of Clessidra SGR S.p.A. The Committee discussed this at two meetings, each of which lasted on average one and a half hours, in the presence of the Board of Statutory Auditors.

The main changes introduced in 2018 regard the aspects outlined below.

The application of the Procedure was extended, under the same terms set for related parties, to the new category of "identified parties" which includes, in addition to the members of the Supervisory Body of the Company, each mutual fund, foundation or non-profit association, established and/or managed by, or in any case referable or connected to related parties, as well as each entity that participates together with the Company, or with one or more subsidiaries of the company, in joint ventures of significant economic importance for the Company.

In relation to the already existing category of subjects with a correlation index (now called 'parties with a correlation index'), to whom the Procedure already applied, the direct application of control measures for transactions of lesser importance has been established, where the single transaction with a party with a correlation index exceeds the amount of 750,000 euros, or where transactions accumulated with the same party with a correlation index exceed the amount of 1,500,000 euros per annum.

As regards ordinary transactions, the 'ordinary investment transactions' category has been introduced, which includes transactions in which the company subscribes to shares in mutual funds established and/or managed by, or in any case referable or connected to, related parties; as is the case for ordinary transactions, ordinary investment transactions can also be exempt from application of the Procedure where certain conditions specifically identified exist cumulatively.

The definition of 'small amount transactions' has been supplemented, exempted from the application of the Procedure, in that, leaving untouched the thresholds of 300,000 euros per single transaction with natural persons and 500,000 euros per single transaction with legal persons, it is specified that, per annum, the total amounts of 600,000 euros and 1,000,000 euros, respectively, for transactions with the same counterparty may not be exceeded; it was then clarified that the application of the mentioned thresholds for legal persons includes professional associations.

The Procedure distinguishes 'transactions of greater importance' from those of 'lesser importance' on the basis of specific criteria predetermined by Consob. This distinction serves to determine the applicable transparency rules, which are more simplified for cases of transactions of lesser importance and more strict for transactions of greater importance.

Both types of transactions require the prior opinion of the Committee for Transactions with Related Parties.

This Committee has: the duty of expressing a justified opinion on transactions, both of lesser importance (non-binding opinion) and those of greater importance (binding opinion); the right to participate in the negotiation phase and the investigation phase of transactions of greater importance through the receipt of a complete and timely flow of information and the right to request information and make observations to the delegated bodies and the persons appointed to conduct the negotiations or investigation; the right to be assisted, at the Company's expense, by independent experts of its choice.

In the case of transactions of lesser importance, the Procedure provides the possibility of implementing the transaction even if the Committee expresses a negative opinion, as long as this is disclosed to the market in a specific document that also justifies the reasons for this decision.

The Company's Bylaws also provide (i) for the possibility that transactions of greater importance with related parties may be completed, despite the negative opinion of the Committee, as long as the completion of these transactions is authorised by the Shareholders' Meeting, on the condition that the majority of the non-related voting shareholders do not vote against the transaction and that the non-related shareholders in attendance at the Shareholders' Meeting represent at least 10% of the share capital with voting rights ("whitewash"); (ii) the right for the Company to use the emergency procedure in cases where the transaction is not within the remit of the shareholders' meeting and does not have to be authorised by the same.

The Procedure does not apply, inter alia, to ordinary transactions (carried out within the ordinary course of business and related financial activities of the Company and the Group in general) as long as they are concluded at market or standard equivalent terms; to ordinary investment transactions, in the presence of certain conditions; to transactions with or between subsidiaries or with associated companies, unless other related parties of the company have significant interests in the subsidiaries or associated companies that are counterparties in the transaction; urgent transactions outside the remit of the Shareholders' Meeting.

The Procedure is available on the Company's website www.italmobiliare.it in the "Governance/Documentation" section.

Without prejudice to the provisions contained in the aforementioned Procedure, also pursuant to the code of ethics adopted by Italmobiliare, the members of the corporate bodies must refrain from engaging in actions that could harm Italmobiliare and from participating in the approval of resolutions by the body to which they belong regarding matters which present even potential conflicts of interest.

Code of ethics

The Company introduced the code of ethics for the first time in 1993 and since then it has been amended and updated. In 2018 a new text was adopted, approved by the Board of Directors at the meeting on November 8, 2018.

The code of ethics is the set of values and principles underlying Italmobiliare's business and establishes its rules of behaviour and conduct. For the Company and its subsidiaries it represents a solid platform of values, a necessary condition to guarantee constructive dialogue with all interested parties and it reaffirms the defence of ethical principles and legality as an essential asset for doing business.

The main subsidiaries of the Group (Sirap Gema S.p.A., Italgem S.p.A., Caffè Borbone S.r.l., Clessidra SGR S.p.A.) have in turn adopted their own code of ethics.

General Data Protection

During the course of the year, the Company implemented the activities necessary to adapt to Regulation (EU) 2016/679 - General Data Protection Regulation (GDPR).

The Data Controller is identified as the Company, represented by the Chief Executive Officer, assisted by a 'Data Protection Committee' made up of three internal managers. Whereas a Data Protection Officer has not been designated, as the appointment of this figure is not mandatory in that Italmobiliare does not handle sensitive, health-related or legal data nor does it monitor or regularly and systematically handle large-scale personal data.

The Company has implemented the provisions laid down in the GDPR by adopting certain governance tools, such as: the "organisational" model, which identifies the 'Data Protection Committee' as the GDPR guidelines and governance body; the internal contact persons and the internal/external subjects authorised to perform processing as the executive body, leaving the control functions to the Internal Audit department (and to the governmental authorities responsible for this);

the "operating model" containing the implementing provisions (such as, for example, the information notices and requests for consent to process data, the procedures for security and data breach/protection measures);

the "architectural model" for common data, particular categories of data and for data relating to criminal convictions and offences, checking for the applications and infrastructure in place the existing physical/logical security measures with respect to the requirements laid down in the new legislation.

The Board of Directors and the Board of Statutory Auditors were informed about the recommendations made in the letter dated December 21, 2018 from the Chairman of the Corporate Governance Committee. As indicated in the Report, at the meeting on February 14, 2019 the Board made a specific assessment on the adequacy of the information provided prior to Board Meetings.

Unless otherwise indicated in the preceding sections, as of the close of the financial year 2018 no changes occurred that significantly affect the content of this Report.

STRUCTURE OF THE BOARD AND OF THE COMMITTEES

Board of Directors

Position	Members	Year of birth	Date of first appointment *	In office since	In office until	Slate **	Exec.	Non-exec.	Indep. Code
Chairman	Laura Zanetti	1970	14.11.2013	19.04.2017	Fin.Stat 2019	M		•	
Deputy Chairman	Livio Strazzera	1961	03.05.2002	19.04.2017	Fin.Stat 2019	M		•	
Chief Executive Officer ◊	Carlo Pesenti	1963	17.06.1999	19.04.2017	Fin.Stat 2019	M	•		
Director	Vittorio Bertazzoni	1976	19.04.2017	19.04.2017	Fin.Stat 2019	M		•	•
Director	Giorgio Bonomi	1955	03.05.2002	19.04.2017	Fin.Stat 2019	M		•	
Director	Cartia d'Asero Mirja	1969	19.04.2017	19.04.2017	Fin.Stat 2019	M		•	•
Director	Valentina Casella	1979	19.04.2017	19.04.2017	Fin.Stat 2019	M		•	•
Director	Elsa Fornero	1948	27.07.2017	27.07.2017	Fin.Stat 2019			•	•
Director	Sebastiano Mazzoleni	1968	25.05.2011	19.04.2017	Fin.Stat 2019	M		•	
Director	Luca Minoli	1961	03.05.2002	19.04.2017	Fin.Stat 2019	M		•	
Director	Chiara Palmieri	1970	19.04.2017	19.04.2017	Fin.Stat 2019	M		•	•
Director	Clemente Rebecchini	1964	25.05.2011	19.04.2017	Fin.Stat 2019	M		•	
Director	Antonio Salerno	1974	19.04.2017	19.04.2017	Fin.Stat 2019	m		•	•
Director	Paolo Domenico Sfameni	1965	25.05.2011	31.07.2018	Fin.Stat 2018	M		•	•

-----DIRECTORS WHO CEASED TO HOLD OFFICE DURING THE FINANCIAL YEAR-----

Director	Massimo Tononi	1964	27.05.2014	19.04.2017	25.7.2018	M		•	•
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Number of Board meetings held during the financial year of reference: 10

Risks and Sustainability Committee: 9

Quorum required for minorities to submit slates to elect one or more members (pursuant to Art. 147-ter CLF): 1%

NOTES

◊ This symbol means the director in charge of the internal control and risk management system.

◊ This symbol indicates the main person responsible for managing the issuer (Chief Executive Officer or CEO).

* Date of first appointment of each director means the date on which the director was appointed for the first time (overall) to the BoD of the issuer.

** This column indicates the slate from which each director was chosen ("M": majority slate; "m": minority slate; "BoD": slate presented by the BoD).

*** This column indicates the number of offices as director or statutory auditor held by the person concerned in other companies listed in regulated markets, including foreign markets, in finance, banking, insurance or other sizeable companies.

(*). This column indicates the attendance of directors at the meetings respectively of the BoD and the committees.

(**). This column shows the status of the Director within the Committee: "C": Chairman, "M": member.

Indep. CLF	No. of other offices ***	(*)	Risks and Sustainability Committee		Remuneration and Nomination Committee		Committee for Transactions with Related Parties		Executive Committee	
			(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
•	1	10/10							1/1	C
•	1	10/10							1/1	M
	2	10/10							1/1	M
•	2	6/10			2/2	M				
	0	10/10	9/9	M						
•	1	10/10	9/9	C			2/2	M		
•	0	8/10	9/9	M			2/2	C		
•	2	9/10					2/2	M		
	0	10/10								
	3	10/10							1/1	M
•	1	10/10			2/2	M			1/1	M
•	1	8/10								
•	0	10/10								
•	4	3/3			1/1	C				
•		6/7			1/1	M				M
Remuneration and Nomination Committee: 2	Committee for Transactions with Related Parties: 2				Executive Committee: 1					

BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
Position	Members	Year of birth	Date of first appointment *	In office since	In office until	Slate **	Indep. Code	Attendance at Board meetings ***	No. of other offices ****
Chairman	Francesco Di Carlo	1969	25.05.2011	19.04.2017	Fin.Stat. 2019	m	•	100%	3, of which 1 is listed
Standing auditor	Angelo Casò	1940	25.05.2011	19.04.2017	Fin.Stat. 2019	M	•	100%	7
Standing Auditor	Luciana Ravicini	1959	27.05.2014	19.04.2017	Fin.Stat. 2019	M	•	100%	15
Alternate Auditor	Alberto Giussani	1946	19.04.2017	19.04.2017	Fin.Stat. 2019	M	•	-	
Alternate Auditor	Giovanna Rita	1973	19.04.2017	19.04.2017	Fin.Stat. 2019	M	•	-	
Alternate Auditor	Paolo Ludovici	1965	25.05.2011	19.04.2017	Fin.Stat. 2019	m	•	-	

Number of meetings held during the year: 11

Quorum required to submit slates by the minority parties for election of one or more members (pursuant to Art. 148 of the CLF): 1%

NOTES

* Date of first appointment of each statutory auditor means the date on which the statutory auditor was appointed for the first time (overall) to the Board of Statutory Auditors of the issuer.

** This column indicates the slate from which each statutory auditor was chosen ("M": majority slate; "m": minority slate).

*** This column indicates the attendance of statutory auditors at the meetings of the board of statutory auditors.

**** This column indicates the number of offices as director or statutory auditor held by the person concerned, considered significant pursuant to Article 148 bis of the CLF and the relative implementing provisions contained in the Consob Issuers' Regulation.

Italmobiliare S.p.A.
Separate financial statements as
at and for the year ended December 31, 2018



Financial statements

Statement of financial position

(euro)	Note	December 31, 2018	December 31, 2017	Change
Non-current assets				
Property, plant and equipment	1	4,113,679	4,070,807	42,872
Investment property	2	14,649,672	15,084,019	(434,347)
Intangible assets	3	154,365	9,737	144,628
Equity investments in subsidiaries and associates	4	360,821,621	289,120,520	71,701,101
Other equity investments	5	403,860,561	599,767,220	(195,906,659)
Deferred tax assets	6	25,936,507	10,883,147	15,053,360
Other non-current assets	7	145,985,736	108,103,718	37,882,018
Total non-current assets		955,522,141	1,027,039,168	(71,517,027)
Current assets				
Trade receivables	8	580,505	2,383,416	(1,802,911)
Other current assets including derivatives	9	8,737,865	11,664,309	(2,926,444)
Tax assets	10	3,573,100	2,679,061	894,039
Equity investments, bonds and current loan assets	11	237,100,332	88,325,352	148,774,980
Cash and cash equivalents	12	90,157,283	192,013,349	(101,856,066)
Total current assets		340,149,085	297,065,487	43,083,598
Total assets		1,295,671,226	1,324,104,655	(28,433,429)
Equity				
Share capital	13	100,166,937	100,166,937	-
Share premium	14	177,191,252	177,191,252	-
Reserves	14	(24,729,420)	180,463,053	(205,192,473)
Treasury shares	15	(134,659,116)	(134,607,934)	(51,182)
Retained earnings	16	1,112,119,269	928,871,270	183,247,999
Total equity		1,230,088,922	1,252,084,578	(21,995,656)
Non-current liabilities				
Loans and borrowings	18	-	-	-
Employee benefits	17	636,374	795,853	(159,479)
Provisions	19	33,942,435	33,878,519	63,916
Other non-current liabilities	20	7,614,210	3,199,395	4,414,815
Deferred tax liabilities	21	620,018	11,425,367	(10,805,349)
Total non-current liabilities		42,813,037	49,299,134	(6,486,097)
Current liabilities				
Bank loans and borrowings	18	8,871	345,596	(336,725)
Financial liabilities	18	9,837,475	7,595,150	2,242,325
Trade payables	22	1,315,168	5,462,290	(4,147,122)
Provisions		-	-	-
Tax liabilities		5,107,535	-	5,107,535
Other current liabilities	23	6,500,218	9,317,907	(2,817,689)
Total current liabilities		22,769,267	22,720,943	48,324
Total liabilities		65,582,304	72,020,077	(6,437,773)
Total equity and liabilities		1,295,671,226	1,324,104,655	(28,433,429)

Pursuant to Consob Resolution no. 15519 of July 27, 2006, the effects of transactions with related parties on the statement of financial position, the income statement and the statement of cash flows are set out in the relevant annexes.

Income statement

(euro)	Note	2018	%	2017	%	Change amount	%
Revenue							
Revenue and income		54,960,147		143,449,011		(88,488,864)	
Total revenue and income	24	54,960,147	100.0	143,449,011	100.0	(88,488,864)	-61.7
Other revenue and income	25	2,027,233		1,972,098		55,135	
Raw materials and ancillary materials	26	(189,148)		(159,684)		(29,464)	
Services	27	(7,353,032)		(6,088,647)		(1,264,385)	
Personnel expense	28	(14,876,855)		(18,614,869)		3,738,014	
Other operating income (expense)	29	(33,126,782)		(15,390,487)		(17,736,295)	
Gross operating profit		1,441,563	2.6	105,167,422	73.3	(103,725,859)	-98.6
Amortization and depreciation	30	(588,581)		(546,037)		(42,544)	
Operating profit		852,982	1.6	104,621,385	72.9	(103,768,403)	-99.2
Finance costs	31	(142,688)		(1,189,153)		1,046,465	
Impairment losses on financial assets	32	-		(21,024)		21,024	
Profit before tax		710,294	1.3	103,411,208	72.1	(102,700,914)	-99.3
Income tax (expense)	33	19,085,051		(1,294,612)		20,379,663	
Profit for the year		19,795,345	36.0	102,116,596	71.2	(82,321,251)	-80.6

Statement of comprehensive income

(euro)	Note	2018	2017	Change amount	%
Profit for the year		19,795,345	102,116,596	(82,321,251)	-80.6
Items that will not be reclassified to profit or loss subsequently					
Financial assets measured at FVOCI ⁽¹⁾	5	(177,397,444)	35,004,291	(212,401,735)	
Tax on other comprehensive income		1,345,640	19,591,244	(18,245,604)	
Remeasurement of the net liability/asset for employee benefits		7,149	332,599	(325,450)	
Items that will never be reclassified to profit or loss		(176,044,655)	54,928,134	(230,972,789)	
Items that might be reclassified to profit or loss subsequently					
Translation reserve foreign operations		95,345	-	95,345	
Total items that might be reclassified to profit or loss subsequently		95,345	-	95,345	
Other comprehensive income (expense)		(175,949,310)	54,928,134	(230,877,444)	
TOTAL COMPREHENSIVE INCOME (EXPENSE)		(156,153,965)	157,044,730	(313,198,695)	n.s.

n.s. = not significant

(1) following the adoption of IFRS 9, the 2017 reserve for financial assets measured at FVOCI, and related taxes, have been reclassified among "Items that will never be reclassified to profit or loss".

Statement of changes in equity

(euro)	Share capital	Reserves				Treasury shares	Retained earnings	Total equity
		Share premium	AFS fair value reserve	OCI reserve	Other reserves			
Balances at December 31, 2016	100,166,937	177,191,252	113,813,622	-	12,053,896	(34,567,876)	849,754,136	1,218,411,967
Profit for the year							102,116,596	102,116,596
Other comprehensive income			54,595,535				332,599	54,928,134
Distribution of earnings:								
Dividends paid							(22,960,151)	(22,960,151)
Purchase of treasury shares PTO						(101,186,445)		(101,186,445)
Other changes						1,146,387	(371,910)	774,477
Balances at December 31, 2017	100,166,937	177,191,252	168,409,157	-	12,053,896	(134,607,934)	928,871,270	1,252,084,578
Reclassification following first time adoption of IFRS 9			(168,409,157)	137,664,926			30,236,402	(507,829)
Change of OCI reserve sales and reclassifications				1,603,562			1,626,264	3,229,826
Change of Tosi merger reserve							154,558,855	154,558,855
Profit for the year							19,795,345	19,795,345
Other comprehensive income (expense)				(176,051,804)			102,494	(175,949,310)
Stock options						(51,182)		(51,182)
Distribution of earnings:								
Dividends paid							(23,071,361)	(23,071,361)
Balances at December 31, 2018	100,166,937	177,191,252	-	(36,783,316)	12,053,896	(134,659,116)	1,112,119,269	1,230,088,922

Statement of cash flows

(in thousands of euro)	Note	2018	2017
A) Cash flows from (used in) operating activities:			
Profit before tax		710	103,411
Amortization, depreciation and impairment losses		589	546
Net (gains)/losses from the sale of securities, equity investments and PPE		-	(100,546)
Change in employee benefits and other provisions		(976)	(20,212)
Reversal of impairment losses on financial assets		-	21
Reversal of net finance income		(36,332)	(29,728)
Cash flow used in operating activities before tax, finance income/costs and change in working capital		(36,009)	(46,508)
Change in trade receivables		11,655	(2,121)
Change in trade payables		(2,051)	3,175
Change in other receivables/payables, prepayments and accrued income, accrued expense and deferred income		4,223	(4,548)
Total change in working capital		13,827	(3,494)
Net finance costs paid		12,493	517
Dividends received		23,839	22,354
Net tax paid/refunds		(6,919)	387
Total A)		7,231	(26,744)
B) Cash flows from (used in) investing activities:			
Capital expenditure:			
PPE and investment property		(131)	(464)
Intangible assets		(173)	-
Financial assets (equity investments and private equity funds)		(224,918)	(130,946)
Change in payables for equity investment acquisitions		-	-
Total capital expenditure		(225,222)	(131,410)
Change in receivables from sale of non-current financial assets		-	-
Gains on sales of non-current assets		62,478	262,779
Total sales		62,478	262,779
Total B)		(162,744)	131,369
C) Cash flows from (used in) financing activities:			
Change in financial liabilities		(1,055)	(6,221)
Change in loan assets		(14,880)	29,665
Change in equity investments and current securities		81,515	40,181
Change in treasury shares		(51)	(100,107)
Effect of Franco Tosi merger		11,199	-
Dividends paid		(23,071)	(22,960)
Total C)		53,657	(59,442)
D) Cash flows for the year (A+B+C)		(101,856)	45,183
E) Cash and cash equivalents at the beginning of year		192,013	146,830
D+E) Cash and cash equivalents at the end of year	12	90,157	192,013

Notes

The draft financial statements of Italmobiliare S.p.A. as at and for the year ended December 31, 2018 were approved by the Board of Directors on March 6, 2019. At the meeting, the Board authorized publication of a press release dated March 6, 2019, containing key information from the financial statements.

As required by IAS 10, attention is drawn to the fact that these financial statements may be amended by the shareholders at their meeting.

The financial statements have been drawn up on a going-concern basis. Despite the difficult economic and financial situation, Italmobiliare has no material uncertainties about its going-concern status, in part by virtue of its creditworthiness and solid financial structure.

Core businesses

Italmobiliare S.p.A. is a legal entity established in accordance with the laws of the Republic of Italy and listed on the Milan Stock Exchange since 1980. Its core business is the acquisition and management of equity investments in subsidiaries, associates or other companies.

Within this context, the company may conduct financial, commercial, industrial and services transactions that it deems necessary and appropriate to achieve its corporate purposes.

The company also provides subsidiaries with administrative and technical services.

Accounting policies

These separate financial statements have been drawn up in compliance with the International Financial Reporting Standards (IFRS) applicable at December 31, 2018 as endorsed by the European Union, and with the provisions issued in implementation of article 9 of Legislative Decree no. 38/2005. The term IFRS also includes all revised international accounting standards (IAS) and all the interpretations issued by the IFRIC/SIC.

The Italian laws that enact EU Directive 2013/34 also apply, where compatible, to companies that draw up financial statements in accordance with the IFRS. Consequently, these separate financial statements are compliant with the Italian Civil Code and the corresponding indications of the Consolidated Finance Act (TUF, *Testo Unico della Finanza*) for listed companies with regard to the directors' report, the statutory audit and the publication of the financial statements. The separate financial statements and related notes also set out the details and additional disclosures required under the articles of the Italian Civil Code governing financial statements, since such requirements are not in conflict with the IFRS, and under other Consob regulations and dispositions governing financial statements.

In compliance with European Regulation no. 1606 of July 19, 2002, the policies adopted do not include the standards and interpretations published by the IASB and the IFRIC through December 31, 2018, but not yet endorsed by the European Union at that date.

Standards and interpretations that came into force in 2018

Since January 1, 2018, the Group has adopted the amendments described below, including the amendments arising therefrom applied to other standards:

- IFRS 9 "Financial instruments";
- IFRS 15 "Revenue from contracts with customers" including related amendments and clarifications;
- IFRIC 22 "Foreign currency transactions and advance consideration";
- IAS 40 "Transfers of investment property";
- IFRS 2 "Classification and measurement of share-based payment transactions";
- IFRS annual improvements cycle 2014-2016;
- IFRS 4 "Applying IFRS 9 financial instruments with IFRS 4 insurance contracts".

The new international accounting standard IFRS 9 “Financial instruments” has replaced IAS 39 “Financial instruments: recognition and measurement” and introduced new requirements for the recognition and measurement of financial assets and financial liabilities.

IFRS 9 substantially retains the requirements of IAS 39 for the classification and measurement of financial liabilities. With regard to financial assets, on the other hand, the new policy eliminates the categories envisaged by IAS 39: held to maturity instruments, loans and receivables, and available for sale. The adoption of IFRS 9 does not have material effects on the measurement criteria applied by the company to financial liabilities.

Under IFRS 9, on initial recognition, a financial asset is classified according to its measurement: at amortized cost; at FVOCI – debt instrument; at FVOCI – equity instrument; or at FVTPL. Classification under IFRS 9 is usually based on the entity’s business model for management of financial assets and on the contractual cash flow characteristics of the financial asset.

A financial asset must be measured at amortized cost if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held under a business model whose objective is to hold financial assets in order to collect the related contract cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset must be measured at FVOCI if both of the following conditions are met and it is not designated at FVTPL:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the company may elect irrevocably to present subsequent changes in fair value in other comprehensive income. This decision is made for each investment.

All financial assets not classified as measured at amortized cost or at FVOCI, as indicated above, are measured at FVTPL. This includes all derivatives.

Furthermore, IFRS 9 replaces the ‘incurred loss’ model envisaged by IAS 39 with an ‘expected credit loss’ model, or ‘ECL’. The new impairment model applies to financial assets measured at amortized cost, to contract assets and to debt instruments at FVOCI, with the exception of equity instruments. Under IFRS 9, expected credit losses are recognized earlier than previously required under IAS 39.

Financial assets measured at amortized cost include trade receivables, cash and cash equivalents and corporate debt instruments.

In accordance with the new standard, Italmobiliare S.p.A. has elected the following accounting treatment:

- equity investments previously classified as available-for-sale (AFS) are classified as financial assets measured at fair value through other comprehensive income (FVOCI);
- equity investments previously classified as held for trading are classified as financial assets measured at fair value through profit or loss (FVTPL).

Investment funds are classified as financial assets measured at FVTPL.

Bonds that present the characteristics required by the standard are normally classified as financial assets measured at amortized cost; otherwise, they are classified as financial assets measured at FVTPL.

Trade receivables are recognised as financial assets and measured at amortized cost.

IFRS 15 introduces a single general model specifying if, when and the extent to which revenue is recognized. It replaces IAS 18 "Revenue", IAS 11 "Construction contracts", and the related interpretations.

Under IFRS 15, revenue is recognized when control of the goods or services passes to the customer. Determination of when control passes, either at a point in time or over time, involves an assessment by the management of the entity.

IFRS 15 has not had material effects on the measurement criteria applied by the company.

The accounting treatment arising from the amendments to the other policies, effective as from January 1, 2018, has not had material effects.

Standards and interpretations that have been issued and endorsed but are not yet in effect

The new standards or amendments to standards applicable in annual reporting periods beginning after January 1, 2018, early application of which may be elected, are indicated below. The company has decided not to elect early application in the preparation of these financial statements:

- o IFRS 16 "Leases";
- o Amendments to IFRS 9 "Prepayment features with negative compensation";
- o IFRIC 23 "Uncertainty over income tax treatments";
- o Amendments to IAS 28 "Long-term interests in associates and joint ventures".

IFRS 16 replaces the current requirements governing leasing, including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC-15 "Operating leases – incentives", and SIC-27 "Evaluating the substance of transactions in the legal form of a lease".

IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019.

IFRS 16 introduces a single lessee accounting model, requiring the lessee to recognize an asset representing the right to use the underlying asset and a liability reflecting the obligation to pay the minimum rental rate. Leases with a term of 12 months or less and leases where the underlying asset has a low value are exempted from application of IFRS 16. Lessor accounting is substantially similar to that of the standard currently in effect, whereby the lessor continues to classify leases as operating leases or finance leases.

From a preliminary assessment of the potential effects on the financial statements, IFRS 16 "Leases" is expected to generate an increase in non-current assets and financial liabilities for an amount estimated at approximately 367 thousand euro with reference to the existing finance and operating leases.

The other standards or amendments are not expected to have material impacts on the separate financial statements of Italmobiliare S.p.A.

Standards and interpretations published by the IASB and the IFRIC at December 31, 2018, but not yet endorsed by the European Union at that date

- IFRS 17 “Insurance contracts” issued in May 2018, a complete new standard relating to insurance contracts, which covers measurement and recognition, presentation and disclosure;
- IFRS annual improvements 2015-2017 cycle issued in December 2017;
- Amendments to IAS 19 “Plan amendment, curtailment or settlement” issued in February 2018;
- Amendments to the references to the Conceptual Framework for Financial Reporting issued in March 2018;
- Amendments to IFRS 3 “Business combinations” issued in October 2018;
- Amendments to IAS 1 and IAS 8 “Definition of material” issued in October 2018.

The above standards or changes are not expected to have material impacts on the separate financial statements.

Measurement criteria and basis of presentation

The separate financial statements adopt the cost principle, with the exception of financial instruments stated at fair value. The carrying amounts of hedged assets and liabilities are adjusted to reflect changes in fair value on the basis of the hedged risks. The financial statements are presented in euro. All amounts in the accounting schedules and in the notes are rounded to thousands of euro, unless otherwise specified.

The basis of presentation of the Italmobiliare S.p.A. separate financial statements is as follows:

- current and non-current assets and current and non-current liabilities are presented as separate classifications on the face of the statement of financial position. Current assets, which include cash and cash equivalents, are assets that the company intends to realize, sell or consume during its normal business cycle; current liabilities are liabilities that the company expects to settle during the normal business cycle or in the twelve months after the reporting date;
- on the income statement, costs are analyzed by nature;
- with regard to comprehensive income, the company presents two statements: the first statement reflects traditional income statement components and the profit (loss) for the year, while the second statement, beginning with the profit (loss) for the year, presents other comprehensive income (expense), previously reflected only in the statement of changes in equity: fair value gains/losses on financial assets and derivatives, translation differences. Items that might subsequently be reclassified to profit or loss are presented separately from those that will not be reclassified;
- on the statement of cash flows, the indirect method is used.

Use of estimates

The preparation of the separate financial statements and the notes in conformity with the IFRS requires management to make estimates that affect the values of assets, liabilities, income and expense, such as amortization and depreciation, and the disclosures on contingent assets and liabilities in the notes.

Since these estimates are determined on a going-concern basis, using the information available at the time, they could diverge from the actual future results. This is particularly evident in the present climate of financial and economic uncertainty, which could generate situations diverging from those estimated today and require currently unforeseeable adjustments, including of a material nature, to the carrying amounts of the items in question.

Assumptions and estimates are particularly sensitive with regard to measurement of non-current assets, which depends on forecasts of future results and cash flows, measurement of contingent liabilities and provisions for litigations and disputes. Management conducts regular reviews of assumptions and estimates, and immediately recognizes any adjustments in the financial statements.

Since the Italmobiliare Group applies IAS 34 “Interim financial reporting” to its interim reports, with consequent identification of a six-month interim period, any impairment losses are recorded at period end.

Subsidiaries and associates

Subsidiaries are companies in which the company is exposed to variable returns, or holds rights to such returns, by virtue of its relationship with the companies in question, and simultaneously has the ability to affect such returns by exercising its power.

The company ascertains the existence of control on the basis of the existence of three elements:

- power: the current ability of the company, arising from substantial rights, to determine the key operations of operations that have a material impact on the company’s returns;
- the exposure of the company to the variability of the returns of the investee;
- correlation between power and returns, the company has the ability to exercise its power to affect the returns arising from the relationship.

Generally speaking, control is assumed to exist when the company holds, directly or indirectly, more than one half of voting rights, including potential voting rights deriving from convertible securities.

Associates are companies in which the company has significant influence over administrative and management decisions even though it does not hold control. Generally speaking, significant influence is assumed to exist when the company holds, directly or indirectly, at least 20% of voting rights at ordinary shareholders’ meetings, or, even if it holds a lower percentage of voting rights, when it is entitled to take part in financial and management policy decisions by virtue of a specific juridical status including, but not limited to, participation in shareholders’ agreements or other forms of material exercise of governance rights.

Investments in subsidiaries and associates are measured using the cost method, whereby they are initially recognized at cost and subsequently adjusted to reflect changes in value whenever, after impairment testing, conditions are found such as to make it necessary to adjust the carrying amount to the effective value of the investment. Original cost is restored in subsequent periods if the grounds for the adjustments no longer exist. Impairment losses and reversals of impairment losses are recognized in the income statement.

Business combinations

On first-time adoption of the IFRS, as allowed by IFRS 1, the company elected not to apply IFRS 3 retrospectively to business combinations that took place before January 1, 2004.

Until December 31, 2009, business combinations were accounted for using the purchase method under IFRS 3.

Since January 1, 2010, business combinations have been accounted for using the acquisition method under IFRS 3 revised.

Cost of business combinations

Under IFRS 3 revised, acquisition cost is the sum of the acquisition-date fair value of the contingent consideration and the amount of any non-controlling interests in the acquired entity. For each business combination, any non-controlling interests in the acquired entity must be measured at fair value or in proportion to their non controlling interest in the identifiable net assets of the acquired entity.

IFRS 3 revised provides that costs relating to the acquisition be expensed in the periods in which they are incurred and the services are received.

Allocation of the cost of business combinations

Goodwill is measured as the positive difference between:

- the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquired entity, the acquisition-date fair value of the acquirer's previously held equity interest in the acquired entity, and
- the net amount of identifiable assets and liabilities at the acquisition date.

Negative differences are recognized immediately in profit or loss.

If on initial recognition the acquisition cost of a business combination can only be determined provisionally, the allocated amounts are adjusted within twelve months of the acquisition date (measurement period).

Transactions in currencies other than the functional currency

Foreign currency transactions are initially translated into the functional currency using the exchange rate at the transaction date. At the reporting date, foreign currency monetary assets and liabilities are translated into the functional currency at the closing rate. Exchange-rate gains and losses are taken to profit or loss.

Non-monetary foreign currency assets and liabilities measured at cost are translated at the exchange rate ruling at the transaction date; those measured at fair value are translated with the exchange rate at the date fair value was determined.

Property, plant and equipment

Recognition and measurement

Property, plant and equipment are recognized at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase or production cost and the directly attributable costs of bringing the asset to the location and the conditions required for its operation. Production cost includes the cost of materials and direct labour costs. Finance costs relating to the purchase, construction and production of qualifying assets are capitalized. The carrying amount of some assets existing at the IFRS first-time adoption date of January 1, 2005, reflects revaluations applied in prior years in connection with specific local laws, based on the real economic value of the assets in question. The revalued amount recognized in accordance with IFRS 1 was assumed as cost at the IFRS transition date.

Assets acquired through business combinations are stated at fair value, determined on a provisional basis at the acquisition date and subsequently adjusted where necessary within the following twelve months.

Subsequent to initial recognition, property, plant and equipment are carried at cost and depreciated over the asset's useful life, less any impairment losses.

Assets under construction are recognized at cost; depreciation begins when the assets enter useful life.

When an asset consists of components with a significant cost and different useful lives, initial recognition and subsequent measurement are carried out separately for each component.

Subsequent expense

Repair and maintenance expense is normally recognized as incurred. Component replacement costs are treated as separate assets and the carrying amount of the replaced component is eliminated with a balancing entry in profit or loss.

Depreciation

Depreciation is generally calculated on a straight-line basis over the estimated useful life of each component of property, plant and equipment. Land is recognized separately from buildings erected on it and is not depreciated. An asset's useful life determines the depreciation rate until a subsequent review of its residual useful life. The useful life range adopted for the various categories of assets is disclosed in the notes.

Leases

The company has no finance leases.

The company leases are operating leases, where all risks and rewards incidental to ownership are retained by the lessor.

Operating lease payments are recognized as expense on a straight-line basis over the lease term.

Investment property

Investment property is land and/or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of services. Investment property is initially recognized at purchase cost, including directly attributable costs. Subsequent to initial recognition, investment property is measured at amortized cost, based on the asset's useful life less any impairment losses.

Intangible assets

Intangible assets acquired separately are capitalized at cost, while those acquired through business combinations are recognized at fair value estimated on a provisional basis at the acquisition date and adjusted where necessary within the following twelve months.

Subsequent to initial recognition, intangible assets are carried at cost amortized over their useful life, less any impairment losses.

The company has not identified intangible assets with an indefinite useful life.

Impairment

Property, plant and equipment, investment property and amortizable intangible assets, are tested for impairment if indications of impairment emerge.

Investments in subsidiaries and associates are tested for impairment if indications of impairment emerge.

Impairment loss is the difference between the asset carrying amount and its recoverable amount.

Recoverable amount is the greater of fair value, less costs to sell, of an asset and its value in use, determined as the present value of future cash flows.

Fair value less costs to sell is determined through application of suitable valuation models, adopting appropriate income multipliers, quoted share prices on an active market for similar enterprises, comparable transactions on similar assets or other available fair value indicators applicable to the assets being measured.

The discount rate is determined using the weighted average cost of capital method (WACC).

Reversals of impairment losses

If an impairment loss on an asset subsequently reverses in full or in part, the asset carrying amount is increased to reflect the new estimated recoverable amount, which may not exceed the amount that would have been reflected in the absence of the impairment loss. Impairment losses and reversals of impairment losses are taken to profit or loss.

Financial assets

All financial assets are recognized initially at cost at the trade date. Cost corresponds to fair value plus additional costs attributable to the purchase with the exception of financial assets held for trading (fair value through profit or loss).

Subsequent to initial recognition, financial assets are classified in accordance with the entity's business model for the management of financial assets, depending on the characteristics of the assets' contractual cash flows. The reader is referred to the previous section "Accounting policies" for details.

On initial recognition, financial assets are designated by measurement method: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial assets designated at FVOCI are measured at fair value and any changes in value, as well as gains or losses on sale, are recognized directly under a separate equity caption. Any dividends collected are recognized in profit or loss.

Financial assets designated at FVTPL generate fair value gains or losses, trading gains or losses, and dividends recognized in profit or loss.

Treasury shares

Treasury shares are deducted against equity. The original cost of treasury shares and income arising from any subsequent sales are treated as movements in equity.

Trade receivables and other non-current assets

Trade receivables and other non-current assets are initially recognized at fair value, and subsequently measured at amortized cost less allowances for impairment, which are provided as bad debts are identified.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, checks, bank demand deposits and other cash investments with original maturity of not more than three months.

The definition of cash and cash equivalents in the statement of cash flows is identical to that in the statement of financial position.

Derecognition of financial assets

The company derecognizes financial assets in whole or in part when:

- the contractual rights attributable to the assets in question have expired;
- it transfers the risks and rewards incidental to ownership of the asset or does not transfer and does not even substantially maintain all the risks and rewards but transfers control of the assets.

Employee benefits

The company operates pension plans, post-employment medical benefit plans and post-employment benefits.

It also has other commitments, in the form of bonuses payable to employees on the basis of length of service ("Other long-term benefits").

Defined contribution plans

Defined contribution plans are structured post-employment benefit programs where the company pays fixed contributions to an insurance company or pension fund and will have no legal or constructive obligation to pay further contributions if the fund does not dispose of sufficient assets to pay all the employee benefits accruing in respect of services rendered during the current year and in previous years.

These contributions are paid in exchange for the services rendered by employees and recognized as an expense as incurred.

Defined benefit plans

Defined benefit plans are structured post-employment benefit programs that constitute a future obligation for the company. In substance, the company assumes the actuarial and investment risks of the plan. In accordance with IAS 19, the company uses the unit credit projection method to determine the present value of obligations and the related current service cost.

These actuarial calculations require use of consistent and objective actuarial assumptions about demographic variables (mortality rate, personnel turnover rate) and financial variables (discount rate, future increases in salaries and medical benefits).

When a defined benefit plan is funded in full or in part by contributions paid to a fund that is a separate legal entity or to an insurance company, the plan assets are estimated at fair value.

Benefit obligations are therefore recognized net of the fair value of the plan assets that will be used to settle the obligations.

Employment termination plans

Employment termination plans include provisions for restructuring costs recognized when the company has approved a detailed formal plan that has already been implemented or notified to the third parties concerned.

Actuarial gains and losses

Actuarial gains and losses on post-employment defined benefit plans may arise as a result of changes in the actuarial assumptions used in two consecutive years or as a result of changes in the obligation value or in the fair value of any plan asset in respect of the actuarial assumptions used at the beginning of the year.

Actuarial gains and losses are recognized immediately under other comprehensive income (expense).

Actuarial gains and losses relating to “Other long-term benefits” (service medals, length of service benefits) and to early retirement benefits are recognized in profit or loss immediately.

Past service cost

Changes in liabilities resulting from a change to an existing defined benefit plan are recognized in profit or loss, as are costs for benefits that vest immediately upon changes to a plan.

Curtailement and settlement

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized as income or expense when the curtailment or settlement occurs. The gain or loss includes changes in the present value of the obligation, changes in the fair value of plan assets, actuarial gains or losses and past service costs not previously accounted for.

At the curtailment or settlement date, the obligation and the fair value of the plan assets are re-measured using current actuarial assumptions.

Net finance costs

Net finance costs on defined benefit plans consist of the following measurements:

- finance costs computed on the present value of the defined benefit plan liability;
- finance income arising from measurement of the plan assets;
- finance costs or income arising from any limits on recognition of plan surpluses.

Net finance costs are determined by applying to all the above items the discount rate adopted at the beginning of the year to measure the defined benefit plan obligation.

Net finance costs on defined benefit plans are recognized under finance income/costs on the income statement.

Share-based payments

The company has applied IFRS 2 as from January 1, 2004.

Options for the subscription and purchase of shares granted by the company to employees and directors give rise to recognition of a cost classified under personnel expenses, with a corresponding increase in equity.

In accordance with IFRS 2, only options granted after November 7, 2002, whose rights had not vested at December 31, 2003, have been measured and recognized at the transition date. Options for the subscription and purchase of shares are measured at fair value at the grant date and amortized over the vesting period. Fair value at the grant date is determined using the binomial method, and taking account of dividends. Future volatility is determined on the basis of historic market prices, after adjustment for extraordinary events or factors.

The cost of granted options is reviewed on the basis of the actual number of options that have vested at the beginning of the exercise period.

Provisions

The company recognizes provisions when a present or constructive obligation arises as a result of a past event, the amount of which can be reliably estimated, and use of resources is probable to settle the obligation.

Provisions reflect the best estimate of the amount required to settle the obligation or transfer it to third parties at the reporting date. If the present value of the financial resources that will be used is measurable and material, provisions are determined by discounting expected future cash flows at a rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting is performed, movements in provisions due to the effect of time or changes in interest rates are recognized as financial items. Changes in estimates are recognized in profit or loss for the year in which the change occurs.

Bank loans and borrowings

Loans and borrowings are initially recognized at the fair value of the consideration paid/received less charges directly attributable to the financial asset/liability.

After initial recognition, loans and borrowings are measured at amortized cost using the effective interest-rate method.

Trade payables and other payables

Trade payables and other payables are stated initially at the fair value of the original consideration received and subsequently measured at amortized cost.

Revenue

Revenue is measured taking into account the consideration specified in the contract with the customer. The company recognizes revenue when it transfers control of the goods or services.

Revenue is recognized by applying a five-stage model:

- Identification of the contract with the customer;
- Identification of the performance obligations set out in the contract;
- Determination of the transaction consideration;
- Apportionment of the consideration to the individual performance obligations;
- Recognition of revenue upon (or during) satisfaction of the individual performance obligation.

Revenue is recognized to the extent that it is probable that the economic benefits associated with the sale of goods or rendering of services are collected by the company and the amount in question can be reliably determined.

Revenue is recognized at fair value, equivalent to the consideration received or due, taking account of any trade discounts given and volume discounts.

Revenue from the sale of goods is recognized when the company transfers the material risks and rewards incidental to ownership of the goods to the purchaser.

In the caption "Revenue and income" the sub-item "income" includes dividends received, interest and commission income earned by the financial and banking companies, and measurement gains and gains realized on financial assets measured at FVTPL.

Rental income

Rental income is recognized as other revenue, as received, at constant amounts over the period of the lease.

Costs

Costs are recognized on an accruals basis in accordance with the cost and revenue matching principle, whereby they are matched with revenue.

Derivatives

The company uses derivatives such as options on securities and futures to manage market risks. Derivatives are measured and recognized at fair value; fair value gains or losses are taken to profit or loss, since the derivatives in question do not qualify for hedge accounting, even though they are arranged in some cases for hedging purposes.

Income taxes

Current income taxes are provided in accordance with local tax laws.

Deferred tax is recognized on the basis of temporary differences between the tax base of assets and liabilities and their carrying amount in the statement of financial position.

Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which such differences, losses or credits may be reversed.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that sufficient taxable profit is no longer likely to be available in the future against which the assets can be used in full or in part.

Deferred tax assets and liabilities are determined at tax rates expected to apply when the deferred tax asset (liability) is realized (settled), based on rates that have been enacted or substantially enacted at the reporting date.

Taxes relating to items recognized directly in equity are recognized in equity, not in profit or loss.

Significant events in the year

On January 1, 2018, Franco Tosi S.r.l. was merged into Italmobiliare S.p.A., with the following effects:

- a decrease in equity investments in subsidiaries and associates due to the elimination of the equity investment in Franco Tosi (-129,513 thousand euro) partly offset by the transfer of the equity investments held by Franco Tosi (+5,304 thousand euro); a 6,487 thousand euro increase in other equity investments due to the transfer of an equity investment held by Franco Tosi;
- an increase of 28,584 thousand euro in other non-current assets due to the transfer of the private equity funds held by Franco Tosi;
- an increase of 11,199 thousand euro in cash and cash equivalents;
- an increase of 6,449 thousand euro in discontinued operations (a property in Chiasso, sold in 2018);
- an increase of 230,290 thousand euro in equity investments, bonds and current loan assets due to the transfer of the financial assets held by Franco Tosi;
- an increase of 154,394 thousand euro in equity reserves.

Details are provided in annex "H".

Assets

Non-current assets

1) Property, plant and equipment

At December 31, 2018 and at December 31, 2017, property, plant and equipment totaled respectively 4,114 thousand euro and 4,071 thousand euro; the movements on the caption are set out below:

(in thousands of euro)	Land and buildings	Plant and machinery	Office furniture and equipment	Motor vehicles	Total
Gross amount	4,661	636	1185	77	6,559
Accumulated depreciation	(967)	(578)	(889)	(54)	(2,488)
Carrying amount at December 31, 2017	3,694	58	296	23	4,071
Additions	52	25	53		130
Decreases		(326)	(701)		(1,027)
Depreciation		(26)	(40)	(19)	(85)
Use of accumulated depreciation		326	699		1,025
Carrying amount at December 31, 2018	3,746	57	307	4	4,114
Gross amount	4,713	335	537	77	5,662
Accumulated depreciation	(967)	(278)	(230)	(73)	(1,548)
Carrying amount at December 31, 2018	3,746	57	307	4	4,114

The useful lives adopted by the company for the main asset categories are as follows:

- Plant and machinery 5 – 10 years
- Other property, plant and equipment 4 – 8 years

2) Investment property

Investment property amounting to 14,650 thousand euro (15,084 thousand euro at December 31, 2017) is measured at cost.

The fair value of investment property at December 31, 2018 was 16.7 million euro and was determined on the basis of appraisals by independent experts.

(in thousands of euro)	Investment property
Gross amount	15,847
Accumulated depreciation	(763)
Carrying amount at December 31, 2017	15,084
Additions	41
Decreases	-
Depreciation	(475)
Carrying amount at December 31, 2018	14,650
Gross amount	15,888
Accumulated depreciation	(1,238)
Carrying amount at December 31, 2018	14,650

Investment property is depreciated at an annual rate of 3%, which reflects its residual useful life.

3) Intangible assets

Intangible assets consist of investments in software applications for administrative purposes.

(in thousands of euro)	Licenses and various rights	Total
Gross amount	264	264
Accumulated amortization	(254)	(254)
Carrying amount at December 31, 2017	10	10
Increases	173	173
Decreases	-	-
Amortization	(29)	(29)
Carrying amount at December 31, 2018	154	154
Gross amount	437	437
Accumulated amortization	(283)	(283)
Carrying amount at December 31, 2018	154	154

4) Investments in subsidiaries and associates

The movements on this caption compared to December 31, 2017, are illustrated below:

(in thousands of euro)	
At December 31, 2017	289,120
Increase for purchase of equity investments	186,188
Increase equity investments for Franco Tosi S.r.l. merger	5,304
Increase for capital payment to Sirap Gema S.p.A.	10,000
Decrease for reimbursement share premium reserve investee shares	(278)
Decrease for Franco Tosi S.r.l. merger	(129,513)
At December 31, 2018	360,821

The increase in equity investments refers largely to the purchase of Iseo Serrature S.p.A. (42,601 thousand euro) and Caffè Borbone S.r.l. (143,568 thousand euro).

The decrease of 129,513 thousand euro was due to the merger of Franco Tosi S.r.l., offset in partly by the transfer of the equity investments held by the company (Credit Mobilier de Monaco, Finimage 15 SAGL and Société d'Etudes de Participations et de Courtages S.A.).

With reference to the subsidiary Sirap Gema S.p.A., an impairment test was carried out by an independent expert in accordance with IAS 36, to determine recoverable value (equity value) on the basis of the estimated present value of future cash flows.

The recoverable equity value of Sirap Gema S.p.A. was determined using the asset-side approach, which decreases the core equity value by net financial debt and employee provisions and increases it by the balance on other non-operating assets and liabilities (net surplus assets).

Since the recoverable equity value of Sirap Gema S.p.A. corresponds to the sum of all its cash-generating units, this approach meant it was possible for most of the CGUs to use the estimated recoverable amount already calculated by Sirap Gema S.p.A. for its own testing for impairment.

For the CGUs that were not measured in the Sirap group impairment test, recoverable amount was estimated on the basis of consistent criteria. Specifically, the recoverable amount of all the CGUs was estimated using the value in use configuration based on analytical future cash flow projections for a period of five years (2019-2023) and on subsequent estimated terminal value.

The cash flow projections for the first year correspond to 2019 budget figures; the projections for 2020/2023 are Sirap Gema S.p.A. management's best estimate compatibly with current strategy and trends and with the assumptions underlying the 2019 budget.

The table below sets out the discount rates (after tax weighted average cost of capital, WACC) and the nominal growth rate (g) used in the terminal value employed to determine value in use of each CGU of the Sirap group (data relating to the Inline Poland CGU refers to cash flows in local currency):

	Weighted average cost of capital (WACC)	Growth rate (g)
Rigid Division Italy CGU	9.24%	0.67%
Foamed Container Division CGU	8.90%	0.67%
Rigid Poland CGU	9.04%	2.00%
Sirap France CGU	7.70%	1.65%
Petruszalek group CGU	10.10%	2.22%
Rosa Plast Due S.r.l.	9.24%	0.67%
Universal Imballaggi CGU	8.89%	0.67%

The nominal growth rates (g) used in the terminal value are aligned with the inflation rate or forecast GDP growth rate for 2022 for the countries/markets in which each CGU operates.

Equity value was found to be greater than the carrying amount of 60,878 thousand euro. Therefore, no impairment or losses were recognized. In the packaging business, at December 31, 2018, a 0.5% increase in WACC, with the same growth rate, in the Rigid division CGU, would determine a decrease of 4.4 million euro in the value of the CGU with an impairment loss of 3 million euro.

With reference to the subsidiary Clessidra SGR S.p.A., an impairment test was carried out in accordance with IAS 36, to determine the recoverable amount (equity value) on the basis of the estimated present value of future cash flows.

Recoverable amount was estimated with the assistance of an independent expert using the value in use configuration, based on analytical future cash flow projections taken from 2019 budget data and from financial and business projections for the period 2020-2023. Cash flows were discounted through application of a discount rate of 11.67%; an inflation rate of 1.2% was used to estimate terminal value. The test did not generate any impairment losses.

Equity value was found to be greater than the carrying amount of 19,000 thousand euro and therefore no impairment or losses were recognized. An increase of 0.5% in the discount rate, with the same growth rate, would lead to a decrease in incremental value of 1.0 million euro, without generating an impairment loss.

Recoverable amount for the subsidiary Caffè Borbone S.r.l. was estimated by an independent expert using the value in use configuration, based on the five-year plan provided by the company, which represents the best estimate of Caffè Borbone S.r.l. management.

The investee, a single cash generating unit (CGU), was tested for impairment in accordance with IAS 36. Specifically, the recoverable amount of the CGU was estimated with the assistance of an independent expert using the value in use configuration, based on the present value of expected future cash flows. The analytical projections of future cash flows (unlevered) were based on 2019 budget data and plan financial and business projections for the period 2020-2022. The cash flows were discounted using a post-tax discount rate (WACC) of 10.10%, including an additional premium with respect to the Capital Asset Pricing Model (CAPM) for the specific risk (so-called "execution

risk”). Terminal value was estimated with reference to a long-term sustainable growth rate (g rate) of 1%. The test did not find any evidence of impairment losses.

The sensitivity analysis showed that an increase of 100 basis points (+1%) in the discount rate (WACC), at the same growth rate (g) in the terminal value, would generate a decrease of 46.3 million euro in recoverable amount, without generating any impairment loss.

Recoverable amount for the associate Tecnica Group S.p.A. was determined with the EV/EBITDA multiples method, based on 2018 preclosure figures. Specifically, the fair value of the equity investment held by Italmobiliare S.p.A. was calculated on the basis of the EV/EBITDA multiple applied only to the share held by the parent, therefore not including the EBITDA attributable to the non-controlling interests of the subsidiary Lova.

The test did not find any evidence of impairment losses for the investee.

Equity investments in subsidiaries and associates at December 31, 2018, are listed below:

Subsidiaries	Registered office	% held
Caffè Borbone S.r.l.	Caivano	60%
Clessidra SGR S.p.A.	Milan	100%
Credit Mobilier de Monaco	Montecarlo	99.91%
Finimage 15 SAGL	Lugano	100%
Italgen S.p.A.	Bergamo	100%
Italmobiliare Servizi S.r.l.	Milan	100%
Punta Ala Promozione e Sviluppo Immobiliare S.r.l.	Milan	100%
Société d'Etudes de Participations et de Courtages S.A.	Montecarlo	99.98%
Sirap Gema S.p.A.	Verolanuova	100%
Associates	Registered office	% held
Dokimè S.r.l.	Milan	20.63%
Iseo Serrature S.p.A.	Fisogne	40%
Società Editrice Sud S.p.A.	Messina	31.10%
Tecnica Group S.p.A.	Giavera del Montello	40%

See annexes “A” and “B” for further information on equity investments in subsidiaries and associates.

5) Other equity investments

This non-current asset caption reflects equity investments designated at FVOCI as required by IAS 9.

<small>(in thousands of euro)</small>	
At December 31, 2017	599,768
Increases	4,605
Franco Tosi S.r.l. merger	6,487
Disposals	(29,600)
Changes in fair value	(177,399)
At December 31, 2018	403,861

The increases refer largely to the purchase of New Flour S.p.A. shares (2,767 thousand euro), Unicredit S.p.A. shares (1,617 thousand euro) and the transfer of the equity investments in Can-Fite Biopharma, Unione di Banche Italiane S.p.A. and Vontobel Holding AG, as a result of the merger of Franco Tosi S.r.l. (6,487 thousand euro).

Please refer to Annex "A" for other movements.

For the other companies, the fair value of listed companies was determined on the basis of the official share price on the last accounting day of the reporting period; the fair value of unlisted companies was estimated using methods envisaged by IAS 9.

Other equity investments at December 31, 2018 were as follows:

(in thousands of euro)	Number of shares/quotas	December 31, 2018
Investments in listed companies		
Cairo Communication S.p.A.	189,198	647
Cartiere Burgo S.p.A.	46,153,846	1
Coima Res S.p.A.	412,332	2,893
HeidelbergCement AG	4,608,162	245,983
Mediobanca S.p.A.	8,737,720	64,425
Piaggio S.p.A.	369,699	675
Unicredit S.p.A.	204,331	2,009
Unione di Banche Italiane S.p.A.	117,142	296
Vontobel Holding AG	115,238	5,154
Ideami S.p.A.	300,000	2,790
Total		324,873
Investments in non-listed companies		
Atmos Venture S.p.A.	222,909	75
Compagnia Fiduciaria Nazionale S.p.A.	20,001	1,214
Fin Priv S.r.l.	2,857	15,568
Idrovia Ticino - Milano Nord - Mincio S.p.A. winding up	100	1
Imm.re Lido di Classe S.p.A.	45,991	-
Immobiliare Astra S.p.A.	12,012	30
Italgen MSR For Energy	7,694	46
New Flour S.p.A.	27,667	2,767
SciQuest Inc.	92,703,301	56,410
Sesaab S.p.A.	700,000	1,982
035 Investimenti S.p.A.	1,000,000	896
Total		78,989
Total equity investments		403,862

The analysis of movements in equity investments is shown in annex "A".

6) Deferred tax assets

Deferred tax assets amounted to 25,937 thousand euro (10,883 thousand euro at December 31, 2017) and consisted largely of amounts calculated on the tax losses of Italmobiliare S.p.A.. The assets were recognized on the basis of a forecast made by the companies including in the current and soon-to-be-renewed domestic tax consolidation system, which considers that in future years taxable income is likely to be realized against which the past tax losses can be utilized.

7) Other non-current assets

The balance on this caption was as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Receivables due from subsidiaries	15,000	-	15,000
Bonds and mutual funds	128,142	107,376	20,766
Other	2,416	24	2,392
Guarantee deposits	4	13	(9)
Receivables on tax consolidation due from subsidiaries	424	691	(267)
Total	145,986	108,104	37,882

The increase in “Bonds and mutual funds” was due for the most part (28,584 thousand euro) to the transfer of private equity funds previously held by the merged company Franco Tosi S.r.l. Details of “Bonds and mutual funds” are provided in annex “D”.

Current assets

8) Trade receivables

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
From Customers	278	2,022	(1,744)
From Subsidiaries	303	361	(58)
Total	581	2,383	(1,802)

Receivables referred to Italian entities.

9) Other current assets including derivatives

This caption is made up as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Receivables from employees	1	1	-
Receivables from social security bodies	77	51	26
Receivables for dividends to be collected	9	5	4
VAT tax receivables	85	-	85
Derivatives on initial margin requirements	316	226	90
Other current receivables	1,767	1,826	(59)
Options on securities	2,391	2,601	(210)
Receivables from SciQuest Inc. for Bravosolution S.p.A. sale	4,034	6,901	(2,867)
Prepaid expenses due from others	57	53	4
Total	8,737	11,664	(2,927)

The decrease arose largely from partial collection of the receivable due from SciQuest Inc. on the sale of Bravosolution S.p.A. (2,867 thousand euro).

10) Tax assets

Tax assets totaled 3,573 thousand euro (2,680 thousand euro at December 31, 2017). The increase arose from Italgen S.p.A. tax credits included in the tax consolidation and tax credits on tax withholdings.

11) Equity investments, bonds and current loan assets

The balance on this caption was as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Trading bonds and funds	198.404	64.563	133.841
Trading listed shares	33.712	7.289	26.423
Current loan assets due from subsidiaries	3.743	16.376	(12.633)
Financial prepayments	1.241	97	1.144
Total	237.100	88.325	148.775

The increase arose largely from the transfer of financial assets held by the merged company Franco Tosi S.r.l. (230,290 thousand euro), partly offset by the subsequent divestment of assets to enable investment in equity investments.

Details of "Trading bonds and funds" are illustrated in annex "D".

12) Cash and cash equivalents

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Cash and checks in hand	14	2	12
Bank and postal accounts	90,143	192,011	(101,868)
Net amount	90,157	192,013	(101,856)

Short-term deposits are demand deposits; interest matures at the respective short-term rates.

The fair value of cash and cash equivalents corresponds to their carrying amount.

The merger of Franco Tosi generated an increase of 11,199 thousand euro in cash and cash equivalents.

Equity and liabilities

Share capital, reserves and retained earnings

13) Share capital

At December 31, 2018, the parent's fully paid-up share capital amounted to 100,166,937 euro represented by 47,633,800 no-par ordinary shares.

	December 31 2018	December 31 2017	Change
Number of shares			
Ordinary shares	47,633,800	47,633,800	-
Total	47,633,800	47,633,800	-

14) Share premium and other reserves

At December 31, 2018, the share premium reserve was unchanged from December 31, 2017, while the other reserves, totaling -24,729 thousand euro, showed an overall decrease of 205,192 thousand euro from December 31, 2017; this included 168,409 thousand euro from the reclassification of the reserve for former available-for-sale financial assets to the OCI reserve for 137,665 thousand euro and -174,448 thousand euro from the recognition of the 2018 change in the fair value of equity investments at FVOCI.

15) Treasury shares

At December 31, 2018, the cost of treasury share purchase totaled 134,659 thousand euro (134,608 thousand euro at December 31, 2017), recognized as decreased in equity. Treasury shares were as follows:

	no. ordinary shares	Carrying amount in euro (000 euro)
December 31, 2017	5,690,870	134,608
Increases		169
Exercise of stock options	(5,000)	(118)
December 31, 2018	5,685,870	134,659

The change arose from the exercise of stock options by employees and from the CONSOB grant for the voluntary public tender offer of 2017.

A total of 360,700 ordinary treasury shares were held in portfolio at December 31, 2018, for stock option plans for directors and managers.

Dividends paid

Ordinary dividends declared and paid in 2018 and 2017 are detailed in the table below:

	2018 (euro per share)	2017 (euro per share)	December 31, 2018 (000 euro)	December 31, 2017 (000 euro)
Ordinary shares (1)	0.550	0.500	23,071	22,960
Total dividends			23,071	22,960

Note (1): the 2017 dividend is stated pro-forma to take account of the 2017 stock split.

16) Retained earnings

The overall change of 183,248 thousand euro mainly arose from the 2018 profit for the year for 19,795 thousand euro, from the payment of dividends for 23,071 thousand euro, from the Franco Tosi S.r.l. merger surplus for 154,559 thousand euro, and from application of the new IFRS 9 for 31,863 thousand euro.

Non-current liabilities

17) Employee benefits

This caption includes post-employment benefits in accordance with IAS 19 and liabilities relating to future commitments, in the form of bonuses or incentives, to be paid to employees.

Movements on the caption are detailed below:

(in thousands of euro)	Post-employment benefits	Long-service bonus	Total
At December 31, 2017	699	116	815
Utilization during year	(320)	-	(320)
Provision for year	107	34	141
At December 31, 2018	486	150	636

Expense for the year included:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Current cost of services	(64)	(56)	(8)
Finance costs	(13)	(16)	3
Total	(77)	(72)	(5)

The assumptions used to determine liabilities arising from long-term benefits are set out below:

	Provision for post- employment benefits	Other employee benefits
Discount rate	1.85%	1.85%
Future wage and salary increases	2.81%	2.81%
Inflation	1.50%	1.50%

Stock options

The company has arranged stock option plans for directors and managers who hold special roles in the group. Stock options refer to shares; the characteristics of stock option plans are illustrated in the directors' report, in the sections on Corporate Governance and Stock Option Plans. Stock options are exercised at a rate of one share per option.

The terms and conditions of Italmobiliare S.p.A. stock option plans at December 31, 2018, are set out below:

Grant date	no. of options granted	Exercise period	Exercised options	Canceled options	Unexercised options	Unit subscription price
March 25, 2009	38,700	03/25/2012-03/24/2019	30,800		7,900	€ 10.2630
March 24, 2010	248,770	03/24/2013-03/23/2020	62,270		186,500	€ 14.4170
March 30, 2011	225,800	03/30/2014-03/30/2021	59,500		166,300	€ 13.7345
Total	513,270		152,570		360,700	

The grant date is the date of the Board of Directors' meeting that approved the stock option plan.

The table below sets out the number and average exercise price of stock options in the years in question:

(in thousands of euro)	December 31, 2018		December 31, 2017	
	Number of options	Average subscription price	Number of options	Average subscription price
Unexercised options at beginning of year	614,100	€ 21.0642	916,048	€ 25.7239
Granted during year				
Canceled during year				
Exercised during year	(5,000)		(56,990)	
Expired during year	(248,400)		(244,958)	
Unexercised options at end of year	360,700	€ 15.2875	614,100	€ 21.0642
Vested options at end of year	360,700		614,100	

The average share price in 2018 was 21.12 euro (23.787 euro in 2017).

The average residual life of unexercised options is 10 months.

The option exercise price at December 31, 2018 was between 10.2630 euro and 14.4170 euro.

Stock option plan fair value at the grant date is estimated using a binomial model that takes dividends into account. The total option term is ten years. Volatility projections assume that past volatility, computed as the annual average on a past period of three years net of extraordinary events, is indicative of future trends.

The following table sets out the assumptions used and results obtained in measuring stock options relating to exercisable plans:

	2010 Plan	2009 Plan	2008 Plan
Option value at grant date	8.813	9.28	3.78
Option value after PTO	4.4065	4.64	1.89
Share value	28.4	31.1	21.59
Share value after PTO	14.2	15.55	10.795
Exercise price	27.469	28.834	20.526
Exercise price after PTO	13.7345	14.417	10.263
Volatility in %	26.2%	24.3%	25.0%
Option term (years)	10	10	10
Dividends in %	3.01%	2.75%	7.41%
10-year BTP risk-free rate	4.775%	3.920%	4.485%

18) Financial liabilities

Financial liabilities are shown below by category, broken down by current and non-current liabilities:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Current bank loans and borrowings	7,121	7,458	(337)
Current financial liabilities	2,704	483	2,221
Options on securities	1,954	3,967	(2,013)
Accrued financial liabilities	21	-	21
Total financial liabilities	11,800	11,908	(108)

Main bank loans and borrowings and lines of credit

The main loans and borrowings were as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
With collateral security:			
- Mediobanca S.p.A. Maturity: 12/24/2019	7,112	7,112	-
Total	7,112	7,112	-
Total bank loans and borrowings	7,112	7,112	-

A reconciliation of the changes in financial liabilities arising from financing activities is set out below.

(in thousands of euro)	December 31 2018	December 31 2017	Change
Bank loans and borrowings	9	346	(337)
Current financial liabilities	9,837	7,595	2,242
Total financial liabilities	9,846	7,941	1,905

The change in financial liabilities of 1,905 thousand euro referred exclusively to monetary movements.

19) Provisions

Provisions amounted to 33,942 thousand euro at December 31, 2018. The change of 64 thousand euro compared to December 31, 2017 arose from an increase of 2,818 thousand euro in the provision for risks relating to contractual and tax disputes on which a future out flow is deemed probable, from the release to the income statement of 2,754 thousand euro of amounts set aside in previous years (2,720 thousand euro) and from utilisation for tax disputes (34 thousand euro).

(in thousands of euro)	Opening amount	Increases	Decreases	Closing amount
Provisions	33,878	2,818	2,754	33,942

20) Other non-current liabilities

The increase of 4,415 thousand euro chiefly referred to the new three-year incentives plan for employees.

21) Deferred tax liabilities

Total deferred tax liabilities amounted to 620 thousand euro (11,425 thousand euro at December 31, 2017), as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Taxes and deferred taxes on FVOCI shares (former available for sale)	345	1,695	(1,350)
Taxes and deferred taxes on bonds and private equity funds	-	9,730	(9,730)
Taxes and deferred taxes on taxable temporary changes	275	-	275
Total	620	11,425	(10,805)

The change was largely due to application of the new IFRS 9 which led to the reclassification of private equity funds from available-for-sale to FVTPL, and the consequent taxation of the AFS reserve as at December 31, 2017.

Current liabilities

22) Trade payables

The balance on this caption was as follows:

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Suppliers	1,287	5,191	(3,904)
Group companies	28	271	(243)
Total	1,315	5,462	(4,147)

The reduction in trade payables was attributable to the sale of BravoSolution S.p.A. at the end of December 2017.

23) Other current liabilities

(in thousands of euro)	December 31, 2018	December 31, 2017	Change
Due to employees	2,335	1,521	814
Due to social security bodies	859	613	246
Due to tax authorities	266	1,069	(803)
Accrued expenses and deferred income	202	177	25
Other liabilities	735	1,350	(615)
Amounts due to subsidiaries tax consolidation advance IRES payments	149	624	(475)
Options on securities	1,954	3,964	(2,010)
Total	6,500	9,318	(2,818)

The decrease was mainly due to the reduction in options on securities.

Commitments

(in thousands of euro)	December 31, 2018	December 31, 2017
Collateral given	104,833	43,314
Deposits, guarantees, sureties, commitments and other	182,592	168,066
Total	287,425	211,380

The increase in collateral given compared to December 31, 2017 arose from a pledge set up on Caffè Borbone S.p.A. shares to guarantee a loan.

Usual Guarantees are provided as usual, on the sale of equity investments.

The caption also includes Tecnica Group S.p.A. shares pledged as collateral for bank loans granted to Tecnica Group S.p.A. in 2017.

“Deposits, guarantees, sureties, commitments and other” includes sureties given at fair value at the reporting date and commitments for subscription of private equity fund units (65,781 thousand euro).

It also includes future lease payments of 375 thousand euro, of which 117 thousand euro to be paid within a year and 258 thousand euro within 2/5 years.

Income statement

24) Revenue and income

Revenue from sales and services and income totaled 54,960 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Dividends	23.839	22.354	1.485	6,6%
Gains on disposals and fair value increases on equity investments and securities	556	100.788	(100.232)	-99,4%
Other finance income	29.948	19.716	10.232	51,9%
Services provided	617	591	26	4,4%
Total	54.960	143.449	(88.489)	-61,7%

The breakdown of the various items was as follows:

Revenue from dividends:

(in thousands of euro)	2018	2017	Change	% change
Subsidiaries				
Clessidra SGR S.p.A.	1,725	-	1,725	100%
Credit Mobilier de Monaco	245	-	245	100%
Italgen S.p.A.	6,000	6,000	-	-
Sirap Gema S.p.A.	1,000	2,000	(1,000)	-50%
Total	8,970	8,000	970	12.1%
Other companies				
Cairo Communication S.p.A.	19	10	9	90.0%
Coima S.p.A.	115	84	31	36.9%
Compagnia Fiduciaria Nazionale S.p.A.	117	-	117	100%
Emittenti Titoli S.p.A.	-	27	(27)	-100.0%
ENI S.p.A.	82	-	82	100%
Fin.Priv. S.r.l.	957	757	200	26.4%
Banca Leonardo S.p.A. group	-	174	(174)	-100.0%
HeidelbergCement AG	9,180	9,185	(5)	-0.1%
Mediobanca S.p.A.	4,107	3,862	245	6.3%
OVS S.p.A.	-	255	(255)	-100.0%
Plaggio S.p.A.	15	-	15	100%
Recordati S.p.A.	9	-	9	100%
Unione di Banche Italiane S.p.A.	13	-	13	100%
Unicredit S.p.A.	52	-	52	100%
Vontobel S.A.	203	-	203	100%
Total	14,869	14,354	515	3.6%
Grand total	23,839	22,354	1,485	6.6%

Gains on disposals and fair value increases on equity investments and securities:

(in thousands of euro)	2018	2017	Change	% change
From equity investment sales				
Ambienta Sgr S.p.A.	-	9	(9)	-100.0%
Banco BPM	-	2	(2)	-100.0%
BravoSolution S.p.A.	54	72,044	(71,990)	-99.9%
Emittenti Titoli S.p.A.	-	2,389	(2,389)	-100.0%
ENI S.p.A.	502	-	502	100.0%
HeidelbergCement AG	-	20,434	(20,434)	-100.0%
Mediobanca S.p.A.	-	5,593	(5,593)	-100.0%
OVS S.p.A.	-	317	(317)	-100.0%
Total	556	100,788	(100,232)	-99.4%
Grand total	556	100,788	(100,232)	-99.4%

As a result of the application of the new IFRS 9, income from the sale of equity investments reclassified from available-for-sale to FVTOCI is stated directly to the OCI reserve in equity.

Other finance income:

(in thousands of euro)	2018	2017	Change	% change
Interest and finance income from subsidiaries	569	30	539	n.s.
Interest and finance income from associates	720	77	643	n.s.
Interest and finance income from others	1,136	88	1,048	n.s.
Interest income on securities and bonds	1,098	2,989	(1,891)	-63.3%
Bank interest income	31	8	23	n.s.
Options on securities	10,901	15,955	(5,054)	-31.7%
Income from interest-rate hedging	1,350	67	1,283	n.s.
Income from currency trading	523	-	523	100.0%
Income from currency measurement	1,129	-	1,129	100.0%
"IFRS 9 amortized cost" income	743	-	743	100.0%
Income from futures	327	21	306	n.s.
Increase in fair value of funds	11,421	478	10,943	n.s.
Capital gain Mittel fixed rate 6% 07/12/2019	-	3	(3)	-100.0%
Total	29,948	19,716	10,232	51.9%

n.s.= not significant

Revenue from services provided amounted to 617 thousand euro (591 thousand euro in 2017).

25) Other revenue and income

Other revenue and income amounted to 2,027 thousand euro (1,972 thousand euro in 2017) and included rents and recovery of condominium expenses for 679 thousand euro, policy reimbursements and director life annuities for 653 thousand euro and other income for 695 thousand euro.

26) Raw materials and supplies

Expense for raw materials and supplies amounted to 189 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Materials and machinery	9	37	(28)	-75.7%
Other materials	122	63	59	93.7%
Electricity and gas	58	59	(1)	-1.7%
Total	189	159	30	18.9%

27) Services

Expense for services amounted to 7,353 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Legal fees, consultancy and statutory auditor fees	5,812	4,553	1,259	27.7%
Rents and fees for use of third-party assets	234	247	(13)	-5.3%
Insurance	418	459	(41)	-8.9%
Lease payments and expense of civil buildings	8	60	(52)	-86.7%
Maintenance and repairs	150	103	47	45.6%
Subscriptions	249	197	52	26.4%
Communication and entertainment	32	40	(8)	-20.0%
Post and telephone	80	103	(23)	-22.3%
Cleaning	58	61	(3)	-4.9%
Other expense and residual services	312	266	46	17.3%
Total	7,353	6,089	1,264	20.8%

The change in Legal fees, consultancy and statutory auditor fees was largely due to the increase in services provided by the subsidiary Italmobiliare Servizi S.r.l..

Amounts totaling 182 thousand euro were incurred with regard to the Board of Statutory Auditors.

28) Personnel expense

Personnel expense totaled 14,877 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Wages and salaries	10.745	12.936	(2.191)	-16,9%
Social security contributions	2.243	2.775	(532)	-19,2%
Provisions and contributions to pension funds	106	787	(681)	-86,5%
Directors' remuneration	1.716	2.074	(358)	-17,3%
Other miscellaneous expense	67	43	24	55,8%
Total	14.877	18.615	(3.738)	-20,1%

The change in personnel expense was largely due to a reduction in incentives paid to employees in 2018.

The number of employees is shown below:

(headcount)	2018	2017
Number of employees at year end	37	33
Average number of employees	38	34

29) Other operating expense

Other operating expense net of other operating income amounted to 33,127 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Finance income and costs				
Current account and financial interest expense due to subsidiaries	5	1	4	n.s.
Commissions	86	(128)	214	n.s.
Securities and bonds	515	3.880	(3.365)	-86,7%
Currency trading	79	-	79	100,0%
Measurement currencies	404	-	404	100,0%
Costs for exchange-rate hedging	-	60	(60)	-100,0%
Options on indices	40	27	13	48,1%
Options on securities	4.784	8.949	(4.165)	-46,5%
Other expense	121	111	10	9,0%
Total	6.034	12.900	(6.866)	-53,2%
Losses on disposals and fair value decreases				
Sale securities	39	8	31	n.s.
Sale cashes	58	-	58	100,0%
Sale mutual funds	942	181	761	n.s.
Sale foreign bonds	71	85	(14)	-16,5%
Losses P&G	64	-	64	100,0%
Measurement loss trading equity investments	12.560	738	11.822	n.s.
Measurement loss funds	9.431	33	9.398	n.s.
Measurement loss bonds	1.182	-	1.182	100,0%
Measurement loss put options with pledge	-	6	(6)	-100,0%
Total	24.347	1.051	23.296	n.s.
Other expense and income				
Condominium expenses on own buildings	194	177	17	9,6%
Other operating expense	503	436	67	15,4%
Non-deductible VAT	2.075	2.046	29	1,4%
IMU tax	273	273	-	-
Registration tax	6	7	(1)	-14,3%
Other taxes	239	141	98	69,5%
Prior year expense	298	92	206	n.s.
Prior year income	(335)	(1.370)	1.035	-75,5%
Gain on sale property in Chiasso	(114)	-	(114)	100,0%
Loss on sale of furniture and fittings	2	-	2	100,0%
Other expense and income	(777)	(699)	(78)	11,2%
Fondazione Italcementi Ing. Carlo Pesenti	500	-	500	100,0%
Total	2.864	1.103	1.761	n.s.
Use/additions provisions for risks				
Additions provisions for risks	(118)	336	(454)	n.s.
Total	(118)	336	(454)	n.s.
Total other operating income/expense	33.127	15.390	17.737	n.s.

n.s. = not significant

30) Amortization and depreciation

The overall amount of 588 thousand euro (546 thousand euro in 2017) reflects depreciation of property, plant and equipment and investment property for 559 thousand euro (538 thousand euro in 2017) and amortization of intangible assets for 29 thousand euro (8 thousand euro in 2017).

31) Finance costs

Finance costs amounted to 143 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Financial services	57	64	(7)	-10,9%
Miscellaneous finance costs	86	1.125	(1.039)	-92,4%
Total	143	1.189	(1.046)	-88,0%

32) Impairment losses on financial assets

No impairment losses were applied to financial assets in 2018 (21 thousand euro in 2017).

33) Income tax expense

This caption reflects a positive effect for the year of 19,085 thousand euro, as follows:

(in thousands of euro)	2018	2017	Change	% change
Current tax	4.999	-	4.999	100,0%
Deferred tax liabilities/assets on temporary differences	4.599	-	4.599	100,0%
Deferred tax assets on prior-year tax losses	10.039	-	10.039	100,0%
Non-recoverable w ithholdings on HeidelbergCement AG	(1.339)	(1.309)	(30)	2,3%
Reimbursement prior-year taxes	786	-	786	100,0%
Prior-year taxes	1	14	(13)	-92,9%
Total	19.085	(1.295)	20.380	n.s.

The change of 20.4 million euro was largely due to the activation of tax benefits on prior-year tax losses and on deductible temporary differences as a result of the projection of future taxable income from the tax consolidation.

IFRS 7

Risk management policies

Objectives

For Italmobiliare S.p.A., exposure to financial risk is an opportunity to generate profits within the limits established for the purpose of ensuring prudent management of resources.

Financial instruments

The group guidelines define the types of financial instruments allowed, maximum amounts, counterparties and methods of approval.

Derivatives may be used both as risk management instruments and as instruments relating to market positioning.

Credit risk

Italmobiliare S.p.A. is exposed to credit risk with respect to issuers of financial instruments and counterparties on financial transactions.

The guidelines establish minimum rating levels for individual investments (where applicable), for type of instrument, for rating class and maximum exposure in relation to individual counterparties.

A monitoring and reporting system has also been established for senior management.

Italmobiliare S.p.A. has no significant exposure to trade credit risks.

The table below illustrates the level of credit risk exposure for each instrument (bonds, deposits, other financial assets) and with respect to the counterparties to derivatives.

	Fair value (in millions of euro)	Average rating	Residual average life (in years) (*)
Trading bonds	18,2	n.a.	3,95
Bonds	12,6	Baa1	10,94
Deposits	90,1	n.a.	n.a.
Other financial assets	0,7	n.a.	n.a.
Derivatives on shares	0,4	n.a.	<1

(*) determined on first call

n.a.= not applicable

Assuming a parallel shift of +100 bps in the credit curve, the estimated overall change in financial instruments would be -1.3 million euro, reflected entirely in the income statement.

Deposits are subject to counterparty risk, but a shift of +100 bp in the curve would not have an impact on the amount thereof.

Other financial assets and derivatives are excluded from the sensitivity analysis since their fair value does not depend on the creditworthiness of the counterparty.

Liquidity risk

Italmobiliare S.p.A. risk management policy is designed to optimize financial resources through effective management (in terms of maturities, costs and liquidity) of the company's assets and liabilities.

The company had a strong Net Financial Position (hereinafter "NFP") at December 31, 2018: a regular report is drawn up analyzing the NFP trend in relation to company requirements.

The table below sets out the NFP by maturity (residual life) compared with financial assets and undrawn lines of credit.

(in millions of euro)	Maturity				Total
	< 1 year	1 - 2 years	2 - 5 years	Beyond	
Total financial liabilities	(11,8)				(11,8)
Total financial assets	132,4		24,0	200,3	356,7
Net financial position	120,6		24,0	200,3	344,9
<i>Undrawn committed lines of credit</i>					

Short-term drawings on committed lines of credit are reclassified on expiry of the respective facility. Undrawn uncommitted lines of credit stand at 208.0 million euro.

Market risk

Interest-rate risk

Fluctuations in interest rates affect the fair value of financial assets and liabilities and the level of net finance costs.

Regular reports are drawn up analyzing the net financial position and detailing asset and liability management.

The table below illustrates the composition of the net financial position of the financial and private equity segment at December 31, 2018, and its exposure to interest-rate risk; reference should be made to the specific note for a detailed analysis of the net financial position.

(in millions of euro)	
Balance at December 31, 2018	
Fixed-rate financial liabilities	
Fixed-rate financial assets	9.8
Fixed-rate NFP at inception	9.8
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	
Fixed-rate NFP after hedging	9.8
Floating-rate financial liabilities	(2.7)
Floating-rate financial assets	21.9
Floating-rate NFP at inception	19.2
Fixed-rate/Floating-rate hedging	
Floating-rate/Fixed-rate hedging	
Floating-rate NFP after hedging	19.2
Assets not exposed to interest-rate risk	325.0
Liabilities not exposed to interest-rate risk	(9.1)
Total NFP	344.9

Floating-rate assets include cash and cash equivalents, amounts due from Group companies and floating-rate bonds; fixed-rate liabilities include amounts due to third parties and Group companies.

A sensitivity analysis was performed to determine the change in the fair value of the total net financial position caused by an instantaneous shift of 100 bp in forward interest rates (assuming a parallel shift in the curve). Modified duration was used as the sensitivity criterion.

The analysis found an overall estimate of -1.5 million euro, with an effect exclusively on the income statement.

On demand and time deposits, an instantaneous shift in the curve would not generate an automatic effect on the income statement.

Symmetrical results would be generated by an instantaneous parallel downward shift in the rate curve.

Currency risk

Overall exposure to the currency risk is limited. Currency positions are limited and used in order to de-correlate the risk of traditional financial assets in the liquidity management portfolio.

Other price risks

Italmobiliare S.p.A. is particularly exposed to the risk of fluctuations in the prices of listed equities carried at fair value.

Since Italmobiliare S.p.A. is a holding company, exposure to equity risk is inherent to its core business. In some cases, for limited amounts, the Policies set out procedures and approvals for the use of derivatives to reduce this risk.

At December 31, 2018, listed assets exposed to price risk amounted to 358.6 million euro, of which 324.9 million euro classified as FVTOCI and 33.7 million euro classified as trading assets.

A hypothetical reduction of 5% in share prices would have a negative impact on the asset fair value of 17.9 million euro, of which 16.2 million euro on equity and 1.7 million euro on the income statement.

(in millions of euro)	Fair Value	Share price delta	Impact on income statement	Impact on equity
Shares FVTPL	33.7	-5%	(1.7)	
Shares FVTOCI	324.9	-5%		(16.2)

Net financial position

At December 31, 2018, the company had a positive net financial position of 344,885 thousand euro, an increase of 36,969 thousand euro from December 31, 2017.

The breakdown of the net financial position is set out below:

(in thousands of euro)	2018	2017	Change
Cash and cash equivalents	90,149	191,668	(101,519)
Loan assets due from Group companies	18,743	16,376	2,367
Government securities and bonds - current	364	364	-
Government securities and bonds - non-current	3,163	6,876	(3,713)
Mutual funds	173,941	52,786	121,155
Fixed-rate currency bonds (USD)	-	16,885	(16,885)
P&G bonds	17,874	-	17,874
Compagnia Fiduciaria Nazionale bond loan	417	417	-
Prime Holding bond loan 2017/2018	-	10,000	(10,000)
Tecnica Group 2017/2022 convertible bond loan	9,000	9,000	-
Held for trading equity investments	33,712	7,289	26,423
Index-linked ETFs	5,345	4,890	455
Puts/calls on equities	2,391	2,604	(213)
Derivatives on initial margin requirements	316	226	90
Prepayments and accrued income	1,240	97	1,143
Total financial assets	356,655	319,478	37,177
Securities-backed loans and borrowings	(7,112)	(7,112)	-
Financial liabilities vs subsidiaries	(2,704)	(483)	(2,221)
Puts/calls on equities	(1,954)	(3,967)	2,013
Total financial liabilities	(11,770)	(11,562)	(208)
Net financial position	344,885	307,916	36,969

Comparison between fair value and carrying amount

The tables below provide a breakdown of the carrying amount and the fair value of financial assets and financial liabilities at 12/31/2018 and 12/31/2017.

	Carrying amount				Fair value				
	FVTPL	FVOCI	Amor- tized cost	Other financial liabilities	Total	level 1	level 2	level 3	Total
<i>(in thousands of euro)</i>									
Financial assets									
Other equity investments		403,861			403,861	324,873	15,568	63,420	403,861
Trade receivables and other non-current assets	118,725		27,261		145,986		3,163	115,562	118,725
<i>Financial assets held to maturity</i>			9,417		9,417				
<i>Financial assets FVTPL nfp</i>	3,163				3,163		3,163		3,163
<i>Financial assets FVTPL non-nfp</i>	115,562				115,562			115,562	115,562
<i>Non-current receivables</i>			17,840		17,840				
<i>Guarantee deposits</i>			4		4				
Trade receivables			581		581				
Current assets including derivatives	2,391		6,347		8,738		2,391		2,391
<i>Derivatives</i>	2,391				2,391		2,391		2,391
<i>Other amounts due</i>			6,347		6,347				
Equity investments, bonds and Current loan assets	231,752		5,348		237,100	57,892	172,980	880	231,752
<i>NFP Equity investments FVTPL</i>	34,592				34,592	33,712		880	34,592
<i>Financial assets at amortized cost</i>			364		364				
<i>NFP Financial assets FVTPL</i>	197,160				197,160	24,180	172,980		197,160
<i>Loan assets and financial accruals</i>			4,984		4,984				
Cash and cash equivalents			90,157		90,157				
Total	352,868	403,861	129,694		886,423	382,765	194,102	179,862	756,729
Financial liabilities									
Other non-current liabilities			7,614		7,614				
<i>Other non-current liabilities</i>			7,614		7,614				
Current bank loans and borrowings				9	9		9		9
Current financial liabilities			21	9,816	9,837		9,816		9,816
<i>Bank loans and borrowings</i>				7,112	7,112		7,112		7,112
<i>Other loans and borrowings</i>				2,704	2,704		2,704		2,704
<i>Other financial liabilities</i>			21		21				
Trade payables			1,315		1,315				
Other liabilities	1,954		4,546		6,500		1,954		1,954
<i>Derivatives</i>	1,954				1,954		1,954		1,954
<i>Other liabilities, accruals and deferrals</i>			4,546		4,546				
Total	1,954		13,496	9,825	25,275		11,779		11,779

	Carrying amount					Total	Fair value			
	Held for trading	Available for sale	Held to maturity	Loans and receivables	Other financial liabilities		level 1	level 2	level 3	Total
<i>(in thousands of euro)</i>										
Financial assets										
Other equity investments		599,767				599,767	535,286	19,888	44,593	599,767
Trade receivables and other non-current assets		97,959	9,417	728		108,104		6,877	91,082	97,959
<i>Financial assets held to maturity</i>			9,417			9,417				
<i>Financial assets AFS nfp</i>		27,238				27,238	6,877		20,361	27,238
<i>Financial assets AFS non-nfp</i>		70,721				70,721			70,721	70,721
<i>Non-current receivables</i>				715		715				
<i>Guarantee deposits</i>				13		13				
Trade receivables				2,383		2,383				
Current assets including derivatives	2,827			8,837		11,664	20	2,807		2,827
<i>Derivatives</i>	2,827					2,827	20	2,807		2,827
<i>Other amounts due</i>				8,837		8,837				
Equity investments, bonds and current loan assets	44,967	16,885	10,000	16,473		88,325	61,852			61,852
<i>Trading equity investments</i>	7,289					7,289	7,289			7,289
<i>Financial assets held to maturity</i>	364	16,885	10,000	81		27,330	17,249			17,249
<i>Financial assets</i>	37,314					37,314	37,314			37,314
<i>Loan assets and financial accruals</i>				16,392		16,392				
Cash and cash equivalents			192,013			192,013				
Total	47,794	714,611	211,430	28,421		1,002,256	597,158	29,572	135,675	762,405
Financial liabilities										
Other non-current liabilities				3,199		3,199				
<i>Other non-current liabilities</i>				3,199		3,199				
Current bank loans and borrowings					346	346		346		346
Current financial liabilities					7,595	7,595		7,595		7,595
<i>Bank loans and borrowings</i>					7,112	7,112		7,112		7,112
<i>Other loans and borrowings</i>					483	483		483		483
Trade payables			5,462			5,462				
Other liabilities	3,964			5,354		9,318	46	3,918		3,964
<i>Derivatives</i>	3,964					3,964	46	3,918		3,964
<i>Other liabilities, accruals and deferrals</i>				5,354		5,354				
Total	3,964		5,462	8,553	7,941	25,920	46	11,859		11,905

Fair Value – hierarchy

In determining and documenting the fair value of financial instruments, the following hierarchy based on different measurement methods was used:

level 1: financial instruments with prices quoted on active markets;

level 2: prices quoted on active markets for similar financial instruments, or fair value determined with other measurement methods where all significant inputs are based on observable market data;

level 3: fair value determined with measurement methods where no significant input is based on observable market data.

For Sciquest Inc., an estimate was made based on market multiples of comparables and the amount in question was adjusted accordingly.

There were no transfers between levels in 2018.

The change in level 3 is set out in the table below:

(in thousands of euro)	Receivables and other non-current assets	Non-current equity investments	Current equity investments	Total
Balance at December 31, 2017	91,082	44,593	-	135,675
Changes arising from acquisitions	28,544	2,812	19	31,375
Gains and losses in profit or loss	6,402	-	1,385	7,787
Gains and losses in equity	-	20,684	-	20,684
Sales/reductions in capital	(40,466)	(4,669)	(1,853)	(46,988)
Other changes	30,000	-	1,329	31,329
Total changes	24,480	18,827	880	44,187
Balance at December 31, 2018	115,562	63,420	880	179,862

Non-recurring transactions

The following tables itemize the most significant non-recurring transactions and their impact on equity, net financial debt and profit (loss) for the year:

(in thousands of euro)	2018		
	Equity	Profit for the period	Net financial debt
	%	%	%
Carrying amounts	1,230,089	19,795	344,885
Net gains from sale of BravoSolution S.p.A. equity investment	54 n.s.	54 0.27%	n.a.
Purchase non-core assets	-	-	-
Income from distribution to shareholders	-	-	-
Other non-recurring income (expense)	-	-	-
Total	54 n.s.	54 0.27%	-
Figurative amount without non-recurring transactions	1,230,035	19,741	344,885

(in thousands of euro)	2017		
	Equity	Profit for the period	Net financial debt
	%	%	%
Carrying amounts	1,252,085	102,117	307,916
Net gains from the sale of non-current assets	72,044 5.75%	72,044 70.55%	n.a.
Purchase non-core assets	-	-	-
Income from distribution to shareholders	-	-	-
Other non-recurring income (expense)	1,034 0.08%	1,034 1.01%	-
Total	73,078 5.84%	73,078 71.56%	-
Figurative amount without non-recurring transactions	1,179,007	29,039	307,916

n.s.= not significant
n.a.= not applicable

Audit fees

The table below sets out details of the fees paid in 2018 to the independent auditors, pursuant to art. 149-duodecies, par 1 of CONSOB Resolution no.11971 of May 14, 1999:

Services provided (in thousands of euro)	KPMG S.p.A.	Other companies in the KPMG network	Total
Audit services	283	-	283
Review of non-financial disclosure	40	-	40
Non-audit services	-	-	-
Total	323	-	323

Transactions with related parties

The figures at December 31, 2018, for transactions with related parties are set out in the table below:

Receivables and payables with related parties

(euro)	Company	Amount	% impact on carrying amount	Carrying amounts	Reference
Description					
Trade receivables					
subsidiaries	Clessidra SGR S.p.A.	72,007			
	Italgen S.p.A.	37,415			
	Italmobiliare Servizi S.r.l.	45,952			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	19,539			
	Sirap Gema S.p.A.	12,788			
Trade receivables					
associates	Tecnica Group S.p.A.	15,000			
Total trade receivables		302,701	52.14%	580,505	Note 8
Other receivables					
subsidiaries	Sirap Gema S.p.A.	15,000,000			
Total other non-current assets		15,000,000	10.27%	145,985,736	Note 7
Receivables for tax consolidation					
subsidiaries	Italgen S.p.A.	423,671			
	Other related parties	14,483			
Total other current assets including derivatives		438,154	5.01%	8,737,865	Note 9
Current account receivables					
subsidiaries	Caffè Borbone S.r.l.	36,945			
	Sirap Gema S.p.A.	3,706,130			
Prepayments and accrued income					
subsidiaries	Tecnica Group S.p.A.	796,932			
Total current loan assets		4,540,007	1.91%	237,100,332	Note 11
Current account payables					
subsidiaries	Italgen S.p.A.	(874,236)			
	Italmobiliare Servizi S.r.l.	(1,536,496)			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	(293,099)			
Total current financial liabilities		(2,703,831)	27.46%	(9,846,346)	Note 18

(euro)	Company	Amount	% impact on carrying amount	Carrying amounts	Reference
Description					
Trade payables					
subsidiaries	Italmobiliare Servizi S.r.l.	(28,500)			
	Other related parties	(17,930)			
Total trade payables		(46,430)	3.53%	(1,315,168)	Note 22
Other payables tax consolidation					
subsidiaries	Clessidra SGR S.p.A.	(132,988)			
	Italmobiliare Servizi S.r.l.	(313,624)			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	(52,031)			
	Sirap Gema S.p.A.	(2,044,145)			
Other liabilities					
subsidiaries	Sirap Gema S.p.A.	(148,984)			
	Italmobiliare Servizi S.r.l.	(28,786)			
Total other non-current liabilities		(2,720,558)	35.73%	(7,614,210)	Note 20
Accrued expenses and deferred income					
subsidiaries	Clessidra SGR S.p.A.	(657)			
	Italgen S.p.A.	(1,642)			
	Italmobiliare Servizi S.r.l.	(8,031)			
	Caffè Borbone S.r.l.	(4,129)			
	Sirap Gema S.p.A.	(37,750)			
Total other current liabilities		(52,209)	0.80%	(6,500,218)	Note 23

COMMITMENTS WITH RELATED PARTIES

Description	Company	Amount
Letters of patronage to		
subsidiaries	Italgen S.p.A.	8,354,166
	Sirap Gema S.p.A.	26,999,350
Total commitments		35,353,516

Revenue and expense with related parties

(euro)	Company	Amount	% impact on carrying amount	Carrying amounts	Reference
Description					
Dividends					
subsidiaries	Credit Mobilier de Monaco	244,790			
	Clessidra SGR S.p.A.	1,725,000			
	Italgen S.p.A.	6,000,000			
	Sirap Gema S.p.A.	1,000,000			
Total dividends		8,969,790	37.63%	23,839,274	Note 24
Current account and financial interest income and other income					
subsidiaries	Caffè Borbone S.r.l.	28			
	Italgen S.p.A.	39,616			
	Sirap Gema S.p.A.	529,088			
associates	Tecnica Group S.p.A.	720,000			
Total interest income		1,288,732	6.96%	18,527,171	Note 24
Recovery of cost of services					
subsidiaries	Caffè Borbone S.r.l.	43,333			
	Clessidra SGR S.p.A.	135,000			
	Credit Mobilier de Monaco	3,000			
	Italgen S.p.A.	7,000			
	Italmobiliare Servizi S.r.l.	89,115			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	39,148			
	Sirap Gema S.p.A.	250,126			
associates	Tecnica Group S.p.A.	33,205			
Total services		599,927	97.32%	616,475	Note 24
Total revenue		10,858,449	25.26%	42,982,920	Note 24
Other revenue and income					
subsidiaries	Italgen S.p.A.	30,136			
	Italmobiliare Servizi S.r.l.	156,521			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	116			
	Sirap Gema S.p.A.	15,893			
Total other revenue and income		202,666	10.00%	2,027,233	Note 25
(euro)	Company	Amount	% impact on carrying amount	Carrying amounts	Reference
Description					
Services					
subsidiaries	Clessidra SGR S.p.A.	(75,000)			
	Italmobiliare Servizi S.r.l.	(2,486,136)			
	Other related parties	(170,920)			
Total services		(2,732,056)	37.16%	(7,353,032)	Note 27
Current account and financial interest expense					
subsidiaries	Italmobiliare Servizi S.r.l.	(729)			
	Punta Ala Promoz. e Sviluppo Imm.re S.r.l.	(296)			
Other related parties	(Endowment to Fondazione Italcementi)	(500,000)			
Total other operating income/expense		(501,025)	1.51%	(33,126,782)	Note 29
Interest expense on trade payables					
subsidiaries	Italmobiliare Servizi S.r.l.	(86)			
	Other related parties	(9,750)			
Total finance income/costs		(9,836)	6.89%	(142,688)	Note 31-32

Impact of transactions with related parties on cash flows

(in thousands of euro)	Cash flows	
	Amount	%
Cash flow from operating activities with related parties	4,494	62.1%
Total A) - from statement of cash flows	7,231	
Cash flow from investing activities with related parties	158,891	-97.6%
Total B) - from statement of cash flows	(162,744)	
Cash flow from financing activities with related parties	15,574	29.0%
Total C) - from statement of cash flows	53,657	
Change in cash and cash equivalents with related parties	178,959	
Change in cash and cash equivalents from statement of cash flows (A+B+C)	(101,856)	

Fees paid to directors and the chief operating officer

The table below sets out amounts accrued during the financial year by the directors, the chief operating officer and the manager in charge of financial reporting (key management personnel) for positions held:

(euro)	2018	2017
Short-term benefits: fees and remuneration	7,565,462	9,741,003
Post-employment benefits	-	-
Other long-term benefits	2,391,200	1,816,960
Share-based payments	65,160	308,045
Total	10,021,822	11,866,008

Disclosure on transparency requirements in the public grants system (Law no 124/2017 art. 1 paragraphs 125 – 129)

As required by the laws governing the transparency of public grants introduced by article 1, paragraphs 125-129 of Law no. 124/2017, subsequently supplemented by the 'security' decree law (no. 113/2008) and the 'simplification' decree law (no. 135/2018), in 2018 the company did not receive subsidies, contributions and economic advantages of any kind from the public authorities and parties equivalent to public authorities, from the companies controlled by public authorities and from companies with public shareholdings for aggregate amounts in excess of the limit contemplated by said laws (10,000 euro).

Events after the reporting date

In November, Italmobiliare S.p.A. reached an agreement, signed in January 2019, for the purchase of a share of approximately 27% in Autogas Nord S.p.A., one of Italy's leading LPG players. Through the investment in Autogas Nord S.p.A., Italmobiliare acquired 100% ownership of Lampogas S.r.l., a company active on the LPG distribution and sales market across northern and central Italy. Italmobiliare S.p.A. invested 60 million euro in the operation, becoming a non-controlling shareholder of a group with turnover totaling approximately 500 million euro.

Financial statements at December 31, 2018 and allocation of the net income

Dear Shareholders,

We submit for your approval the financial statements for the year ended December 31, 2018, which closed with a profit of Euro 19,795,345. Reference is made to the Annual Report and the draft financial statements contained herein for all information in this regard, specifying that the same shall be published within the deadlines set by law.

The profit for the year and the financial situation of the company enable us to propose the distribution of a dividend of Euro 0.55 per ordinary share, gross of the withholdings required by law, taking into account the 5,685,870 treasury shares in the portfolio at the date of this report, whose right to earnings is attributed proportionately to the other shares in accordance with art. 2357-ter of the Italian Civil Code.

The proposed dividend will be paid as from May 8, 2019 (coupon date May 6, 2019 and record date May 7, 2019).

We therefore invite you to pass the following resolution:

“The Shareholders' Meeting of Italmobiliare S.p.A.,

having noted the report of the Board of Directors on operations and the report of the Board of Statutory Auditors, and after having examined the financial statements as at December 31, 2018,

considering that the legal reserve has reached one fifth of the share capital and consequently no further provision to such reserves need be made pursuant to article 2430 of the Italian Civil Code and article 30 of the company by-laws,

resolved

1) to approve the report of the Board of Directors on operations and the 2018 financial statements, consisting of the statement on the financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes, which reflect a profit of Euro 19,795,345 as presented by the Board of Directors in its entirety, in the individual postings and with the proposed allocations;

2) to distribute a per-share gross dividend of Euro 0.55 to each of the shares with rights, therefore excluding the treasury shares in the Company's portfolio on the record date, using the entire profit equal to Euro 19,795,345 and the retained earnings for the amount of euro 3,276,016.5;

3) to establish that the dividend shall be paid on May 8, 2019 with a coupon date of May 6, 2019 and record date of May 7, 2019.”

Annex A – Statement of changes in equity investments in subsidiaries, associates and other companies at December 31, 2018

(euro)						
Equities and interests	Balance at 1/1/2018		Acquisitions		Decreases	
Subsidiaries	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts
Caffè Borbone S.r.l.			600,000	143,568,361		
Clessidra SGR S.p.A.	300,000	19,000,000				
Credit Mobilier de Monaco			34,970	5,285,223		
Finimage 15 SAGL			20	18,531		
Franco Tosi S.r.l.	260,000	129,512,878			260,000	129,512,878 ⁽³⁾
Italgen S.p.A.	20,000,000	20,131,526				
Italmobiliare Servizi S.r.l.	1	11,411,491				
Punta Ala Promozione e Sviluppo Immobiliare S.r.l.	1,300,000	1,558,523				
Société d'Etudes de Participations et de Courtages S.A.			85,985	1		
Sirap Gema S.p.A.	5,000,000	50,878,428	10,000,000	10,000,000 ⁽¹⁾		
Total subsidiaries		232,492,846		158,872,116		
Associates						
Dokimè S.r.l.	20,627	3,712,860				278,464 ⁽²⁾
Iseo Serrature S.p.A.			1,917,523	42,601,397		
Società Editrice Sud S.p.A.	29,275	9,600,494				
Burgo Group S.p.A.	15,413,534	43,314,320		18,930 ⁽⁴⁾		
Total associates		56,627,674		42,620,327		
Other companies						
Atmos Venture S.p.A.	222,909	76,501				
Cairo Communication S.p.A.	189,198	705,614				
Can-Fite Biopharma			3,074	1		
Cartiere Burgo S.p.A.			46,153,846	1		
Coima Res S.p.A.	412,332	3,675,857				
Compagnia Fiduciaria Nazionale S.p.A.	20,001	1,095,704				
Emittenti Titoli S.p.A.	1	9				
Fin.Priv. S.r.l.	2,857	19,888,287				
Banca Leonardo S.p.A. group	757,667	5,660,000				
HeidelbergCement AG	4,831,771	436,067,333				
Ideami S.p.A.	300,000	2,919,000				
Ideami S.p.A. warrant	60,000	78,000				
Idrovia Ticino Milano Nord Mincio S.p.A. winding up	100	568				
Immobiliare Lido di Classe S.p.A.	45,991	1				
Immobiliare Astra S.p.A.	12,012	30,050				
Italgen Misr for Energy SAE			7,694	45,113		
Mediobanca S.p.A.	9,437,720	89,422,397				
New Flour S.p.A.			27,667	2,766,657		
Piaggio S.p.A.	269,699	623,193	100,000	176,887		
Sciqwest Inc.	92,703,301	34,827,816				
Sesaab S.p.A.	700,000	1,982,000				
UniCredit S.p.A. - ordinary shares	114,331	1,794,482	90,000	1,616,646		
Unione di Banche Italiane S.p.A.			117,142	431,153		
Vontobel Holding AG			115,238	6,056,347		
035 Investimenti S.p.A.	1,000,000	920,408				
Total other companies		599,767,220		11,092,805		
Total equity investments		888,887,740		212,585,248		

(1) Capital contribution payment

(2) Distribution share premium reserve

(3) Decrease after merger January 1, 2018

(4) Capitalized commission

Sale quantity and value		Value adjustment	Gain (loss) FVTOCI	Interest held	Balance at 12/31/2018		
Quantity	Amounts	Amounts	Amounts	%	Quantity	Amounts	Subsidiaries
				60.000	600,000	143,568,361	Caffè Borbone S.r.l.
				100.000	300,000	19,000,000	Clessidra SGR S.p.A.
				99.910	34,970	5,285,223	Credit Mobilier de Monaco
				100.000	20	18,531	Finimage 15 SAGL
					--	--	Franco Tosi S.r.l.
				100.000	20,000,000	20,131,526	Italgen S.p.A.
				100.000	1	11,411,491	Italmobiliare Servizi S.r.l.
				100.000	1,300,000	1,558,523	Punta Ala Promozione e Sviluppo Immobiliare S.r.l.
				99.980	85,985	1	Société d'Etudes de Participations et de Courtages S.A.
				100.000	15,000,000	60,878,428	Sirap Gema S.p.A.
	--	--	--			261,852,084	Total subsidiaries
							Associates
				20.627	20,627	3,434,396	Dokimè S.r.l.
				40.000	1,917,523	42,601,397	Iseo Serrature S.p.A.
				31.099	29,275	9,600,494	Società Editrice Sud S.p.A.
				40.000	15,413,534	43,333,250	Tecnica Group S.p.A.
	--	--	--			98,969,537	Total associates
							Other companies
		(1,991)		10.132	222,909	74,510	Atmos Venture S.p.A.
		(58,651)		0.141	189,198	646,963	Cairo Communication S.p.A.
					3,074	1	Can-Fite Biopharma
				11.680	46,153,846	1	Cartiere Burgo S.p.A.
		(783,100)		1.145	412,332	2,892,757	Coima Res S.p.A.
		118,639		16.668	20,001	1,214,343	Compagnia Fiduciaria Nazionale S.p.A.
1	79,162		79,153		--	--	Emittenti Titoli S.p.A.
		(4,320,222)		14.285	2,857	15,568,065	Fin.Priv. S.r.l.
757,667	4,423,964		(1,236,036)		--	--	Banca Leonardo S.p.A. group
223,609	18,742,200	(169,902,933)	(1,438,512)	2.322	4,608,162	245,983,688	HeidelbergCement AG
		(129,000)		1.200	300,000	2,790,000	Ideami S.p.A.
60,000	27,120		(50,880)		--	--	Ideami S.p.A. warrant
				0.200	100	568	Idrovia Ticino Milano Nord Mincio S.p.A. winding up
				18.036	45,991	1	Immobiliare Lido di Classe S.p.A.
		41		1.784	12,012	30,091	Immobiliare Astra S.p.A.
				1.000	7,694	45,113	Italgen Misr for Energy SAE
700,000	6,329,573	(18,364,940)	(302,927)	0.985	8,737,720	64,424,957	Mediobanca S.p.A.
				17.290	27,667	2,766,657	New Flour S.p.A.
		(124,825)		0.103	369,699	675,255	Piaggio S.p.A.
		21,582,184		9.500	92,703,301	56,410,000	Sciqwest Inc.
				7.000	700,000	1,982,000	Sesaab S.p.A.
		(1,402,432)		0.009	204,331	2,008,696	UniCredit S.p.A. - ordinary shares
		(134,585)		0.010	117,142	296,568	Unione di Banche Italiane S.p.A..
		(902,389)		0.203	115,238	5,153,958	Vontobel Holding AG
		(24,038)		10.000	1,000,000	896,370	035 Investimenti S.p.A.
	29,602,019	(174,448,242)	(2,949,202)			403,860,562	Total other companies
	29,602,019	(174,448,242)	(2,949,202)			764,682,183	Total equity investments

Annex B

Equity investments in subsidiaries and associates at December 31, 2018 (art. 2427 no. 5 Italian Civil Code)

	Registered office	Share capital (in euro)	Total equity (in euro)	Profit (loss) for the year (in euro)	Interest held or %	Carrying amount (in euro)
Subsidiaries						
Caffè Borbone S.r.l.	Caivano	€ 1,000,000	249,167,612	10,131,580 ⁽⁵⁾	60.000	143,568,361
Clessidra SGR S.p.A.	Milan	€ 3,000,000	20,438,367	176,358	100.000	19,000,000
Credit Mobilier de Monaco	Montecarlo	€ 5,355,000	6,368,000	154,000	99.910	5,285,223
Finimage 15 SAGL	Lugano	€ 17,748	48,715	(18,988)	100.000	18,531
Italgen S.p.A.	Bergamo	€ 20,000,000	30,062,105	3,131,603	100.000	20,131,526
Italmobiliare Servizi S.r.l.	Milan	€ 3,520,000	10,375,493	187,738	100.000	11,411,491
Punta Ala Promozione e Sviluppo Immobiliare S.r.l.	Milan	€ 1,300,000	1,023,244	18,421	100.000	1,558,523
Société d'Etudes de Participations et de Courtages S.A.	Montecarlo	€ 1,290,000	609,015	294,590	99.980	1
Sirap Gema S.p.A.	Verolanuova	€ 15,000,000	17,605,558	276,720	100.000	60,878,428
Total subsidiaries						261,852,084
Associates						
Dokimè S.r.l.	Milan	€ 100,000	17,951,674	(48,325) ⁽¹⁾	20.627	3,434,396
Iseo Serrature S.p.A.	Pisogne	€ 23,969,040	52,186,585	3,563,214 ⁽⁴⁾	40.000	42,601,397
Società Editrice Sud S.p.A.	Messina	€ 10,695,505	52,486,041	(898,581) ⁽²⁾	31.099	9,600,494
Burgo Group S.p.A.	Giavena del Montello	€ 38,534,000	63,875,000	10,784,000 ⁽³⁾	40.000	43,333,250
Total associates						98,969,537

(1) data at 12/31/2017

(2) data at 6/30/2018

(3) IAS/IFRS consolidated reporting package 12/31/2018

(4) separate financial statements 09/30/2018

(5) profit for the year refers to the period May/December 2018

Annex C

Statement of changes in trading equity investments at December 31, 2018

(euro) Equities and shares	Balance at 01.01.2018		Increases		Decreases		Value adjustment	Interest held	Balance at 12.31.2018		Gains (losses) on sales
	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts	Amounts	%	Quantity	Amounts	Amounts
Other companies											
Banco BPM S.p.A. - ordinary shares	--	--	200,000	518,340	50,000	129,585	(93,840)	0.010	150,000	294,915	(38,775)
ENI S.p.A. - ordinary shares	--	--	350,000	5,079,306	250,000	3,497,888	(208,708)	0.003	100,000	1,372,710	502,112
Mediaset S.p.A. (1) - ordinary shares	--	--	10,910,000	35,336,399	--	--	(5,614,286)	0.924	10,910,000	29,722,113	--
OVS S.p.A. - ordinary shares	1,311,093	7,289,415	300,000	1,038,660	--	--	(6,618,705)	0.710	1,611,093	1,709,370	--
Recordati S.p.A. - ordinary shares	--	--	20,000	637,206	--	--	(23,774)	0.010	20,000	613,432	--
Total other companies		7,289,415		42,609,911		3,627,473	(12,559,313)			33,712,540	463,337

(1) increase due to Franco Tosi S.r.l. merger

Annex D

Statement of changes in bonds and fund units during 2018

(euro)	Balance at 01.01.2018	Increases	Decreases	Value adjustment	Balance at 12.31.2018
Bonds and investment funds (non-current)					
Other variable-income securities	6,876,300	--	2,750,520	(963,240)	3,162,540
Other fixed-income securities	9,417,000	--	--	--	9,417,000
Investment funds	91,082,486	49,153,998	32,492,019	7,818,028	115,562,493
Total	107,375,786	49,153,998	35,242,539	6,854,788	128,142,033

"Investment funds" for 115,562,493 euro mainly consisted of:

- Aksia for 19,519,626 euro
- Clessidra (CCP3 fund) for 47,123,064 euro
- BDT Capital Partners Fund II for 33,631,794 euro (from the Franco Tosi S.r.l. merger)

	Balance at 01.01.2018	Increases	Decreases	Value adjustment	Balance at 12.31.2018
Trading bonds and funds (current)					
Other variable-income securities	5,594,274	1,053,878	1,447	(632,964)	6,013,741
Other fixed-income securities	17,248,562	29,017,284	45,902,238	11	363,619
Investment funds	31,719,767	208,114,168	43,275,752	(4,532,102)	192,026,081
Other fixed-income securities	10,000,000	--	10,000,000	--	--
Total	64,562,603	238,185,330	99,179,437	(5,165,055)	198,403,441

"Investment funds" for 192,026,081 euro mainly consisted of the Vontobel fund for 172,370,326 euro, from the Franco Tosi S.r.l. merger.

The balance at December 31, 2018 was equal to market value at December 31, 2018.

Annex E

Comparison of carrying amount and market prices at December 31, 2018, for equity investments in companies with listed shares

(euro) Equities	Number of shares	Carrying amount	Unit carrying amount	Unit fair value at December 31, 2018	Fair value at December 31, 2018
Other companies					
Cairo Communication S.p.A.	189,198	646,963	3.4195	3.4195	646,963
Coima Res S.p.A.	412,332	2,892,756	7.0156	7.0156	2,892,756
HeidelbergCement AG	4,608,162	245,983,688	53.380	53.380	245,983,688
Ideami S.p.A.	300,000	2,790,000	9.300	9.300	2,790,000
Mediobanca S.p.A.	8,737,720	64,424,957	10.3732	7.3732	64,424,957
Piaggio S.p.A.	369,699	675,255	1.8265	1.8265	675,255
Unione di Banche Italiane S.p.a.	117,142	296,568	2.5317	2.5317	296,568
Unicredit S.p.A.	204,331	2,008,696	9.8306	9.8306	2,008,696
Vontobel Holding AG	115,238	5,153,958	44.7245	44.7245	5,153,958
		324,872,841			324,872,841
Treasury shares (allocated as a reduction in equity)					
Italmobiliare S.p.A. - ordinary shares (*)	5,685,870	134,659,116	23.6831	18.1876	103,412,329
		134,659,116			103,412,329

(*) of which 360,700 for stock option plans

Annex F

Reconciliation between the theoretical tax charge and the effective tax charge reflected in the income statement

(in thousands of euro)		
A) Profit before tax at 12/31/2018		710
B) Current IRES tax rate	24.0%	
C) Theoretical IRES (AxB)		(170)
D) - non deductible		3,043
- non taxable/ exempt		(7,979)
	tot. D)	(4,936)
E) Recovery in year of deferred tax assets not recognized in prior years on deductible temporary differences and/or tax losses	tot. E)	14,909
F) Estimated exchange-rate effect and/or recognition of previously non-recognized deferred tax	tot. F)	(271)
G) Other changes (1)	tot. G)	10,240
Total	(C+D+E+F+G)	19,772
H) Other taxes (non-recoverable w ithholdings and prior-year taxes)		(687)
I) Effective tax charge recognized in 2018 income statement		19,085

(1) The above change refers to the taxation of the fair value reserve on private equity funds formerly AFS now FVTPL at 12/31/2017

Annex G

Analysis of equity captions at December 31, 2018

(in thousands of euro) Nature / description	Amount	Possible uses	Available amount	Summary of uses in three previous years	
				to cover losses	other
Share capital	100,167				
Reserves:					
Share premium	177,191	A, B, C	177,191		
Stock options	12,054	-			
Non-distributable OCI reserve	(36,783)	-	-		
Total reserves	152,462	-	177,191		
Treasury shares at cost	(134,659)	-			(2,653)
Retained earnings:					
Revaluation reserves	-	A, B, C	-		
Reserve for grants related to assets	-	A, B, C	-		
Merger surplus	163,150	A, B, C	163,150		(48,892)
Reserve as per art.55 Presidential Decree no. 597/1973 and 917/86	-	A, B, C	-		
Reserve as per art.54 Presidential Decree no. 597/1973 and 917/86	-	A, B, C	-		
Reserve Law 72/83	165	A, B, C	165		
Reserve art.34 Law 576/75	60,087	A, B, C	60,087		
Legal reserve	20,034	B	-		
Extraordinary reserve	-	A, B, C	-		(310,872)
Distributable retained earnings	811,732	A, B, C	811,732		(200,758)
Non-distributable retained earnings	36,206		-		
Translation reserve	-	A, B, C	-		
Reserve ex art.7 Law 38/2005	950	A, B, C	950		(15,611)
Profit for the year	19,795		19,795		
Total retained earnings	1,112,119		1,055,879	-	(578,786)
Total			1,233,070		
Non-distributable portion pursuant to - art. 2426 n. 5 Italian Civil Code					
Residual distributable portion			1,233,070		

Key: A: for share capital increase
 B: to cover losses
 C: for distribution to shareholders

Annex H

STATEMENT OF VALUES ATTRIBUTED TO FRANCO TOSI S.R.L. ASSETS AND LIABILITIES	31/12/2017
NON-CURRENT ASSETS	
Property, plant and equipment	39,967
Equity investments in subsidiaries and associates	5,303,756
Other equity investments	6,487,501
Other non-current assets	28,584,207
TOTAL NON-CURRENT ASSETS	40,415,431
CURRENT ASSETS	
Trade receivables	30,985
Other current assets including derivatives	1,485,625
Tax assets	409,538
Equity investments, bonds and current loan assets	230,290,121
Cash and cash equivalents	11,199,114
TOTAL CURRENT ASSETS	243,415,383
CONTINUING OPERATIONS	283,830,814
Discontinued operations	6,449,999
TOTAL ASSETS	290,280,813
EQUITY	
Share capital	260,000
Share premium	46,500,785
Reserves	1,745,571
Retained earnings	238,296,558
TOTAL EQUITY	286,802,914
NON-CURRENT LIABILITIES	
Employee benefits	36,598
Provisions	843,527
Other non-current liabilities	799,009
Deferred tax liabilities	1,053,496
TOTAL NON-CURRENT LIABILITIES	2,732,630
CURRENT LIABILITIES	
Financial liabilities	151,242
Trade payables	466,306
Tax liabilities	52,107
Other current liabilities	75,614
TOTAL CURRENT LIABILITIES	745,269
TOTAL LIABILITIES RELATING TO CONTINUING OPERATIONS	3,477,899
TOTAL EQUITY AND LIABILITIES	290,280,813

ITALMOBILIARE

INVESTMENT HOLDING

Certification pursuant to art. 154-bis paragraph 5 of the Italian Consolidated Law on Finance (TUF) regarding the separate financial statements pursuant to art. 81-ter of Consob Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions

1. The undersigned Carlo Pesenti, Chief Executive Officer, and Mauro Torri, Manager in charge of financial reporting of Italmobiliare S.p.A., hereby certify, also in consideration of art. 154-bis, paragraphs 3 and 4, of legislative decree no. 58 of February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the actual applicationof the administrative and accounting procedures adopted for the preparation of the **separate financial statements** during the period from January 1, 2018 to December 31, 2018.
2. The assessment of the adequacy of the administrative and accounting procedures adopted for the preparation of the separate financial statements as at and for the year ended December 31, 2018 is based on a model identified by Italmobiliare in accordance with the CoSO framework (illustrated in the *CoSO Report*) and also takes into account the document "*Internal Control over Financial Reporting – Guidance for Smaller Public Companies*", both issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represent a generally accepted international framework.
3. It is also declared that:
 - 3.1 the separate financial statements as at and for the year ended December 31, 2018:
 - a) have been prepared in compliance with the applicable International Financial Reporting Standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of July 19, 2002;
 - b) correspond to the contents of the accounting books and accounting entries;
 - c) are suitable to provide a true and fair view of the financial position, results of operations and cash flows of the issuer;
 - 3.2 the Director's report includes a reliable analysis of the performance and results of operations, as well as of the situation of Italmobiliare S.p.A. in its capacity as an issuer, together with a description of the main risks and uncertainties to which it is exposed.

March 6, 2019

Chief Executive Officer

Manager in charge of
financial reporting

Carlo Pesenti

Mauro Torri

Report of the Board of Statutory Auditors to the Shareholders' Meeting
pursuant to art. 153 Legislative Decree 58/1998 and article 2429, subsection 2, of the Italian Civil Code

Milan, March 25, 2019

Dear Shareholders,

The Board of Statutory Auditors, pursuant to art. 153 of Legislative Decree 58/1998 ("CLF") and art. 2429, subsection 2, of the Italian Civil Code, is required to report to the Shareholders' Meeting called to approve the financial statements on the activities carried out during the year and on any important omissions or censurable facts. The Board of Statutory Auditors is also entitled to make proposals regarding the financial statements and its approval, and on the matters within its remit.

During the year, the Board of Statutory Auditors performed its supervisory tasks within the terms set by current legislation and taking into account the guidelines of the principles of conduct recommended by the National Councils of Chartered Accountants and Auditors as well as Consob and the Corporate Governance Code of listed companies.

* * *

Appointment and meetings of the Board of Statutory Auditors

The Board of Statutory Auditors in office was appointed by the Shareholders' Meeting of April 19, 2017 and is made up of Francesco Di Carlo (Chairman), Angelo Casò and Luciana Ravicini. The alternate auditors are Paolo Ludovici, Alberto Giussani and Giovanna Rita.

The Board of Statutory Auditors has met 14 times since the date of the last report (March 23, 2018) and 11 times in 2018.

During 2018, the entire Board of Statutory Auditors, or in any case some of its members, also attended all the meetings of the Board of Directors (which met 10 times), the Executive Committee (which met only once), the Risks and Sustainability Committee (which met 9 times), the Committee for Transactions with Related Parties (which met 2 times) and the Remuneration Committee (which met 2 times).

Significant events that occurred during the financial year

In FY 2018 the consolidation of the organizational and investment structure continued, which was launched following the sale of the equity investment in Italcementi S.p.A. (on July 1, 2016) and was instrumental for focusing the activity in Investment Holding, as did, in particular the transactions involving:

- the acquisition of 60% of the company L'Aromatika S.r.l., achieved by Italmobiliare setting up the company Caffè Borbone S.p.A., which subsequently acquired 100% of L'Aromatika S.r.l. for the price of €336 million. The acquisition was completed on May 3, 2018. In the acquisition, Caffè Borbone S.p.A. used financing worth 102.5 million euros. The transaction was completed with the reverse merger (concluded on December 13, 2018) of Caffè Borbone S.p.A. into its subsidiary L'Aromatika S.r.l., which took on the name Caffè Borbone S.r.l.;

- the acquisition of a 40% stake in the capital of the company Iseo Serrature S.p.A., one of the leading European producers of mechatronic and digital solutions for the control and security of accesses, completed on October 15, 2018;
- the acquisition – completed in January 2018 – by the sub-group Sirap of four new companies Vitembal Tarascon S.a.s. (France), Vitembal G.m.b.H. (Germany), Kama Europe Ltd. (UK) and Reynolds Food Packaging Spain S.L.U. (Spain).

For full details of the significant events that occurred in the financial year that ended on December 31, 2018, refer to the Report of the Board of Directors on Group Operations which, as far as the Board of Statutory Auditors is aware, provides a complete summary of the most important events that concerned the Italmobiliare Group in FY 2018 and up until the approval of the Financial Statements.

Atypical or unusual transactions

Atypical or unusual transactions, according to the indications in Communication no. DEM/6064293 of July 28, 2006, “shall mean those transactions which due to their significance/importance, the nature of the counterparties, the subject of the transaction, the method of determining the transfer price and the timing of the event (proximity to the close of the financial year) may give rise to doubts on: the correctness/completion of the information in the financial statements, conflicts of interest, the safeguarding of company assets, the protection of minority shareholders.”

Within the scope of the control activities performed by the Board of Statutory Auditors, no atypical or unusual transactions emerged.

Inter-group or related-party transactions

Pursuant to art. 2391-bis of the Italian Civil Code and the Regulations on transactions with related parties approved with Consob resolution 17221 of March 12, 2010, the Company has prepared and adopted a “Related Parties Transactions Procedure” (“RPT Procedure”) and established a “Committee for Transactions with Related Parties” (“RPT Committee”).

In the reference period of this Report some amendments were made to the RPT Procedure, in light of the changed operating context of Italmobiliare S.p.A. and its subsidiaries.

The main amendments introduced in 2018 concerned:

- the extension of the scope of application of the RPT Procedure to the new category of “identified parties” which includes, in addition to the members of the Supervisory Board of the Company, each mutual fund, foundation or non-profit association, established and/or managed by, or in any case referable or connected to related parties, as well as each entity that participates together with the Company, or with one or more subsidiaries of the company, in joint ventures of significant economic importance for the Company.
- the application of control measures for transactions of lesser importance to “parties with a correlation index” where the single transaction with parties with a correlation index exceeds the amount of 750,000 euros, or where transactions accumulated with the same party with a correlation index exceed the amount of 1,500,000 euros per annum;
- the introduction, within the scope of ordinary transactions, of the “ordinary investment transactions” category, which includes transactions in which the Company subscribes to shares in mutual funds established and/or managed by, or in any case referable or connected to, related parties;
- the integration of the definition of “small amount transactions”, which, note, have been exempted from the application of the RPT Procedure, providing that, in addition to the existing thresholds per single transaction (of 300,000 euros and 500,000 euros, respectively in the case of transactions with natural persons and legal persons),

per annum, the individual small amount transactions do not in any case exceed the total amounts of 600,000 euros (for transactions with natural persons) and 1,000,000 euros (for transactions with legal persons) for transactions carried out with the same counterparty, clarifying that professional associations are included in the legal persons category.

For full details of the amendments made to the RPT Procedure, refer to the Report on Corporate Governance and Ownership Structure for FY 2018.

The Board of Statutory Auditors participated in the meetings at which these amendments were discussed by the RPT Committee and agreed with them, in that – without prejudice to compliance with the RPT Procedure, even the previous version of it – they expand the scope of application of the procedure by actually introducing greater oversight.

During FY 2018 the RPT Committee met 2 times, focusing its activities on the amendments to the RPT Procedure mentioned above.

The Board of Statutory Auditors attended all the meetings of the TRP Committee and ascertained that its work was performed correctly.

Also in FY 2018, as far as the Board of Statutory Auditors is aware, the only inter-group transactions carried out in addition to those referred to above essentially consisted of the mutual performance of administrative services, and legal, organizational, leasing and financial consultancy. No anomalies emerged from the analysis of the information made available to the Board of Statutory Auditors.

Detailed information on the transactions with related parties is contained in the Report of the Board of Directors on Group Operations, in the Explanatory Note to the consolidated financial statements for the year ended December 31, 2018, in the Report of the Board of Directors on Operations and in the Explanatory Note to the financial statements for the year ended December 31, 2018.

Supervisory activities pursuant to Legislative Decree 39/2010

The Board of Statutory Auditors, identified under Legislative Decree 39/2010 as the “Internal Control and Auditing Committee”, is required under the decree – as revised by Legislative Decree 135/2016 – to:

“a) inform the administrative body of the audited entity at the end of the external audit and send this body the additional report referred to in article 11 of the European Regulation ⁽¹⁾, accompanied by any comments;

b) monitor the financial disclosure process and submit recommendations or proposals intended to ensure its integrity;

c) check the efficiency of the internal quality control and business risk management systems and, if applicable, of the internal audit, as regards the financial reporting of the audited entity, without infringing its independence;

d) monitor the statutory audit of the financial statements and the consolidated financial statements, also taking into account any results and conclusions of the quality checks carried out by Consob according to Article 26 (6) of the European Regulation, where available;

e) check and monitor the independence of the external auditors or independent auditors in accordance with articles 10, 10-bis, 10-ter, 10-quater and 17 of this decree and article 6 of the European Regulation, in particular as regards the adequacy of the provision of services other than the audit to the audited entity, in compliance with article 5 of this regulation;

f) be responsible for the procedure to select the external auditors or independent auditors and recommend the external auditors or independent auditors to be appointed pursuant to article 16 of the European Regulation.”

⁽¹⁾ Regulation (EU) no. 537/2014 (“European Regulation”).

The activities performed by the Board of Statutory Auditors with regard to the 2018 financial year, and the results thereof, are described below.

(a) Report to the Board of Directors and Additional Report

The Board of Statutory Auditors is required to inform the Board of Directors of the Company of the outcome of the statutory audit and to supply it with the additional report referred to in Article 11 of the European Regulation, accompanied by any comments.

In order to fulfil this obligation, the Board of Statutory Auditors conducted a regular exchange of periodic information with the Company in charge of the legal audit, KPMG S.p.A. ("KPMG") obtaining information on the progress and results of the audit in this context.

The Board of Statutory Auditors will supply the Board of Directors with the Additional Report pursuant to Article 11 of the European Regulation received from KPMG, together with any comments that may be useful or necessary to allow the Board of Directors to improve financial reporting.

(b) Monitor the financial disclosure process and present recommendations or suggestions intended to ensure its integrity;

The Board of Statutory Auditors verified the existence of appropriate regulations and processes supporting the process of "preparation" and "publication" of financial disclosures during meetings with the Manager in charge of preparing the company's financial reports, and with the Head of the Internal Audit Department (who, in turn, monitors the financial disclosure process), each in their own area of concern, obtaining from them an adequate description of the process used to prepare financial disclosures, about the company's administrative and accounting procedures and about the reporting process adopted by the subsidiary companies, also in accordance with art. 114 of the CLF and with Consob guidelines. From the Head of Internal Audit, the Board of Statutory Auditors also learned of the control activities carried out by the same in coordination with the Manager in charge, focused on the obligations pursuant to art. 154-bis, CLF.

During the financial year, the Company continued to redefine the entire body of procedures it has adopted, for the sole purpose of reorganizing them. The work also focused on procedures relating to the process of preparing and publishing financial information. The review of the procedures carried out in this area by the Company did not reveal any need for substantial intervention aimed at redefining the processes of preparing and publishing financial information, which therefore remained unchanged.

The activity carried out by the Board of Statutory Auditors did not reveal any shortcomings or matters to be submitted to the Shareholders' Meeting, nor does the Board of Statutory Auditors have proposals or recommendations to make in order to guarantee the integrity of the financial reporting process.

(c) Supervision of the efficiency of the internal control, internal audit and risk management systems

The Board of Statutory Auditors participated in all 9 meetings of the Risks and Sustainability Committee (8 of them were attended by all the Statutory Auditors), in some cases held jointly by the two bodies. During these meetings, the Board of Statutory Auditors ensured a continuous exchange of information with the Committee on the work of the two bodies.

The Board of Statutory Auditors periodically met with the Head of Internal Audit, on occasion during meetings of the Control & Sustainability Committee, and obtained updates on the implementation of the audit plan, and therefore on the audits conducted and their outcome. Moreover, the Board of Statutory Auditors received from the Head of the Internal Audit Department the reports prepared at the end of the specific controls carried out by the same Department.

At the meetings with the Head of the Internal Audit Department and by examining the documentation produced by the same, the Board of Statutory Auditors assessed the operation of the Company's internal control system and its

adequacy, compliance with the law and with company procedures and processes, as well as the implementation of the relative improvement plans recommended by the same Department.

The Board of Statutory Auditors received and examined the Audit Plan for FY 2019 and deemed it adequate. It should be noted that, as was the case last year, the time period taken into consideration by the audit plan is just one financial year; the decision, supported by the Board of Statutory Auditors, not to prepare a multi-year plan was determined by the need to take into account the ongoing evolution of the company's and the Group's operations after the sale to HeidelbergCement in 2016 of the entire shareholding in Italcementi and the ongoing consolidation of the investment and organizational structure.

With regard to the subsidiaries that are excluded from the Company's audit plan, as they have their own Internal Audit Departments, the Head of Internal Audit Department and the Control & Sustainability Committee proceeded to examine and assess reports received from the audit departments of these companies. The reports prepared by the relevant departments of the Sirap Group, Clessidra SGR and Crédit Mobilier de Monaco showed that these companies' internal audit and risk management systems are adequate ⁽²⁾.

During the financial year, the Board of Statutory Auditors continued to oversee the adequacy of the Company's Internal Audit Department (especially as regards the available resources) in consideration of the evolution of the Italmobiliare Group, characterized by new acquisitions of stakes in Caffè Borbone and in Iseo as mentioned above – which add to the acquisition of a 40% stake in Tecnica Group made in the previous financial year – and that show that the Group is still evolving. On the basis of the information learned from the Risks and Sustainability Committee and, in particular, the Head of the Internal Audit Department herself, it emerged that the powers, resources and means made available to the latter by the Board of Directors of the Company were adequate and suitable in the reference period of this Report and also in relation to the Audit Plan for FY 2019.

In light of the results of the activities carried out, of the information received from the Risks and Sustainability Committee and gathered from meetings with the Internal Audit Department, and provided by the latter in the related Annual Reports, the Board of Statutory Auditors is of the opinion that the internal control system and the Internal Audit Department and their effectiveness are substantially adequate.

At the same time, also in the current financial year, the Board of Statutory Auditors continued and will continue to ensure ongoing verification of (i) the adequacy of the Company's Internal Audit Department, as well as (ii) the adequacy of the internal control and risk management systems (SCIGR) of the Group companies which have their own independent Internal Audit Department, also considering the ongoing consolidation of the Company's investment and organizational structure.

The Company has set up a risk management department, appointing the Administrative Director as its head. The Head of the Risk Management Department was attributed the following duties and remits:

- a) define and update the governance of the Enterprise Risk Management (ERM): process, roles, responsibilities relating to the main risks;
- b) support the various company and Group departments in integrating risk assessment within the strategic planning and business processes;
- c) ensure awareness of risk management and the efficiency of the process through the development of an ERM community whose members operate at the level of both the parent company and of each subsidiary;

⁽²⁾It should be noted that, for the purposes of the Annual Internal Audit Report on the Company's internal control and risk management system, the Company's Internal Audit Department has not included the assessment of BravoSolution SpA in the "Assessment on the suitability of the internal control and risk management system" (SCIGR) - Group companies with their own independent IA department", as it was sold at the end of 2017. As stated in the aforementioned annual report of the Head of the Internal Audit Department, there was active coordination with the BravoSolution Internal Audit Department in 2017, initially for the purpose of monitoring the process of strengthening the governance and, subsequently, for the handover of responsibilities, support and assistance to the new Internal Audit Function, in addition to the activation of information flows to the Company's Internal Audit Department.

- d) improve the methods and process tools consistent throughout the Group to identify, assess and measure the key risks in collaboration with the Primary Risk Owners and the relative operating references;
- e) prepares and distributes ERM reporting to top management and submits it to the Risks and Sustainability Committee and the Board of Directors;
- f) guarantees regular follow-up of the action plans to mitigate the risk for the whole Group;
- g) helps to disseminate the ERM tools and methods, such as risk assessment and quantification.

The Board of Statutory Auditors considered this to be a positive important step in relation to the Company's risk management system and agreed with how the ERM management system was set up, and stated that it considered the oversight of the operating risks at Group level to be adequate.

(d) Monitoring of the statutory audit of the financial statements and consolidated financial statements

The Board of Statutory Auditors periodically met the heads of the Independent Auditor (KPMG S.p.A.), with whom the planned exchange of information was established. During the meetings held, the Board of Statutory Auditors was informed of the fundamental issues that emerged during the audit, which concerned valuation and, in particular, impairment issues, as well as the main implications of the transactions that characterized the 2018 financial year, namely:

- (i) the acquisition of 60% of the company L'Aromatika S.r.l., achieved by Italmobiliare setting up the company Caffè Borbone S.p.A., which subsequently acquired 100% of L'Aromatika S.r.l. for the price of €336 million. The acquisition was completed on May 3, 2018. In the acquisition, Caffè Borbone S.p.A. used financing worth 102.5 million euros. The transaction was completed with the inverse merger (concluded on December 13, 2018) of Caffè Borbone S.p.A. into its subsidiary L'Aromatika S.r.l., which took on the name Caffè Borbone S.r.l.;
- (ii) the acquisition of a 40% stake in the capital of the company Iseo Serrature S.p.A., one of the leading European producers of mechatronic and digital solutions for the control and security of accesses, completed on October 15, 2018;
- (iii) the acquisition – completed in January 2018 – by the sub-group Sirap of four new companies Vitembal Tarascon S.a.s. (France), Vitembal G.m.b.H. (Germany), Kama Europe Ltd. (UK) and Reynolds Food Packaging Spain S.L.U. (Spain).

Furthermore, the Board of Statutory Auditors discussed with the Independent Auditor the significant accounting issues pointed out by KPMG itself, including, in particular, in addition to the aforementioned acquisitions and relative impacts on the Group perimeter, the valuations of the equity investments and the financial assets held by the Company. As in each financial year, the Board of Statutory Auditors also discussed with the Independent Auditor the examination of the dispute involving the Company and the Group.

This Board of Statutory Auditors is not aware of any checks carried out by Consob under article 26 (6) of the European Regulation.

(e) Auditing and monitoring of the independence of the independent auditors, in particular as regards the provision of non-auditing services.

The Board of Statutory Auditors monitored the independence of the Independent Auditors, taking note of the internal authorization procedure adopted by KPMG as part of the monitoring system for the engagement of non-audit services provided by companies belonging to the KPMG network in respect of Italmobiliare Group companies. The procedure allows preventive monitoring of the acceptance of assignments that might prejudice the independence of KPMG and was found to be in line with the market standards known to the members of the Board of Statutory Auditors.

The Board of Statutory Auditors examined the requests for authorization to provide non-audit services (NAS) by KPMG and authorized the same services, pursuant to art. 5 (4) of the European Regulation. In particular, in the 2018 financial year, the Board of Statutory Auditors, at the request of KPMG, issued 7 authorizations relating to the potential

acceptance of assignments for non-audit services pursuant to article 19, paragraph 1, letter e) of Legislative Decree 39/2010 and of the Article 5 (4) of the European Regulation, as they are deemed compatible with the independence requirements of the Independent Auditors.

The Board of Statutory Auditors has also received from the Independent Auditors the annual confirmation of independence pursuant to Article 6 (2) (a) of the European Regulation and pursuant to paragraph 17 of the international auditing standard (ISA Italia 260). In particular, in exchanges of information and communications to the Board of Statutory Auditors, KPMG has confirmed to the Company that, on the basis of the information obtained and the checks carried out, taking into account the regulatory and professional principles governing the auditing activity, in the period from January 1, 2018 to the date of the aforementioned communication, the ethical principles set forth in articles 9 and 9-bis of Legislative Decree 39/2010 were respected and no situations have been found that have compromised the independence of the independent auditors pursuant to Articles 10 and 17 of Legislative Decree 39/2010 and of Articles 4 and 5 of the European Regulation. KPMG also confirmed that no reports or other issues with the Company were found that are reasonably likely to have an effect on independence.

In the year ended December 31, 2018, KPMG S.p.A. and the companies in its network received a total of 1,093 thousand euros from the Italmobiliare Group (as compared to 1,193 thousand euros in the year ended December 31, 2017), broken down as follows: 900 thousand euros for auditing (as compared to 850 thousand euros in the year ended December 31, 2017) and 193 thousand euros for various other services (as compared to 342 thousand euro in the year ended December 31, 2017).

Note that the remuneration received by the Independent Auditors in respect of the NAS for the Italmobiliare Group in the financial year 2018 represents a total of approximately 15% of the total remuneration received by the same in the same period for the provision of statutory auditing services to Italmobiliare Group companies. This limit is lower than the maximum threshold established by Article 4 of the European Regulation, assessed with regard to the 2017 and 2018 financial years only (as it is still less than three years since the entry into force of the European Regulation and the amendments to Legislative Decree 39/2010): pursuant to the European Regulation, the maximum limit which fees for non-audit services cannot exceed over a three-year period in order not to compromise the independence of the independent auditors, is in fact 70% of the average fees paid to the company for auditing activities in the last 3 financial years.

Furthermore, between January 1, 2019 and the date of preparation of this report, companies in the KPMG S.p.A. network submitted a request for authorization to provide non-audit services, for fees of approximately 55,000 euros, to the Board of Statutory Auditors, which authorized it as it was deemed compatible with the independence requirement.

In light of the above, in the opinion of the Board of Statutory Auditors, the non-auditing services provided to the Italmobiliare Group by companies in the KPMG network do not affect the independence of the Independent Auditors.

(f) Selection of the legal independent auditors

KPMG has been entrusted with the legal audit of Italmobiliare S.p.A. pursuant to Legislative Decree no. 39 of January 27, 2010, for the nine financial years ending between December 31, 2010 and December 31, 2018. Consequently, the assignment conferred on KPMG expired with the approval of the financial statements for the year ended December 31, 2018, making it necessary to appoint a new independent auditor.

In relation to the appointment of the new independent auditor, the Board of Statutory Auditors is required to perform the functions set forth in Article 16 of the European Regulation.

The Board of Statutory Auditors then collected and analyzed the proposed new candidates to be appointed as external auditor of the accounts of the Company and the Group. The proposals received were analyzed by the Board of Statutory Auditors in meetings held on November 15, 2018, January 18, February 12 and March 4, 2019. The proposals examined make provision – for each financial year – for the external audit of all the Group's significant companies in relation to the annual financial statements (separate and consolidated) and the interim report (separate

and consolidated). The proposals are set out presenting the different options; the Board of Statutory Auditors selected and considered the proposals of the candidate companies deemed most suitable – considering the needs of the Company and the Group – and comparable.

The Board of Statutory Auditors then made its own proposal, which – as provided for by art. 16 of the European Regulation – indicated two alternative candidates and its preference for one of the two. The proposal, to be received by the Shareholders' Meeting, was announced by the Board of Statutory Auditors to the Board of Directors at the meeting of the administrative body on March 6, 2019, and will be filed together with all the documentation that must be filed in relation to the Shareholders' Meeting called to approve the financial statements for the financial year ended on December 31, 2018.

(Separate) financial statements and consolidated financial statements

As regards the separate and the consolidated financial statements for the year ended December 31, 2018, while the duties of the legal audit and, therefore, the opinion on the separate and the consolidated financial statements are the exclusive domain of the independent auditors, KPMG, it should be noted that:

- the Board of Statutory Auditors supervised the Board of Directors' compliance with the procedural regulations regarding the preparation of the separate and the consolidated financial statements, as well as their general layout and their overall compliance with the law in terms of form and structure, and has no observations to make in this regard;
- the separate and the consolidated financial statements for the year ended December 31, 2018 were prepared in accordance with the IAS/IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, in force as of Monday, December 31, 2018, which are duly illustrated in the notes;
- the separate and the consolidated financial statements for the year ended December 31, 2018 are consistent with the facts and information the Board of Statutory Auditors learned while attending meetings of the Board of Directors and the Executive Committee and in carrying out its supervisory activities;
- the Board of Statutory Auditors monitored the impairment testing activities performed by the company, with the support of external professionals, which were checked by the independent auditors;
- the provisions of article 154-ter, paragraph 154-ter, Legislative Decree 58/98, and, in particular paragraphs 1-bis and 1-ter, were complied with.

As indicated above, the Board of Statutory Auditors held regular meetings with the Company appointed to conduct the external audit, KPMG, in order to exchange information on a continuous basis on the control activities carried out by the same Company on the one hand, and the Board of Statutory Auditors on the other. No critical issues worthy of mention emerged during these meetings.

The Board of Statutory Auditors has examined the reports prepared by the independent auditors on the separate financial statements and the consolidated financial statements for the year ended December 31, 2018, and noted:

- the opinions on the separate financial statements and the consolidated financial statements for the year ended December 31, 2018 contained therein, from which it emerges that they comply with the regulations governing their preparation and provide a truthful and accurate view of the financial position and the results of operations, both of the company and at the consolidated level;
- that the reports do not contain requests for information;
- the opinions regarding the consistency and conformity of the Directors' Report on company operations and the Directors' Report on Group Operations with, respectively, the financial statements and the consolidated financial statements, as well as with the information contained in the Report on Corporate Governance and Ownership Structure, insofar as they relate to the provisions of art. 123-bis, paragraph 1, clauses c), d), f), l) and n) and paragraph 2, clause b), of Legislative Decree 58/98.

The Board of Statutory Auditors also examined the certifying reports prepared by the Chief Executive Officer and the Manager in charge of preparing the company's financial reports pursuant to art. 154-*bis*, subsection 5, of Legislative Decree 58/98 with regard to the financial statements and the consolidated financial statements and acknowledged the completeness of the relative content.

Report on operations and on Group operations

The Board of Statutory Auditors checked the content of the Report on operations and the Report on Group Operations prepared by the Board of Directors. The Reports summarize the main risks and uncertainties and describe the foreseeable development of the operations of the Company and of the Group.

At the end of the examination of the Reports, the Board of Statutory Auditors, to the best of its knowledge, noted the completeness of the same with respect to current law and the clarity of the information contained therein.

Non-financial information declaration

In drafting the Non Financial Information pursuant to Legislative Decree 254/2016 ("NFI"), the Company was supported by Deloitte and based the reporting model on the GRI (Global Reporting Initiative) standard.

The Board of Statutory Auditors monitored the drafting of the NFI, verifying not only the fulfilment of the obligations imposed by the law, but also and above all the suitability of information flows, so that the systems and methods of collection, treatment and consolidation of data for the preparation of the NFI ensure completeness, accuracy, truthfulness and verifiability of the entire data flow. The Board of Statutory Auditors participated in the meetings of the Risks and Sustainability Committee, to which the Board of Directors has assigned specific duties in relation to sustainability issues. Participating in the Committee meetings, the Board of Statutory Auditors acknowledged the attention the same had paid to the correct operation of the information flows (necessary to prepare the NFI) with the investee companies, focusing in this respect on the changed perimeter of the Italmobiliare Group and the formation of the NFI.

The Board of Statutory Auditors has reviewed the Report prepared by the Independent Auditors on the consolidated non-financial statement, in respect of which KPMG has been appointed to carry out a limited examination (limited assurance engagement), as a result of which it acknowledged that no elements have been brought to its attention that would lead it to believe that the declaration itself has not been drafted, in all significant aspects, in compliance with the regulations and the Global Reporting Initiative Sustainability Reporting Standards defined in 2016 by the Global Reporting Initiative.

Additional activities of the Board of Statutory Auditors and information required by Consob

In exercising its duties, the Board of Statutory Auditors, as prescribed by article 2403 of the Italian Civil Code and article 149 of the CLF, supervised compliance with the law and bylaws and compliance with the principles of correct administration, and in particular the appropriateness of the organizational, administrative and accounting structure adopted by the Company. In relation to the organizational structure, the Board of Statutory Auditors was able to verify that the Company has asked Directors to perform a periodic self-assessment on the composition, role and operation of the Board of Directors and of the Board Committees. With reference to FY 2018, for the first time, the self-assessment was also extended to the Board of Statutory Auditors. The questionnaire was returned anonymously by fifteen of the seventeen persons consulted. The outcome of the self-assessment, explained to the Directors and Statutory Auditors – always in an anonymous form – during the Board of Directors meeting on February 14, 2019, confirmed the widespread satisfaction with the procedural and operational aspects, the frequency and duration of the meetings, the role of the Chairman and her relations with the Directors as well as the contribution and effectiveness of the Committees.

Pursuant to art. 2405 of the Italian Civil Code, as indicated above, the Board of Statutory Auditors participated in all the meetings of the Board of Directors and of the Executive Committee, and obtained regular information from the Directors on the general trend of the operations, their foreseeable development, as well as on transactions of greater economic, financial and equity importance made by the Company, ensuring that the resolutions passed were not manifestly imprudent, risky, in potential conflict of interest, in contrast to the resolutions of the shareholders' meetings or such that would compromise the integrity of the company assets. The Board of Statutory Auditors also participated in the Shareholders' Meeting.

The Board of Statutory Auditors received and examined the Report on corporate governance and ownership structure, which provides an adequate and complete illustration of the company's adherence to the Corporate Governance Code of listed companies.

With regard to the corporate bodies, note that:

- at the date of this report, the Board of Directors – appointed on April 19, 2017 – is made up of 14 directors, 7 of whom possess the requirements of independence envisaged in the Code of Conduct. On April 18, the Shareholders' Meeting confirmed Elsa Fornero as a member of the Board of Directors, who was co-opted by the administrative body on July 27, 2017 following the resignation of Livia Pomodoro. On July 25, 2018, Massimo Tononi resigned; on July 31, 2018 the Board of Directors therefore co-opted Paolo Sfamini from the same slate of candidates as Mr Tononi. In 2018, the Board of Directors held 10 meetings;
- the Executive Committee is made up of 5 Directors, and in 2018 it met once. It should be noted that the Executive Committee of the Company has the same duties as the Board of Directors – with the sole exception of those that cannot be delegated – albeit with a limit on the amount; therefore, it only meets, when urgent matters arise, when it is easier to organize a Committee meeting rather than a Board meeting;
- the Risks and Sustainability Committee is made up of 3 directors, 2 of whom possess the requirements of independence envisaged in the Code of Conduct. In 2018, the Risks and Sustainability Committee held 9 meetings;
- the Remuneration and Nomination Committee (formerly the Remuneration Committee) is made up of 3 Directors, all of whom meet the independence requirements stated in the Code of Conduct. In 2018, following the resignation of the Chairman of the Committee, Massimo Tononi, Paolo Sfamini joined the same committee and was appointed its chairman. In 2018, the Remuneration and Nomination Committee met 2 times;
- the RPT Committee is made up of 3 independent Directors. In 2018, the RPT Committee met 2 times, mainly to analyze the RPT Procedure and formulate its proposal to the Board of Directors to amend the same procedure.

In relation to the subjects discussed at the meetings of the various committees, refer to the Report on Corporate Governance and Ownership Structure for the year 2018, which correctly describes the activities carried out by the same committees.

By attending the meetings of the various governance bodies, as indicated by the Code of Conduct, the Board of Statutory Auditors was able to ascertain that the Board of Directors had carried out its various duties; the Board of Statutory Auditors was also able to ascertain the correct functioning of the Executive Committee, the Risks and Sustainability Committee, the Remuneration Committee and the Committee for Transactions with Related Parties, as regards the provisions of the Code of Conduct and the procedure for transactions with related parties.

As part of its checks, for the purposes of a continuous exchange of information, the Board of Statutory Auditors regularly met:

- the Company appointed to conduct the external audit, engaging in a continuous exchange of information with the same on the audit activities performed;
- the Risks and Sustainability Committee;
- the Chief Executive Officer;
- the head of the Internal Audit Department, receiving from the same information on the outcome of the activities carried out;
- the head of the Risk Management Department, receiving from the same information on the outcome of the activities carried out;
- the members of the Supervisory Board, established pursuant to Legislative Decree no. 231 of June 8, 2001, receiving from the same information on the outcome of the supervisory activities carried out, which was then confirmed in the Reports of the Supervisory Board to the Board of Directors. The Reports reveal that no anomalies or censurable facts were detected and that the Supervisory Board did not receive reports from persons internal and/or external to the Company on presumed violations of the organization and management Model or the relative procedures;
- the Manager in charge of preparing the company's financial reports;
- the Company's Legal Department.

Over the course of the supervisory activities described above, no omissions, censurable facts or irregularities were detected that would have required reporting to the relevant external control and supervisory bodies or a mention in this report.

During the financial year, the Board of Statutory Auditors did not receive reports pursuant to art. 2408 of the Italian Civil Code, nor did it receive complaints, nor was the Board required to issue any opinions pursuant to the current regulations in addition to those provided for by art. 2389, subsection 3, of the Italian Civil Code in relation to the remuneration paid to directors who hold specific offices.

* * *

In consideration of the above and to the extent of its competence, the Board of Statutory Auditors, supported by the report prepared by the independent auditors and its opinion on the financial statements, has no grounds to oppose the approval of the financial statements as at and for the year ended December 31, 2018 prepared by the Board of Directors and has no objections to the proposals made to the Shareholders' Meeting by the Board of Directors.

The Board of Statutory Auditors

Francesco Di Carlo

Angelo Casò

Luciana Ravicini



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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

*To the shareholders of
Italmobiliare S.p.A.*

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Italmobiliare S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Italmobiliare S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the separate financial statements" section of our report. We are independent of Italmobiliare S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of investments in subsidiaries and associates

Notes to the separate financial statements, paragraphs "Use of estimates" "Non-current assets" - 4) "Investments in subsidiaries and associates"

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2018 include investments in subsidiaries and associates of €360.8 million measured at cost.</p> <p>At each reporting date, the directors check whether there are any indicators of impairment of the equity investments.</p> <p>Based on this analysis and the goodwill related to the subsidiaries Caffè Borbone S.r.l., Sirap Gema S.p.A. and Clessidra SGR S.p.A. recognised in the consolidated financial statements, the directors, assisted by an advisor, tested these equity investments with a combined carrying amount of €223.4 million for impairment to check whether their carrying amount exceeded their recoverable amount. The criteria applied and related results were approved by the Company's board of directors on 24 January 2019 and 6 March 2019, respectively.</p> <p>The directors estimated the recoverable amount based on the subsidiaries' value in use, calculated using the discounted cash flow model by discounting the cash flows that are expected to be generated by the subsidiaries over an explicit forecast period and in subsequent periods ("terminal value").</p> <p>For impairment testing purposes, the directors used the forecast cash flows set out in the 2019 budgets approved by the subsidiaries' boards of directors and the relevant projections prepared by them (the "Plans").</p> <p>Impairment testing entails a high level of judgement by the directors, in addition to the uncertainty inherent in any forecast, especially in relation to:</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none">— understanding the processes adopted to identify the indicators of impairment, impairment testing and the preparation of the Plans;— analysing the directors' review process in relation to the discrepancies between the 2018 actual data and the related previous forecasts in order to assess the accuracy of the forecasting process adopted;— analysing the reasonableness of i) the key assumptions used by the directors to determine the expected cash flows and value in use and ii) the valuation models adopted. We also compared the key assumptions used to the subsidiaries' historical figures and external information, where available;— checking the sensitivity analysis presented by the directors in the notes, in relation to the key assumptions used for impairment testing;— assessing the appropriateness of the disclosures provided in the notes about investments in subsidiaries and associates and related impairment tests.

Key audit matter	Audit procedures addressing the key audit matter
<ul style="list-style-type: none"> — the expected cash flows, calculated by taking into account the general economic performance and that of the subsidiaries' sector and the actual cash flows in recent years; — the financial parameters to be used to discount the above cash flows. <p>Considering the above, we believe that the measurement of investments in subsidiaries and associates is a key audit matter.</p>	

Classification and measurement of financial assets (securities, fund units, loan assets and other equity investments)

Notes to the separate financial statements, paragraphs "Use of estimates", "Non-current assets - 5) Other equity investments" and "Equity investments, bonds and loan assets"

Key audit matter	Audit procedures addressing the key audit matter
<p>The Company's main business activities include the acquisition, sale and holding of financial assets. At 31 December 2018, its separate financial statements include financial assets (securities, fund units, loan assets and other equity investments) of €786.9 million equal to 61% of total assets. At 31 December 2018, the Company's portfolio of financial assets measured at fair value totals €754.3 million and comprises:</p> <ul style="list-style-type: none"> — listed securities of €382.7 million, net of fair value losses of €205.3 million recognised during the year, classified at level 1 in the fair value hierarchy and almost measured at fair value through other comprehensive income (FVOCI), and — financial assets of €371.7 million, identified by directors at fair value levels 2 and 3, which do not have quoted prices in an active market. <p>Given the composition of the above-mentioned portfolio of financial assets, the Company is particularly exposed to the price fluctuation risk of listed securities measured at fair value.</p> <p>Measuring financial assets at fair value levels 2 and 3 entails a significant level of judgement by the directors, as the definition</p>	<p>Our audit procedures, which also involved our own valuation specialists, included:</p> <ul style="list-style-type: none"> — understanding the processes adopted for the acquisition, sale, classification and measurement of financial assets; — assessing the appropriateness of the accounting rules adopted in relation to the requirements of IFRS 9 "Financial instruments"; — checking, on a sample basis, the appropriateness of the classification of financial assets into the fair value levels; — analysing, for a sample of listed securities with fair value level 1 classified as at FVOCI, the year-end quoted prices and the recognition of fair value changes in equity (OCI); — analysing, for a sample of financial assets with fair value levels 2 and 3, the reasonableness of the valuation techniques, the significant inputs and their actual application by the directors for measurement purposes; — assessing the appropriateness of the disclosures provided in the notes about financial assets and their fair value levels.



Key audit matter	Audit procedures addressing the key audit matter
<p>of the relevant valuation techniques and significant inputs is fairly complex.</p> <p>Considering the above, we believe that the classification and measurement of financial assets is a key audit matter.</p>	

Assessment of pending litigation and disputes

Notes to the separate financial statements, paragraphs "Use of estimates" and "19) Provisions"

Key audit matter	Audit procedures addressing the key audit matter
<p>The separate financial statements at 31 December 2018 comprise provisions for litigation and disputes of a contractual, tax and legal nature amounting to €33.9 million.</p> <p>Measuring these provisions is complex and requires a high level of subjectivity and uncertainty from directors in assessing the outcome of litigation and disputes, the risk of losing and the timing for their settlement.</p> <p>For the above reasons, we believe that the measurement of provisions for pending litigation and disputes is a key audit matter.</p>	<p>Our audit procedures, which also involved our own tax specialists, included:</p> <ul style="list-style-type: none">— understanding the process for measuring provisions for litigation and disputes and assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls;— analysing the discrepancies between the past years' estimates of the effect of litigation and disputes and actual figures resulting from their subsequent settlement, in order to check the effectiveness of the estimation process;— sending written requests for information to the legal advisors assisting the Company about the assessment of the risk of losing pending litigation and disputes and the quantification of the related liability;— for the main litigation and disputes, analysing the assumptions used to determine their effect through discussions with the relevant internal departments and advisors and analysis of the supporting documentation;— discussing assumptions or scenarios alternative to those used to calculate the effect of litigation and disputes and the reasons for their rejection with the relevant internal departments;— analysing the events after the reporting date that may provide useful information for an assessment of the provisions;— assessing the appropriateness of the disclosures provided in the notes about provisions.



Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Italmobiliare S.p.A. for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report



to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 29 April 2010, the shareholders of Italmobiliare S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ended from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as internal control and audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The directors of Italmobiliare S.p.A. are responsible for the preparation of the Company's directors' report and report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership



Italmobiliare S.p.A.
Independent auditors' report
31 December 2018

structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the Company's separate financial statements at 31 December 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the separate financial statements of Italmobiliare S.p.A. at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 March 2019

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

Sustainability Report
Consolidated non-financial statement in accordance
with the Legislative Decree no. 254/2016

Methodology and synthesis of the main cognitive elements

The present document constitutes the consolidated non-financial statement (hereafter also referred to as “**Sustainability Report**”) prepared in accordance with the Legislative Decree no.254/16 and, as required by article 5 of the Decree itself, this document constitutes a separate report from the Directors’ report.

This documents covers, to the extent necessary to ensure the understanding of the business, its performance, its results and of the social and environmental impact it generates, the **matters deemed significant as set out in articles 3 and 4 of Legislative Decree no. 254/16, with reference to 2018** (from January 1 to December 31). In particular, the identification of the material aspects for Italmobiliare Group (hereafter also the “Group”) and its stakeholders was performed through a structured materiality analysis, which is described in the paragraph “Sustainability Management” of the present document.

Italmobiliare S.p.A. is an investment holding that owns and manages a diversified investments and equities portfolio with a strategic vision underpinned by a financial and industrial history of over a hundred and fifty years.

The scope of the **economic and financial data** is the same as the one used in the Consolidated Financial Statements of Italmobiliare Group at December 31, 2018.

The scope of the social and environmental data and information reported varies according to the relevance of these aspects for the various companies of the Group.

The scope of the **social data and information** refers to all companies consolidated on a line-by-line basis in the Consolidated Financial Statements¹ of Italmobiliare Group deemed significant for the reporting of these topics. In particular, given the absence of significant social and environmental impacts and risks and for the lack of relevance in ensuring an understanding of the business activity of Italmobiliare Group, SEPAC and Crédit Mobilier de Monaco are excluded from the scope of this Sustainability Report. With reference to supply chain data, it should be noted that the scope does not include Clessidra SGR S.p.A. as the related information is residual.

The scope of the **environmental data and information** corresponds to that of the production sites of the companies that operate in the industrial sector (Sirap, Italgem and Caffè Borbone) and does not include commercial offices, as these were not considered relevant for ensuring the understanding of the business activities of the Group and the impact generated by it. The reporting for energy consumption and related CO₂ emissions also includes the Milan office of Italmobiliare S.p.A..

It is noted that the social and environmental data and information relating to Sirap Universal Imballaggi S.r.l. are not reported in this Sustainability Report, except for the turnover figure, as the company was liquidated early in 2018.

The data related to 2017, where available, has been included for comparative purposes so to facilitate the assessment of the performance of the business activities. It should be noted that the social and environmental data of Caffè Borbone S.r.l. were accounted for 2018 in order to ensure consistency with the comparison with future years, despite the consolidation in the Group occurred in May 2018.

Furthermore, to give a correct representation of performance and to guarantee the reliability of the data, the use of estimates has been limited as much as possible. Where used, these are based on the best methodologies available and appropriately reported.

¹ For the companies consolidated on a line-by-line basis, reference is made to the table in the “Annex” on the Annual report of Italmobiliare Group at December 31, 2018.

With reference to significant variations to the structure of Italmobiliare Group that occurred in 2018, it should be pointed out that:

- in January 2018 Sirap Gema S.p.A. has acquired four new companies: Kama Europe Ltd, now Sirap UK Ltd. (United Kingdom), Reynold Food Packaging Spain S.L.U., now Sirap Packaging Iberica S.L.U. (Spain), Vitembal Tarascon S.a.s., now Sirap Tarascon S.a.s. (France) and Vitembal G.m.b.H., now Sirap G.m.b.H. (Germany);
- on May, 3 2018 Italmobiliare S.p.A. has finalized the acquisition of 60% of Caffè Borbone S.r.l.;
- in October 2018 Italmobiliare S.p.A. has finalized the agreement for the acquisition of a 40% stake in Iseo's capital (not included in the scope of this Sustainability Report) as this investment was valued using the equity method.

The 2018 Sustainability Report has been prepared in accordance with the «Core» option of the «**GRI Sustainability Reporting Standards**», published in 2016 by the Global Reporting Initiative (GRI). Additionally, the "Electric Utilities Sector Disclosures" and the "Financial Services Sector Disclosures", both published by the Global Reporting Initiative in 2013, have been considered.

Integral to this document is the "Annex", which provides further details and contains the tables that provide the evidence of the thorough coverage of the GRI indicators concerning every matter that was identified as material.

The Group has implemented a process of non-financial information reporting that involved its subsidiaries, both during the definition of the material matters and through the sharing of the reporting model defined by the parent.

The guiding principles underlying Italmobiliare S.p.A.'s sustainable **investment policy** set out basic guidelines in terms of responsibility and sustainability, and act as a guarantee not only for the Group's shareholders but for all of its stakeholders, and allows to maintain a flexible approach in terms of specific investment choices within a balanced portfolio.

Italmobiliare S.p.A and its main subsidiaries have adopted a **Code of Ethics** that expects all employees and those who establish any type of relationship with the Group or that operate to pursue its objectives, to do so in accordance with the principles of **honesty, fairness, integrity, transparency, confidentiality and mutual respect**. The Code of Ethics of Italmobiliare was updated in November 2018. In December 2018 Caffè Borbone S.r.l also adopted its own Code of Ethics. Italmobiliare Servizi S.r.l. and Punta Ala Promozione e Sviluppo Immobiliare S.r.l. have not foreseen the adoption of their own Code of Ethics, however, they refer to that of the Parent Company.

Italmobiliare S.p.A. and its main subsidiaries have also adopted an **Organizational, management and control Model in accordance with Legislative Decree no. 231/2001 (hereafter also "231 Model" or "Model")**, updated during 2018, and founded on a preliminary risk assessment. In 2018 Caffè Borbone S.r.l. has begun the process of adopting a 231 Model, whose approval is expected in 2019.

Within the scope of the risk management system of the parent and of its subsidiaries, **no significant residual risks were identified** in relation to environmental, social and personnel topics, human rights or in relation to the fight against active and passive corruption. The group has begun the process of expanding the analysis of the main risks generated and suffered, with an integration of risks within the ESG sphere ("Environmental, Social, Governance"). For more information on the main risks to which the Group is exposed, please refer to the "Risk Management" section in this document.

THE FIGHT AGAINST ACTIVE AND PASSIVE CORRUPTION

The fight against corruption is governed under the 231 Model and through the Code of Ethics, which stipulates that any relation between the Group and third parties must be managed without resorting to illicit means: **practices of corruption**, illegitimate favors, collusive behavior, personal advantages or requests of benefits for themselves or others are explicitly **prohibited**. In this regard, Italmobiliare S.p.A., as well as its subsidiaries, has had in place a reporting system through reserved channels (so-called *Whistleblowing*) for a long time. For Caffè Borbone the reporting system is currently being defined.

SOCIAL ISSUES, CONCERNING PERSONNEL AND THE RESPECT OF HUMAN RIGHTS

The Italmobiliare Group observes and supports universal human rights principles and adopts a **human resources management model** in which the individual is at the center of the Group's success. The Code of Ethics stipulates that the relationships between employees must be founded on the **mutual respect of the rights and freedom of individuals** and that discrimination or retaliations must not be initiated for reasons of nationality, religious belief, political and trade union affiliation, language or gender.

For more information on the Group's policies please refer to the sections "Diversity, equal opportunities and well-being" and "Health and safety of the employees".

Italmobiliare S.p.A., being aware of the fundamental importance of the health and safety of its employees, has adopted a **safety management system**. Among the subsidiaries, Sirap stands out for its special attention to safety at work issues and its "**zero accidents**" objective. Even for Italgen, health and safety at work are fundamental values to be integrated in all of its activities and the attention towards such issues is demonstrated by its **Health and Safety Policy**. Caffè Borbone also promotes and supports the development of a safety management policy and system suitable for guaranteeing and protecting the psycho-physical integrity of the personnel.

ENVIRONMENT

Italmobiliare Group remains committed to a **process of continuous improvement in all aspects of sustainability** in order to adhere increasingly to the best practices in the sector and to the provisions of the legislation on non-financial disclosure and to the recent interpretative documents (including the Implementation Regulation of Legislative Decree no. 254/16, concerning the disclosure of non-financial information by Consob) and their future developments.

In relation to the protection of the environment, while conducting its business activities Italmobiliare Group **promotes the proper use of resources and the respect of the environment**. Specifically, the Parent company supports the portfolio companies in the development of efficient energy management through actions, programs and management systems; it also promotes, also with the implementation of sustainable investments, the reduction of energy consumption from fossil fuels and the production and/or purchase of energy from renewable sources. Over the years, Sirap has dedicated increasing attention to environmental protection: during 2017 it adopted the new **integrated "Development-Quality-Safety-Environment" Company Policy** focused on safeguarding the environment, and has launched the "**Full Certificate Project**", a program that throughout the 2016-2018 three-year period has enabled the achievement of the integrated HSE certification according to the OHSAS 18001 and UNI EN ISO 14001 standards by the Verolanuova headquarters and the Verolanuova, Mantua, San Vito al Tagliamento and Castiglione Fiorentino, Noves (F) Remoulins (F), Murowana (PL), Hatvan (HUN) plants. Italgen has also adopted an **Environmental Policy** and has set up an **integrated Management System for environment and quality in compliance with the UNI EN ISO 14001 and ISO 9001 standards**.

Lastly, it should be noted that Clessidra SGR, manager of Private Equity funds, manages the issues listed above, undertaking to consider **ESG (Environmental, Social, Governance) aspects in the evaluation and choice of its investments**, formalizing the incorporation of the abovementioned themes within its own investment procedures and adhering to **the United Nations Principles for Responsible Investments (UN PRI)**.

During 2018, the **reporting procedure** related to the consolidated non-financial statement adopted by the Parent Company and its subsidiaries was finalized. For next reporting year, Italmobiliare has planned to start the preparation and adoption of a sustainability plan with medium-long term objectives.

The present Sustainability Report is prepared on an annual basis and it has been submitted to the scrutiny of the Risks and Sustainability Committee on February 19, 2019. The Committee expressed its favorable opinion on the document on March 1, 2019. The Sustainability Report was subsequently approved by the Board of Directors of Italmobiliare S.p.A. on March 6, 2019.

The Report is also **subject to a limited review** ("limited assurance engagement" in accordance with the criteria indicated by ISAE 3000 Revised) by KPMG S.p.A which, at the end of its work, releases a specific report on the consistency of the information provided in the consolidated non-financial statement prepared by Italmobiliare S.p.A. in accordance with Legislative Decree no. 254/16.

The 2018 Sustainability Report is also published on the Group's website: www.italmobiliare.it.

1. Italmobiliare Group



Revenues and income: 463.1 million euros



Employees: 1,789

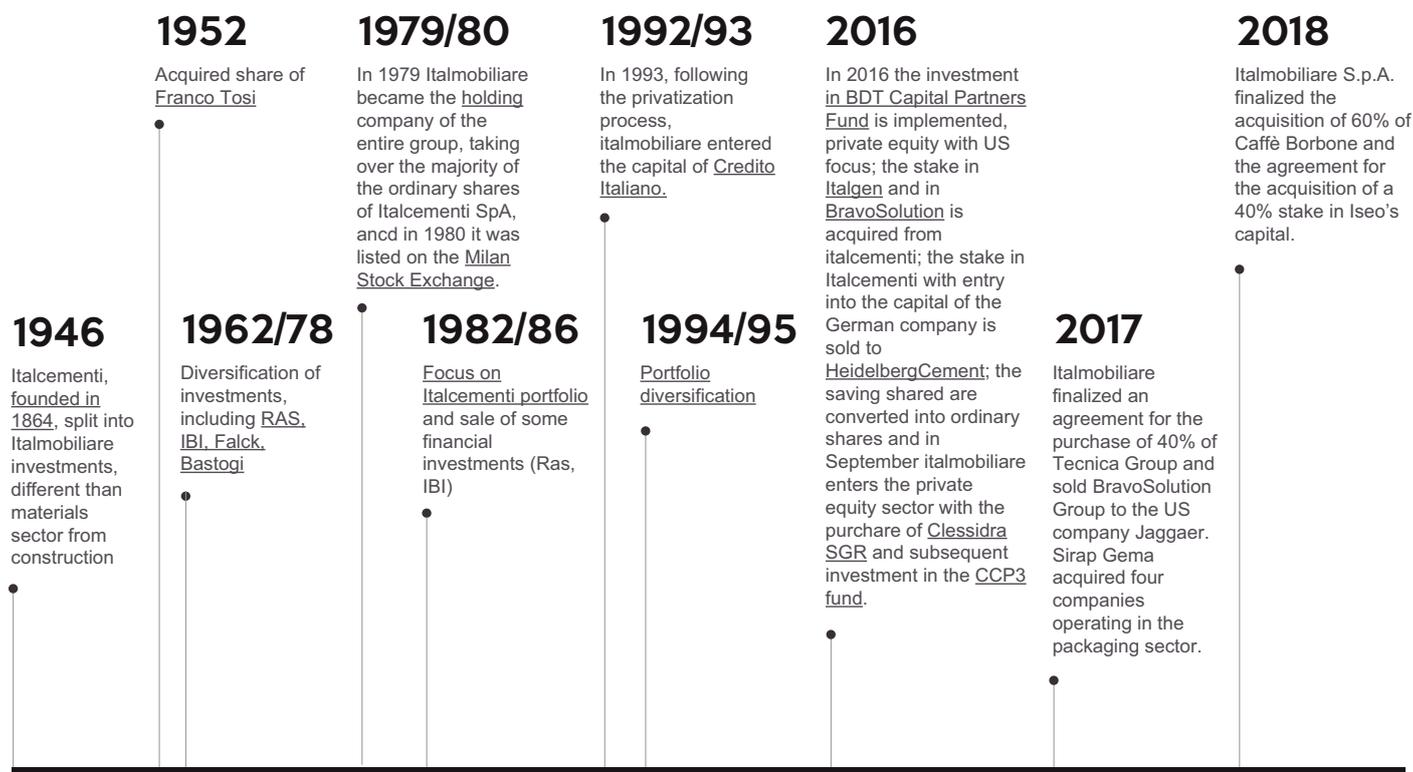


Self-produced energy from renewable sources: 1,042,364.2 GJ

Italmobiliare S.p.A.

Italmobiliare S.p.A. is an **Investment Holding** that holds and manages a diversified investments and equities portfolio with a strategic vision underpinned by a financial and industrial history of over one hundred and fifty years.

The Company, founded in **1946** and **listed in the Milan Stock Exchange since 1980** and controlled by EFIPARIND B.V., a Dutch company, represents one of the major Italian holding companies and operates throughout the entire national and European territory through the production activities of the main subsidiaries.



The **noteworthy events** involving Italmobiliare in 2018 were:

- in January 2018 Sirap Gema S.p.A. has acquired four new companies: Kama Europe Ltd, now Sirap UK Ltd. (United Kingdom), Reynold Food Packaging Spain S.L.U., now Sirap Packaging Iberica S.L.U. (Spain), Vitembal Tarascon S.a.s., now Sirap Tarascon S.a.s. (France) and Vitembal G.m.b.H., now Sirap G.m.b.H. (Germany);
- on the May, 3 2018 Italmobiliare S.p.A. has finalized the acquisition of 60% of Caffè Borbone S.r.l.;
- in October 2018 Italmobiliare S.p.A. has finalized the agreement for the acquisition of a 40% stake in the capital of Iseo (not included in the scope of this Sustainability Report as it has not consolidated on a line by line basis).

Italmobiliare Group at December 31, 2018²



The main subsidiaries of Italmobiliare S.p.A., included in this Sustainability Report, are:

Clessidra SGR S.p.A., an asset management company registered in the relevant register held by Banca d'Italia, is the main manager of Private Equity Funds exclusively dedicated to the Italian market through the Clessidra Capital Partners (CCP), Clessidra Capital Partners II (CCPII) and Clessidra Capital Partners 3 (CCP3) Funds;

Sirap Gema S.p.A., the parent of Sirap Group, is the Italian market leader in the production and sale of containers for fresh food and is one of the most qualified producers in Europe. The Group operates in Europe through six factories in Italy, three in France, one in Spain, one respectively in England, Poland, Hungary and various sales offices in Europe;

² The associated companies indicated with (*) are excluded from the scope of this Report as they are not fully consolidated but valued using the equity method. In addition, the subsidiaries SEPAC and Crédit Mobilier de Monaco (not included in the image) are also excluded due to the absence of significant social and environmental impacts and risks and their non-relevance in order to ensure an understanding of the business activity of the Italmobiliare Group.

Italgen S.p.A., whose activity consists in the production and distribution of electricity from renewable sources on national and international markets. On the Italian territory, Italgen has 15 hydroelectric power plants, in Lombardy, Piedmont and Veneto and almost 300 kilometers of transmission lines. Abroad, Italgen has completed the construction of a wind farm in Bulgaria.

Caffè Borbone S.r.l., established as a coffee roasting and packaging company operating in Caivano (Naples), has quickly become one of the leading national operators and leader in the sale of capsules and pods.

Punta Ala Promozione e Sviluppo Immobiliare S.r.l. and Italmobiliare Servizi S.r.l. are companies that own real estate and land, manage their real estate assets and the second company also performs inter-group services. The two companies have a marginal importance in the Italmobiliare Group as a whole and no significant social and environmental impacts or risks related to the activity carried out have been detected.

Ethics and Integrity

Italmobiliare S.p.A. introduced its own Code of Ethics for the first time in 1993 and has subsequently modified and updated it. In particular, in 2018 the Company adopted a new text, approved by the Board of Directors at its meeting on November 8th, 2018.

The Code of Ethics constitutes the set of values and principles underlying the activity of Italmobiliare and fixes the behavioral and conduct coordinates. This document represents a solid value platform for the Company and its subsidiaries, a necessary condition to ensure a constructive comparison with all stakeholders and interested parties and reaffirms the protection of ethical principles and legality as an essential asset of doing business.

The main subsidiaries of the Group (Sirap Gema S.p.A., Italgen S.p.A., Caffè Borbone S.r.l., Clessidra SGR S.p.A.) have also adopted their own Code of Ethics. Italmobiliare Servizi S.r.l. and Punta Ala Promozione e Sviluppo Immobiliare S.r.l. refer to that of the parent. The companies undertake to disseminate the Code, update it and make available every possible tool that favors its full application. Of fundamental importance is that the rules of the Code apply, without exception, to all employees and to all those who, directly or indirectly, permanently or temporarily, establish relationships or work to pursue their objectives.

The principles upheld by Italmobiliare Group

LEGALITY

Italmobiliare adopts as an indispensable value of its work the respect of the principle of legality and of the legislation in force in Italy and in the international contexts in which it operates. Italmobiliare is committed to ensuring that Personnel and Collaborators are aware of the legal requirements relating to their function or mandate, thus being able to recognize possible risks and understand the behaviour to be adopted.

INTEGRITY

Italmobiliare is committed to act with fairness, honesty, loyalty and good faith both internal relations and in relations with its Stakeholders and requires all Recipients of the Code of Ethics to recognize, promote and implement these values. Italmobiliare pursues its objectives in full and substantial compliance with professional ethics and the agreements signed and requires the Recipients of the Code of Ethics to have a sense of personal and professional responsibility.

EQUITY, DIGNITY, AND PROTECTION OF THE PERSON

Italmobiliare counts among its essential values the fairness and protection of the Person, as a subject with rights and values. Italmobiliare is committed to guarantee the protection of the safety, psycho-physical integrity, freedom and moral personality of all the subjects with whom it comes into contact in carrying out the business activities. Italmobiliare respects the dignity of the Person, relating with equal respect and consideration, regardless of sex, sexual orientation, age, nationality, state of health, political opinions, race, religious beliefs and in general by any personal feature. Italmobiliare condemns any form of exploitation of child labour and workers who are in need.

TRASPARENCY AND CONFIDENTIALITY

Italmobiliare acts with transparency towards its Stakeholders, staff members, collaborators creditors and the general public. Italmobiliare is committed to disseminate truthful, complete and understandable communications and information, so as to allow all Recipients to make informed decisions regarding confidentiality an essential value of the investment activities and the foundation of its reputation and of the trust that the shareholders and, in general, the stakeholders place in it.

FIGHT AGAINST CORRUPTION

Italmobiliare excludes and condemns any phenomenon of corruption, bribery, undue induction and traffic of influences, both in the public and private sectors, and adopts prevention and control measures aimed at avoiding the commission of such crimes in the performance of its activities.

CONTRAST TO THE PHENOMENON OF RECYCLING

Italmobiliare operates in compliance with the principle of maximum transparency in the commercial and financial transactions and prepares the most appropriate tools in order to combat the phenomenon of money laundering and the re-use of illicit proceeds, at transnational level.

CONTRAST TO CRIMINAL ORGANIZATIONS

Italmobiliare condemns all forms of criminal organization of a national and transnational nature and adopts suitable measures to prevent the danger of its own involvement in relations and activities held in any capacity and by any means, even in the form of mere assistance and help, with such organizations. Italmobiliare does not establish any relationship of a work, collaboration or investment nature with individuals, whether they natural or legal persons, whose involvement in terrorism or criminal organizations is known or suspected, nor does it finance or facilitate any activity related to such organizations.

Principles of conduct in relations with Italmobiliare's stakeholders

RELATIONS WITH SHAREHOLDERS AND INVESTORS

In the respects of the Mission, its identity and the values that inspire the strategies and investment policies, Italmobiliare promotes and guarantees:

- transparent, clear, accurate and complete communication of information relating to company development and performance;
- equal information for all shareholders and investors, without unjustifiable discrimination or preferential behaviour. The information is made available through a plurality of channels, including the institutional website where the financial statements;
- the widest participation of shareholders in the shareholder's meetings.

RELATIONS WITH THE PUBLIC ADMINISTRATION AND PUBLIC INSTITUTIONS

Italmobiliare intends to promote constructive and transparent dialogue in the context of its activities with Institutions and the Public Administration, also in order to foster greater mutual knowledge in the context of the dialogue between the public and private sectors functional to the development of corporate culture.

RELATIONS WITH THE JUDICIAL AUTHORITY AND THE SUPERVISORY AND CONTROL AUTHORITIES

Relations with the judicial authority and the supervisory and control authorities are based on maximum collaboration and transparency. Italmobiliare is committed to collaborate with the judicial authority and the supervisory and control authorities, if investigations are carried out against it or towards commercial partners, avoiding to hinder in any way, active or passive, the institutional activity.

RELATIONS WITH POLITICAL AND TRADE UNION ORGANIZATIONS

Personnel participation in political organizations takes place outside working hours and without any connection with the function performed at Italmobiliare. Italmobiliare refrains from any direct or indirect pressure towards politicians in order to obtain undue advantages. Any possible provision of direct or indirect contributions, in cash, in kind, or in any other form to political parties, movements, committees and other political and trade union organizations is provided within the limits and in compliance with the transparency required by law and duly registered pursuant to internal accounting procedures.

RELATIONS WITH THE MEDIA

Italmobiliare recognizes and appreciates the informative role played by the media and analysts in terms of financial education and communication to the public. These are objectives that Italmobiliare intends to contribute to, collaborating fully with the media, respecting their mutual roles. The communications of Italmobiliare to the media must result truthful, clear, transparent, and must be consistent, accurate and compliant with company policies and programs, with the sole limitation of the confidentiality requirements that certain information may present.

RELATIONS WITH THE COMMUNITY AND THE TERRITORY

Italmobiliare considers the relationship with the territory to be of the greatest importance and supports the initiatives of associations, foundations and non-profit organizations on the themes of culture, social issues, the environment, health, sport, entertainment and art. Financial support is intended only for events or bodies that offer guarantees of seriousness and against which activities aimed at jeopardizing compliance with the values and principles of conduct expressed by the Code of Ethics may be excluded.

RELATIONS WITH SUPPLIERS

The selection criteria of the Suppliers are subject to transparent and objective assessment about the professionalism and the entrepreneurial structure, and take into account the quality, the price and the methods of carrying out the service. Suppliers are selected also assessing their ability to meet the obligations of confidentiality that the nature of the service offered requires. Suppliers are sensitized to carry out their activity following standards of conduct consistent with those indicated in the Code of Ethics. Italmobiliare, in order to protect its image and safeguard its resources, will not entertain relations with subjects that do not intend or have demonstrated that they do not operate in compliance with the regulations in force and/or according to the values expressed in the Code of Ethics.

RELATIONS WITH COMPETITORS

Italmobiliare believes in the value of free and fair competition as a tool fundamental for the development and definition of the best offer in all the fields in which it operates. To this end, it commits to operate with the maximum transparency in compliance with current antitrust regulations and in full compliance with its competitors. In the case of contacts with third-party companies or competitors, the Recipients must refrain from providing information, news or confidential data that may lead to initiatives or behaviour contrary to the rules and laws relating to market protection and competition.

ENVIRONMENTAL PROTECTION

Italmobiliare is committed to complying with the current legislation regarding protection e environmental protection and to promote the conduct of its activities based on the correct use of resources and respect for the environment. Italmobiliare promotes environmental policies and actions with Group companies that carry out industrial activities.

Violations of the Code of Ethics norms harms the relationship of trust established with the Group and may lead to **legal or disciplinary actions or criminal proceedings**, and, in serious cases, may result in the interruption of employment or of the termination of the employment contract.

With reference to compliance with the rules **protecting privacy**, in line with the previous year, the Group adopts security and privacy management systems. During the year there were no complaints or cases of data loss.

Governance

Italmobiliare S.p.A. adopts a **traditional governance model**, characterized by the presence of a **Board of Directors and a Board of Statutory Auditors**, both appointed by the Shareholders' Meeting: this governance model is considered to be the most suitable to combine the "efficiency of management" with the "effectiveness of controls", in the fulfillment of its mission and implementation of the investment strategy.

The Corporate Governance system is composed by the following elements:



Italmobiliare S.p.A, in its role as a holding, firmly believes that the continuous modernization of its Corporate Governance rules encourages and reinforces the sharing of values and the dissemination of an entrepreneurial culture that has objectives of transparency, adequate management and effective controls.

Italmobiliare S.p.A. is administered by a Board of Directors, in office until the approval of the December 31st, 2019 financial statements, and composed at December 31st, 2018 as follows:³

	Members of the Board	Age group	Executive	Independent	In charge	Other roles covered
	ZANETTI Laura (*) (***)	30 - 50	No	Yes	19/04/2017 – Report 2019	Chairwoman Chairwoman of the Executive Committee
	STRAZZERA Livio (***)	> 50	No	Yes	19/04/2017 – Report 2019	Deputy chairman Member of the Executive Committee
	PESENTI Carlo	> 50	Yes	No	19/04/2017 – Report 2019	Chief Executive Officer Chief Operating Officer Director in charge of the internal control and risk management system Member of the Executive Committee
	BERTAZZONI Vittorio (**)	30 - 50	No	Yes	19/04/2017 – Report 2019	Member of the Remuneration Committee
	BONOMI Giorgio	> 50	No	No	19/04/2017 – Report 2019	Member of the Risks and Sustainability Committee
	CARTIA D'ASERO Mirja (*) (**)	30 - 50	No	Yes	19/04/2017 – Report 2019	Member of the Risks and Sustainability Committee Member of the Committee for transactions with related parties
	CASELLA Valentina (**)	30 - 50	No	Yes	19/04/2017 – Report 2019	Member of the Risks and Sustainability Committee Member of the Committee for transactions with related parties
	FORNERO Elsa Maria Olga (*) (**)	> 50	No	Yes	27/07/2017 – Report 2019	Member of the Committee for transactions with related parties
	MAZZOLENI Sebastiano	> 50	No	No	19/04/2017 – Report 2019	
	MINOLI Luca	> 50	No	No	19/04/2017 – Report 2019	Member of the Executive Committee
	PALMIERI Chiara (*) (**)	30 - 50	No	Yes	19/04/2017 – Report 2019	Member of the Executive Committee Member of the Remuneration Committee
	REBECCHINI Clemente (*) (***)	> 50	No	Yes	19/04/2017 – Report 2019	
	SALERNO Antonio (**)	30 - 50	No	Yes	19/04/2017 – Report 2019	
	SFAMENI Paolo Domenico (**)	> 50	No	Yes	31/07/2018 – Report 2018	Member of the Remuneration and Nomination Committee Member of the Supervisory body

³ Directors indicated (*) hold positions in other companies that publish non-financial statements, the Directors indicated (**) are independent pursuant to the Corporate Governance Code and Legislative Decree no. 58 of 24 February 1998, the Directors indicated (***) are independent pursuant to Legislative Decree 24 February 1998 n. 58.

As shown in the table, 36% of the **Board of Directors** is composed of women, while in relation to the registry composition, 57% of the directors are over 50 and 43% belong to the 30 to 50 age group.

The **Board of Statutory Auditors** of Italmobiliare is composed by Francesco Di Carlo (Chairman) Angelo Casò (acting auditor), Luciana Ravicini (acting auditor), Alberto Giussani (substitute auditor), Paolo Ludovici (substitute auditor) and Giovanna Rita (substitute auditor).

Italmobiliare S.p.A. has adopted a **231 Model** since 2004, and established the related Supervisory Body, based on a preliminary risk assessment process that allowed the Company to identify, with reference to its activities and taking into account its organization, the potential risk profiles in relation to the commission of the crimes indicated by the Decree. The 231 Model is constantly updated, in order to maintain a constant compliance with the law, in particular the last revision was approved by the Board of Directors on 11 July 2018. In relation to this specific macro area, the Group supervises all those behaviors that, if implemented, would lead to the configuration of situations that could be sanctioned under the law.

Regarding potential illegal behavior, Italmobiliare S.p.A. identifies the main activities that may involve the risk of committing the following categories of crime:

- crimes against the Public Administration;
- corporate crimes;
- market abuse;
- murder and negligent injury in violation of the accident prevention regulations;
- receiving, laundering, using money of illicit origin, self-laundering;
- organized crime and transnational crimes;
- crimes related to copyright infringement;
- computer crime.

The rules contained in the Model apply to all those who perform management, administration, management or control functions in Italmobiliare S.p.A., to employees who may also be posted abroad for the performance of the activity, and to those who, although not belonging to the Company, operate on the mandate of the same or are related to it.

Italmobiliare S.p.A. is committed to guaranteeing the **dissemination and effective knowledge** of the 231 Model to all recipients: the training activity is mandatory and is differentiated, in terms of contents and delivery methods, depending on the qualification of the recipients, the level of risk of the area in which they operate, on the degree of involvement of the same in the sensitive activities indicated in the Model, the exercise of any representative functions of the Company.

Italmobiliare S.p.A. communicates to the directly controlled companies the Model 231 and any subsequent edition or update.

The task of continually monitoring the effective functioning and observance of the 231 Model, as well as proposing its update, is entrusted to the **Supervisory Body** of Italmobiliare S.p.A, endowed with autonomy, independence in the performance of its functions and adequate professionalism regarding the control of risks connected to the specific activity carried out by the Company.

The holding company adopts the measures deemed most appropriate to facilitate the discovery of violations of the 231 Model and their prompt reporting. The report can also be anonymous and can be made using the model used by Italmobiliare S.p.A. In November 2018 Italmobiliare S.p.A. also updated the Code of Ethics, providing for its dissemination to the subsidiaries, and reaffirmed its commitment to sustainability.

In 2018 Italmobiliare S.p.A. adopted the **Investment and Development Guidelines in 2018**, which define the main investment criteria of the Group (for details see the paragraph "Sustainable investments" in this document).

Governance of subsidiaries

The main subsidiaries of Italmobiliare S.p.A., with the sole exception of Clessidra SGR S.p.A., are subject to the management and coordination of Italmobiliare. Each investee company has an administrative and a supervisory body (the Board of Statutory Auditors, in some cases a single-member body composed by an Auditor), in which also Italmobiliare executives and independent directors sit. Sirap Gema S.p.A. also has its own Risk and Sustainability Committee.

Italmobiliare S.p.A. has an **Investment Management Department**, whose Director reports to the Managing Director and General Manager, and carries out the following tasks:

- monitoring of the operational management of the investee companies, providing support to the management of the subsidiaries themselves for defining the budgets, the development plans and participating in periodic reviews of the results;
- monitoring of operational risks and opportunities connected to the investment portfolio, taking part in the evaluation and approval of strategic investments and/or divestments and other M&A opportunities, in coordination with the Development and Investments Department.

Italmobiliare Group companies, with the exception of Italmobiliare Servizi S.r.l. and Punta Ala Promozione e Sviluppo Immobiliare S.r.l., adopt their **own Organization, Management and Control Model pursuant to Legislative Decree 231/2001** and, in defining their model, are inspired by the principles and contents of that of the Parent Company, unless they exist specific situations (relating to the nature, size, type of activity or structure of internal power delegations) that impose or suggest the adoption of different measures in order to pursue, in a rational and effective manner, the objectives of responsibility for the administrative offenses. In 2018 Caffè Borbone S.r.l. has begun the process of adopting a 231 Model, whose approval is expected in 2019.

Clessidra SGR S.p.A. is also subject to regulatory control by CONSOB and the Bank of Italy.

Risk Management

Italmobiliare S.p.A. also has an **Internal Control and Risk Management System** ("SCIGR") which constitutes an essential element of corporate governance and represents the **set of rules, procedures and organizational structures** aimed at enabling identification, measurement, the management and monitoring of the main risks to which the Company and its subsidiaries are exposed.

Italmobiliare S.p.A., subject to the favorable opinion of the Risk and Sustainability Committee, has defined the **Guidelines for the Internal Control and Risk Management System**. These guidelines, taking into account the specific structure of the Group, tend to ensure consistency and harmonization between the various existing control units and therefore define the roles and functions involved in the identification, measurement, management and monitoring of the main risks relating to the Company and its subsidiaries.

The guidelines **have been transmitted to the subsidiaries** so that they can take them into account in the establishment and maintenance of their internal control system, without prejudice to the autonomy and independence of each company.

The Internal Control and Risk Management System must contribute to a management of the Company consistent with the corporate objectives defined by the Board of Directors, favoring the assumption of **informed decisions**: this contributes to ensuring the safeguarding of corporate assets, efficiency and the effectiveness of business processes, the reliability, accuracy, reliability and timeliness of financial information, compliance with laws and regulations as well as the bylaws and internal procedures.

The Board of Directors, with the assistance of the Risk and Sustainability Committee, defines the **nature and level of risk compatible** with the strategic objectives of the Company and assesses, on an annual basis, the adequacy, effectiveness and effective functioning of the Internal control system with respect to the characteristics of the company. With reference to the subsidiaries with independent internal control structures with tasks similar to those assigned by

the Code to the Risks and Sustainability Committee, the verifications carried out by the Risk and Sustainability Committee of Italmobiliare consist in the examination and evaluation of the reports received from these structures: the Board of Directors monitors and examines the risks to which the Company and the entire Group are subject to. The risk management process is also operational in the main subsidiaries.

During 2018, a process of integrating sustainability risks has started within the corporate risk management system.

Here are the main potential risks generated and sustained in the area of sustainability, and the related management methods, related to the activities of Italmobiliare Group and its subsidiaries, relating to the following macro-categories:

Health and safety of the employees

The risk with relation to the health and safety of employees, is the possibility that norms and regulations on occupational health and safety are not respected and that there is a major incident involving personnel.

The risk analysis is constantly carried out in compliance with regulatory requirements, and the issue is also managed through management systems that are aimed at guaranteeing the protection, the health and safety of workers inside and outside the production sites.

Environment

For the activities carried out by the subsidiary companies operating in industrial sectors the main risks are connected to the possibility of determining an environmental impact, which could occur due to industrial accidents, high energy consumption and uses of the water resource and related releases.

These companies, in order to safeguard the environment and minimize their impact, promote the sustainable use of resources by adopting integrated company policies, together with implementing progressive certification projects related also to environmental aspects. In addition to this, the main environmental aspects and impacts are identified through environmental analyzes where the main levels of theoretical risks and their significance are identified, so as to define the intervention priorities and improvement objectives.

Corruption

With reference to the dormant risk of active and passive corruption, the main risks factors are connected to certain behaviors and negligence that, if they occur in the performance of business activities with private individuals and public bodies, could be configurable as punishable by current legislation.

These risks are mapped and monitored in accordance with the 231 Model and the parent and its main subsidiaries, including through the application of mechanisms for reporting potential unlawful conduct, in order to combat and prevent corruption.

Sustainable investments

For the activities carried out by Italmobiliare and Clessidra SGR the main risks are the possible lack of a strategy based on sustainable investment principles, in the management of the ineffective acquisitions/divestments process, also due to the failure to identify risks related to ESG issues and in the possibility that the subsidiaries do not act in line with the ESG strategies of the parent.

These risks are controlled through the Italmobiliare Investment and Development Guidelines, where the principles of responsibility and sustainability in the social and environmental sphere are confirmed and through the adoption of Clessidra SGR of a policy on responsible investments and adherence to the Principles for Responsible Investment (UN PRI).

Human rights

With regard to the issue of direct impacts on human rights, this was assessed but considered to be not significant, given the policies implemented at Group level and the reference context in which the Group operates. However, over

the next few years Italmobiliare aims to investigate the potential impact on human rights deriving from the supply chain, with particular reference to the new acquisitions that were completed during the year.

Furthermore, for the Group's single production companies, the risks relating to the relationship with suppliers, product quality and safety, research and development processes and local communities, whose management remains with the individual subsidiaries were identified.

Within the risk management system of the Parent Company and of the subsidiaries, **no significant residual risks have been identified** in terms of sustainability.

For details on how to manage these risks, see the specific sections of this document.

Sustainability Management

Italmobiliare Group recognizes the importance of a transparent dialogue with its stakeholders and with all those involved in the life of its companies. One of the Group's major ambitions, is to develop a correct approach in terms of sustainability, both from an economic point of view, creating value for a medium/long-term period, and from the point of view of other impacts caused by its activities.

Currently there is no single methodological framework for the dialogue with stakeholders, but the Group subsidiaries regularly listen to their stakeholders when carrying out their activities (for example, through open dialogue with trade union representatives, constant dialogue with customers, periodic meetings with investors and initiatives for listening to local communities).

In 2018, Italmobiliare focused mainly on the integration of Caffè Borbone and the new subsidiaries of Sirap, also from the point of view of sustainability aspects. Starting from the next financial years, the Group will undertake a progressive path of extension of its activities and stakeholder engagement initiatives also for the purpose of updating the materiality analysis.

Identification of the stakeholders

Through a careful benchmark analysis and the peculiarities of the companies belonging to the Group, Italmobiliare has developed a process of identification of the main stakeholders that has allowed to define the map of the Group's stakeholders, as represented below:

Map of the stakeholders of Italmobiliare Group:



For 2018, in the process of defining Italmobiliare Group's stakeholder map, the assessments of Caffè Borbone and the peculiarities of the sector in which it operates were also taken into consideration.

In particular, with respect to the 2017 Sustainability Report, the following additions have been made:

- "collaborators" are stakeholders included in the category of "employees";
- "consumers" are stakeholders included in the category of "customers".

Materiality Analysis

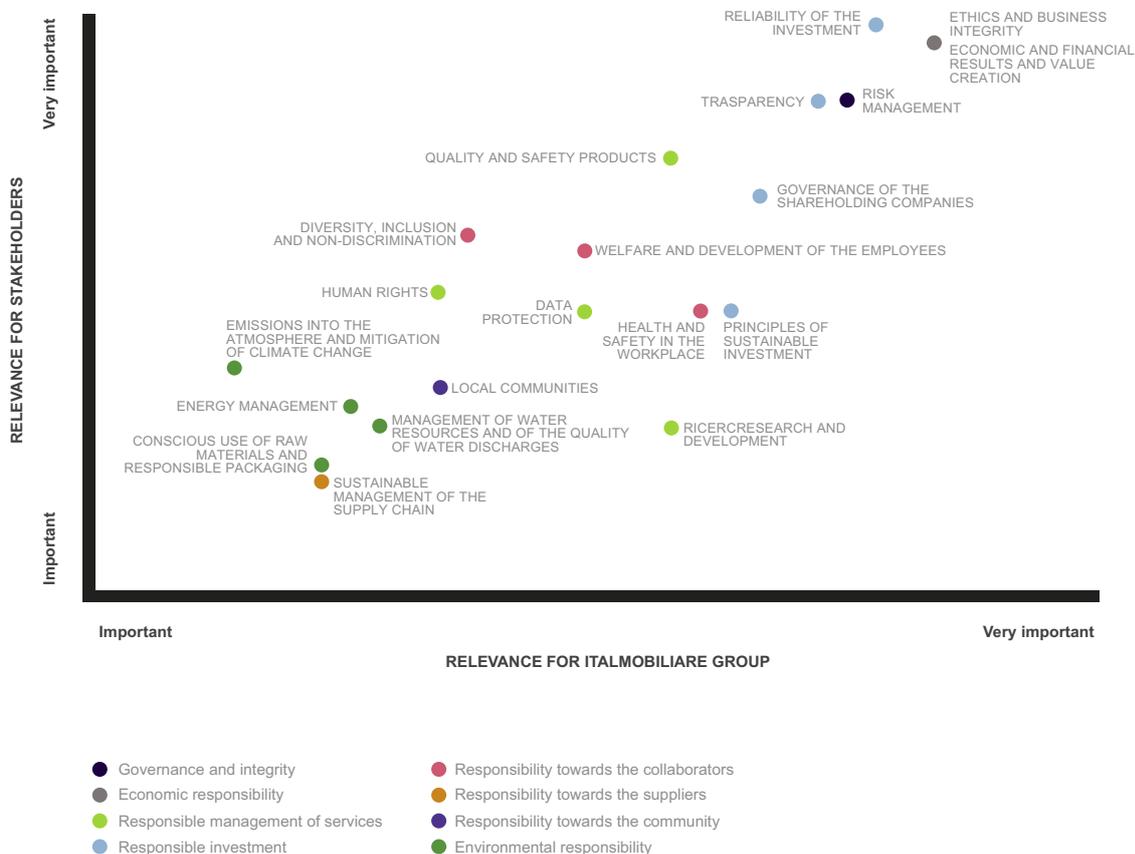
At the beginning of 2017, the Italmobiliare Group began its sustainability reporting process, starting from a materiality analysis to identify the most relevant topics for the Company from an economic, social and environmental point of view (the so-called *material topics*) that will be presented and explained further on.

The identification of the relevant issues was based on an analysis of the activities of Italmobiliare S.p.A. and of the main subsidiaries in terms of both the opportunities and the impacts that characterize the performance of their activities. The issues were also identified on the basis of a benchmark with comparable organizations and by consulting the guidelines and the main sustainability reporting standards. The list of emerging issues was then submitted to an evaluation carried out during a dedicated work seminar attended by representatives of the main functions of the holding company and its subsidiaries.

Following the new acquisition, in 2018 the materiality matrix was updated in order to also consider the specificities of Caffè Borbone.

The final result is the materiality matrix shown below.

Materiality matrix of Italmobiliare Group



2. Italmobiliare Group: economic responsibility



Revenues and income: 463.1 million euros



Economic value generated and distributed: 487.6 million euros



Profit for the year: 31.7 million euros

Economic performance of Italmobiliare Group

The consolidated profit for the year of Italmobiliare Group, which amounted to € 31.7 million, shows a good economic management, attentive to a medium/long-term profit, with a view to achieving sustainable profitability and growth targets.



Revenues and income 463.1 million euros (507.6 million euros in 2017)



Gross Operating Profit 41.2 million euros (146.6 million euros in 2017)



Operating Profit 21.3 million euros (127.6 million euros in 2017)

As of December 31, 2018, the share capital of the parent Italmobiliare S.p.A amounted to 100.2 million euros, divided into 47.633.800 ordinary shares with no nominal value.

Value generated and distributed

The economic aspects of Italmobiliare Group's activities are corroborated through the calculation of Added Value. In the sustainability report, this calculation, which can be defined as the **value created by the activities** of the organization and distributed to the stakeholders, is one of the elements that allows the assessment of the Group's impact on the social fabric.

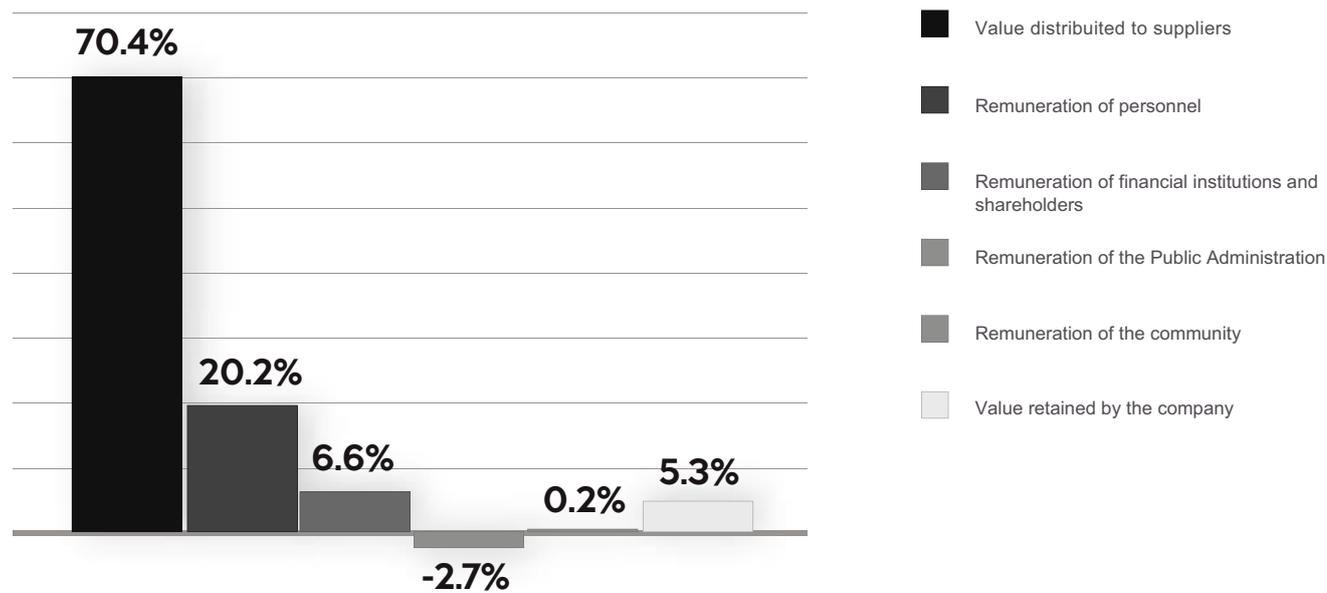
The value generated, according to the reclassification of the Income Statement at December 31st, 2018, is 487.6 **million euros**, the most significant portion of which is used to **remunerate suppliers** (70.4% corresponding to 343.4 million euros). The portion earmarked **for staff remuneration** (20.2%) is equal to 98.7 million euros and corresponds to the sum of salaries, termination benefits and, among others, training costs.

The **value retained by the company** (depreciation and profit not distributed) is equal to 5.3%, corresponding to 25.8 million euro, while the **shareholders** are allocated 5.5% (27.0⁴ million euro) and to **financial institutions** 1.1% (5.1 million euro). Donations for the **Community** amounted to 823 thousand euros (0.2%).

⁴ The value indicated for the distribution of the profits to Shareholders corresponds to what the Board of Directors of Italmobiliare S.p.A has decided to propose to the Shareholders' Meeting for approval.

Distribution of Added Value 2018*

Economic value distributed 2018



Sustainable investments

The Italmobiliare Group's investment policy, although aimed at creating value, is not focused solely on evaluating financial performance parameters, but also takes into account references related to the promotion of human development, social responsibility and the environment. During 2018 Italmobiliare has adopted its own **Investment and Development Guidelines**, where the principles of social and environmental responsibility, and sustainability, along with the creation of sustainable economic and human value over time are reiterated among the guiding principles of investment activity. Therefore, investments in all fields that can directly or indirectly hinder development or violate human rights, undermine civil liberties or that are based on the exploitation of children are excluded. Also excluded are investments that can refer to the arms trade or to the production of goods that are harmful to health or incompatible with the theme of environmental protection.

* The Remuneration of the Public Administration item consists of 5,647 thousand euros of current and prior-year taxes and -18,864 thousand euros of deferred taxes (in 2017, respectively 4,354 and 1,884 thousand euros).

Italmobiliare S.p.A.

The investment activity of Italmobiliare S.p.A. has the objective of increasing the value of the portfolio in the medium to long term, by increasing the value of the investments and a constant flow of dividends. The Company invests primarily, with majority or qualified minority shareholdings, in companies characterized by the potential for growth of the business and the reference market, with an aptitude for innovation and sustainability and that can count on the competence and quality of a dedicated management. From a geographical point of view, Italmobiliare focuses its participatory investments on selected markets, particularly in Italy, with European or global exposure. The evaluation of environmental and social aspects takes place mainly during the M&A processes by carrying out specific due diligence.

These guiding criteria which form the basis of Italmobiliare's investment policy, sanctioning basic guidelines also in terms of responsibility and sustainability of its activities as a guarantee not only for shareholders but for all stakeholders, make it possible to maintain a flexible approach to specific choices of investment in a balanced portfolio composition. The identification of investment opportunities takes place through an active analysis of the sectors and markets of potential interest for the company which, among others, aims to assess the environmental and social aspects of the potential investment, including the degree of compliance with the Principles for responsible investments of the United Nations and where relevant environmental and insurance checks. Therefore, the Group pays great attention to identifying companies that are characterized by the potential for business growth and that have proven ability to generate cash flows and profits over time but that place the emphasis on innovation and sustainability.

Clessidra SGR S.p.A.

Clessidra SGR S.p.A., one of the leading private equity fund managers exclusively dedicated to the Italian market, represents an investment strategy for Italmobiliare in diversifying its portfolio. Primarily Clessidra implements an investment strategy in leveraged buyout operations focused on controlling interests in unlisted Italian medium size companies characterized by market or technological leadership, with high-standing management and significant growth potential.

For Clessidra the integration of ESG criteria is a fundamental part of all investment decisions and therefore the SGR complies to the **Principles for Responsible Investment (UN PRI)** and follows the **guidelines for responsible investments** published by the Private Equity Council. Clessidra also adopted in December 2018 a **policy on responsible investments** that defines the approach to the management of environmental, social and governance aspects in the analysis and investment and divestment processes, in corporate policies and practices and in supporting portfolio companies in their path to sustainability. In particular:

- in the pre-investment phase, Clessidra integrates the evaluation of ESG issues through the use of a proprietary checklist aligned with the main international guidelines in order to carry out a high-level screening aimed at identifying ESG risks to be assessed during the due diligence phase. The results of the ESG due diligence are examined by the Investment Committee and subsequently by the Board of Directors;
- in the investment management phase, the Investment Team collaborates with the companies in the Portfolio to support the management of risks and opportunities in ESG topics, promoting, supporting the adoption of action plans in the field of sustainability and monitoring their implementation and development;
- in the divestment phase, Clessidra is committed to highlight the ESG performance of the companies in the portfolio to potential buyers.

Clessidra is committed to promoting compliance with applicable regulations and the highest ethical, health and safety and environmental standards with the Portfolio Companies. In particular, it collaborates with the Portfolio Companies in order to adopt or update their Management and Control Organizational Models, including ethical principles, codes of conduct, control tools, procedures and training activities aimed at preventing crimes (including the abuse of office and corruption) in compliance with Legislative Decree 231/2001 and other applicable regulations.

In addition, Clessidra is committed to ensuring that the portfolio companies report annually on the implementation status of ESG action plans, on the ESG initiatives undertaken and on the risks and opportunities identified. In particular, Clessidra has defined an ESG Plan approved by the Board of Directors which provides:

- by 2010 100% of the Portfolio Companies with a formal communication process of ESG performances and metrics established for the entire portfolio;
- by 2020 100% of the Portfolio Companies with an ESG plan;
- by the end of 2019 a report at least annually to the investors of the Funds ("Limited Partners") with ESG performance data of the Portfolio Companies.

To this end, a data collection process was initiated during 2018, defining 38 ESG indicators co-related to all the Portfolio Companies.

On an annual basis, Clessidra responds to the PRI questionnaire and the "Transparency Report" is available on the PRI website. Furthermore, to guarantee transparency towards investors, in the financial reports prepared in accordance with the provisions issued by the Bank of Italy, a specific paragraph is provided concerning the activity concerning responsible investments. A quarterly report is added to this, drawn up on the basis of the guidelines for the presentation of the financial information (IPEV Reporting Guidelines) and of evaluation (International Private Equity and Venture Capital Valuation Guidelines), which illustrates Clessidra's activity in the field of investments responsible.

3. Italmobiliare Group: environmental responsibility



Energy consumed: 458,636.7 GJ



Electricity produced from renewable sources: 1,042,364.2 GJ



Water consumption: 507,370.8 m³

Italmobiliare Group operates in full respect of the environment and, in carrying out its activities, promotes the **proper use of resources and a high level of environmental protection**. In particular, the Holding company supports the portfolio companies in the development of efficient energy management through actions, programs and management systems; further promotes, also with the implementation of sustainable investments, the reduction of energy consumption related to fossil fuels and the production and/or purchase of energy from renewable sources.

This chapter indicates the environmental data of Italmobiliare Group, including the companies operating in the industrial sector (Sirap, Italgas and Caffè Borbone) for which environmental issues are most significant.

In 2018 the Italmobiliare Group consumed **458,636.7 GJ** of energy, 72% more compared to 2017, mainly due to the entry into the perimeter of Caffè Borbone and of the four companies acquired by Sirap. **Electricity** consumption was **107,094,310.8 kWh**, 52% more compared to 2017, while for **natural gas**, consumption was equal to 1,718,105.3 m³ (compared to 333,141.0 m³ in 2017), 97% of which is due to the inclusion of Caffè Borbone.

Sirap, Caffè Borbone and Italgas are the entities of Italmobiliare Group which, due to the peculiarity of their business, have a greater impact on the environment: for this reason they are the companies that are more committed to the preparation and implementation of pollution reduction initiatives and in general to environmental protection.

Energy consumption of Italmobiliare Group at December 31⁵

Energy Consumption	Total 2018	Total GJ 2018	Total 2017	Total GJ 2017
Purchased Electricity	151,518,711.8 kWh	545,467.4	69,042,683.0 kWh	248,553.7
Self-produced electricity from renewable sources	289,545,601.0 kWh	1,042,364.2	254,084,542.1 kWh	914,704.4
Electricity sold	333,970,002.0 kWh	1,202,292.0	252,619,525.0 kWh	909,430.3
<i>Of which renewable</i>	289,473,002.0 kWh	1,042,102.8	252,619,525.0 kWh	909,430.3
Electricity consumption	107,094,310.8 kWh	385,539.3	70,507,700.1 kWh	253,827.8
Consumption of fuel from non-renewable sources				
Natural gas	1,718,105.3 m ³	60,689.5	333,141.0 m ³	11,728.0
<i>Of which used for production processes</i>	1,497,335.2 m ³	52,891.1	n.a.	n.a.
Diesel for heating	32,000.0 lt	1,145.7	34,000 lt	1,217.3
Diesel for automotive ⁶	273,375.6 lt	9,823.8	n.a.	n.a.
Gasoline for automotive	45,386.6 lt	1,438.2	n.a.	n.a.
Total energy consumed	n.a.	458,636.7	n.a.	266,773.1

⁵ Sources of conversion factors: GRI Sustainability Reporting Guidelines, Version 3.1; Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to the Legislative Decree No. 30 of 2013 - updated 2018 and 2017; <https://enigaseluce.com/info/coefficiente-c-gas>; Average value from diesel fuel safety data sheet ENI-2012; Italian Greenhouse Gas Inventory 1990 - 2016 - National Inventory Report 2018 Annex 6 National Emission Factors - Higher Institute for Environmental Protection and Research (ISPRA).

⁶ For the values referred to the fuels used for the car fleet and the relative emissions reported in this chapter, some estimates were made. For mixed-use cars, 70% of the total consumption was considered. The consumptions of the Caffè Borbone fleet are currently not monitored and are therefore not available with reference to the year 2018.

During 2018, Italmobiliare Group produced **4,228.2 t CO₂ of direct** greenhouse gas emissions (Scope 1) and **35,587.2 t CO₂ of indirect** greenhouse gas emissions (Scope 2 - Location Based).⁷

Direct GHG emissions (Scope 1) of Italmobiliare Group at December 31⁸

Source	t CO ₂ 2018	t CO ₂ 2017
Natural gas	3,394.6	655.6
Diesel for heating	84.3	89.6
Diesel for automotive	707.9	n.a.
Gasoline for automotive	99.4	n.a.
Total	4,286.2	745.2

GHG emissions generated by energy consumption (Scope 2) Location Based of Italmobiliare Group at December 31⁹

Source	t CO ₂ 2018	t CO ₂ 2017
Electricity - Italy	19,228.7	15,809.2
Electricity - France	1,181.7	742.4
Electricity - England	4,451.5	-
Electricity - Spain	665.4	-
Electricity - Poland	9,383.1	5,499.5
Electricity - Hungary	676.8	773.1
Total	35,587.2	22,824.2

GHG emissions generated by energy consumption (Scope 2) Market-based of Italmobiliare Group at December 31¹⁰

Source	t CO ₂ 2018	t CO ₂ 2017
Electricity - Italy	25,452.0	19,608.0
Electricity - France	1,278.4	799.9
Electricity - England	5,263.2	-
Electricity - Spain	1,169.4	-
Electricity - Poland	10,000.8	5,909.4
Electricity - Hungary	802.3	986.3
Total	43,967.0	27,303.6

With regard to water resources, during 2018 Italmobiliare Group withdrew 507,370.8 m³ of water, of which 40,143.8 m³ from aqueducts and 467,227.0 m³ from wells, most of which is due to the Sirap production activity.

⁷ In this NFS, Scope 1 and Scope 2 emissions calculated using the Location based and Market based methods are expressed in tons of CO₂.

⁸ Source of emission factors: standard national parameters table updated in 2016 and 2017. UK Government GHG Conversion Factors for Company Reporting – Conversion Factors 2018.

⁹ Source of emission factors: Terna, international comparisons 2016 and 2016. <https://www.terna.it/it-it/sistemaelettrico/statisticheprevisioni/dati/statistici.aspx>.

¹⁰ Source of emission factors: European Residual Mixes 2017 e 2016.

Water consumed by Italmobiliare Group at December, 31¹¹

Source	Volume (m ³) 2018	Volume (m ³) 2017
Aqueducts	40,143.8	19,726.9
Wells	467,227.0	541,944.0
Total water consumption	507,370.8	561,670.9

Waste water discharged by Italmobiliare Group at December 31

Destination	Volume (m ³) 2018	Volume (m ³) 2017
Sewers	246,899.4	253,802.0
Acquifers	2,070.0	-
Total	248,969.4	253,802.0

Sirap

Environmental management policies

Over the years, Sirap has devoted increasing attention to issues concerning environmental protection: in 2017 it adopted the new integrated Company Policy "Development-Quality-Safety-Environment" focused on **environmental protection**. This policy also intends to promote the reduction of consumption and the **sustainable use of resources**, providing for the involvement of all Sirap personnel: the idea is to implement the policy also as an evaluation criterion for professional development of Sirap itself.

Of particular importance is the attention of the parent Sirap Gema S.p.A. towards environmental sustainability: since 2012, in fact, it has an **Environmental Policy** document which contains guidelines that express the Group's desire to comply with the environmental regulations of the states in which it operates and to adopt the best ecological standards for sustainable and responsible development.

Sirap carries out in-depth technical-administrative analyses on the environmental theme, to identify, in a preventive manner, the effects of the presence of the Group's plants on the local community. The particular activities of the company, active in the production of food packaging made of rigid and expanded plastic polymers, uses different technologies such as thermoforming and extrusion. These processes, accurately monitored by the Companies of the Group, do not appear to have a significant impact on the territory where they are installed as they do not release polluting substances into the air and harmful emissions that exceed the legal limits of the individual countries. No impacts emerge on groundwater beneath the plants and there is provision for the installation of storage silos to avoid potential harmful spills on the ground.

Waste management is managed individually by each plant which, through the appropriate dedicated signage, identifies the areas for storing the material before the disposal or recovery process. The management of asbestos deserves a specific in-depth analysis since, starting from 2015, in compliance with the specific laws on the subject, work began to partially remove the structures and to assess the state of conservation of the materials: corrective actions were implemented (for example the removal of the roof slabs, the cladding panels) while other actions are in progress.

The productive activities are subjected to strict environmental regulations in order to protect the environment and the surrounding population, in line with the European Directives.

As a demonstration of its constant commitment to the implementation of company processes based on internationally recognized best practices, Sirap has launched the **"Full Certificate Project"**, a development program in the 2016-2018 three-year period, with the aim of reaching a certified environmental management system for all production sites.

¹¹ The water withdrawal and water discharges of the Italmobiliare Group include the values of Sirap, Italgem and Caffè Borbone. The water withdrawal of the latter is limited to sanitary use, as water is not used in the production processes, and the value for the last four-month period of 2018 was estimated as it was unavailable.

This is involving the entire organization, allowing the different plants to improve processes related to safety at work, environmental protection, quality and food safety. In the 2016-2018 three-year period, the project enabled the achievement of integrated HSE certification according to the OHSAS 18001 and UNI EN ISO 14001 standards by the Verolanuova headquarters and the Verolanuova, Mantua, San Vito al Tagliamento, Castiglione Fiorentino and Noves (F) Remoulins (F), Murowana (PL), Hatvan (HUN) plants.

Energy consumption and emissions

Sirap represents the most energy-intensive business of the Group and, for this reason, it has developed strategies to reduce energy consumption and carbon dioxide emissions.

During 2018 Sirap consumed **364,509.9 GJ** of energy, also considering the four new acquisitions of Sirap that took place during the year.

Energy consumption of Sirap at December 31¹²

Energy Consumption	Total 2018	Total GJ 2018	Total 2017	Total GJ 2017
Purchased electricity	94,752,343.8 kWh	341,108.4	68,724,421.0 kWh	247,407.9
Self-produced renewable energy	81,944.0 kWh	295.0	84,542.1 kWh	304.4
Electricity sold	9,345.0 kWh	33.6	9,525.0 kWh	34.3
<i>of which renewable</i>	9,345.0 kWh	33.6	9,525.0 kWh	34.3
Electricity consumption	94,824,942.8 kWh	341,369.8	68,799,438.1 kWh	247,678.0
Consumption of non-renewable fuels				
Natural gas	363,488.7 m ³	12,839.7	319,302.0 m ³	11,240.8
<i>of which used for production processes</i>	157,027.6 m ³	5,546.8	n.a.	n.a.
Diesel for automotive	252,004.6 lt	9,055.8	n.a.	n.a.
Petrol for automotive	39,277.0 lt	1,244.6	n.a.	n.a.
Total energy consumption	n.a.	364,509.9	n.a.	258,918.8

In 2018 Sirap produced **1,456.7 t CO₂** of direct greenhouse gas emissions (Scope 1) and 31,170.2 t CO₂ of indirect greenhouse gas emissions (Scope 2 - Location Based).

¹² Sources of conversion factors: GRI Sustainability Reporting Guidelines, Version 3.1; Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - 2018 and 2017 update; <https://enigaseluce.com/info/coefficiente-c-gas>; Average value from diesel fuel safety data sheet ENI - 2012; Italian Greenhouse Gas Inventory 1990 - 2016 - National Inventory Report 2018 Annex 6 National Emission Factors - Higher Institute for Environmental Protection and Research (ISPRA).

Direct GHG emissions (Scope 1) of Sirap at December 31¹³

Source	t CO ₂ 2018	t CO ₂ 2017
Natural Gas	718.2	628.3
Diesel for automotive	652.5	n.a.
Petrol for automotive	86	n.a.
Total	1,456.70	628.3

GHG emissions generated by energy consumption (Scope 2) Location Based of Sirap at December 31¹⁴

Source	t CO ₂ 2018	t CO ₂ 2017
Electricity – Italy	14,811.7	15,689.8
Electricity - France	1,181.7	742.4
Electricity - England	4,451.5	-
Electricity - Spain	665.4	-
Electricity - Poland	9,383.1	5,499.5
Electricity - Hungary	676.8	773.1
Total	31,170.2	22,704.8

GHG emissions generated by energy consumption (Scope 2) Market Based of Sirap at December, 31¹⁵

Source	t CO ₂ 2018	t CO ₂ 2017
Electricity – Italy	19,606.2	19,460.0
Electricity – France	1,278.4	799.9
Electricity – England	5,263.2	-
Electricity – Spain	1,169.4	-
Electricity - Poland	10,000.8	5,909.4
Electricity - Hungary	802.3	986.3
Total	38,120.3	27,155.6

Sirap's commitment to reducing energy consumption began in 2012, when the parent Sirap Gema S.p.A. implemented the **"Energy Saving"** project with the aim of making the company more energy efficient by reducing waste and its environmental impact. The effect of the control and analysis of waste is twofold: it encourages an evaluation of the most efficient technical solutions oriented to the "Best Available Technologies" and allows the involvement and awareness of the personnel towards environmental issues. Energy Saving was launched with an Energy Audit at the Castiglion Fiorentino site and was progressively extended to all Group plants, identifying an **"Energy Team"**.

¹³ Source of emission factors: National standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 – updated in 2018 and 2017; UK Government GHG Conversion Factors for Company Reporting - Conversion Factors 2018.

¹⁴ Emission factor source: Terna, international comparison 2016 and 2015.

¹⁵ Emission factor source: European Residual Mixes 2017 and 2016.

The project aims to reduce waste by acting on multiple areas of action:



The detection and analysis of the information is carried out by means of specific systems installed on the systems that monitor the equipment. The data relating to the consumption of the main machinery of the plant are sent to a server and can be remotely controlled in real time. Periodically the site's Energy Team organizes a meeting in which the new proposals/ideas are analyzed and feedback is provided regarding the actions taken. Furthermore, all personnel can collaborate by reporting areas of waste to be corrected that are promptly taken into consideration and processed.

Moreover, in relation to energy consumption, Sirap has developed an **energy performance indicator**, the KEI (**Key Energy Indicator**), obtained from the ratio between the kWh used and tons of raw material processed.

Management of the water resources

Sirap, attentive to the development of projects and initiatives that favor the optimization of water consumption also through water recovery initiatives in production processes, uses water coming from 94% of the total from wells and 6% from aqueducts. In most establishments there is a **closed-cycle system for reusing and cooling technological water** through the use of evaporative towers or closed heat exchangers. The water taken from the production sites where this system is present corresponds to the quantity necessary for **replenishing the circuit** (due to evaporation or losses); the remaining part of the water circulates continuously in order to cool the machinery and, in turn, is cooled by cooling towers or refrigeration systems with a closed heat exchanger.

Water consumed by Sirap at December 31¹⁶

Source	Volume (m ³) 2018	Volume (m ³) 2017
Aqueduct	29,113.8	18,329.9
Wells	461,292.0	536,641.0
Total	490,405.8	554,970.9

Water discharged by Sirap at December 31¹⁷

Destination	Volume (m ³) 2018	Volume (m ³) 2017
Sewers	235,869.4	252,405.0
Acquifers	2,070.0	-
Total	237,939.4	252,405.0

¹⁶ The value of the withdrawal and discharge of water resources of Rosa Plast Due S.r.l. for the months of November and December 2018 was estimated on the basis of the punctual consumption available for the other months of the year.

¹⁷ For plants equipped with a recirculation systems, the estimate of water discharged corresponds to the quantity of water withdrawn for sanitary purposes, as the water used in the process is kept in the closed circuit and reused, and partially lost by evaporation during normal system processes.

Materials and packaging

In the last three years Sirap, with the Parent Company Sirap Gema S.p.A. at the forefront, has activated multiple **research and development activities** to create **products** that reduce the environmental impacts of the production and disposal process:

- the **"Bio Rigid"** project aimed at the realization of a compostable packaging system which provides, on the one hand, the use of raw materials from renewable sources, on the other, the total valorization of the finished product, through a composting cycle industrial that allows a reduction of the environmental impact according to a circular perspective;
- the **"Bio expanded"** project involves the construction of trays in expanded compostable material to replace those in expanded polystyrene. This is an innovative solution that reduces material consumption and at the same time increases the composting speed;
- the **"Skin"** project concerns the creation of a packaging system based on the vacuum system, without the use of a modified atmosphere, which results in an increase in the useful life of the product.

The parent Sirap Gema S.p.A. has launched a series of partnerships for the development of **cutting-edge products**. In particular, the following collaborations are of fundamental importance:

- Novamont for the realization of compostable products with Mater-Bi;
- NatureWorks for the development of compostable products with Poly-lactic Acid (PLA);
- Saes-Getters for the integration of gas absorbing getters for creating vacuum packs.

An agreement with GAP is being completed for the definition of a PET film to be coupled with PET, which pushes in the direction of single-materiality to replace the current solution for packaging meat in PET EVOH PE.

Materials used by the Sirap at December 31

Type of material	Tons 2018	Tons 2017
Raw materials	79,423.0	42,858.0
<i>of which renewable</i>	22,473.0	n.a.
Semi-finished goods	17,974.0	12,857.0
<i>of which renewables</i>	564.0	n.a.
Additives, packaging, consumables	8,698.0	7,284.0
Materials for packaging	2,800.0	n.a.
Total materials used	108,895.0	62,999.0
<i>of which renewable</i>	23,037.0	n.a.

Italgen

Environmental Management Policies

Sustainable Development has always been one of the fundamental drivers of Italgen, which strongly believes in the interdependence between economic growth and social and environmental responsibility. Since its inception the company has been constantly committed to safeguarding the environment, aiming at a growing production of energy from renewable sources and adopting sustainable technologies in order to continuously improve environmental performances. **The Environmental Policy** of Italgen is one of the fundamental elements for strategic planning as it provides a general guideline and short to medium-long term objectives related to environmental and economic performance and to reducing the impact on the ecosystem. This policy permeates the entire organization through various initiatives aimed at training and sharing information and objectives with all levels of staff.

Italgen has set up an integrated Management System for the Environment and Quality in compliance and certified with the **ISO 9001:2015** and **UNI EN ISO 14001:2015** standards, certifications obtained in 2008 and renewed according to the new ISO-EN-UNI versions of 2015.



Italgen is also in the EU registry of **EMAS** (Eco Management & Audit Scheme) and has obtained the renewal of the EMAS Registration Certificate 2016 for the three-year period of 2016-2019 on September 28, demonstrating once again that environmental sustainability is a fundamental element in the company's mission.

In compliance with the provisions of the EU EMAS Regulation 1221/2009 and the new EU Regulation 1505/2017, the **Environmental Declaration EMAS 2018**, including the **Environmental Analysis** in which the environmental aspects and impacts of the activities carried out by Italgen were identified, was validated on 26 June 2018 by the Certiquality Institute.

In this regard, the direct aspects, i.e. those over which Italgen has full control, and the indirect aspects, i.e. those where it exercises or can exercise an influence, without having full management control, were both taken into account. The direct environmental aspects identified are:

- production of effluents/discharges;
- waste production;
- noise emissions;
- handling of hazardous substances;
- use and handling of flammable substances;
- use of water resources.

With regard to indirect environmental aspects, the activities carried out by the suppliers operating within Italgen's sites were identified.

For Italgen, one of the central elements for the management of the business is the protection of the environment and the containment of **polluting factors**, as stated also in the Environmental Policy. For this reason, according to its philosophy of continuous improvement, Italgen constantly focuses its attention on the development of innovative technologies **to improve the efficiency of plants**, to save natural resources and to use renewable energy sources. One of the most important initiative to reduce the environmental impact is the "**Clean Energy Distributors**" project, in the context of **sustainable mobility**. Distributors that supply electricity produced by hydroelectric plants are located inside the headquarters and in some of Italgen plants, are contributing to the charging of the car fleet and electric bicycles. Thanks to the distributor, it is possible to monitor in real time the production of energy from renewable sources



at the owned hydroelectric plants, the number of equivalent oil barrels saved, and the simultaneous reduction of CO₂ emissions.

For Italgas, climate change has an implication in economic terms: in fact, by actively investing in the production of energy from renewable sources, a possible increase in government incentives for the production and sale of energy from renewable sources would lead to an increase in investments in both new plants and in revamping. This type of opportunity is constantly monitored by a dedicated company function.

Energy consumption and emissions

In 2018 Italgas produced 289,362,000 kWh, entirely sold to third parties, and bought 52,447,000 kWh, 7,950,000 kWh of which was consumed.

Energy consumption of Italgas at December 31¹⁸

Type of consumption	Total 2018	Total GJ 2018	Total 2017	Total GJ 2017
Purchased electricity	52,447,000.0 kWh	188,809.2	-	-
Self-produced renewable energy	289,362,000.0 kWh	1,041,703.2	254,000,000.0 kWh	914,400.0
Electricity sold	333,859,000.0 kWh	1,201,892.4	252,610,000.0 kWh	909,396.0
<i>of which renewable (hydroelectric)</i>	289,362,000.0 kWh	1,041,703.2	252,610,000.0 kWh	909,396.0
Electricity consumed	7,950,000.0 kWh	28,620.0	1,390,000.0 kWh	5,004.0
Consumption of non-renewable fuels				
Diesel for automotive	14,621.0 lt	525.4	n.d.	n.d.
Gasoline for automotive	4,834.6 lt	153.2	n.d.	n.d.
Total energy consumption	n.a.	29,298.6	1,390,000.0 kWh	5,004.0

During 2018 Italgas did not consume natural gas, but produced 48.4 t CO₂ of direct greenhouse gas emissions (Scope 1) linked to its fleet. Having purchased electricity, it produced 2,862.0 t CO₂ of indirect greenhouse gas emissions (Scope 2 - Location Based), corresponding to 3,788.4 t CO₂ of indirect greenhouse gas emissions (Scope 2 - Market Based).

In the 2016-2018 three-year period, Italgas has implemented some initiatives to reduce the environmental impacts linked to the energy efficiency of the production cycle and the reduction of self-consumption through the installation of **new lighting systems with low-consumption LED lamps** at the hydroelectric power plants and appliances (intake structures, tunnels, dams, etc.). Of fundamental importance are also the projects of awareness raising and training of personnel that have been implemented and included in the existing Environmental Management, certified UNI EN ISO 14001 and registered EMAS.

¹⁸ Source of conversion factors: GRI Sustainability Reporting Guidelines, Version 3.1; Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018 and 2017; <https://enigaseluce.com/infocoefficiente-c-gas>; Average value from diesel fuel safety data sheet ENI - 2012; Italian Greenhouse Gas Inventory 1990 - 2016 - National Inventory Report 2018 Annex 6 National Emission Factors - Higher Institute for Environmental Protection and Research (ISPRA).

Management of water resources

Italgen's main source of water supply is represented by the rivers Adda, Oglio, Dezzo, Povo, Brembo, Stabina, Serio, Gesso, Vermenagna and Meschio: almost all of the water is used for productive purposes. In particular, the water is drawn by **water intake from surface watercourses** and used by the plants for the production of electricity, after which it is almost completely released downstream. The amount of water withdrawn for conversion into electricity in 2018 is 5,489,298,227 m³. With regard to the use of water in the process and its release, water supply was assessed as a significant environmental aspect of medium importance, while the use of water for civil use was not significant. In order to minimize the environmental impact related to downstream interference on the ecosystem of the grips and/or barrier works, Italgen releases a minimum quantity of water called "**Minimum Vital Flow**" (DMV) which allows the course to run water to preserve the characteristics suitable for the growth and development of fish fauna. With reference to the return of the turbinated water, Italgen has assessed the environmental impact as significant but with low relevance: the water, collected from the plant's intake and swirled, is then released through restitution works without causing physical or chemical alterations. With regard to water discharges, it is necessary to make a distinction between civil and meteoric discharges. The former are occasional and of low entity, generated by the sanitary facilities of the plants and channeled into the pit before being drained by sub-irrigation in the surface layers of the subsoil, subject to authorization. For the latter, the environmental relevance has been assessed as extremely low as there are no operations carried out externally, except for the extraordinary maintenance that is carried out during major machinery revisions.

The renewal of the hydroelectric park, implemented by Italgen in line with the sustainability objectives, allows for the continuous improvement of production performances and for the requalification of the surrounding environment. Below are listed some examples of the impact assessment of Italgen's facilities on the territory and community:

- a hydroelectric plant was built in Vetra, minimizing the environmental impact: it currently operates in synergy with the nearby Palazzolo sull'Oglio plant, representing an excellent example of efficiency and better use of water resources;
- in Kavarna¹⁹, Bulgaria, innovative hybrid towers in metal and concrete were built, following research and development aimed at satisfying the construction needs of the local customer.

Water withdrawn by Italgen at December 31²⁰

Source	Volume (m ³) 2018	Volume (m ³) 2017
Aqueduct	712,0	1,397.0
Wells	5,935.0	5,303.0
Total	6,647.0	6,700.0

Water discharged by Italgen at December 31

Destination	Volume (m ³) 2018	Volume (m ³) 2017
Sewer	712.0	1,397.0
Total	712.0	1,397.0

¹⁹ Italgen holds 49% of the company that owns the wind farm which is not included in the present document

²⁰ The value indicated in the table is considered net of water withdrawn for the production of electricity.

Caffè Borbone

Environmental Management Policies

Caffè Borbone believes in the need to combine economic development, social equity and environmental protection. The Company therefore complies with the current legislation on environmental protection and protection and conducts its activities inspired by the correct use of resources and respect for the environment, promoting the adoption of the highest standards of quality, safety and environmental protection.

With particular reference to the impacts that production could have, the Company is not subject to regulatory restrictions. For the construction of the site it was not necessary to formalize an environmental impact assessment, an aspect that leads to believe that the productive activities carried out within the site do not represent a risk for the surrounding community. It should be noted that, in addition to compliance with the regulations, in line with the Group's guidelines, Caffè Borbone adopts policies and practices aimed at minimizing, mitigating and balancing the environmental impacts generated by the activities, as well as privileges of risk prevention and continuous improvement of technologies used and management and control practices.

Energy consumption and emissions

Caffè Borbone promotes the adoption of international best practices in the field of industrial processes, in order to use natural resources responsibly and reduce energy consumption.

In 2018, Caffè Borbone consumed **3,987,180 kWh of electricity**, 97% of which for the production process and for the headquarters and 3% for finished product warehouse activities. Caffè Borbone has also **produced and sold 101,657 kWh of renewable electricity**, produced through monocrystalline photovoltaic panels.

Energy consumption of Caffè Borbone at December 31²¹

Energy consumption	Total 2018	Total GJ 2018
Purchased electricity	3,987,180.0 kWh	14,353.8
Self-produced and sold renewable energy	101,657.0 kWh	366.0
Electricity consumption	3,987,180.0 kWh	14,353.8
Natural gas ²²	1,340,307.6 m ³	47,344.4
<i>Of which used for production processes</i>	1,340,307.6 m ³	47,344.4
Total energy consumption	n.a.	61,698.2

In 2018, Caffè Borbone produced **2,648.2 t CO₂** of direct greenhouse gas emissions (Scope 1) and **1,435.4 t CO₂** of indirect greenhouse gas emissions (Scope 2 - Location Based), corresponding to **1,900.0 t CO₂** of emissions of indirect greenhouse gases (Scope 2 - Market Based).

²¹ Sources of conversion factors: GRI Sustainability Reporting Guidelines, Version 3.1; Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018 and 2017; <https://enigaseluce.com/info/coefficiente-c-gas>; Average value from diesel fuel safety data sheet ENI - 2012.

²² The consumption of natural gas in December 2018 was estimated.

GHG emissions (Scope 1) of Caffè Borbone at December 31²³

Source	t CO ₂ 2018
Natural Gas	2,648.2
Total	2,648.2

Materials and packaging

The consumption of raw materials is an aspect of fundamental importance for Caffè Borbone, which mainly purchases:

- raw coffee;
- packaging materials, such as waffle paper, packaging paper and cardboard, plastic and aluminum;
- other products, such as sugar, cups and plastic, merchandising, branded products.

Currently supplies are mainly carried out on the basis of production needs, with the aim of minimizing waste and the company has not adopted procedures for the responsible consumption of raw materials.

Starting from 2019 the raw materials will be traced in a more precise way: the new production management system will allow the tracing of raw material consumption data which can be the basis for allowing efficiency, savings and waste reduction policies in the medium term as well as reporting the origin of the materials.

Type of material	Tons 2018
Raw materials (coffee)	17,379.4
Additives, packaging, subsidiary	1,644.6
<i>of which paper for pods and capsules</i>	251.7
<i>of which plastic for capsules</i>	1,392.9
Materials for packaging	5,165.4
<i>of which aluminium</i>	2,204.8
<i>of which cardboard</i>	2,895.6
<i>of which plastic for packaging</i>	65.0
Total materials used	24,189.4

The Caffè Borbone research and innovation team has achieved the great goal of making its own compostable pods, thus produced by using organic materials that can be reused to create compost, which will be useful for cultivating land and fields. Having obtained the certification relating to the "Compostable C.I.C." trademark in November 2017, in 2018, Caffè Borbone marketed only compostable coffee pods, for a total of about 639 million pods. The total number of marketed capsules instead amounted to 689 million.

²³ Source of emission factors: National standard parameters table updated 2018 and 2017.

4. Italmobiliare Group: Responsibility for Business Management

Human Resource Management



Group employees: 1,789



Employees with a permanent contract: 1,620



Women employed: 494

Italmobiliare Group adopts a human resource management model in which the **person is the focal point** of the Group's success: for this reason Italmobiliare believes that employees are the main resource, to be valued and respected.

The complex of each person's relational, intellectual, organizational and technical skills is considered a strategic resource, which Italmobiliare protects and enhances, in the light of corporate social responsibility, so that individual attitudes find fulfillment and recognition, also through appropriate professional training courses.

The Group is committed to encouraging the work of employees in a positive work environment that allows the performance of the tasks assigned to each one. Through the procedures developed in favor of the needs and development of human resources, the Group favors the involvement and sharing of growth objectives among all employees. Moreover, each company, by virtue of the characteristics that distinguish it, independently manages its employees and collaborators.

At December 31, 2018 the **total workforce** of the Italmobiliare Group is **composed of 1,789 units**. To confirm the trust that the Group places in its employees, **permanent contracts** are **90.6%** of the total (1,620 employees) compared to 9.4% of temporary contracts. As for the type of contract, in 95.9% of cases it is a **full-time contract** (1,715 employees in 2018) while part-time contracts are only 4.1%. Furthermore, the Group employs **220 collaborators**, mostly self-employed, external collaborators or temporary workers, interns or agents.

Total number of employees by contract type and gender at December 31

	Italmobiliare Group					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent	1,176	444	1,620	863	314	1,177
Temporary	119	50	169	98	103	201
Total	1,295	494	1,789	961	417	1,378

Total number of employees by full-time and part-time contract at December 31

	Italmobiliare Group					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Full-time	1,276	439	1,715	942	383	1,325
Part-time	19	55	74	19	34	53
Total	1,295	494	1,789	961	417	1,378

During 2018, **321 new hires** were made, while a total of **310** terminations took place, with an incoming turnover rate of 17.9% (of which 18.5% men and 16.6% women, 57.8% younger than 30 years old, 15.1% aged 30-50, 6.7% older than 50 years old) and exit turnover rate of 17.3% (15.9% men and 21.1% women, 37.7% with less than 30 years, 14.1% with 30-50 years, 15.1% with over 50 years).

New hires in the Italmobiliare Group

	Italmobiliare Group							
	2018				2017			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Men	107	117	15	239	61	72	18	151
Women	22	40	20	82	10	33	21	64
Total	129	157	35	321	71	105	39	215

Number of terminations in the Italmobiliare Group

	Italmobiliare Group							
	2018				2017			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Men	62	98	46	206	40	56	38	134
Women	22	49	33	104	16	22	34	72
Total	84	147	79	310	56	78	72	206

The **types of contracts** adopted differ on the basis of the employees' companies: in particular, the Cement and National Collective Labor Agreement for Industry Managers are adopted in Italmobiliare and Italgem; the CCNL Commercio e Servizi is in Clessidra, for Sirap companies based in Italy, the CCNL Rubber and Plastic Industry and the CCNL Industry Executives, while in Caffè Borbone the CCNL Confapi - CCNL of the Agribusiness Industry. 92% Group employees are covered by collective bargaining agreements, with the exception of employees of Sirap UK and Sirap G.m.b.H.

Diversity, equal opportunities and well-being

The Code of Ethics of Italmobiliare Group provides that all employees and those who establish relations with the Group or work to pursue its goals, base their relationships and conduct on the principles of honesty, correctness, integrity, transparency, confidentiality and mutual respect. Italmobiliare carries out its activities in accordance with the legislation in force to protect working conditions without discrimination or retaliation for reasons of nationality, religious belief, political and trade union membership, language and gender.

In fact, in the context of its organization, Italmobiliare promotes and supports working conditions and interpersonal relationships that favor the integration and enhancement of different cultures and lifestyles. Respect for different nationalities, language, age, gender and sexual orientation, political or union opinions, philosophical guidelines or

religious convictions and physical disabilities are essential elements of the fundamental rights and freedoms of every individual.

The Group employs **494 women** (corresponding to 27.6% of the total employees), 50.8% of whom are workers, 46.0% white-collar workers and 3.2% occupy management positions. With reference to the professional categories employed in the Group, the majority of employees (64.2%) fall into the category of **blue-collar**, **white-collar** are 30.8%, while **managers** are 5%.

Italmobiliare Group employees by professional category and gender at December 31 (n.)

	Italmobiliare Group					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Management	73	16	89	70	14	84
White-collar	324	227	551	259	178	437
Blue-collar	898	251	1,149	632	225	857
Total	1,295	494	1,789	961	417	1,378

In terms of **age**, the Group's employees are mainly concentrated in the age group which includes employees aged between 30 and 50 (58.2%). The age range of less than 30 years corresponds to 12.5% of employees and lastly, to over 50 years corresponds to 29.3%.

Italmobiliare Group employees by professional category and age group at December 31 (n.)

	Italmobiliare Group							
	2018				2017			
	<30	30-50	>50	Totale	<30	30-50	>50	Totale
Management	-	63	26	89	-	64	20	84
White-collar	51	364	137	552	39	304	94	437
Blue-collar	172	615	361	1,148	96	460	301	857
Total	223	1,042	524	1,789	135	828	415	1,378

The Italmobiliare Group also employs employees belonging to protected categories, which correspond to 10% of the total, as indicated in the following table.

Italmobiliare Group employees belonging to protected categories by gender ²⁴

	Italmobiliare Group					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Management	-	-	-	-	-	-
White-collar	4	7	11	6	4	10
Blue-collar	73	92	165	86	119	205
Total	77	99	176	92	123	215

²⁴ With particular reference to the Group company operating in Poland (Inline Poland), a special regime is in place regarding the placement of invalids for which the Law of 27 August 1997, Dz.U.1997 Nr 123 poz.776 is applied "on vocational rehabilitation and social employment people with disabilities".

Valorization and Development of Human Capital

Italmobiliare is very attentive to the development and growth of its employees and each Group company independently manages the training provided in order to obtain an ever greater qualitative level of the skills of its staff.

During 2018 the training hours provided were **12,864**, with an average per capita of about 7.2 hours. As shown in the following table, the training hours were more numerous for workers (69%) compared to white-collar (19%) and managers (12%).

Hours of training carried out by the Italmobiliare Group by professional category and gender

	Italmobiliare Group											
	2018						2017					
	Men		Women		Total		Men		Women		Total	
	Hours	Average	Hours	Average	Hours	Average	Hours	Average	Hours	Average	Hours	Average
Management	1,272	17.4	274	17.1	1,545	17.4	1,304	18.6	396	28.3	1,700	20.2
White-collar	1,279	3.9	1,200	5.3	2,479	4.5	2,712	10.5	2,166	12.3	4,877	11.2
Blue-collar	8,024	8.9	816	3.3	8,840	7.7	5,984	9.5	2,295	10.2	8,279	9.7
Total	10,574	8.2	2,290	4.6	12,864	7.2	10,000	10.4	4,857	11.6	14,856	10.8

Another fundamental aspect for the growth and enhancement of employees is the **performance evaluation** that in 2018 was carried out in the Holding and in the subsidiaries Italgo and Sirap, covering 363 employees of the Group (20.3% of the total), according to the table shown in the attachment.

Following the objective of enhancing its staff, each Group company has a **corporate remuneration and welfare system** in place that also includes some benefits that allow a better balance between working life and private life.

Italmobiliare and Italgo

Italmobiliare guarantees equal opportunities and treatment in respect of every diversity. In the context of remuneration policies, Italmobiliare establishes, supporting the value of meritocracy, objective and transparent incentive systems.

Italmobiliare and Italgo operate a remuneration policy based on a merit matrix that combines performance and weight of the position on the external market in terms of pay. There is also a mapping of skills for key positions aimed at monitoring the expected level in terms of technical knowledge and managerial attitudes.

The main benefits provided are: occupational and non-occupational accident insurance and contractual health insurance for all employees, life insurance and over-contractual health insurance for managerial staff and the period of mandatory maternity leave is integrated at 100% of the salary value. In addition, the company car is assigned to managers.

Clessidra

Clessidra has adopted a remuneration and incentive system in line with the long-term corporate strategy, the objectives, values and interests of the Alternative Investment Funds managed and the investors of these funds, including measures to avoid conflicts of interest, through careful management of corporate risks. These remuneration and management incentive mechanisms favor the competitiveness and the governance of the company and allow to attract and keep in the company subjects having professionalism and abilities adequate to the needs of the same. The remuneration and incentive policy supports the alignment of interests with investors, company results and sustainability, values, development and retention of professional skills, thus creating a continuous interaction that allows, on the one hand, a constant improvement of the remuneration practices adopted and, on the other hand, the consolidation of the elements considered above.

The main benefits provided for executives are an extra-professional life/injury policy, a medical expenses reimbursement policy and a Permanent Disability plus an annual medical check-up and the company car. For managers and white-collar, a policy is provided for Permanent Disability cases from illness, while a welfare plan is provided for all employees.

Sirap

Sirap uses a Management by Objectives system for executives and key people.

The main benefits provided by the parent Sirap Gema alone are a birth bonus and the possibility of transforming the company bonus (regulated by the second level contract) into a package of welfare services. For all Sirap companies there is a car policy which applies to members of the Group Management Committee, executives and managers who have the right to be assigned company cars for mixed use, i.e. work and private.

For executives, a performance management system is envisaged which provides for the annual review of the potential and skills held in relation to the activities and role. This system will be progressively extended to key people and young people with a high potential.

Caffè Borbone

Caffè Borbone is defining the processes for evaluating employee performance, but plans to start this activity in 2019 for managers and key figures.

At the moment the main benefits provided for Caffè Borbone managers are the assignment of the company car and the mobile phone and an additional health insurance policy.

Health and Safety of Employees

Italmobiliare S.p.A., aware of **the fundamental importance of the health and safety of its employees** operates in compliance with Legislative Decree 81/2008, the Risk Assessment Document (DVR) is processed and periodically updated.

The company monitors the accident trend of workers and provides general and specific training on risks related to health and safety in the workplace.

During 2018, the Italmobiliare Group recorded 22 accidents, none of which were fatal, mainly related to cuts, crushing fingers, distortions, fractures, stumbling and falls. 77% of the accidents recorded in 2018 occurred in the companies acquired during the year. The hours worked by Italmobiliare Group employees amounted to 2,642,300.²⁵

²⁵ The perimeter of the health and safety data does not include Sirap G.m.b.H., a commercial company that represents 1% of the total employees.

Indicators of Health and Safety in Italmobiliare Group²⁶

	Employees	
	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	22	7
Total number of hours worked	2,642,300	1,816,705
Multiplier	1,000,000	1,000,000

	Employees	
	2018	2017
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	8.3	3.8

Sirap

Among the companies controlled by Italmobiliare, Sirap stands out for its special attention to the issues of safety in the workplace and for its **"zero injuries"** objective. For over eight years, the **"work in safety"** project has been launched, which has resulted in a progressive change of behavioral approach throughout the organization. In order to eliminate accidents, Sirap has developed multiple **communication and operational tools**:

- the Security Policy, an integral part of the "Development - Quality - Safety - Environment" policy;
- the "counts days without accidents";
- the "Blue Cards", paper forms for reporting dangerous and almost accident conditions;
- a monthly report to report the salient facts.
- a periodic HSE Committee to start, coordinate and monitor the implementation of the aforementioned company policy;
- safe work procedures (PLS) related to riskier activities;
- the 5S project (separating, sweeping, arranging, standardizing, supporting) aimed at improving safety, productivity and quality and reducing waste;
- the Behavior Observation System (BOS) which envisions checks by the General Management at the plants;
- the Sirap Safety Dialogue (SDS), is an observation system aimed at consolidating positive attitudes, actions and behaviors and identifying areas for improvement.

Furthermore, at each site, HSE committees are convened by the site management, which involves the hierarchical line and the Prevention and Protection Service (SPP). The trend of accidents and of the prevention tools in use are analyzed at periodical meetings, which are attended by the Workers' Safety Representatives.

As a demonstration of the cultural change of Sirap towards issues relating to the health and safety of employees, in 2018 the accident rate (i.e. the ratio between the total number of injuries and the total hours worked per million), calculated on the establishments already present in the group the previous year, it is 2.51 down compared to 2017. By recalculating the accident rate considering the new acquisitions in 2018 (Tarascon, Puig Reig, Sedgefield) where the activities are being implemented, the rate accident rate for the group rose to 8.0 in 2018.

²⁶ The new GRI Standard 403, published by the Global Reporting Initiative (GRI) in 2018, replacing the 2016 version used in the 2017 Sustainability Report, was used for the reporting of the 2018 injuries data. For historical data previously published, please refer to the 2017 Sustainability Report.

Furthermore, for each Sirap Gema, Inline Poland, Noves, Remoulins and Petruzalek site a **HSE Integrated Management System certified according to the international standards OHSAS 18001 and UNI EN ISO 14001** has been progressively implemented. The system was developed on a voluntary basis for optimization and continuous improvement of the processes related to the health of workers, safety at work and environmental protection.

Group companies use a risk identification and assessment system through an integrated process which includes:

- elimination of the source of risk;
- replacement of the source of risk with one of lower impact;
- technical structural measures;
- organizational measures, training, health surveillance.

The main hazards identified for production plants concern:

- accidents with forklift trucks;
- crushing and dragging with moving parts;
- fires at machinery or products;
- manual handling of loads.

The actions taken to reduce risks include technical interventions (CE marked machines equipped with safety systems and subject to periodic checks, forklifts subjected to periodic checks and equipped with warning systems such as horns and flashing lights), procedural (specific procedures, plans emergency) and behavioral methods through continuous information and training of personnel. In particular, the training courses differ in:

- training required by the binding regulation (for example, the basic safety course and specialized courses for particular tasks or use of equipment);
- internal training on the cultural approach to health and safety to promote safe behavior and involvement at all levels.

In addition, all Group companies follow the policy "Development - Quality - Safety - Environment", in which workers' health and safety are fundamental elements and adopt communication systems, tools, training and information, as well as the methods worker participation, such as weekly meetings and HSE committees.

Rosaplast, Sirap Iberica, Sirap UK and Sirap Tarascon (these last three recently acquired) have not yet adopted a certified health and safety management system with procedures and practices, in order to promote a shared culture of injury prevention, common to the Group's plants.

Italgen

For Italgen, safety and health protection in the workplace are fundamental values to be integrated in all of its activities. Attention to these issues is demonstrated by the **Health and Safety Policy** and by the operational implementation and dissemination of the Occupational Safety Management System according to the UNI-INAIL Guidelines. Italgen's commitment translates first and foremost into the adoption of concrete measures to prevent accidents, accidents at work and work-related illnesses and, in parallel, in training, awareness-raising and equipment for workers to enable them the performance of tasks in conditions of complete safety and health. The main dangers and risks in work activities and consequent actions for their elimination and/or reduction are reported in the Risk Assessment Document, in accordance to the Legislative Decree 81/08 and subsequent amendments.

Caffè Borbone

Caffè Borbone fulfills the obligations relating to health and safety in accordance with current legislation and has an "Action Plan" in place, approved by the Board of Directors, which provides for strengthening the management of the issue. The company adopts an effective system for reporting possible dangers identified by the workers or inefficiencies in the means and devices through an immediate communication process that aims to reduce situations of serious and imminent danger. In order to reduce the risk, Caffè Borbone uses a prevention system based on continuous training that involves all employees and follows a program aimed at making workers aware of the risks and methods of behavior and improving health levels and physical integrity. For the improvement of safety levels over time, a program of interventions based on the many main elements is also planned, including a periodic health check to prevent the occurrence of any occupational diseases. The main dangers identified in the work phases are mainly related to fires, explosions, explosive atmospheres, heat, flames, accidents and overturning.

Clessidra

Clessidra has implemented an occupational health and safety management system, pursuant to Legislative Decree no. 81/08. The occupational safety management system aims to assess all the health and safety risks of workers present within the organization in which they provide their activity, aimed at verifying the adequacy of the prevention and protection measures adopted and to verify the program of measures to guarantee the improvement over time of the levels of health and safety already in place, and possibly supplement it / modify it as appropriate.

Clessidra also makes use of a consulting company that carries out preventive activities and is in charge of advising the employer, the workers and their representatives in the organization, on the requirements to establish and maintain a healthy and safe work environment, which facilitates health optimal physical and mental health in relation to work and the adaptation of work and the skills of workers in light of their state of physical and mental health.

Finally, the company disseminates to its workers the health and safety at work management system through the distribution of documentation and specific training and provides health insurance to all employees at its own expense.

Italmobiliare Servizi and Punta Ala Promozione e Sviluppo Immobiliare

The companies do not have an ISO 18001 certified system, but operate in compliance with Legislative Decree no. 81/2008. All employees carried out general and specific training courses on health and safety risks identified in the DVR and information documents were distributed to all employees.

Information is guaranteed by means of information documents pursuant to the Law, including the Emergency Plan and the names and relative references of colleagues in the Emergency Team are available on the corporate intranet for Italmobiliare Servizi.

Products, services and customer care

In the area of sustainability of Italmobiliare Group products and services, the following significant indicators are reported: the electricity produced from renewable sources of Italgem, the Full Certificate Project of Sirap, and the procurement practices implemented by the Group.



Electricity produced from renewable sources: 1,042,364.2 GJ



Full Certificate Project by Sirap



Group suppliers: approximately 5,500

The quality and reliability of the service and customer satisfaction are significant issues for the Group and in particular for the companies operating in the industrial sector (Sirap, Italgem and Caffè Borbone) for which more detailed information is provided in this section.

Quality of products and services

Sirap

Sirap invests a lot of effort in **developing innovative solutions** for every packaging need, including rigid containers in expanded polystyrene, polypropylene and a wide range of marketed products dedicated to the fresh food industry and large-scale food distribution. One of the focal points of the Group's policy is **continuous improvement** which translates into actions to optimize and strengthen the effectiveness of health, safety, quality and environmental management systems. Sirap constantly strives to guarantee the **highest quality of its products**, subjecting each phase of the production process to more than 1100 daily checks in all the plants: in this way, overall, over 200 thousand quality controls are a guarantee for customers and make it possible to consolidate the high levels of competitiveness. Furthermore, every year the **internal laboratory** collaborates with Universities and Research Institutes to test more than 3000 products in relation to their food and technological suitability, mechanical, thermal, optical, chemical-physical properties of materials, gas permeability and structural analysis. The legislative compliance of the finished products is periodically verified by accredited third-party laboratories, guaranteeing the production of compliant and healthy products together with the constant control of the process and the use of suitable raw materials. The legislative compliance of finished products is periodically checked by accredited third-party laboratories. Process control and the use of suitable raw materials guarantees the production of compliant and healthy products.

Specifically, most of Sirap's plants are ISO 9001 certified, concerning the quality management system, except for the Hungarian Petruzalek plant where the process to obtain the certification will begin in 2019. With reference to the "**Full Certificate Project**", Sirap has provided for the achievement of external certifications concerning company processes also in the area of quality, food and environmental safety now extended to all companies in the 2017 perimeter (excluding new acquisitions 2018).

Italgem

For over a century, Italgem has been operating as a **producer and distributor of electricity from renewable sources** in Italy and abroad. In particular, in Italy the production conformation consists of 15 hydroelectric power plants, whose installed capacity is equal to 57.5 MW) in Lombardy, Piedmont and Veneto and almost 300 kilometers of transmission lines (of which 115 km are high voltage, 140 km at medium voltage and 25 km at low voltage). Abroad, Italgem has completed the construction of a wind farm in Bulgaria.

In 2017 Italgas served 77 POD (Point of Delivery), 67 of which were industrial. In 2018 the total number of PODs fell to 60, of which 51 industrials, 3 wholesalers, 1 stock exchange and the reduction was completely recorded in the supply segment to industrial customers. This variation is the consequence of the implementation of a new, but gradual, sales strategy, aimed at selling all the energy produced to wholesalers or on the platforms of the power exchange. During 2018 there were three service interruptions, of a total duration of 0.5 hours, which affected two customer sites served: the service interruption frequency index is therefore equal to 1.5 (calculated as the ratio between the number of outages occurred and the number of establishments affected by interruption) and the average service interruption duration equal to 0.25 (calculated as the ratio between the total duration of service interruptions and the number of establishments affected by interruption). The causes of service interruptions are due to meteorological events (lightning) or connected to them, the frequency index remains substantially in line with 2017 while the average duration of service interruption recorded a sharp decrease (from 4 to 0.25). With reference to Italgas's distribution network, in 2018 there were 6,583,00 kWh of transmission and transformation losses.

One of the fundamental objectives that characterize the Italgas's mission, also explained in the specific Quality Policy, is the constant improvement of the quality of the product and the service offered to customers. In this sense, the main focus is on three levels: to consolidate over time the **high quality standards** of the production of electricity coming mainly from water sources, to **optimize** company processes and to continuously verify the efficiency and performance of the plants. In order to guarantee production efficiency, service continuity, timely identification of any critical issues and, consequently, the satisfaction of product and service requirements, an automated system has been developed for constant monitoring of the entire production process and of the operating parameters of the plants. Starting from the results of this activity, conformity assessment and internal audits, opportunities are defined for improvement and updating of the Integrated Management System and of products and services.

Caffè Borbone

For Caffè Borbone the quality of the product is an essential element and, for this reason, it promotes the adoption of international best practices in the field of industrial processes, the highest standards of quality, safety, environmental protection and process innovation policies and of product.

With a view to continuous improvement of the company organization, Caffè Borbone has adopted an internal **Quality Management System** in compliance with the **IFS food safety standards** (International Food Standard) and has obtained the **ISO 9001: 2015 certification**.

In addition to this, the Company plans the realization of its products by appropriately defining the **microbiological, chemical, physical and nutritional and allergenic characteristics**. This information is shared with customers who analyze and approve the technical data sheet of the finished product containing the related requirements, reviewed by the entire HACCP team based on the results of the analyzes, customer requests, regulatory changes and/or updates, of the changes in raw materials, recipes, packaging and processes that have a direct impact on the finished product. Furthermore, the quality control function periodically stores daily production lots also for the purpose of testing them over time.

For Caffè Borbone the supply of the main raw material takes place from suppliers or through brokers/intermediaries, qualified according to the "Procurement, receiving and storage" procedure, directly from foreign collection warehouses. The purchase process for shipment of coffee batches is characterized by the quality control of samples of pre-boarding tests and by pre-clearance, product and organoleptic checks aimed at verifying the quality of the raw coffee received.

Attention towards customers/investors

Italmobiliare

As far as Italmobiliare is concerned, given the peculiarity of the activity carried out, the activity is carried out through the relationship with its investors and financial analysts. This activity is carried out by the Investor Relator, according to the indications of the Managing Director and General Manager and in collaboration with other competent company Departments/Functions.

Clessidra

The key concept on which Clessidra bases the relationship with its customers, both actual and potential, is **transparency**. The SGR declines it in two ways: by making it the fulcrum of interaction with customers, and by basing its choices and decision-making processes on its customers on reconstructive evidence. Furthermore, for Clessidra the quality of the services offered is of fundamental importance, since the performance of the Fund and its solidity are essential requirements to be assured to the subscribers. With regards to the creation of value, the investment strategy developed by the Company is relevant, and is based on some fundamental pillars:

- control or co-control investments in medium and large Italian companies;
- acquisition of minority interests;
- strong involvement of the management of the acquired companies;
- solid industrial approach aimed at creating value in collaboration with the entrepreneur and management.

Sirap

Attention to the customer is rooted in the work of Sirap and is a cornerstone of the company policy "Development - Quality - Safety - Environment". The aim is to guarantee the best final product, characterized by high quality standards, together with food safety obtained with the best technologies to protect consumers. The customer can rely on Sirap both in the research among the food packaging products already developed, and in the development of new tailor-made solutions. The purpose of the Group is to continuously improve the product/service offered annually, in order to assess the degree of **customer satisfaction** with regard to the quality of the products, service and technical assistance and development of new products, Sirap carries out some direct interviews with customers of the various channels (distributors, retail and industry) through the preparation of a specific form. Compared to 2017, no substantial changes were made in the management of the customer satisfaction assessment.

In confirmation of the above, during 2018 Sirap commissioned a major field consultant to a major consulting firm with major European clients. This research aimed at a better understanding of the service offered to the customer and possible areas for improvement, as well as a greater understanding of market trends with particular focus on environmental sustainability and product innovation.

Italgen

Relations with customers are managed by Italgen through **different methods**, depending on whether the sale of the energy produced is aimed at consumer customers, the energy services manager or the national stock exchange. Among the objectives of the company quality policy are the proposition of **tailor-made solutions** and timely feedback to any problems encountered by customers as well as the guarantee of high competence in solving the problems associated with the supply of electricity and the billing of the related consumption. In accordance with the provisions of the Integrated Management System, Italgen pays particular attention to customer satisfaction, collecting **information, comments and complaints** from them that constitute the starting point for implementing solutions and improvement plans. At the moment there are no surveys dedicated to the specific measurement of customer satisfaction, but individual requests are simply evaluated and processed.

Caffè Borbone

Caffè Borbone pays particular attention to the needs and expectations of customers regarding the product and the company. In order to monitor them, the Customer Care office annually sends customers a **satisfaction assessment questionnaire**, the results of which are generally discussed during the review for the definitions of improvement objectives. The Company also **uses indirect or alternative means of assessing customer needs**, such as evaluations acquired from e-commerce, reviews on online sales sites, sales trends, and customer loyalty. In the event of special requests from the customer, which generate changes to the activity flows or the agreed production specifications, the Operation Director, with the Haccp team, will activate the internal communication systems to ensure that these needs are shared, implemented and respected.

Responsible procurement practices

The Italmobiliare Group has defined procedures for a **responsible** and structured **procurement** of goods and services, so that the process of qualification, assessment and selection of suppliers is carried out in compliance with the principles of economy, timeliness and effectiveness, ensuring free competition and the equality of treatment; at the same time, the compliance of the requested good or service with the use and regulatory requirements must also be guaranteed.

In order to obtain the **maximum level of service** and efficiency in the selection process of the approximately **5,500** Group suppliers²⁷, the technical capacity, punctuality, compliance of the delivery with the requests, the existing relationships with other Group companies are considered, the specific nature of the assignment and the adequacy to the structure and needs of the Group. In addition to this, the assessment of the suppliers must take into account the reputation and reliability (including ethical and legal) of the subject and the adhesion of the same to the common values contained in the Code of Ethics of the companies of the Group. Similarly, for the assignment of consulting assignments, the principles of economic efficiency, competence, transparency, correctness, objectivity and traceability of activities are brought to the fore.

The aim pursued through the policies and procedures implemented in the Group relating to the purchase of goods, services and consultancy is to establish relations based on the principles set out above with all suppliers.

Proportion of spending on local suppliers at December 31²⁸

	Italmobiliare Group	
	2018²⁹	2017
Estimated total monetary value of payments made to suppliers (in euros)	522,186,480	274,845,647
Purchase revenue from local suppliers (in euros) ³⁰	402,379,091	180,778,776
Percentage of procurement budget used for significant operating locations spent on local suppliers	77%	66%

The most significant companies in terms of purchases from suppliers are Sirap, Caffè Borbone and Italgem which, being production companies, have a more structured management, as specified below, while for the parent Italmobiliare S.p.A. and Clessidra SGR typical supply is mainly made up of consulting services.

²⁷ The perimeter of the data does not include Clessidra SGR as the supply chain is not considered significant

²⁸ By local supplier we mean the supplier whose geographical location coincides with that of the company considered from time to time

²⁹ The figure for the 2018 financial year includes the purchase of the investment in Caffè Borbone by Italmobiliare S.p.A.

³⁰ The information does not include the purchase turnover from local Petruzaiek suppliers as the management software in use does not allow the extraction of the data

Sirap

For the procurement process, Sirap is oriented towards the **exclusive selection of reliable and qualified** suppliers who are able to ensure the consistency and quality of the products and services offered and, for this purpose, a **periodic monitoring system** has been developed. Furthermore, the choice of suppliers is made through an objective and transparent assessment that also takes into consideration the ability to provide and guarantee services of an adequate level, the honesty and integrity of the supplier. Similarly to what happened in the past, also for 2018 the environmental and social parameters did not constitute, in a structured way, a criterion for selecting suppliers, except for the activity of communicating the rules of the Code of Ethics. In fact, during 2018, 37 (+54% vs 2017) suppliers were evaluated with reference to environmental parameters (in particular, reference is made to compliance with the environmental regulations contained in the Code of Ethics and to the collection and verification of the certifications of the suppliers that deal with of waste disposal) while 31 with reference to social parameters (in particular, reference is made to the signing of the Code of Ethics), out of a total of 490³¹ new registered suppliers (5.3% and 4.4% respectively). The data refers almost entirely to the parent Sirap Gema S.p.A., Rosa Plast Due S.r.l. and Sirap UK Ltd in the environmental field.

Italgen

In the supplier selection phase, Italgen checks that the processes, products and services it procures do not negatively influence its clients' ability to ensure punctuality and high quality standards. **Suppliers are assessed annually** by analyzing data collected relating to non-compliance and the parameters reported in a dedicated Policy. Furthermore, each supplier is assigned scores based on the results of the acceptance checks on supplies and procured services. As regards the **environmental parameters**, in the selection process the possession of environmental and quality certification is taken into consideration, in addition to any authorizations necessary for the provision of the requested activity. To date, environmental and social parameters are not a criterion for selecting suppliers. In the purchase contracts, the supplier is in any case required to adhere to the principles of the Code of Ethics and Model 231.

Risk management linked to the purchasing process is based on compliance with the principles contained in particular:

- in the Management and Control Organization Model and in the Code of Ethics of Italgen;
- in the Service and Works Assets Purchase Procedure, PR075;
- in the Procedure P. 6.1.1. - Risks and Opportunities;
- in the Manual of Occupational Health & Safety Management System;
- in the Procedure P 6.1.2 - Environmental aspects and compliance obligations;
- in the instruction I 8.1.4 "Suppliers management operating at the Italgen sites";
- in the Integrated Management System Management Manual.

Caffè Borbone

The selection process of Caffè Borbone suppliers is characterized by transparent and objective assessments of their professionalism and entrepreneurial structure, as well as their ability to meet the obligations of confidentiality that the nature of the service offered requires. In addition to this, the criteria used for the selection mainly focus on the quality, the price and the methods of carrying out the service offered.

³¹ The figure does not include the total of new suppliers of Petruzalek, Sirap Tarascon and Sirap G.m.b.H., as it is not available

The suppliers, due to the nature of the relationship, are expressly required to know and respect the Code of Ethics of Caffè Borbone, which establishes the principles of conduct in relations with stakeholders, including the protection of human dignity and human rights, the protection of safety, respect for the principles of integrity, fairness and transparency and protection of the environment.

As for the supply of raw coffee, the main raw material, Caffè Borbone acquired two qualities in 2018: *arabica* from Latin America, more precisely from Brazil, and *robusta* from Africa and India.

For most of the purchases of raw coffee, Caffè Borbone was supplied in 2018 by Olam, an international supplier, equipped with various standards and tools to ensure compliance with social, environmental and economic principles. This raw coffee broker has also developed a code of conduct for its suppliers that provides a series of conditions to support the goal of procuring coffee produced in a socially responsible, economically profitable and environmentally sustainable manner. In addition to this there is the "Olam Livelihood Charter" which summarizes the principles, such as access to credit, better performance, fair labor, market access, quality, traceability, social investments and environmental impacts, for which sustainability initiatives are carried out.

Responsibility towards the community

Initiatives and sponsorships

ITALMOBILIARE

In 2018, Italmobiliare S.p.A. provided an important contribution to the Fondazione Cav. Lav. Carlo Pesenti, of whom he is the promoter, whose main areas of activity are education, training, scientific research, the enhancement of artistic and cultural heritage, humanitarian and social initiatives, support for cultural events and charity.

Italmobiliare Group continued its collaboration with the Teatro alla Scala Foundation in Milan by supporting the project "Grandi Spettacoli per Piccoli" with the aim of promoting the dissemination of innovative programs and initiatives for the development of ideas, projects and actions capable of creating a positive social and cultural impact, with particular attention to the new generations.

The company also confirmed its adherence to the **Corporate Golden Donor** program of the FAI - Italian Environment Fund as a choice of social responsibility in line with the values of Corporate Social Responsibility, confirming its attention and concrete commitment to protecting and enhancing the artistic heritage and Italian environment.

Finally, Italmobiliare S.p.A. and Italgas sponsored the MED Forum 2018 event - Mediterranean Dialogues, organized by the Ministry of Foreign Affairs and International Cooperation and by ISPI (Institute for International Political Studies) under the High Patronage of the Presidency of the Italian Republic.

The companies in the portfolio have always been committed to developing initiatives of involvement and dialogue aimed at the communities and the territory in which they operate.

Sirap

The relationship with the local community of Verolanuova, in the province of Brescia, is very strong, where Sirap Gema S.p.A. has its own headquarters; here the company is engaged with the social cooperative of the area from which it hires employees with disabilities for the management of services such as maintenance of green spaces, cleaning of offices, establishments and other activities.

In particular, the Polish subsidiary Inline Poland, located in Murowana Goslina about 40 km from the city of Poznan, has a very strong relationship with the local community: in fact a share of employees currently between 40 and 50% suffers from small disabilities that do not prevent them from operating on the production lines and interacting within the company. Inline Poland benefits from government grants aimed at supporting the inclusion of these resources in the company.

Italgen

Italgen aims to enhance and develop its relations with the territory through openness and dialogue with local communities and listening to the demands of the territory. There are numerous initiatives that fall within this sphere, including:

- the contribution to public lighting in the Municipality of Olmo al Brembo;
- support for students in education, training and education by providing scholarships;

Clessidra SGR S.p.A.

Clessidra SGR, in the course of 2018, provided its support to the Anlaids association, an Italian association created to stop the spread of the HIV virus. It was founded in 1985 by a group of researchers, doctors, journalists, activists and members of civil society. Erected Moral Entity with DPR in 1988, it has been an ONLUS since 1998. The Company has also sponsored the Spazio Teatro No'hma Teresa Pomodoro.

Milan, March, 6 2019

For the Board of Directors
The Managing Director
(Carlo Pesenti)

Annexes

Italmobiliare S.p.A. - Participation in initiatives and trade associations

Assonime	Italian - Egyptian Business Council
Assolombarda	ISPI – Institute for International Political Studies
AIDAF – Family Business Network	Italian Initiative Group of the Italian Embassy in Brussels
American Chamber of Commerce in Italy	Europeanissuers
Business Forum Italia - Thailand	

Sirap Gema S.p.A. - Participation in initiatives and trade associations

Industrial Associations of Brescia, Mantova, Arezzo e Pordenone

Italgen - Participation in initiatives and trade associations

Confindustria Bergamo
RES4MED+RES4AFRICA
Althesys
Future Electricity

Clessidra SGR S.p.A. - Participation in initiatives and trade associations

AIFI
Invest Europe
AODV

Caffè Borbone S.r.l. - Participation in initiatives and trade associations

CONFIDA – Italian Vending Association

Conversion Factors Applied

Conversion factors 2018			
Electricity	GJ/kWh	0.0036	GRI Sustainability Reporting Guidelines, Version 3.1
Natural gas	TJ/smc	0.000035253	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018
Natural gas	smc/mc	1.002	https://enigaseluce.com/info/coefficiente-c-gas
Diesel	GJ/t	42.877	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018
Diesel	kg/l	0.835	Average value from diesel fuel safety data sheet ENI - 2012
Diesel	GJ/t	42.78	Italian Greenhouse Gas Inventory 1990 - 2016 - National Inventory Report 2018 Annex 6 National Emission Factors - Higher Institute for Environmental Protection and Research (ISPRA)
Diesel	kg/l	0.84	Annex 1 of Legislative Decree No. 28 of 03/03/2011
Gasoline	GJ/t	42.82	Italian Greenhouse Gas Inventory 1990 - 2016 - National Inventory Report 2018 Annex 6 National Emission Factors - Higher Institute for Environmental Protection and Research (ISPRA)
Gasoline	kg/l	0.74	Annex 1 of Legislative Decree No. 28 of 03/03/2011

Conversion factors 2017			
Electricity	GJ/kWh	0.0036	GRI Sustainability Reporting Guidelines, Version 3.1
Natural gas	TJ/smc	0.000035134	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - 2017 update
Natural gas	smc/mc	1.002	https://enigaseluce.com/info/coefficiente-c-gas
Diesel	GJ/t	42.877	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - 2017 update
Diesel	kg/l	0.835	Average value from diesel fuel safety data sheet ENI – 2012

Emission Factors Applied

Emission factor			Sources 2018
Natural gas	tCO ₂ /TJ	55.934	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018
Diesel	tCO ₂ /TJ	73.578	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - updated 2018
Diesel	kg CO ₂ /lt	2.58935	UK Government GHG Conversion Factors for Company Reporting - Conversion Factors 2018
Gasoline	kg CO ₂ /lt	2.18943	UK Government GHG Conversion Factors for Company Reporting - Conversion Factors 2018
Market Based			
Electricity (Italy)	gCO ₂ /kw h	476.53	European Residual Mixes 2017
Electricity (France)	gCO ₂ /kw h	57.34	European Residual Mixes 2017
Electricity (England)	gCO ₂ /kw h	366.52	European Residual Mixes 2017
Electricity (Spain)	gCO ₂ /kw h	446.38	European Residual Mixes 2017
Electricity (Poland)	gCO ₂ /kw h	834.55	European Residual Mixes 2017
Electricity (Hungary)	gCO ₂ /kw h	341.4	European Residual Mixes 2017
Location Based			
Electricity (Italy)	gCO ₂ /kw h	375	Terna, international comparisons 2016
Electricity (France)	gCO ₂ /kw h	43	Terna, international comparisons 2016
Electricity (England)	gCO ₂ /kw h	310	Terna, international comparisons 2016
Electricity (Spain)	gCO ₂ /kw h	254	Terna, international comparisons 2016
Electricity (Poland)	gCO ₂ /kw h	792	Terna, international comparisons 2016
Electricity (Hungary)	gCO ₂ /kw h	289	Terna, international comparisons 2016
Emission factors			Sources 2017
Natural gas	tCO ₂ /TJ	55.897	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - 2017 update
Diesel	tCO ₂ /TJ	73.578	Table of national standard parameters for monitoring and reporting of greenhouse gases pursuant to Legislative Decree No. 30 of 2013 - 2017 update
Market Based			
Electricity (Italy)	gCO ₂ /kw h	465.11	European Residual Mixes 2016
Electricity (France)	gCO ₂ /kw h	46.33	European Residual Mixes 2016
Electricity (Poland)	gCO ₂ /kw h	851.04	European Residual Mixes 2016
Electricity (Hungary)	gCO ₂ /kw h	368.71	European Residual Mixes 2016
Electricity (Italy)	gCO ₂ /kw h	375	Terna, international comparisons 2015
Electricity (France)	gCO ₂ /kw h	43	Terna, international comparisons 2015
Electricity (Poland)	gCO ₂ /kw h	792	Terna, international comparisons 2015
Electricity (Hungary)	gCO ₂ /kw h	289	Terna, international comparisons 2015

Table concerning the material aspect boundaries and the reconciliation with the relevant GRI topics

AREA	Material topics	Boundary	Main stakeholder interested	Role of Italmobiliare Group	Reconciliation with the GRI Topics
GOVERNANCE AND INTEGRITY	Risk management	Italmobiliare Group	All	Direct	N.A.
	Ethics and business integrity	Italmobiliare Group	All	Direct	Socio-economic compliance Anti-competitive behavior Anti-corruption
ECONOMIC RESPONSIBILITY	Economic and financial results and value creation	Italmobiliare Group	Shareholders, Investee Companies, Financial community	Direct	Economic performance
	Research and development	Sirap, Italgen, Caffè Borbone S.r.l.	Customers, Territory/Community	Direct, Contribution	N.A.
RESPONSIBLE MANAGEMENT OF SERVICES	Data protection	Italmobiliare Group	Customers, Regulatory bodies	Direct	Customer privacy
	Human rights	Italmobiliare Group	All	Direct	Freedom of Association and Collective Bargaining Child labor Forced or compulsory labor
	Quality and safety of products	Sirap, Italgen, Caffè Borbone S.r.l.	Customers, Suppliers, Territory/Community	Direct, Direct contribution	Customer Health and Safety Organizational profile - Electric Utility Sector Efficiency of the system – Electric Utility Sector Access - Electric Utility Sector
	Principles of sustainable investments	Italmobiliare S.p.A., Clessidra SGR S.p.A.	Shareholders, Financial community	Direct	Active Property - Financial Sector
INVESTMENTS RESPONSIBILITY	Governance of the shareholding companies	Italmobiliare Group	Shareholders, Investee companies, Financial community	Direct	N.A.
	Transparency	Italmobiliare S.p.A., Clessidra SGR S.p.A.	Shareholders, Financial Community, Regulatory Bodies	Direct	N.A.
RESPONSIBILITY TOWARDS COLLABORATORS	Reliability of the investments	Italmobiliare S.p.A., Clessidra SGR S.p.A.	Shareholders, Financial Community	Direct	N.A.
	Welfare and development of the employees	Italmobiliare Group	Employees	Direct	Employment Training and Education
	Health and safety in the workplace	Italmobiliare Group employee ³²	Employees	Direct	Occupational Health and Safety Diversity and Equal Opportunity Non-discrimination
	Diversity, inclusion and non-discrimination	Italmobiliare Group	Employees	Direct	

³² The company will deepen the analysis with respect to the significance of other workers who are not employees, in order to assess the need to collect data from employers of external collaborators and suppliers operating at Group sites and/or under the control of the Group, evaluating the quality and accuracy of such data over which it does not exercise direct control.

AREA	Material topics	Boundary	Main stakeholder interested	Role of Italmobiliare Group	Reconciliation with the GRI Topics
RESPONSIBILITY TOWARDS SUPPLIERS	Sustainable management of the supply chain	Sirap, Italgen, Caffè Borbone S.r.l.	Suppliers, Customers	Direct	Supplier Social Assessment Supplier Environmental Assessment Portion of spending on local suppliers
	Conscious use of raw materials and responsible packaging	Sirap, Caffè Borbone S.r.l.	Suppliers, Customers	Direct	Materials
RESPONSIBILITY TOWARDS THE COMMUNITY	Local communities	Sirap, Italgen, Caffè Borbone S.r.l.	All	Direct	Local communities
ENVIRONMENTAL RESPONSIBILITY	Management of water resources and of the quality of water discharges	Sirap, Italgen, Caffè Borbone S.r.l.	Territory/ Community	Direct	Water
		Sirap, Italgen, Caffè Borbone S.r.l.	Territory/ Community	Direct	Effluents and Waste
	Energy management	Italmobiliare S.p.A., Sirap, Italgen, Caffè Borbone S.r.l.	Territory/ Community	Direct	Energy
	Emissions into the atmosphere and mitigation of climate change	Italmobiliare S.p.A., Sirap, Italgen, Caffè Borbone S.r.l.	Territory/ Community	Direct	Emissions

Chapter: Economic responsibility

Determination of the Generated Value (values in thousands of euro)	2018	2017
Revenues and income	463,069	507,625
Change in inventories	11,221	-424
Internal work capitalized	329	5,072
Other income	9,453	9,629
Financial income	635	481
Exchange rate differences and net losses on derivatives	-296	-2,714
Impairment losses on financial assets	-	-21
Share of profit of equity-accounted investees	1,975	246
Value adjustments on fixed assets	1,218	-
Economic value directly generated	487,604	519,894
Economic value distributed (values in thousands of euro)	2018	2017
Reclassified operating expense	343,350	235,200
<i>Raw materials and supplies</i>	227,350	136,159
<i>Services</i>	77,326	67,880
<i>Other operating income</i>	38,674	31,161
Personnel remuneration	98,676	139,537
<i>Personnel expense</i>	98,676	139,537
Remuneration of lenders	5,148	4,107
<i>Financial costs</i>	5,148	4,107
Shareholder remuneration	27,042	23,374
<i>Profit distribution for the year¹</i>	23,071	23,100
<i>Non-controlling interests</i>	3,971	274
Remuneration of the Public Administration	-13,217	6,238
<i>Taxes for the year²</i>	-13,217	6,238
Community remuneration	823	578
<i>Liberality and sponsorships</i>	823	578
Value retained by the Company	25,782	110,860
<i>Profit for reserve year</i>	4,630	91,872
<i>Amortization and depreciation</i>	21,152	18,988
Distributed economic value	487,604	519,894

¹ The value indicated regarding the distribution of profits to the Shareholders for the year 2018 corresponds to the Italmobiliare S.p.A. resolved to propose to the Assembly for approval.

² Including 5,647 thousand euros of current and prior-year taxes and -18,864 thousand euros of deferred taxes (in 2017 respectively of 4,354 and 1,884 thousand euros).

Chapter: Responsibility in the activity management of - Management of Human Resources

Total number of employees by geographical segment by type of contract and gender as of December 31

	Italy					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	571	128	699	458	118	576
Temporary contract	59	3	62	32	7	39
Total	630	131	761	490	125	615

	France					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	200	56	256	163	39	202
Temporary contract	6	4	10	1	1	2
Total	206	60	266	164	40	204

	Poland					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	111	121	232	93	95	188
Temporary contract	50	43	93	65	90	155
Total	161	164	325	158	185	343

	Hungary					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	144	75	219	149	62	211
Temporary contract	4	-	4	-	5	5
Total	148	75	223	149	67	216

	UK					
	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	100	25	125	-	-	-
Temporary contract	-	-	-	-	-	-
Total	100	25	125	-	-	-

Spain

	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	41	30	71	-	-	-
Temporary contract	-	-	-	-	-	-
Total	41	30	71	-	-	-

Germany

	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent contract	9	9	18	-	-	-
Temporary contract	-	-	-	-	-	-
Total	9	9	18	-	-	-

Total number of external workforce by gender

Italmobiliare Group

	2018			2017		
	Men	Women	Total	Men	Women	Total
Temporary workers, self-employed workers, external collaborators	127	64	191	74	45	119
Interns	6	2	8	9	1	10
Agents	20	1	21	n.a.	n.a.	n.a.
Total	153	67	220	83	46	129

Number of new hires, terminations and staff turnover rate by geographical area³³

Italy										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	49	55	6	110	17.5%	32	35	7	74	15.1%
Women	2	4	3	9	6.9%	2	5	-	7	5.6%
Total	51	59	9	119	15.6%	34	40	7	81	13.2%
Rate	48.1%	13.3%	4.3%	15.6%		67%	11%	4%	13%	
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	13	43	25	81	12.9%	16	25	21	62	12.7%
Women	3	7	5	15	11.5%	4	3	2	9	7.2%
Total	16	50	30	96	12.6%	20	28	23	71	11.5%
Rate	15.1%	11.2%	14.3%	12.6%		39%	8%	12%	12%	

France										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	9	3	-	12	5.8%	1	-	2	3	1.8%
Women	5	3	1	9	15.0%	-	1	1	2	5.0%
Total	14	6	1	21	7.9%	1	1	3	5	2.9%
Rate	127.3%	3.4%	1.3%	7.9%		25%	1%	6%	3%	
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	8	7	3	18	8.7%	1	3	2	6	3.7%
Women	4	1	5	10	16.7%	2	3	1	6	15.0%
Total	12	8	8	28	10.5%	3	6	3	12	5.9%
Rate	109.1%	4.5%	10.3%	10.5%		75%	4%	5%	6%	

Poland										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	10	24	4	38	23.6%	22	18	8	48	30.4%
Women	4	12	15	31	18.9%	7	20	18	45	24.3%
Total	14	36	19	69	21.2%	29	38	26	93	27.1%
Rate	29.2%	23.7%	15.2%	21.2%		47%	24%	21%	27%	
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	10	16	9	35	21.7%	18	10	9	37	23.4%
Women	10	21	21	52	31.7%	9	7	24	40	21.6%
Total	20	37	30	87	26.8%	27	17	33	77	22.4%
Rate	41.7%	24.3%	24.0%	26.8%		44%	11%	27%	22%	

Hungary										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	6	14	1	21	14.2%	6	19	1	26	17.4%
Women	4	12	-	16	21.3%	1	7	2	10	14.9%
Total	10	26	1	37	16.6%	7	26	3	36	16.7%
Rate	43.5%	17.0%	2.1%	16.6%		39%	16%	8%	17%	
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	2	12	5	19	12.8%	5	18	6	29	19.5%
Women	1	9	1	11	14.7%	1	9	7	17	25.4%
Total	3	21	6	30	13.5%	6	27	13	46	21.3%
Rate	13.0%	13.7%	12.8%	13.5%		33%	17%	33%	21%	

³³ The turnover has been calculated by dividing the total number of new hires for the year by the total number of the staff employed throughout the year, in percentage.

UK										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	32	15	3	50	50.0%	-	-	-	-	-
Women	2	6	-	8	32.0%	-	-	-	-	-
Total	34	21	3	58	46.4%	-	-	-	-	-
Rate	130.8%	30.4%	10.0%	46.4%		-	-	-	-	-
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	29	18	3	50	50.0%	-	-	-	-	-
Women	2	6	-	8	32.0%	-	-	-	-	-
Total	31	24	3	58	46.4%	-	-	-	-	-
Rate	119.2%	34.8%	10.0%	46.4%		-	-	-	-	-

Spain										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	-	4	-	4	9.8%	-	-	-	-	-
Women	4	3	-	7	23.3%	-	-	-	-	-
Total	4	7	-	11	15.5%	-	-	-	-	-
Rate	80.0%	18.9%	0.0%	15.5%		-	-	-	-	-
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	-	1	-	1	2.4%	-	-	-	-	-
Women	-	3	-	3	10.0%	-	-	-	-	-
Total	-	4	-	4	5.6%	-	-	-	-	-
Rate	0.0%	10.8%	0.0%	5.6%		-	-	-	-	-

Germany										
2018						2017				
New hires						New hires				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	1	2	1	4	44.4%	-	-	-	-	-
Women	1	-	1	2	22.2%	-	-	-	-	-
Total	2	2	2	6	33.3%	-	-	-	-	-
Rate	50.0%	22.2%	40.0%	33.3%		-	-	-	-	-
Terminations						Terminations				
<30 years old	30-50 years old	>50 years old	Total	Rate		<30 years old	30-50 years old	>50 years old	Total	Rate
Men	-	1	1	2	22.2%	-	-	-	-	-
Women	2	2	1	5	55.6%	-	-	-	-	-
Total	2	3	2	7	38.9%	-	-	-	-	-
Rate	50.0%	33.3%	40.0%	38.9%		-	-	-	-	-

Italmobiliare Group health and safety indicators by geographical area³⁴

Italy	Employees	
	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	8	1
Total number of hours worked	1,124,120	998,242
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	7.1	1.0
France	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	5	2
Total number of hours worked	397,051	309,448
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	12.6	6.5
Poland	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	1	4
Total number of hours worked	645,559	509,015
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	1.5	7.9

³⁴ The multiplier used to calculate the rates is 1,000,000

Hungary	Employees	
	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	-	-
Total number of hours worked	75,103	-
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	-	-
UK	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	3	-
Total number of hours worked	256,540	-
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	11.7	-
Spain	2018	2017
Total number of fatalities as a result of work-related injuries	-	-
Total number of high-consequence work-related injuries (excluding fatalities)	-	-
Total number of recordable work-related injuries	5	-
Total number of hours worked	143,927	-
Rate of fatalities as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries (excluding fatalities)	-	-
Rate of recordable work-related injuries	34.7	-

Employees that have received a performance and career development review in 2017 and 2018³⁵

Italmobiliare Group												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	58	79.5%	12	75.0%	70	78.7%	55	78.6%	13	92.9%	68	81.0%
White-collar	97	29.9%	76	33.5%	173	31.4%	81	31.3%	63	35.4%	144	33.0%
Blue-collar	106	11.8%	14	5.6%	120	10.4%	57	9.0%	13	5.8%	70	8.2%
Total	261	20.2%	102	20.6%	363	20.3%	193	20.1%	89	21.3%	282	20.5%

Italmobiliare S.p.A.												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	11	100%	4	100%	15	100%	10	100%	4	100%	14	100%
White-collar	6	100%	16	100%	22	100%	3	100%	16	100%	19	100%
Blue-collar	-	-	-	-	-	-	-	-	-	-	-	-
Total	17	100%	20	100%	37	100%	13	100%	20	100.0%	33	100%

Clessidra SGR S.p.A.												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	11	100%	1	100%	12	100%	11	100%	2	100%	13	100%
White-collar	6	100%	8	100%	14	100%	6	100%	8	100%	14	100%
Blue-collar	-	-	-	-	-	-	-	-	-	-	-	-
Total	17	100%	9	100%	26	100%	17	100%	10	100.0%	27	100%

Sirap												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	32	72.7%	7	70.0%	39	72.2%	29	65.9%	7	87.5%	36	69.2%
White-collar	55	20.5%	43	23.0%	98	21.5%	44	19.8%	34	22.8%	78	21.0%
Blue-collar	93	13.1%	14	5.6%	107	11.1%	57	9.9%	13	5.8%	70	8.8%
Total	180	17.6%	64	14.3%	244	16.6%	130	15.4%	54	14.2%	184	15.0%

Italgen S.p.A.												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	4	100%	-	-	4	-	5	100%	-	-	5	100%
White-collar	25	100%	4	100%	29	100%	28	100%	5	100%	33	100%
Blue-collar	-	0.0%	-	-	-	-	-	0.0%	-	-	-	0.0%
Total	29	39.7%	4	100%	33	42.9%	33	36.7%	5	100%	38	40.0%

Italmobiliare Servizi S.r.l.												
	2018						2017					
	Men	% Men	Women	% Women	Total	% Total	Men	% Men	Women	% Women	Total	% Total
Management	-	100%	-	100%	-	100%	-	-	-	-	-	-
White-collar	5	100%	5	100%	10	100%	-	-	-	-	-	-
Blue-collar	13	100%	-	100%	13	100%	-	-	-	-	-	-
Total	18	100%	5	100%	23	100%	-	-	-	-	-	-

³⁵ During 2018 the employees of Caffè Borbone S.r.l. and Punta Ala Promozione e Sviluppo Immobiliare S.r.l. they have not received a performance and career development review.

Global Reporting Initiative Content Index

The following table depicts a summary of the main contents of the Consolidated Non-Financial Statement 2017 of Italmobiliare Group, according to the structure required by the «GRI Sustainability Reporting Standards», published in 2016 by the Global Reporting Initiative. For 2018 it was decided to move to the reporting of injuries data using the new GRI 403 Standard, published by the Global Reporting Initiative (GRI) in 2018 to replace the version used so far, published in 2016. The "Electric Utilities Sector Disclosures" and the "Financial Services Sector Disclosures", both published by the Global Reporting Initiative in 2013 to report on some specific material issues, respectively of Italgas, Italmobiliare S.p.A. and Clessidra SGR S.p.A..³⁶

Universal Standards		
GRI Standard	Page number	Information
GRI 102: General Disclosures		
Organizational profile		
102-1	292	Name of the organization
102-2	297-298	Activities, brands, products and services
102-3	Quarta di copertina	Location of headquarters
102-4	297-298	Location of operations
102-5	301-304	Ownership and legal form
102-6	297 - 298, 332 - 335	Markets served
102-7	296, 308 - 309, 312, 324, 332	Scale of the organization
102-8	324 - 326, 345 - 346	Information on employees and other workers
102-9	335 - 337	Supply chain
102-10	292 - 295, 335 - 337	Significant changes to the organization and its supply chain
102-11	304 - 306	Precautionary Principle or approach
102-12	305, 310, 333	External initiatives
102-13	339	Membership of associations
GRI G4 EU-1*	332 - 333	Installed capacity, broken down by primary energy source and by Regulatory regime
GRI G4 EU-2*	332 - 333	Net energy output broken down by primary energy source and by regulatory regime
GRI G4 EU-3*	332 - 333	Number of residential, industrial, institutional and commercial customer accounts
GRI G4 EU-4*	332 - 333	Length of above and underground transmission and distribution lines by regulatory regime

³⁶ The perimeter of the marked indicators (*) is limited to Italgas; the perimeter of the marked indicators (**) is limited to Sirap and Caffè Borbone S.r.l.; the perimeter of the marked indicators (***) is limited to Italmobiliare S.p.A. and Clessidra SGR S.p.A.

Universal Standards		
GRI Standard	Page number	Information
Strategy		
102-14	8, 9	Statement from senior decision-maker
Ethics and integrity		
102-16	305, 310, 333, 339	Values, principles, standards and norms of behavior
Governance		
102-18	301 - 303	Governance structure Composition of the highest governance bodies and its committees
102-22	302	
Stakeholder Engagement		
102-40	306	List of stakeholder groups
102-41	325	Collective bargaining agreements
102-42	306 - 307	Identifying and selecting stakeholders
102-43	300, 306 - 307	Approach to stakeholder engagement
102-44	307	Key topics and concerns raised
Reporting practice		
102-45	292 - 293	Entities included in the consolidated financial statements
102-46	292 - 293	Defining report content and topic Boundaries
102-47	292 - 293, 306 - 307	List of material topics
102-48	The information entered in the previous reports has not been changed.	Restatements of information
102-49	The significant changes compared to the previous reporting period are related to the acquisition of Caffè Borbone S.r.l. and the four Sirap companies. The material topic "Conscious use of raw materials and responsible packaging" has been included and the two topics "quality and reliability of the service and customer satisfaction" and "safety of the products/services provided" have been aggregated within the topic "quality and safety of products".	Changes in reporting
102-50	293	Reporting period
102-51	The last Sustainability Report was approved by the Board of Directors of Italmobiliare S.p.A. on the 6th of March 2018.	Date of most recent report
102-52	295	Reporting cycle
102-53	Back cover	Contact point for questions regarding the report
102-54	293	Claims of reporting in accordance with the GRI Standard
102-55	352 - 361	GRI Content Index
102-56	362 - 365	External assurance

GRI Standard	Page number	Topic-specific Standards	
		Omission	Information
ECONOMIC			
Material topic: ECONOMIC PERFORMANCE			
GRI 103: Management Approach (2016)			
103-1	308 - 311		Explanation of the material topic and its Boundary
103-2	308 - 311		The management approach and its components
103-3	308 - 311		Evaluation of the management approach
GRI 201: Economic performance (2016)			
201-1	308 - 309		Direct economic value generated and distributed
201-2*	309 - 311, 320		Financial implications and other risks and opportunities due to climate change
Material topic: SUPPLY PRACTICES			
GRI 103: Management Approach (2016)			
103-1	335 - 337		Explanation of material aspects and relative boundaries
103-2	335 - 337		The management approach and its components
103-3	335 - 337		Evaluation on the management approach
GRI 204: Proportion of expenditure on local suppliers (2016)			
204-1	335		Proportion of spending on local suppliers
Material topic: ANTI-CORRUPTION			
GRI 103: Management Approach (2016)			
103-1	298 - 299		Explanation of the material topic and its Boundary
103-2	298 - 299		The management approach and its components
103-3	298 - 299		Evaluation of the management approach
GRI 205: Anti-corruption (2016)			
205-3	In 2018 no case of corruption was registered.		Confirmed incidents of corruption and actions taken

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: ANTI-COMPETITIVE PRACTICES			
GRI 103: Management Approach (2016)			
103-1	298 - 299		Explanation of the material topic and its Boundary
103-2	298 - 299		The management approach and its components
103-3	298 - 299		Evaluation of the management approach
GRI 206: Anti-competitive practices (2016)			
		With reference to the appeal against the decision of the European Commission regarding the fine of 35.8 million euros imposed for anticompetitive conduct, on 11 October 2017 the hearing was held in the Court of the European Union in case T-523/15. During the hearing the parties initially made pleading, focusing on the most important issues raised by the case. The panel, composed of three judges, subsequently asked questions to the appellant as well as to the defendant, concerning all the issues raised in the appeal. However, the date of the Court's ruling will be announced in advance. The Court can confirm, cancel change the size of the sanction.	
206-1			Legal actions for anti-competitive behavior, anti-trust, and monopoly practices
GRI Sector Specific Indicators (2013)			
EU-12*	332 - 333		Transmission and distribution losses as a percentage of total energy
ENVIRONMENT			
Material topic: MATERIALS			
GRI 103: Management Approach (2016)			
103-1	318, 323		Explanation of the material topic and its Boundary
103-2	318, 323		The management approach and its components
103-3	318, 323		Evaluation of the management approach
GRI 301: Materials (2016)			
301-1**	318, 323		Materials used by weight or volume

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: ENERGY			
GRI 103: Management Approach (2016)			
103-1	312 - 313, 314 - 317, 319 - 320, 322 - 323		Explanation of the material topic and its Boundary
103-2	312 - 313, 314 - 317, 319 - 320, 322 - 323		The management approach and its components
103-3	312 - 313, 314 - 317, 319 - 320, 322 - 323		Evaluation of the management approach
GRI 302: Energy (2016)			
302-1	312 - 313, 314 - 317, 319 - 320, 322 - 323		Energy consumption within the organization
Material topic: WATER			
GRI 103: Management Approach (2016)			
103-1	313 - 314, 317 - 318, 321		Explanation of the material topic and its Boundary
103-2	313 - 314, 317 - 318, 321		The management approach and its components
103-3	313 - 314, 317 - 318, 321		Evaluation of the management approach
GRI 303: Water (2016)			
303-1	313 - 314, 317 - 318, 321		Water withdrawal by source
Material topic: EMISSIONS			
GRI 103: Management Approach (2016)			
103-1	312 - 313, 314 - 316, 320, 322 - 323		Explanation of the material topic and its Boundary
103-2	312 - 313, 314 - 316, 320, 322 - 323		The management approach and its components
103-3	312 - 313, 314 - 316, 320, 322 - 323		Evaluation of the management approach
GRI 305: Emissions (2016)			
305-1	312 - 313, 314 - 316, 320, 322 - 323		Direct (Scope 1) GHG emissions
305-2	312 - 313, 314 - 316, 320, 322 - 323		Energy indirect (Scope 2) GHG emissions
Material topic: DISCHARGES AND WASTE			
GRI 103: Management Approach (2016)			
103-1	313 - 314, 317 - 318, 321		Explanation of the material topic and its Boundary
103-2	313 - 314, 317 - 318, 321		The management approach and its components
103-3	313 - 314, 317 - 318, 321		Evaluation of the management approach
GRI 306: Effluents and Waste (2016)			
306-1	313 - 314, 317 - 318, 321		Water discharge by quality and destination

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: ENVIRONMENTAL COMPLIANCE			
GRI 103: Management Approach (2016)			
103-1	312, 314 - 315, 319 - 320, 322		Explanation of the material topic and its Boundary
103-2	312, 314 - 315, 319 - 320, 322		The management approach and its components
103-3	312, 314 - 315, 319 - 320, 322		Evaluation of the management approach
GRI 307: Environmental compliance (2016)			
307-1		In 2018, no sanctions for non-compliance with environmental laws and regulations were received	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations
Material topic: SUPPLIER ENVIRONMENTAL ASSESSMENT			
GRI 103: Management Approach (2016)			
103-1	335 - 337		Explanation of the material topic and its Boundary
103-2	335 - 337		The management approach and its components
103-3	335 - 337		Evaluation of the management approach
GRI 308: Supplier Environmental Assessment (2016)			
308-1	335 - 337		New suppliers that were screened using environmental criteria
SOCIAL			
Material topic: EMPLOYMENT			
GRI 103: Management Approach (2016)			
103-1	324 - 328		Explanation of the material topic and its Boundary
103-2	324 - 328		The management approach and its components
103-3	324 - 328		Evaluation of the management approach
GRI 401: Employment (2016)			
401-1	325, 347 - 348		New employee hires and employee turnover
401-2	327 - 328		Benefits provided to full-time employees that are not provided to temporary or part-time employees

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: OCCUPATIONAL HEALTH AND SAFETY			
GRI 103: Management Approach (2016)			
103-1	328 - 331		Explanation of the material topic and its Boundary
103-2	328 - 331		The management approach and its components
103-3	328 - 331		Evaluation of the management approach
GRI 403: Management Approach (2018)			
403-1	328 - 331		Occupational health and safety management system
403-2	328 - 331		Hazard identification, risk measurement, accident investigation
403-3	328 - 331		Occupational health and safety services
403-4	328 - 331		Worker participation, consultation and communication on health and occupational safety
403-5	327		Training courses for workers on health and safety at work
403-6	328 - 331		Promotion of workers' health
403-7	328 - 331		Prevention and mitigation of occupational health and safety impacts directly related to business relationships
GRI 403: Occupational health and safety (2018)			
403-9	329, 349 - 350		Work-related injuries
Material topic: TRAINING AND EDUCATION			
GRI 103: Management Approach (2016)			
103-1	327 - 328		Explanation of the material topic and its Boundary
103-2	327 - 328		The management approach and its components
103-3	327 - 328		Evaluation of the management approach
GRI 404: Training and Education (2016)			
404-1	327		Average annual training hours per employee, broken down by gender and category.
404-3	327, 351		Percentage of employees who regularly receive performance reviews of their career development
Material topic: DIVERSITY AND EQUAL OPPORTUNITY			
GRI 103: Management Approach (2016)			
103-1	302, 324 - 326		Explanation of the material topic and its Boundary
103-2	302, 324 - 326		The management approach and its components
103-3	302, 324 - 326		Evaluation of the management approach
GRI 405: Diversity and Equal Opportunity (2016)			
405-1	302, 324 - 326		Diversity of governance bodies and employees

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Topic materiale: NON-DISCRIMINATION			
GRI 103: Management Approach (2016)			
103-1	298 - 301		Explanation of the material topic and its Boundary
103-2	298 - 301		The management approach and its components
103-3	298 - 301		Evaluation of the management approach
GRI 406: Non-discrimination (2016)			
406-1	In 2018, no discrimination case was registered.		Incidents of non-discrimination and corrective actions taken
Material topic: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
GRI 103: Management Approach (2016)			
103-1	298 - 301, 335 - 337		Explanation of the material topic and its Boundary
103-2	298 - 301, 335 - 337		The management approach and its components
103-3	298 - 301, 335 - 337		Evaluation of the management approach
GRI 407: Freedom of association and collective bargaining (2016)			
407-1	In the context of the risk management system of the parent and of the investee companies, with reference to the direct activities of the Group, no significant risks were found in relation to the violation of human rights. Italmobiliare aims to investigate the potential risks of human rights violations along the supply chain in the coming years, also following the new acquisitions that were finalized during the year.		Operations and suppliers in which the right to freedom of association and collective bargaining are assessed at risk.
Material topic: CHILD LABOR			
GRI 103: Management Approach (2016)			
103-1	298 - 301, 324 - 326		Explanation of the material topic and its Boundary
103-2	298 - 301, 324 - 326		The management approach and its components
103-3	298 - 301, 324 - 326		Evaluation of the management approach
GRI 408: Child labor (2016)			
408-1	In the context of the risk management system of the parent and of the investee companies, with reference to the direct activities of the Group, no significant risks were found in relation to the violation of human rights. Italmobiliare aims to investigate the potential risks of human rights violations along the supply chain in the coming years, also following the new acquisitions that were finalized during the year.		Operations and suppliers assessed at significant risk of accidents relating to child labor.

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: FORCED OR COMPULSORY LABOR			
GRI 103: Management Approach (2016)			
103-1	298 - 301, 324 - 326		Explanation of the material topic and its Boundary
103-2	298 - 301, 324 - 326		The management approach and its components
103-3	298 - 301, 324 - 326		Evaluation of the management approach
GRI 409: Forced or compulsory labor (2016)			
409-1	In the context of the risk management system of the parent and of the investee companies, with reference to the direct activities of the Group, no significant risks were found in relation to the violation of human rights. Italmobiliare aims to investigate the potential risks of human rights violations along the supply chain in the coming years, also following the new acquisitions that were finalized during the year.		Operations and suppliers assessed at significant risk for forced labor accidents.
Material topic: LOCAL COMMUNITIES			
GRI 103: Management Approach (2016)			
103-1	298 - 301, 314 - 315, 319 - 320, 322		Explanation of the material topic and its Boundary
103-2	298 - 301, 314 - 315, 319 - 320, 322		The management approach and its components
103-3	298 - 301, 314 - 315, 319 - 320, 322		Evaluation of the management approach
GRI 413: Local communities (2016)			
413-2	298 - 301, 314 - 315, 319 - 320, 322		Operations with significant actual and potential negative impacts on local communities
Material topic: SUPPLIER SOCIAL ASSESSMENT			
GRI 103: Management Approach (2016)			
103-1	335 - 337		Explanation of the material topic and its Boundary
103-2	335 - 337		The management approach and its components
103-3	335 - 337		Evaluation of the management approach
GRI 414: Supplier social assessment (2016)			
414-1	335 - 337		New suppliers that were screened using social criteria

Topic-specific Standards			
GRI Standard	Page number	Omission	Information
Material topic: CUSTOMER HEALTH AND SAFETY			
GRI 103: Management Approach (2016)			
103-1	332 - 333		Explanation of the material topic and its Boundary
103-2	332 - 333		The management approach and its components
103-3	332 - 333		Evaluation of the management approach
GRI 416: Customer health and safety (2016)			
416-2**	In 2018, no incidents of non-compliance concerning health and safety impacts of products and services occurred.		Incidents of non-compliance concerning the health and safety impacts of products and services.
GRI Sector Specific Indicators (2013)			
EU-25*	In 2018 there was no injury or fatality to the public involving company assets.		Number of injuries and fatalities to the public involving company assets, including legal judgments, settlements and pending legal cases of diseases
EU-28*	332 - 333		Power outage frequency
EU-29*	332 - 333		Average power outage duration
FS-10***	309 - 311		Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues
Material topic: CUSTOMER PRIVACY			
GRI 103: Management Approach (2016)			
103-1	298 - 301, 334 - 335		Explanation of the material topic and its Boundary
103-2	298 - 301, 334 - 335		The management approach and its components
103-3	298 - 301, 334 - 335		Evaluation of the management approach
GRI 418: Customer privacy (2016)			
418-1	In 2018 there were no substantiated complaints concerning breaches of customer privacy and losses of customer data		Substantiated complaints concerning breaches of customer privacy and losses of customer data
Material topic: SOCIO-ECONOMIC PERFORMANCE			
GRI 103: Management Approach (2016)			
103-1	298 - 301		Explanation of the material topic and its Boundary
103-2	298 - 301		The management approach and its components
103-3	298 - 301		Evaluation of the management approach
GRI 419: Socio-economic compliance (2016)			
419-1	In 2018 no significant sanction for non-compliance with laws and regulations in the socio-economic area were received.		Non-compliance with laws and regulations in the social and economic area



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(Translation from the Italian original which remains the definitive version)

Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

*To the board of directors of
Italmobiliare S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "Decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the consolidated non-financial statement of the Italmobiliare Group (the "Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree and approved by the board of directors on 6 March 2019 (the "NFS").

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Italmobiliare S.p.A. (the "Company") for the NFS

The directors are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued by GRI - Global Reporting Initiative (the "GRI Standards"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the Decree and the Group's business and characteristics, to the extent necessary to enable an understanding of the Group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the Group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the Group's policies for the identification and management of the risks generated or borne.



The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the Decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion based on the procedures performed about the compliance of the NFS with the requirements of the Decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the Company's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

- 1 Analysing the material aspects based on the Group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the Decree and taking into account the reporting standards applied.
- 2 Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the Decree.
- 3 Comparing the financial disclosures presented in the NFS with those included in the Group's consolidated financial statements.

4 Gaining an understanding of the following:

- the Group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the Decree;
- the entity's policies in connection with the aspects set out in article 3 of the Decree, the achieved results and the related key performance indicators;
- the main risks generated or borne in connection with the aspects set out in article 3 of the Decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 5.a).

5 Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the Company's management personnel and personnel of Sirap Gema S.p.A., Italgem S.p.A., Clessidra SGR S.p.A. and Caffè Borbone S.r.l.. We also performed limited procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the Group's business and characteristics:

- at company and subsidiaries level:
 - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
 - b) we carried out analytical and limited procedures to check the correct aggregation of data in the quantitative information;
- we visited Sirap Gema S.p.A., Italgem S.p.A., Clessidra SGR S.p.A., Caffè Borbone S.r.l. and the Mantova, Angolo Terme, Caivano and Murowana Goślina (Poland) sites, which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.



Italmobiliare Group
Independent auditors' report
31 December 2018

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the consolidated non-financial statement of the Italmobiliare Group for the year ended 31 December 2018 has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued by GRI - Global Reporting Initiative (the "GRI Standards").

Milan, 25 March 2019

KPMG S.p.A.

(signed on the original)

Stefano Azzolari
Director

