FINANCIAL STATEMENTS AT 31 DECEMBER 2017

17

BURGO GROUP

BURGO GROUP STRUCTURE

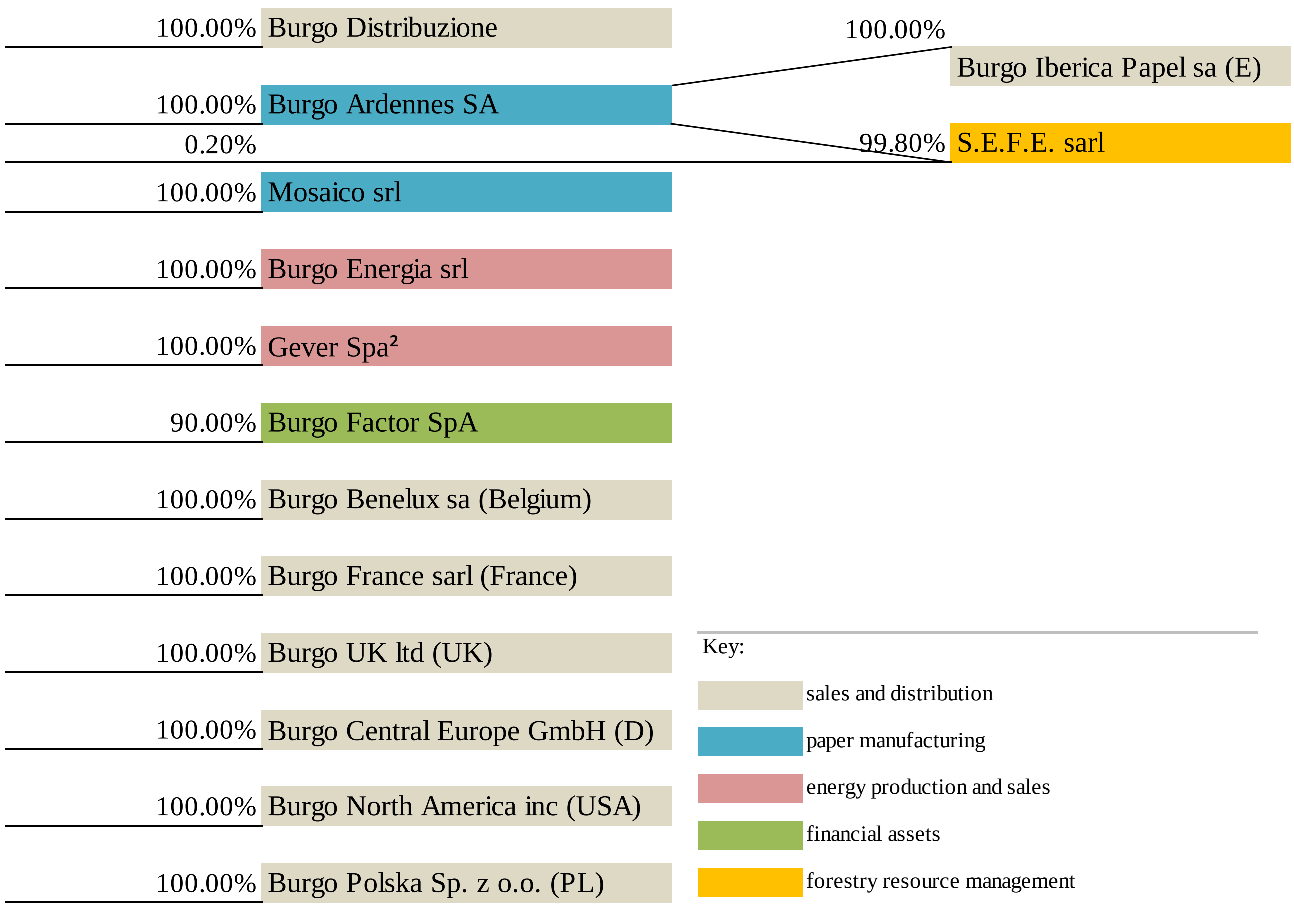
SHAREHOLDERS

BURGO GROUP spa

Holding Gruppo Marchi spa	**50.59%**
Directly	**49.83%**
Through the subsidiary Palladio Group spa	**0.76%**
Mediobanca	**22.12%**
Allegro (Generali Financial Holdings FCP-FIS Sub-Fund1)	**11.68%**
Franco Tosi srl[1]	**11.68%**
UniCredit spa	**3.83%**
Minority Shareholders	**0.10%**

[1] Merged by incorporation with Italmobiliare spa with a merger deed of 26.02.2018, filed with the Milan Business Registry on 27.02.2018.

EQUITY INVESTMENTS



Honorary Chairpersons
Giuseppe Lignana
Aldo Marchi

Board of Directors

Chairperson
Alberto Marchi

Chief Executive Officer
Ignazio Capuano

Directors
Alberto Franzone
Alessandro Foti
Enrico Laghi
Lorenzo Marzotto
Alfonso Sonato (as of 30/09/2017)
Pietro Manzonetto (as of 30/01/2018)

Board of Statutory Auditors
(three years 2016 - 2018)

Chairperson
Fedele Gubitosi

Regular auditors
Franco Corgnati
Gaetano Terrin

Alternate auditors
Fabio Gallio
Barbara Negri

Independent Auditing Firm
EY spa

Burgo Group spa

Registered office in Altavilla Vicentina (prov. Vicenza)
Share capital € 20,000,000.00 fully paid up
Tax ID and Vicenza Business Registry no.: 13051890153

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REPORT ON OPERATIONS

THE GROUP AND THE MARKET IN 2017

During the course of 2017, the global economy showed signs of strengthening, with most countries expanding and demonstrating improved growth rates.

The situation as a whole therefore remained favourable, with global GDP trends showing growth of 3.6% (compared to 3.1% in 2016). Monetary and fiscal stimulus programs continued, contributing to the growth seen in international commerce. The greatest contribution to growth can be attributed to the economies of the more developed countries, with the contribution from the United States showing an increase of 2.2% (1.5% in 2016), and Japan an increase of 1.5% (1% in 2016). Growth in China also exceeded expectations at 6.8% (6.7% in 2016) and a return to positive trends was seen in certain emerging countries such as Russia and Brazil, respectively at 0.7% and 1.9% (-3.6% and -0.2% in 2016).

In the Eurozone, growth continued at a 2.4% rate, an improvement with respect to 2016 (1.8%). Europe benefited from an increase in both internal demand, driven by the recovery in investments and private consumption, and in global growth. Favourable financing conditions following the ECB's policy and the positive macroeconomic climate constituted the positive foundations for expansion in the largest countries (France, Germany, Italy and Spain) but also in the Eurozone as a whole.

In Italy, while growth remained lower than that seen in the other major economies of the Eurozone, it saw a 1.5% increase in 2017 with respect to the previous year (0.9% in 2016). Italy benefited from growth in consumption and internal investments, but also from an increase in exports that exceeded that in imports. Growth was led by expansion in the manufacturing industry and a recovery in construction, while in the services sector business remained overall stable, demonstrating some gradual signs of development.

During 2017, the euro/dollar exchange rate had an average value of 1.13 dollars per euro, up by 2% with respect to the average in 2016. During the year, the lowest values were seen in January 2017 (€ 1.06/US$) and the highest in September 2017 (€ 1.20/US$), with the rate in December 2017 at € 1.18/US$.

Relative to the energy markets, the average Brent listing increased by 22%, amounting to US$ 55/bbl in 2017, compared to US$ 45/bbl in 2016. During the year, prices were stable during the first quarter, fell during the second quarter, during which the minimum price of US$ 45/bbl was seen, while the third and fourth quarters saw a return to growth, reaching an average price of US$ 62/bbl during this period. The increase in prices was mainly due to trends on the supply side, following supply control policies carried out by producer countries and developments in the global geopolitical situation. Similarly, natural gas prices in all European hubs saw average prices in 2017 that were higher than those of 2016. TTF listings amounted to 18.3 c€/smc in 2017, compared to 14.8 c€/smc in 2016, showing a change of around +24%. Demand for natural gas in 2017 in Italy was 6.1% higher than in 2016, reaching around 74.7 billion cubic metres. Relative to the electricity market, the SNP saw an average listing in 2017 of € 53.9/MWh, compared to € 42.7/MWh in 2016. The approximately 26% increase in prices occurred in a situation of increasing demand (+2% year on year) and lower availability from renewable sources, compensated for by generation through thermoelectric power plants. The higher average price seen in 2017 with respect to 2016 continued through the entire year.

In relation to the sector in which our Group operates, in western Europe the imbalance continued between supply and demand which led producers to further reduce production capacity for graphic paper, which in 2017 fell by 1.8%[2] for coated paper with wood and 1.5% for coated wood-free paper. Total capacity therefore settled to 27.6 million tonnes (net of newsprint), after an overall adjustment in supply that led to an 11% reduction over the last three years (3.5 million t). On the basis of closures announced, by 2020 the decrease in capacity should slow to around a half million tonnes.

In 2017, global demand for graphic paper decreased by 1%[3]; the most significant drop, of -5.3% was seen in North America.

Demand for graphic paper in western Europe saw a decrease of -2.1%[4]. Forecasts through 2020 suggest a further annual average decline of -3.5%. Germany, which accounts for a third of the market in terms of consumption, with 6.1 million tonnes, saw minimum decline in 2017 (-0.1%), while forecasts through 2020 indicate an average annual decrease of 3.6%.

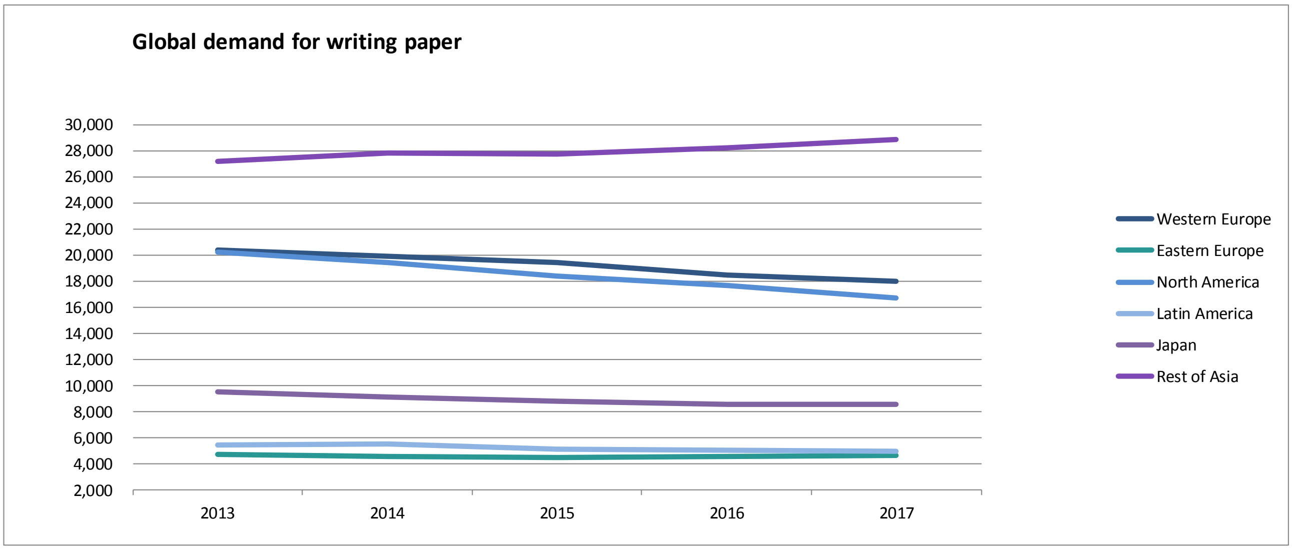
Finally, demand in Asia is rising (+1.6%[3]) with the growth rate in India higher (+5.9%) while China was on trend (+1.7%). Growth in consumption in the next three years is expected to be stable (+0.1%).

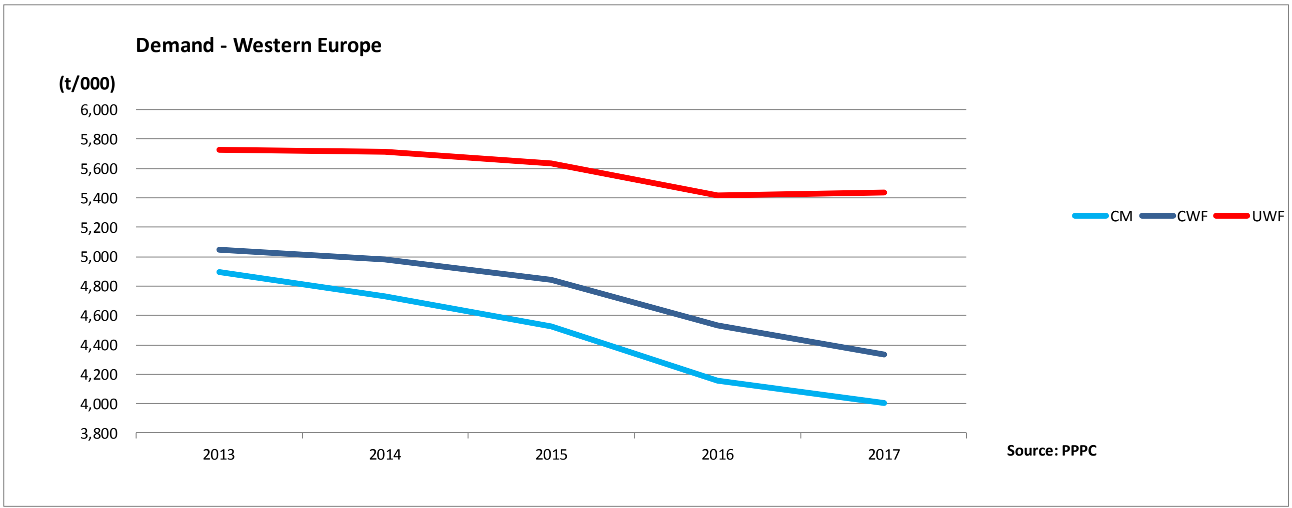
In relation to the most important segments for our Group, coated paper with wood (CM) and coated wood-free paper (CWF), a decrease of 3.7% was seen at the European level for CM and of 4.3% for CWF[4]. The uncoated wood free (UWF) paper sector went counter to the overall trends, showing an increase in consumption of +0.4% in 2017.

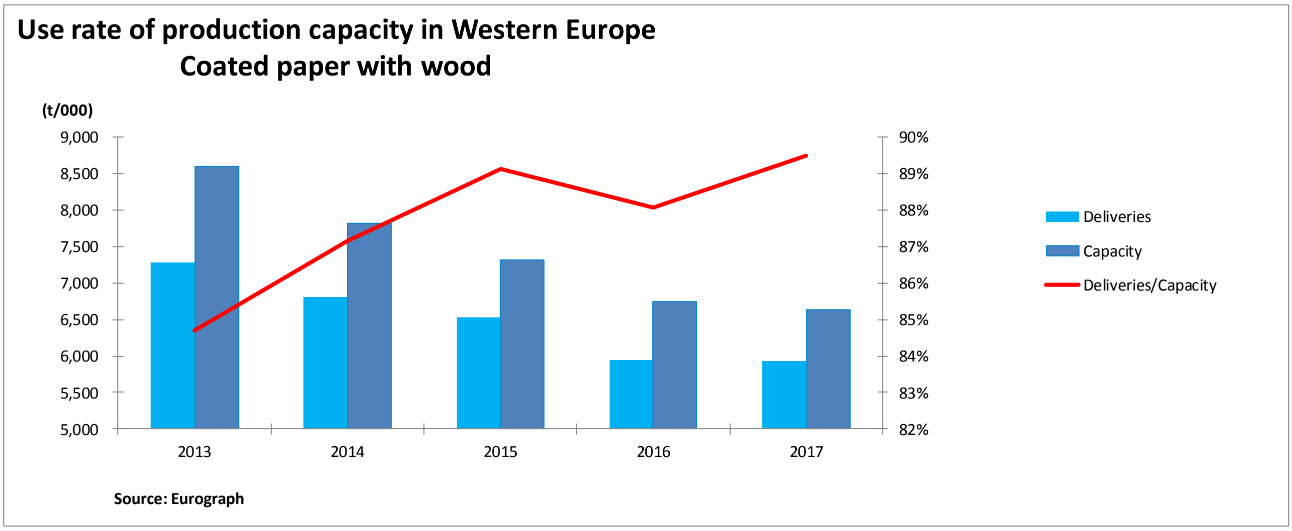
[2] Source: PPPC Capacity Forecast WE Graphic Papers – Oct 2017 / Euro-graph and PPPC update Oct 2017.

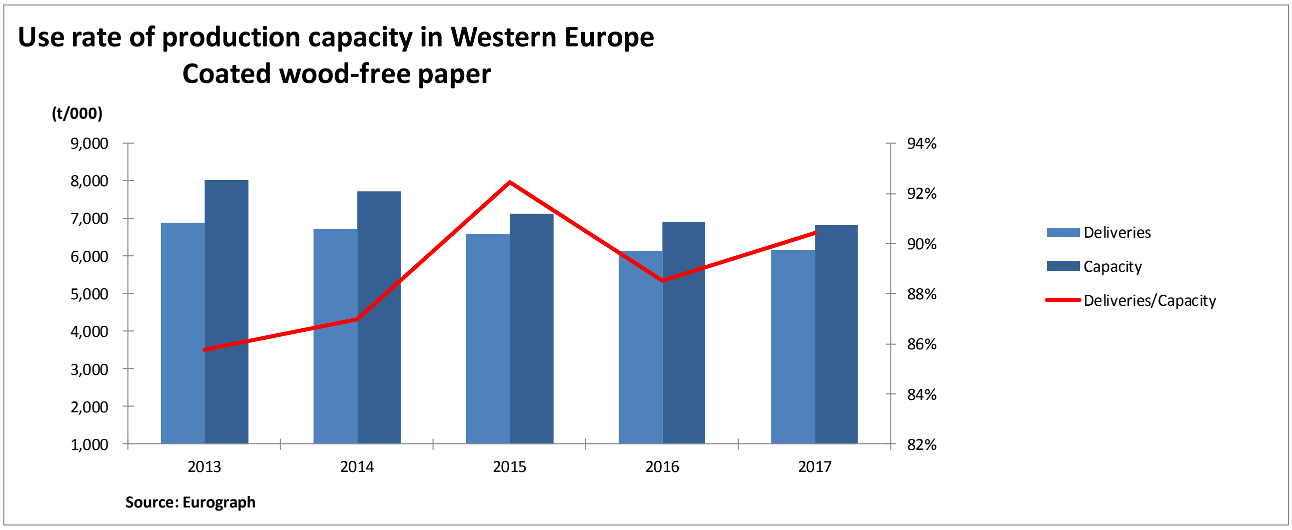
[3] Source PPPC Supply and Demand Printing & Writing papers – Oct 2017.

[4] Source PPPC Supply and Demand – Western European Printing and Writing papers.


Global demand for writing paper
30,000
28,000
26,000
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
2013
2014
2015
2016
2017
Western Europe
Eastern Europe
North America
Latin America
Japan
Rest of Asia


Demand - Western Europe
(t/000)
6,000
5,800
5,600
5,400
5,200
5,000
4,800
4,600
4,400
4,200
4,000
3,800
2013
2014
2015
2016
2017
CM
CWF
UWF
Source: PPPC


Use rate of production capacity in Western Europe
Coated paper with wood
(t/000)
9,000
8,500
8,000
7,500
7,000
6,500
6,000
5,500
5,000
90%
89%
88%
87%
86%
85%
84%
83%
82%
2013
2014
2015
2016
2017
Deliveries
Capacity
Deliveries/Capacity
Source: Eurograph



DEVELOPMENT LINES AND MANAGEMENT OUTLOOK

The market situation in western Europe in 2017 saw a slowdown in the reduction in graphic paper consumption. The decrease was 2.1%[5], compared to an average of 4%[5] in the previous five years. The best figures were seen in the German market, -0.1%[5] and in the Italian one, with a decrease of -0.2%[5]. The segments suffering from the largest decrease in consumption were those of CM and CWF, even if the decreases, respectively 3.7% and 4.3%[5], were lower than those seen in 2016. UWF went counter trend, showing an increase in demand for the first time since 2010, even if slight (0.4%[5]).

In response to the decrease in demand, various European producers have undertaken projects to convert plants originally intended to produce graphic paper to production of special papers and cardboard.

Our group continued with the economic and financial programme outlined in the Burgo2020 plan, which identifies operating actions that will allow recovery of competitiveness and the centrality of our role as a primary operator in the paper market. The main areas of action achieved in line with that planned were:

- the stopping of line 8 in Verzuolo during the first few months of 2018, operating in the CM segment;
- conversion of the Toscolano plant to special papers;
- completion of cardboard conversion investments in Avezzano and the start of initial production testing during March 2018;

After the first three years of the plan, the Group is recording better than expected results, both relative to net profits and net financial position.

[5] Source PPPC 2018, Supply & Demand Western European Printing&Writing papers.

PRODUCTION

Paper production, the Group's main area of business, amounted to **2,057,366 tonnes**, with a positive change of 1.2% with respect to the previous year.
Production of cellulose came to **406,476 tonnes**, down by 1.6%, while wood pulp production totalled **268,761 tonnes**, showing an increase of 2.7%.
Finally, electricity production amounted to **2,501,314 MWh**, a 3.1% increase.

Production data

		2016	2017	% change
Paper	t/000	2,033	2,057	1.2%
Cellulose	t/000	413	406	-1.6%
Wood pulp and Deink	t/000	262	269	2.7%
Electricity	kWh/mln	2,427	2,501	3.1%

SALES

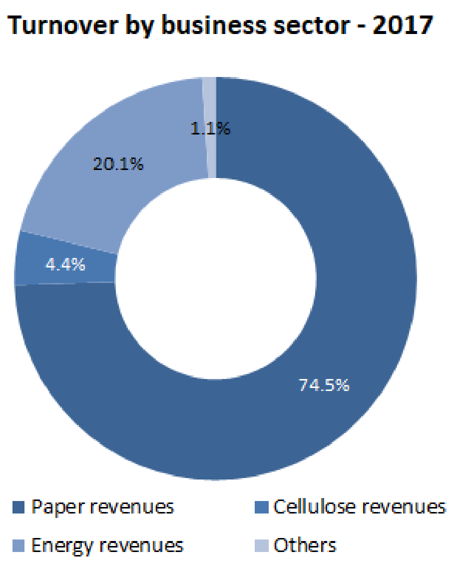
Group turnover amounted to € 1,934 million, substantially unchanged with respect to 2016, when the figure was € 1,936 million. Paper revenues increased by 1.0% while cellulose revenues increased by 5.8%. Energy revenues fell by 4.7%, while other revenues, which include sales of ligninsulphonate, fell by 7.5%.

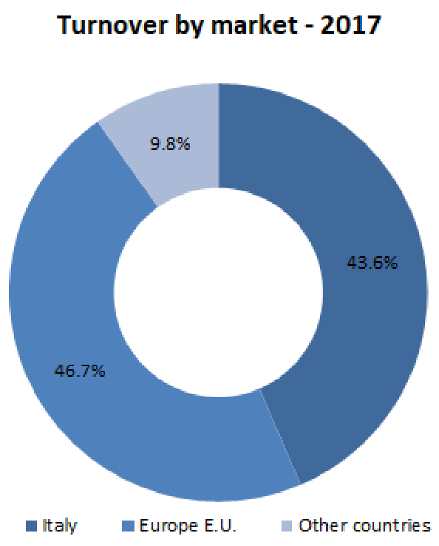
Business segments **€/mln**

	2016	2017	% change
Paper revenues	1,426	1,440	1.0%
% of total revenues	*73.7%*	*74.5%*	
Cellulose revenues	80	84	5.8%
% of total revenues	*4.1%*	*4.4%*	
Energy revenues	407	388	-4.7%
% of total revenues	*21.0%*	*20.1%*	
Others	23	21	-7.5%
% of total revenues	*1.2%*	*1.1%*	
	1,936	**1,934**	**-0.1%**

The breakdown of sales between the internal market and exports shows a decrease in sales in the domestic market in 2017, countered by an increase in exports. This led to an increase in the percentage impact exports had with respect to sales in Italy.

Markets			€/mln
	2016	**2017**	**% change**
Italy	885	842	-4.8%
% of total revenues	*45.7%*	*43.6%*	
Europe E.U.	871	902	3.6%
% of total revenues	*45.0%*	*46.7%*	
Other countries	180	189	4.8%
% of total revenues	*9.3%*	*9.8%*	
	1,936	**1,934**	**-0.1%**





PRICES

During 2017, the average gross price of paper sales for the Group fell by 1.7% with respect to the previous year.

More specifically:

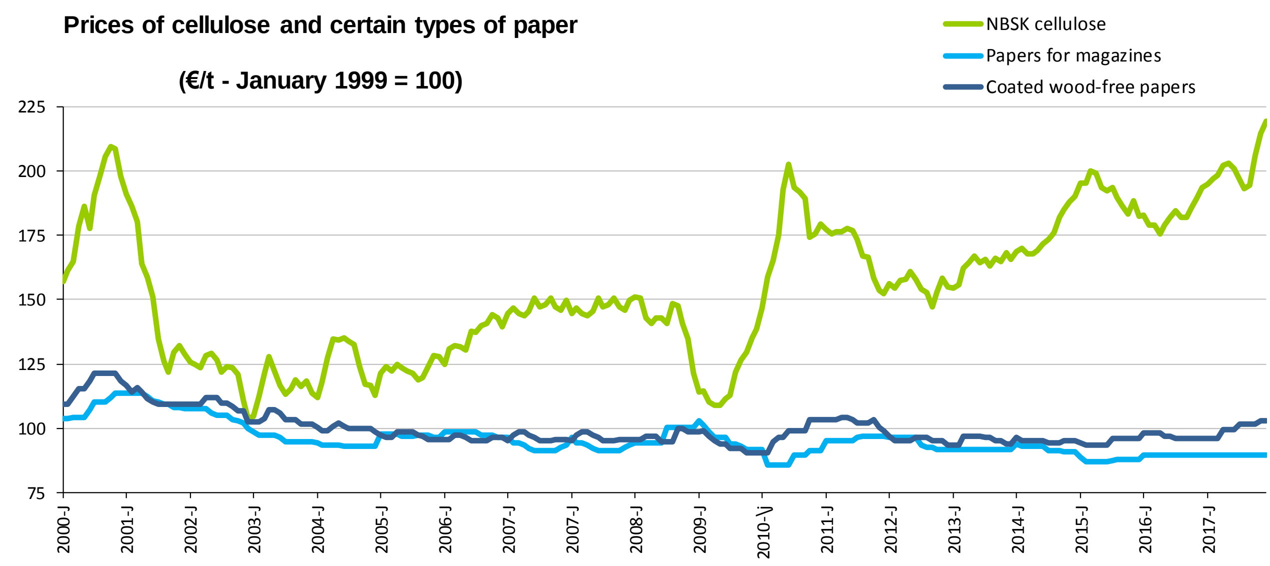
- prices for **Coated Mechanical** paper fell by -3.3% with respect to the 2016 average. The annual trend showed an erosion over the quarters, with -1.1% recorded in the last quarter with respect to the annual average;

- the family of **Coated Wood-free** papers saw a 1.9% decrease in the sales price with respect to 2016;
  The third quarter saw the start of a recovery, ending up +2.6% in the fourth quarter with respect to annual average prices;
- in the **UWF** segment (natural paper), the average price grew constantly throughout the year, sustained by very strong demand;
- the average gross price of ***Speciality Papers*** fell by -3.1% with respect to 2016.

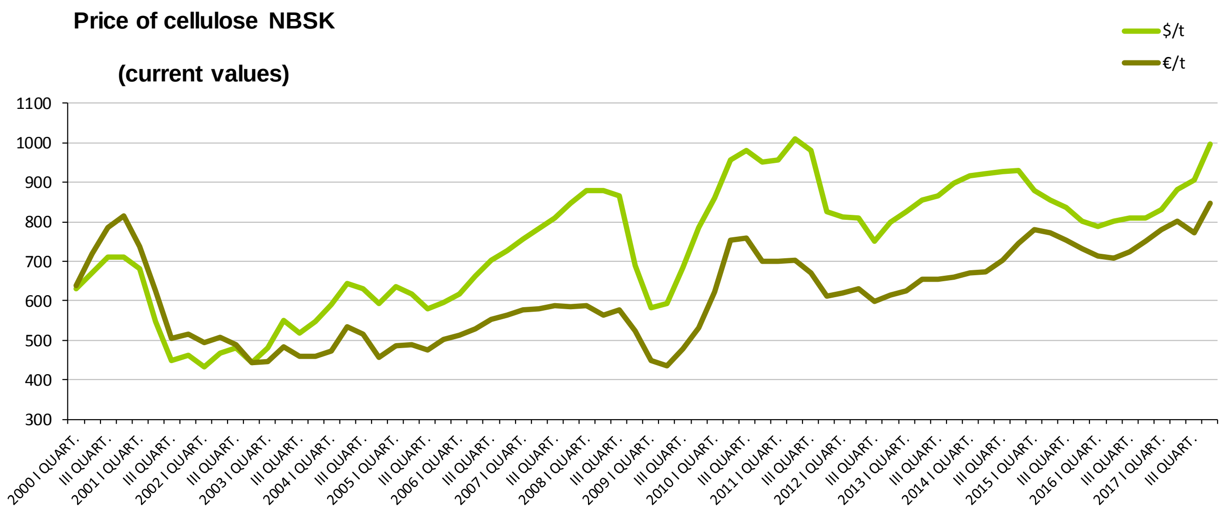
Analysing sales by macro-geographic areas, a decrease in the gross prices in the Italian market can be seen (-1.3%), as well as in the European market (-1.6%) and the overseas market (-3.8%).
The US dollar and British pound depreciated relative to the euro, negatively affecting price trends.

COSTS

In 2017, the average price for NBSK long-fibre cellulose ($904/tonne) increased with respect to 2016 by 12.7% in dollars and 10.3% in euros. The price for short fibre eucalyptus ($848/t) increased both in dollars and in euros, respectively by 25.4% and 22.4% (source: Assocarta).



Source: Assocarta processing of PPI and Milan Chamber of Commerce data



Source: Assocarta processing of PPI data

ENERGY

The Group produces electricity and steam and, through the subsidiary Burgo Energia, also operates as a wholesaler and trader. In the electricity sector, Burgo Energia operates in the following markets: end consumer, GME (day ahead and infraday markets - MGP and MI), the EEX (futures market for French, German and Italian electricity), the IDEX (futures market for German and Italian electricity), the French, Swiss and German spot markets, bilateral trading (Over the Counter - OTC), and on bidding platforms to acquire transport capacity through interconnections with other countries for imports and exports. In this context, the subsidiary Burgo Energia manages the excess and gaps for the Group's plants. More specifically, in 2017 the company began operating as the Balance Service Provider in the context of the services supplied to the TERNA electrical grid, through demand aggregation areas (UVAC).
As regards gas, Burgo Energia has strengthened its business as a wholesaler and trader on wholesale markets, also through management of storage and on GME's spot markets, supplying the Group's facilities and end customers connected to the national and distribution grids.
In 2017, Burgo Energia sold electricity totalling **3.7 billion kWh** (3.9 billion in 2016) and gas totalling **472 million Smc** (389 million in 2016).
In Italy, Burgo Group and Mosaico, also through the subsidiary GEVER, produced electricity totalling 2.5 billion kWh, mainly for internal consumption (2.23 billion kWh).

Finally, Burgo Ardennes produced **0.371 billion kWh** (0.351 billion in 2016).

INVESTMENTS

Total investments in property, plant and equipment in 2017 totalled € **58.2 million**.

The investments made, which were consistent with the guidelines found in the approved Industrial Plan, involved improvements in production efficiency, maintenance of plans, continuous development of performance indicators, reduction of waste and technical and organisational innovations necessary to constantly improve product quality.
In the paper sector, resources were mainly targeted at designing and completing conversion of line 2 at the Avezzano plant to produce cardboard for packaging. The new line will begin operating in the first few months of 2018.

The commitment to technological renovation continued, above all in the automation sector, and will continue again in the upcoming year, with new automation and control systems introduced at certain production sites and/or updates to existing systems. This program will make it possible to avoid the main issues of obsolescence, while simultaneously achieving greater efficiency.

In the context of the Mosaico division, new structural initiatives have mainly been focused on maintaining the production potential of plants and consolidating the quality levels of the Group's special papers.
Additionally, the final design stage relative to the changes in PM5 in Lugo were completed, preparatory to the future repositioning of production in the plant.

At the Ardennes location, paper line optimisation projects continued while, relative to the cellulose line, initial purchases of systems were made to modernise the cellulose cooking department, of a size able to reach production of 400,000 t.

In Avezzano, at the same time the continuous machine was reconverted, the cogeneration plant was started up again. In order to satisfy the changes in process requirements, the steam turbine was subject to an exhaust redesign project.
Environmental impact parameters were carefully and constantly monitored. The participation of plants in service of the electricity grid was strengthened, and activities to ensure adaptation to sector regulations continued (electricity transmission grid management, gas network management).

Environmental and safety investments continued at all Group locations, in compliance with workplace health and safety prevention and improvement programs, as well as relative to environmental protection and regulatory developments.

RESEARCH AND DEVELOPMENT 2017

Activities were mainly focussed on:

- production processes, with development of innovative technologies to improve competitiveness, especially relative to raw materials;
- new products for both graphic and special paper;
- environmental sustainability.

Production processes

Studies to analyse and optimise refining processes continued, aimed at increasing self-produced pastes and extended the number of fibres which can be used in processes, while still guaranteeing that finished product characteristics are maintained and reducing electricity consumed.
Relative to non-fibrous raw materials, a program was developed that involves both the application of technologies that fully take advantage of local raw materials (in particular calcium carbonate) and assessment of innovative raw materials.

New products

In the segment of papers with wood, the higher thickness range was extended and the portfolio of products for rotogravure printing was optimised.
Relative to wood-free paper, reallocation of certain types of products was completed, together with optimisation of thickened coated papers and the extension and strengthening of the range for inkjet printers.
In the natural paper sector, a process to extend the range was begun.
For special papers, development of the market for self-adhesive paper and damp-resistant labels continued. At the same time, the quality of base paper for vacuum metallisation was perfected.
Additionally, aspects associated with the production and creation of innovative paper with barrier coatings were investigated, reserved for special uses of direct contact in the food and bakery market.

Environmental sustainability

Relative to certification, constant work to manage chains of custody for forest certifications, FSC® and PEFC, continued and in 2017 the FSC forest management system renewal audit was passed, which involved the switch to the new version of the standard.
During the year UNI EN 15593 certification was granted to the Tolmezzo plant, regarding the hygiene and safety of packaging in contact with food products, so that today all flexible packaging paper produced on Line 1 can be certified as appropriate for the food sector.
Control activities were guaranteed for all purchases of wood and of wood-derived materials, in accordance with that envisaged in the EU Timber Regulation, as well as cooperation with the main European research institutions/laboratories and working groups within trade associations.

Finally, the maintenance activities required by Ecolabel certification were regularly performed at all certified plants (Duino, Verzuolo, Lugo and Tolmezzo).

PERSONNEL

During 2017, **80,000** hours of training were provided.

Additionally, the following events involved the human resources area:

- Avezzano Plant (prov. L'Aquila) - 7 month extension, starting in June 2017, relative to the solidarity contract, which ended at the end of 2017.
- Duino Plant (prov. Trieste) - 12 month extension, starting in February 2017, relative to the defensive solidarity contract following the closure of line 2;

Group employees in the employee register at 31 December 2017 totalled **3,663**, compared to **3,670** at the end of 2016.

Personnel at 31 December

	31 Dec 2016	31 Dec 2017	Change	% change
Burgo Group*	2,070	2,054	(16)	-0.8%
Italian subsidiaries	957	963	6	0.6%
Foreign subsidiaries	643	646	3	0.5%
	3,670	**3,663**	**(7)**	**-0.2%**
** of which*				
in Extraordinary Redundancy Fund agreement	*0*	*0*		
in Solidarity Contract agreement	*107*	*84*		
Personnel after CIGS and solidarity	**3,563**	**3,579**		

The Group also makes use of temporary workers, for the most part at Burgo Ardennes, which in 2017 had 94 (FTE), compared to 84 in 2016.

Redundancy fund/solidarity hours used, as reported in the table below, decreased as a whole by 18.5%, going from 236,821 hours in 2016 to 193,075 hours in 2017:

Social safety net hours

	2016	2017	Change	% change
CIGO	25,736	12,612	-13,124	-51.0%
Solidarity	211,085	180,463	-30,623	-14.5%
	236,821	**193,075**	**-43,747**	**-18.5%**

FINANCIAL RISK MANAGEMENT POLICY AND COVERAGE

Financial instruments in terms of liabilities mainly consist of payables due to financial institutions, derivatives that can also be used to coverage interest rate, exchange rate and commodities risks and trade payables. On the assets side, they consist of cash and cash equivalents, listed shares and securities, trade receivables and financial instruments that can be stipulated as hedges against interest rate and exchange rate risks.
The Group is exposed to the following risks indicated below. This section outlines the objectives, policies, management processes and methods used to assess them:

1. credit risk
2. liquidity risk
3. market risk

In each section of comments on financial statement items, the 2017 Financial Statements provide additional quantitative information.
The disclosure required under IFRS7 was included within the Notes to the individual and consolidated financial statements.

1. Credit risk

This represents the risk that a customer or a counterparty to a financial instrument causes a financial loss by not complying with an obligation, and mainly derives from trade receivables and financial investments.

Trade receivables and other receivables

Within the context of its normal credit management activities through the dedicated department, the Group has established an internal credit risk management process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for activation of corrective actions, which range from blocking orders to legal action. Internal activities may be further supported by instruments of coverage available on the market, including insurance policies and without recourse transfer of receivables. Most sales activities are also supported by insurance coverage.

Financial investments

Exposure to credit risk is limited by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market.
At 31 December 2017, exposure through securities consisted of Mediobanca shares (see the section on market risk). Additionally, financial assets also include managed savings investments made with Italian banks known to be reliable.

Guarantees

Group policies allow for the issuing of financial guarantees for associated companies. Collateral is also provided in certain cases, relative to subsidised finance operations.

2. Liquidity Risk

Liquidity risk is the risk that the Group will have difficulty complying with its obligations relative to financial liabilities.

The approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.

The Group performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows.

Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for the short term (around 3 months).

For short-term financial needs, at 31.12.2017 credit lines were available totalling around € 390 million, used for current account payables and short-term financing for around 30% of the total. For long-term financial requirements, the Group has loans of around € 594 million.

3. Market risk

Market risk is the risk that the fair value or future financial flows associated with a financial instrument fluctuate following a change in market prices, a change in exchange rates, interest rates or the prices of equity instruments. The objective is to manage and control exposure to this risk, keeping it within acceptable levels, while simultaneously optimising returns on investments.

Risk associated with interest rate fluctuations

Within the context of its capital intensive business, the Group makes investments, which are mainly technical, making use of debt.

In this context, it is possible to carry out cash flow hedge transactions, which serve to neutralise or reduce the effects of an increase in the rates on the cost the Group must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable. Medium/long-term hedges are effectively organised on the basis of forecasts developed over a multi-year time frame on the basis of financial/economic budgets, cash flow estimates and the net financial position. Short-term loans may also be hedge, even if the duration of the flow is considered not to be significant.

Exchange risk

In relation to sales activities, purchases and sales are made in other currencies, at present mainly in USD and GBP.

Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.

Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.

Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget forecasts into account.

Exchange risk hedging transactions are carried out to neutralise the effects induced by changes in the exchange rate on the value in euros of cash flows denominated in foreign currencies.

Hedging policies allow exclusively the use of forward contracts and options relative to exchange rates, to guarantee the most flexible coverage. Currently, exposure to exchange rate derivatives falls within the forward category.

The period of coverage for hedges is normally three months.

Equity risk

In the context of its investment activities, the Group purchases equity investments for investment purposes.

Commodity risk

The strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in energy purchase/sales prices and purchase prices of materials used in production processes, in order to minimise exposure to the correlated risk and losses. With an eye to continuously reducing loss risks, the Group has the simultaneous objective of minimising costs associated with obtaining its production factors.

BURGO GROUP RESULTS AND FINANCIAL STRUCTURE

Financial year 2017 was mainly characterised by an increase in the costs of raw materials (cellulose), which was not accompanied by a parallel increase in the sales prices of finished products, which occurred only partially and was concentrated in the final part of the year. Another important aspect was other income obtained through the sale of energy efficiency certificates, after 2016 which has seen a significant decrease in this figure. Relative to the financial profile, net financial debt was decreased.

Profit and loss statement for the year **€/mln**

	2016	2017	
Revenues	1,936.0	1,933.7	-0.1%
Other income	54.5	74.5	
Total operating revenues and income	**1,990.6**	**2,008.2**	**0.9%**
Operating costs	(1,861.3)	(1,876.6)	0.8%
EBITDA	**129.2**	**131.6**	**1.9%**
Depreciation and amortisation	(83.2)	(84.3)	
Capital gains/losses on disposal of non-current assets	1.3	0.1	
Operating profit/(loss) excluding operations of a non-recurring nature	**47.3**	**47.4**	
Financial expenses	(35.3)	(32.5)	
Financial income	6.7	14.7	
Portions of profit/(loss) of associates	1.9	-	
Profit/(loss) before tax excluding operations of a non-recurring nature	**20.6**	**29.6**	
Writebacks/writedowns of non-current assets	(0.3)	(16.0)	
Net income/expenses of a non-recurring nature	(12.3)	6.3	
Net restructuring expenses	-	(2.3)	
Profit/(loss) before tax	**8.0**	**17.5**	
Income taxes	(3.4)	(8.8)	
Net profit/(loss) from assets held for sale and from discontinued operations	0.2	-	
Profit/(loss) for the period	**4.8**	**8.7**	

Revenues from ordinary operations in 2017 amounted to € 1,933.7 million, down by € 2.3 million with respect to the € 1,936.0 recorded in 2016. This decrease was mainly relative to sales of energy products, which saw turnover decline by € 18.4 million, above all due to a decrease in the volumes of electricity dealt with, partially compensated for by an increase in the volumes of natural gas. Paper turnover increased by € 13.9 million due to the increase in volumes sold. Additionally, other income totalling € 74.5 million was seen, in particular coming from environmental certificates, interruptibility agreements and sales of ligninsulphonate (€ 54.5 million the previous year). As a whole, total operating revenue and income came to € 2,008.2 million, compared to € 1,990.5 million in 2016 (+0.9%).

The quantity of paper soled was 2,087,751 t, up by 2.9% with respect to the 2,029,091 t sold in 2016. Total **operating costs** amounted to € 1,876.6 million against € 1,861.3 million in 2016, an increase of 0.8% as an effect of greater product volumes and increased raw materials costs. Within operating costs, personnel amounted to € 199.6 million, compared to € 197.9 million the previous year, an increase of 0.9%.

The **gross operating margin (EBITDA)** was € 131.6 million, against € 129.2 million in 2016.

Amortisation and depreciation came to € 84.3 million (€ 83.2 million in 2016).

Operating income, **before non-recurring transactions**, amounted to € 47.4 million, compared to € 47.3 million the previous year.

Financial expense decreased from € 35.3 million in 2016 to € 32.5 million in the current year, following a reduction in debt. Financial income increased from € 6.7 million in 2016 to € 14.7 million. The increase was mainly due to income deriving from the acquisition of 51% of Gever S.p.A. equal to € 7.6 million. **Profit before taxes and non-recurring expenses** totalled € 29.6 million, against profits of € 20.6 million the previous year.

Therefore, net non-recurring charges of € 12.0 million were allocated. The Group classifies as non-recurring events or facts which do not occur frequently or derive from operations not representative of normal business, such as restructuring costs or writedowns of non-current assets.

In detail, **non-recurring expense and income** included:

- writedowns on plants for € 16.0 million;
- income from sales of white certificates previously written down within the non-recurring segment for € 6.7 million; expenses relative to closed plants equal to € 0.4 million;
- restructuring costs of € 2.3 million, which include provisions for personnel from plants or lines that saw production interrupted.

After taxes payable for the year of € 8.8 million, the **net result** is profit of € 8.7 million, against profit of € 4.8 million the previous year.

Statement of equity/financial position: Assets **€/mln**

	31 December 2016	31 December 2017	Change
Non-current assets	**881.0**	**854.5**	**(26.5)**
Property, plant and equipment	748.4	733.0	(15.4)
Intangible assets	38.9	35.7	(3.2)
Other non-current assets	22.0	16.5	(5.5)
Deferred tax assets	71.7	69.4	(2.4)
Current assets	**762.6**	**787.7**	**25.1**
Assets held for sale and discontinued operations	-	-	-
Total assets	**1,643.6**	**1,642.3**	**(1.3)**

Statement of equity/financial position: Liabilities			€/mln
	31 December 2016	31 December 2017	Change
Shareholders' equity	**293.1**	**300.2**	**7.1**
Shareholders' equity pertaining to the Group	290.7	297.4	6.8
Shareholders' equity attributable to non-controlling interests	2.4	2.8	0.3
Non-current liabilities	**704.4**	**692.9**	**(11.4)**
Current liabilities	**646.1**	**649.1**	**3.0**
Liabilities related to assets held for sale and to discontinued operations	-	-	-
Total shareholders' equity and liabilities	**1,643.6**	**1,642.3**	**(1.3)**

Technical investments during the year came to € 53.0 million (€ 35.4 million in 2016). This was followed by capitalisation of financial expense, internal work and advances on plant maintenance for a total of € 5.2 million. Investments in intangible fixed assets totalled € 0.6 million, against € 0.4 million in 2016. Increases in intangible fixed assets, including recognition of green certificates, amounted to € 14.8 million. Warehouse inventories and trade receivables increased respectively by € 1.7 million (from € 205.8 million to € 207.6 million) and by € 4.9 million (from € 356.3 million to € 361.2 million). Payables due to suppliers increased by € 29.6 million (from € 405.9 million at the end of 2016 to € 435.5 million).

Working capital therefore fell as a whole by € 23.0 million, while net financial debt came to € 534.9 million compared to € 594.4 million at the end of 2016, a decrease of € 59.5 million.

Shareholders' equity amounted to € 300.2 million against € 293.1 million at the end of 2016, increasing by € 7.1 million.

Breakdown of net financial debt			€/mln
	31 December 2016	31 December 2017	Change
Current financial assets	166.7	181.7	15.0
Short-term financial payables	(176.9)	(151.0)	25.9
Medium/long-term financial assets	4.4	4.4	(0.0)
Medium/long-term financial payables	(588.6)	(569.9)	18.7
Net financial debt	**(594.4)**	**(534.9)**	**59.5**

Capital and financial structure €/mln

	31 December 2016	31 December 2017	Change
Intangible assets	38.9	35.7	(3.2)
Property, plant and equipment	748.4	733.0	(15.4)
Other non-current assets:			
Equity investments	15.8	9.7	(6.2)
Other receivables and non-current assets	1.8	2.5	0.7
Net fixed assets	**804.8**	**780.8**	**(24.0)**
Inventories	205.8	207.6	1.7
Trade receivables	356.3	361.2	4.9
Trade payables	(405.9)	(435.5)	(29.5)
Working capital	**156.2**	**133.3**	**(23.0)**
Equity investments in current assets	0.8	1.0	0.2
Other receivables and current assets	32.9	36.3	3.4
Deferred tax assets	71.7	69.4	(2.4)
Provisions for deferred tax liabilities	(29.8)	(28.0)	1.8
Provisions for risks and charges	(39.3)	(44.6)	(5.2)
Other payables and non-current liabilities	(0.3)	(6.1)	(5.8)
Payables for current taxes	(12.7)	(11.8)	0.9
Other payables and current liabilities	(50.6)	(50.8)	(0.2)
Other operating assets and liabilities	**(27.3)**	**(34.6)**	**(7.4)**
Working capital	**128.9**	**98.6**	**(30.3)**
Invested capital, after deducting operating liabilities	**933.8**	**879.4**	**(54.4)**
Severance indemnities and other provisions related to personnel	(46.3)	(44.3)	2.0
Invested capital, after deducting operating liabilities and severance indemnities (TFR)	**887.5**	**835.1**	**(52.4)**
Share capital	(20.0)	(20.0)	-
Reserves	(283.4)	(281.7)	1.6
Accumulated profits/(losses) including profit/(loss) for the period	12.7	4.3	(8.4)
Shareholders' equity attributable to non-controlling interests	(2.4)	(2.8)	(0.3)
Own capital	**(293.1)**	**(300.2)**	**(7.1)**
Financial receivables and other non-current financial assets	4.4	4.4	(0.0)
Securities other than equity investments	0.0	0.0	-
Financial receivables and other current financial assets	120.8	107.0	(13.8)
Cash on hand and other cash equivalents	45.9	74.7	28.8
Non-current financial liabilities	(588.6)	(569.9)	18.7
Current financial liabilities	(176.9)	(151.0)	25.9
Net financial debt	**(594.4)**	**(534.9)**	**59.5**
Total coverage	**(887.5)**	**(835.1)**	**52.4**

Analysis by index

	31 December 2016	31 December 2017
ROS (EBIT/Turnover)	2.38%	2.36%
AT (Assets turnover: Turnover/Average invested capital)	1.16	1.22
ROI (EBIT/Average invested capital) = ROS x AT	**2.76%**	**2.88%**
ROI (EBIT/Average invested capital) = ROS x AT	2.76%	2.88%
Debt ratio (CI/CN)	5.90	5.54
Impact of non-management expense	0.10	0.18
ROE (ROI*CI/CN*RN/RO)	**1.64%**	**2.94%**
ROCE (Operating income/Net average invested capital)	**5.07%**	**5.50%**
PFN/Shareholders' equity	**2.03**	**1.78**
PFN/MOL	**4.60**	**4.06**

PARENT COMPANY BURGO GROUP SPA RESULTS AND FINANCIAL STRUCTURE

Profit and loss statement for the year			€/mln
	2016	**2017**	
Revenues	1,196.8	1,201.0	0.4%
Other income	30.3	50.5	
Total operating revenues and income	**1,227.1**	**1,251.5**	**2.0%**
Operating costs	(1,157.5)	(1,188.5)	2.7%
EBITDA	**69.6**	**63.0**	**-9.5%**
Depreciation and amortisation	(59.8)	(61.0)	
Capital gains/losses on disposal of non-current assets	1.3	0.0	
Operating profit/(loss) excluding operations of a non-recurring nature	**11.2**	**2.0**	
Financial expenses	(29.2)	(26.3)	
Financial income	21.3	33.7	
Profit/(loss) before tax excluding operations of a non-recurring nature	**3.3**	**9.5**	
Writebacks/writedowns of non-current assets	(0.2)	(16.0)	
Net income/expenses of a non-recurring nature	(9.3)	6.3	
Net restructuring expenses	-	(2.3)	
Profit/(loss) before tax	**(6.2)**	**(2.6)**	
Income taxes	8.7	5.3	
Profit/(loss) for the period	**2.5**	**2.7**	

Revenues from ordinary operations in 2017 amounted to € 1,201.0 million, against € 1,196.8 million in 2016.
Additionally, other income totalling € 50.5 million was seen, in particular coming from environmental certificates and interruptibility agreements (€ 30.3 million the previous year).
As a whole, total operating revenue and income came to € 1,251.5 million, compared to € 1,227.1 million in 2016.
Paper quantities sold came to 1,739,046 t against 1,707,593 t the previous year.
Total **operating costs** came to € 1,188.5 million against € 1,157.5 million in 2016. Within operating costs, personnel costs amounted to € 100.0 million, compared to € 101.1 million in 2016.
The **gross operating margin (EBITDA)** was € 63.0 million against € 69.6 million the previous year (-9.5%), while **amortisation and depreciation** amounted to € 61.0 million against € 59.8 million in 2016.
Operating income, **before non-recurring transactions** amounted to € 2.0 million, against € 11.2 million the previous year.
The result of financial management was positive at € 7.4 million, against the negative € 7.9 million recorded in 2016. This change was mainly due to greater dividends received from subsidiaries, equal to € 31.4 million in 2017 and € 18.7 million in 2016 (a € 13.6 million increase). **Profits before taxes and non-recurring expenses** came to € 9.5 million, compared to € 3.3 million the previous year.
Therefore, net non-recurring charges of € 12.0 million were allocated. The Company classifies as non-recurring events or facts which do not occur frequently or derive from operations not representative of normal business, such as restructuring costs or writedowns of non-current assets.
In detail, **non-recurring expense and income** included:

- writedowns on plants for € 16.0 million;
- income from sales of white certificates previously written down within the non-recurring segment for € 6.7 million; expenses relative to closed plants equal to € 0.4 million;
- restructuring costs of € 2.3 million, which include provisions for personnel from plants or costs for lines that saw production interrupted.

The net result is profit of € 2.7 million, compared to profit of € 2.5 million the previous year.

Statement of equity/financial position: Assets			€/mln
	31 December 2016	31 December 2017	Change
Non-current assets	**1,036.5**	**1,014.3**	**(22.2)**
Property, plant and equipment	536.9	500.4	(36.5)
Intangible assets	23.6	22.2	(1.4)
Other non-current assets	408.6	427.3	18.7
Deferred tax assets	67.4	64.4	(3.0)
Current assets	**420.7**	**448.4**	**27.7**
Assets held for sale and discontinued operations	-	-	-
Total assets	**1,457.2**	**1,462.6**	**5.5**

Statement of equity/financial position: Liabilities			€/mln
	31 December 2016	31 December 2017	Change
Shareholders’ equity	**(386.1)**	**(389.1)**	**(3.0)**
Shareholders’ equity pertaining to the Group	(386.1)	(389.1)	(3.0)
Non-current liabilities	**(637.5)**	**(629.0)**	**8.5**
Current liabilities	**(433.6)**	**(444.6)**	**(11.0)**
Liabilities related to assets held for sale and to discontinued operations	-	-	-
Total shareholders’ equity and liabilities	**(1,457.2)**	**(1,462.6)**	**(5.5)**

During the year technical investments totalling € 35.0 million were made (€ 15.9 million in 2016). Together with capitalisation of financial expense, internal work and advances on plant maintenance, these bring the total to € 40.2 million. Increases relative to intangible fixed assets, including green certificates, amounted to € 0.4 million (€ 1.8 million in 2016). Trade receivables rose from € 203.7 million in 2016 to € 207.0 million and warehouse inventories also increased from € 103.3 million to € 104.1 million. Payables due to suppliers increased from € 318.1 million at the end of 2016 to € 342.1 million.

Net financial debt came to € 528.4 million, compared to € 567.0 million at the end of 2016, a reduction of € 38.6 million.

Shareholders' equity amounted to € 389.1 million against € 386.1 million at the end of 2016.

Breakdown of net financial debt €/mln

	31 December 2016	31 December 2017	Change
Current financial assets	94.9	103.8	8.9
Short-term financial payables	(84.6)	(71.4)	13.2
Medium/long-term financial assets	2.8	3.0	0.2
Medium/long-term financial payables	(580.1)	(563.7)	16.3
Net financial debt	**(567.0)**	**(528.4)**	**38.6**

Capital and financial structure €/mln

	31 December 2016	31 December 2017	Change
Intangible assets	23.6	22.2	(1.4)
Property, plant and equipment	536.9	500.4	(36.5)
Other non-current assets:			
Equity investments	404.5	422.1	17.7
Other receivables and non-current assets	1.3	2.2	0.9
Net fixed assets	**966.3**	**946.9**	**(19.4)**
Inventories	103.3	104.1	0.8
Trade receivables	203.7	207.0	3.4
Trade payables	(318.1)	(342.1)	(24.1)
Working capital	**(11.0)**	**(31.0)**	**(19.9)**
Equity investments in current assets	0.8	1.0	0.2
Other receivables and current assets	18.0	32.5	14.5
Deferred tax assets	67.4	64.4	(3.0)
Provisions for risks and charges	(24.5)	(28.5)	(4.0)
Other payables and non-current liabilities	-	(5.5)	(5.5)
Payables for current taxes	(6.7)	(4.0)	2.7
Other payables and current liabilities	(24.2)	(27.1)	(2.9)
Other operating assets and liabilities	**30.8**	**32.7**	**2.0**
Working capital	**19.7**	**1.8**	**(17.9)**
Invested capital, after deducting operating liabilities	**986.0**	**948.6**	**(37.3)**
Severance indemnities and other provisions related to personnel	(32.9)	(31.2)	1.7
Invested capital, after deducting operating liabilities and severance indemnities (TFR)	**953.1**	**917.4**	**(35.7)**
Share capital	(20.0)	(20.0)	-
Reserves	(349.4)	(349.6)	(0.3)
Accumulated profits/(losses) including profit/(loss) for the period	(16.7)	(19.4)	(2.7)
Own capital	**(386.1)**	**(389.1)**	**(3.0)**
Financial receivables and other non-current financial assets	2.8	3.0	0.2
Securities other than equity investments	0.0	0.0	-
Financial receivables and other current financial assets	54.1	33.3	(20.7)
Cash on hand and other cash equivalents	40.8	70.4	29.6
Non-current financial liabilities	(580.1)	(563.7)	16.3
Current financial liabilities	(84.6)	(71.4)	13.2
Net financial debt	**(567.0)**	**(528.4)**	**38.6**
Total coverage	**(953.1)**	**(917.4)**	**35.7**

PERFORMANCE OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Subsidiaries

Burgo Ardennes SA

(financial statements prepared in accordance with Belgian national accounting standards)

Revenues amounted to € 301.6 million (€ 287.0 million in 2016).

The gross operating margin (EBITDA) was € 23.8 million, against € 15.9 million in 2016.

Net profits for the year came to € 6.3 million, against € 1.8 million in 2016.

Mosaico srl

(financial statements prepared in accordance with the international accounting standards)

Revenues amounted to € 356.8 million (€ 312.8 million in 2016).

The gross operating margin (EBITDA) was € 32.7 million, against € 31.9 million in 2016.

Net profits for the year came to € 17.9 million, against € 15.9 million in 2016.

Burgo Distribuzione srl

(financial statements prepared in accordance with the international accounting standards)

Revenues amounted to € 209.4 million (€ 223.8 million in 2016).

The gross operating margin (EBITDA) was € 4.0 million, against € 4.6 million in 2016.

Net profits for the year came to € 2.3 million, against € 2.5 million in 2016.

Burgo Energia srl

(financial statements prepared in accordance with the international accounting standards)

Revenues amounted to € 407.2 million (€ 397.4 million in 2016).

The gross operating margin (EBITDA) was € 1.9 million, against € 3.3 million in 2016.

Net profits for the year came to € 0.7 million, against € -1.0 million in 2016.

Burgo Factor SpA

(financial statements prepared in accordance with the international accounting standards)

The company managed total receivables equal to € 407.5 million (€ 412.2 million in 2016).

Net profits for the year came to € 3.1 million, against € 3.5 million in 2016.

Gever spa[6]

(financial statements prepared in accordance with the international accounting standards)

Revenues amounted to € 57.1 million.

The gross operating margin (EBITDA) was € 4.2 million.

Net profits for the year came to € 1.2 million.

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[6] During 2017, Comecart spa merged with Gever spa by incorporation and took its company name.

Other foreign companies

The foreign sales companies (Burgo Central Europe, Burgo France, Burgo Ibérica Papel, Burgo UK, Burgo Benelux, Burgo North America, Sefe and Burgo Polska) achieved a positive net result as a whole, equal to € 0.9 million (€ 0.9 million in 2016).

RELATIONS WITH SUBSIDIARIES, ASSOCIATED COMPANIES AND PARENT COMPANIES

The parent company Burgo Group sap, in addition to its institutional role providing management and coordination for its subsidiaries and associated companies, also has instrumental relationships with these same companies, with the objective of achieving maximum synergy within the Group both relative to production and organisational and financial aspects, including sales and service relationships, all of which are governed under market conditions or using cost breakdown methodology.

The Company purchases:

- paper and cellulose from Burgo Ardennes;
- paper from Mosaico;
- electricity, gas and correlated services from Burgo Energia;
- electricity and steam from Gever[7];
- brokering and sales services from Burgo Ibérica Papel, Burgo Central Europe, Burgo France, Burgo UK, Burgo Benelux, Burgo Polska, Burgo North America and Burgo Distribuzione.

The parent company supplies:

- paper products to Burgo Ardennes, Mosaico and Burgo Distribuzione;
- excess electricity produced in the Group plants to Burgo Energia;
- plant services to Gever;
- administrative, tax, legal, financial and treasury and EDP assistance and personal loans to all Group companies;
- guarantees in the interests of Burgo Factor, Burgo Energia, Gever and Burgo Distribuzione;
- insurance coverage to Mosaico, Burgo Factor, Burgo Distribuzione, Burgo Energia, Gever, serving as an intermediary with the companies.

Burgo Factor provides factoring services for receivables due to the Group from its suppliers.

Relative to the electricity and steam purchasing contract with Gever, the parent company guarantees the supply of gas to Gever, charging back all relative costs to it.

The Company makes use of the ability to consolidate the individual items receivable and payable relative to Burgo Distribuzione srl, Burgo Energia srl, Gever spa, Burgo Factor spa and Mosaico srl

[7] During 2017, Comecart spa merged with Gever spa by incorporation and took its company name.

for IRES purposes and to Burgo Distribuzione srl, Burgo Energia srl, Gever spa and Mosaico srl for VAT purposes, in relation to the current tax regulations in effect.

The above relationships are indicated quantitatively in the schedule below:

Relations with related parties										€/000
	Subsidiaries		Associates		Total		Total financial statement items			
	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	%	31 December 2017	%
Equity relationships										
Financial receivables and other non-current financial assets	2,800	2,968	-	-	2,800	2,968	2,800	100%	2,968	100%
Trade receivables	71,294	65,845	4,049	-	75,343	65,845	203,683	37%	207,035	32%
Other receivables and current assets	11,396	7,731	-	-	11,396	7,731	18,009	63%	32,470	24%
Financial receivables and other current financial assets	36,889	30,820	-	-	36,889	30,820	54,051	68%	33,321	92%
Current financial liabilities	(607)	(5,546)	-	-	(607)	(5,546)	(84,601)	1%	(71,367)	8%
Trade payables	(73,573)	(78,038)	(5,589)	-	(79,162)	(78,038)	(318,055)	25%	(342,114)	23%
Other payables and current liabilities	(3,092)	(3,158)	-	-	(3,092)	(3,158)	(24,221)	13%	(27,113)	12%
Economic relationships										
Revenues	173,680	236,387	35,893	-	209,574	236,387	1,196,799	18%	1,201,050	20%
Other income	2,628	7,795	-	-	2,628	7,795	30,336	9%	50,491	15%
Costs for materials and external services	(222,221)	(268,825)	(35,943)	-	(258,164)	(268,825)	(1,029,371)	25%	(1,076,251)	25%
Financial expenses	(574)	(724)	-	-	(574)	(724)	(29,154)	2%	(26,312)	3%
Financial income	20,360	32,530	598	-	20,958	32,530	21,296	98%	33,744	96%

CORPORATE GOVERNANCE AND INTERNAL AUDIT SYSTEM

General information

Burgo Group spa share capital is € 20,000,000.00, divided into 395,083,445 shares without nominal value.

The Company does not hold any treasury shares or shares of its parent companies, including through fiduciary companies or through nominees. During the year it neither acquired nor disposed of treasury shares or shares of parent companies, including through fiduciary companies or nominees.

At 31.12.2017, share capital can be broken down as follows:

- Holding Gruppo Marchi spa (directly and through the subsidiary Palladio Zannini Industrie Grafiche Cartotecniche spa) 50.59%
- Mediobanca spa 22.12%,
- Franco Tosi srl 11.68%,
- Allegro (Generali Financial Holdings FCP-FIS Sub-Fund2) 11.68%,
- UniCredit spa 3.83%,
- Minority shareholders 0.10%.

Article XIX of the Company's Articles of Association requires that four sevenths of its directors in office vote in favour for issues of particular significance in order for the resolution to be valid, including the director appointed by the holders of the equity instruments convertible to ordinary and/or privileged shares of 23 December 2014 (SFP). Burgo Group spa is not subject to management or coordination by another company or entity.

It subsidiaries have indicated that Burgo Group spa is the subject which provides management and coordination pursuant to article 2497 bis of the Italian Civil Code. In fact, the parent company determines the management and strategic guidelines for the Group, prepares and adjusts its internal audit model and code of ethics, defines the general policies for financial, production, human resource, procurement and communication management and sets the objectives and

procedures relative to workplace health and safety, quality and the environment. Additionally, certain services are managed at a centralised level, including treasury, corporate secretary, legal assistance and internal audit.
The subsidiaries maintain operational independence and can concentrate their resources on their respective core businesses, making use of the parent company's resources for specialised activities, achieving the consequent economies of scale.

Corporate Governance within the Company

The Burgo Group spa Articles of Association adopts the "traditional model" of corporate governance, consisting of a Shareholders' Meeting, a Board of Directors and a Board of Statutory Auditors. The Company is administered by a Board of Directors consisting of seven members, who hold the requirements of honour and professionalism envisaged in the Internal Code of Conduct applicable to listed companies. Directors hold office for three financial years and can be re-elected.
On 30 July 2015, the Shareholders' Meeting appointed 7 directors, 4 of which holding the independence requirements established in the Internal Code of Conduct applicable to listed companies. Additionally, 3 directors are executive (the Chairperson, CEO and Chief Restructuring Officer) and 4 are non-executive. After one of the independent directors resigned, the Shareholders' Meeting appointed a new member at its meeting on 30 January 2018, whose term will expire on the same day as those of the rest of the current Board.
The Shareholders' Meeting has approved annual individual fees of € 40,000 for members of the Board of Directors.
In addition to the responsibilities pursuant to article 2365, paragraph 2 of the Italian Civil Code, the Board of Directors is granted the widest powers of ordinary and extraordinary administration and is responsible for guiding management of the company, as well as evaluating the adequacy of its organisational, administrative and accounting structure and, on the basis of the delegated bodies, general management performance.
The Board takes decisions with a simple majority, with the exception of cases for which article XIX of the Articles of Association requires a wider majority, as referenced above.
The Chairperson has the power to represent and sign for the company, as established in the Articles of Association. The Chairperson is responsible for institutional and trade organisation relationships and communication with the media. The Chairperson is also responsible for internal audit activities, with Group departments in this area reporting to the Chairperson. The Chairperson works with the CEO to define company strategies.
The Chief Executive Officer is invested with the widest ordinary and extraordinary administrative powers, with the exception of that which the law and article XIX of the Articles of Association reserve expressly for the Shareholders' Meeting and the Board itself and, if not otherwise envisaged, those expressly delegated to the Chairperson and Chief Restructuring Officer.
At least once every 120 days directors who have been granted powers report to the Board on the activities carried out within the context of said powers and on transactions of greater significance carried out by the parent company or subsidiaries and on those in which they have an interest for themselves or for third parties.

Internally the Board has appointed a Committee for Appointments and Remuneration, consisting of the Chairperson, the Chief Restructuring Officer and a non-executive director, who make proposals regarding the remuneration of directors granted powers, as well as resolving, based on a proposal from the CEO, on (i) appointments for corporate bodies of investee companies; (ii) criteria for remuneration of the Group's top management and (iii) the terms and conditions for cooperative relationships with former directors and managers of the Group.
During 2017, the Burgo Group spa Board of Directors met six times.

Equity financial instruments

In execution of the restoration agreement pursuant to article 67, paragraph 3, letter d) of Royal Decree 267 of 16 March 1942, with a Board of Directors resolution of 30 July 2015 the Company issued 200,000,000 equity financial instruments known as "Burgo Group spa equity instruments convertible to ordinary and/or privileged shares of 23 December 2014" (SFP), subdivided into category A and category B equity financial instruments.
These financial instruments were subscribed by certain lending institutions through the conversion of € 200 million in debt, through adherence to the cited agreement, as specified in the table below:

Equity financial instruments

	Category A	Category B
Mediobanca S.p.A.		130,374,542
Pillarstone Italy Holding S.p.A.	54,096,920	
Banco BPM S.p.a.	15,528,538	
	69,625,458	**130,374,542**

Holders of SFPs are granted certain administrative rights which include, among other things, (i) the right to appoint a member of the Board of Directors pursuant to article 2351, fifth paragraph, Civil Code; (ii) the right to express approval in relation to the appointment of another 3 directors; and (iii) the right to express approval in relation to the appointment of a regular auditor.

Internal audit system

The Company's Board of Directors adopted, already in financial year 2003, in application of Legislative Decree 231 of 8 June 2001, an "Organisation, Management and Control Model", which serves to identify and apply a collection of behavioural, organisational and control rules which constitute a control system reasonably able to identify and prevent conduct associated with corporate liability pursuant to Legislative Decree 231/2001, as amended.
The responsibility of monitoring the effective functioning and observance of the Model, as well as proposing updates, is assigned to a collegial Oversight Committee, which reports to the Chairperson.
The Board of Statutory Auditors consists of three regular auditors and two alternate auditors. Their terms will expire on the date the financial statements at 31 December 2018 are approved. During 2017, the Board of Statutory Auditors met six times.
Auditing of the accounts is delegated to an independent auditing firm.

PRIVACY PROTECTION - ITALIAN LAW 196 OF 30 JUNE 2003

With reference to financial year 2017, there were no significant incidents regarding files containing personal data used by the company or process of the same, nor did any interested subjects indicate damages deriving from use of the same.

LIST OF SECONDARY OFFICES

As required by the final paragraph of article 2428, Civil Code, note that the Company has no secondary offices.

Consolidated Balance Sheet

Statement of equity/financial position: Assets				€/000
	Note	31 December 2016	31 December 2017	Change
Non-current assets		**880,984**	**854,526**	**(26,458)**
Property, plant and equipment		**748,376**	**732,960**	**(15,416)**
Property, plant and equipment	1	747,633	731,830	(15,803)
Property investments	1	743	717	(27)
Financially leased assets	1	-	414	414
Intangible assets		**38,855**	**35,686**	**(3,169)**
Goodwill and other intangible assets with undefined life	2	26,915	26,915	-
Intangible assets with defined life	2	11,939	8,771	(3,169)
Other non-current assets		**22,013**	**16,524**	**(5,489)**
Equity investments	3	15,680	-	(15,680)
Equity investments in other companies	3	135	9,662	9,527
Financial receivables and other non-current financial assets	3	4,402	4,371	(31)
Other receivables and non-current assets	3	1,797	2,491	694
Deferred tax assets		**71,740**	**69,356**	**(2,384)**
Deferred tax assets	4	71,740	69,356	(2,384)
Current assets		**762,599**	**787,732**	**25,133**
Inventories	5	205,837	207,559	1,721
Trade receivables	6	356,303	361,162	4,859
Other receivables and current assets	7	32,918	36,297	3,379
Equity investments	8	814	993	179
Securities other than equity investments	8	1	1	-
Financial receivables and other current financial assets	9	120,833	107,009	(13,825)
Cash on hand and other cash equivalents	10	45,892	74,711	28,819
Total assets		**1,643,582**	**1,642,257**	**(1,325)**

Statement of equity/financial position: Liabilities				€/000
	Note	31 December 2016	31 December 2017	Change
Shareholders' equity		**293,111**	**300,186**	**7,075**
Share capital	11	20,000	20,000	-
Reserves	11	283,358	281,749	(1,609)
Accumulated profits/(losses) including profit/(loss) for the period	11	(12,694)	(4,328)	8,366
Shareholders' equity attributable to non-controlling interests	11	2,447	2,765	318
Non-current liabilities		**704,364**	**692,944**	**(11,420)**
Non-current financial liabilities	12	588,601	569,947	(18,653)
Severance indemnities and other provisions related to personnel	13	46,299	44,336	(1,963)
Provisions for deferred tax liabilities	14	29,792	28,023	(1,769)
Provisions for risks and charges	15	39,345	44,553	5,207
Other payables and non-current liabilities	16	327	6,085	5,758
Current liabilities		**646,106**	**649,127**	**3,020**
Current financial liabilities	17	176,907	151,030	(25,877)
Trade payables	18	405,929	435,465	29,536
Payables for current taxes	19	12,650	11,782	(868)
Other payables and current liabilities	20	50,620	50,850	229
Total shareholders' equity and liabilities		**1,643,582**	**1,642,257**	**(1,325)**

Consolidated Profit and Loss Statement for the Year

Profit and loss statement for the year				€/000
	note	31 December 2016	31 December 2017	
Revenues	22	1,936,034	1,933,706	-0.1%
Other income	23	54,518	74,515	
Total operating revenues and income		**1,990,553**	**2,008,220**	**0.9%**
Costs for materials and external services	24	(1,611,995)	(1,645,871)	
Personnel expenses	25	(197,932)	(199,636)	
Other operating costs	26	(41,457)	(33,927)	
Change in inventories	27	(11,197)	1,721	
Capitalised costs for internal work	28	1,237	1,105	
Total operating costs		**(1,861,344)**	**(1,876,608)**	**0.8%**
EBITDA		**129,209**	**131,612**	**1.9%**
Depreciation and amortisation	29	(83,248)	(84,337)	
Capital gains/losses on disposal of non-current assets	30	1,328	98	
EBIT before non-recurring expenses and income		**47,289**	**47,374**	
Writebacks/writedowns of non-current assets	31	(268)	(16,000)	
Net income/expenses of a non-recurring nature	32	(12,350)	6,291	
Net restructuring expenses	33	-	(2,341)	
Operating result		**34,671**	**35,323**	
Financial expenses	34	(35,345)	(32,479)	
Financial income	35	6,719	14,659	
Portions of profit/(loss) of associates		1,918	-	
Profit/(loss) before tax		**7,962**	**17,503**	
Income taxes	36	(3,391)	(8,776)	
Net profit/(loss) from assets held for sale and from discontinued operations		200	-	
Profit/(loss) for the period		**4,771**	**8,727**	
Profit (loss) for the period pertaining to minority shareholders		(345)	(313)	
Profit (loss) for the period pertaining to the Group		**4,426**	**8,414**	

Consolidated Schedule of Other Components of the Comprehensive Profit and Loss Statement

Schedule of other components of the comprehensive profit and loss statement

	note	31 December 2016	31 December 2017
A - Profit (loss) for the period		4,771	8,727
Other components of the comprehensive profit and loss statement:		-	-
Other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement:		-	-
Translation differences from foreign financial statements		(121)	(10)
		(121)	(10)
Net (loss) profit from cash flow hedge	37	2,931	(2,624)
Income taxes		(818)	732
		2,113	(1,892)
Net (loss) profit from financial assets available for sale	37	(119)	179
Income taxes		3	-
		(116)	179
B- Total other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement net of taxes		**1,877**	**(1,723)**
Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement:			
(Losses) gains from discounting of defined benefit plans	37	(1,544)	101
Income taxes		375	(7)
		(1,169)	95
C- Total Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement net of taxes		**(1,169)**	**95**
D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)		**708**	**(1,629)**
E - Total comprehensive profit (loss) net of taxes (D +A)		**5,479**	**7,098**
Attributable to:			
Minority shareholders		**345**	**313**
Parent company shareholders		**5,134**	**6,785**

For comments on the schedule, please see note 37 “Consolidated schedule of other components of the comprehensive profit and loss statement".

Statement of Changes in Consolidated Shareholders' Equity

Changes in shareholders' equity **€/000**

	Share capital	Legal reserve	Non-distributable reserve from share capital reduction	IAS reserve	Reserve for equity financial instruments	Non-distributable exchange gains reserve	Other reserves	Undistributed profits - Carried forward	Result for the year	Shareholders' equity, majority shareholder	Third party reserves	Profit (loss) for the year pertaining to minority shareholders	Group shareholders' equity
Balances at start of previous period (*)	**20,000**	**13,149**	**185,443**	**(2,730)**	**-**	**-**	**(66,682)**	**(15,975)**	**152,434**	**285,640**	**1,748**	**321**	**287,709**
Destination of result - distribution of dividends				-	153,354	125	-	(1,036)	(152,443)	-	329	(329)	-
Net change profits (losses) directly recognised in shareholders' equity				829			-	-		829	-		829
Other changes in shareholders' equity			(46,646)	(10)	46,646		-	(108)	9	(110)	25	8	(76)
Exchange differences from translation of foreign financial statements				-			(121)	-		(121)	-		(121)
Profit/(loss) for the period				-			-	-	4,426	4,426	-	345	4,771
Balances at end of previous period (*)	**20,000**	**13,149**	**138,797**	**(1,911)**	**200,000**	**125**	**(66,803)**	**(17,120)**	**4,426**	**290,664**	**2,102**	**345**	**293,111**
Destination of result - distribution of dividends				-			-	4,426	(4,426)	-	345	(345)	-
Net change profits (losses) directly recognised in shareholders' equity				(1,618)			-	-		(1,618)	-		(1,618)
Other changes in shareholders' equity				10			9	(47)		(28)	4		(24)
Exchange differences from translation of foreign financial statements				-			(10)	-		(10)	-		(10)
Profit/(loss) for the period				-			-	-	8,414	8,414	-	313	8,727
Balances at period end	**20,000**	**13,149**	**138,797**	**(3,519)**	**200,000**	**125**	**(66,804)**	**(12,742)**	**8,414**	**297,421**	**2,460**	**313**	**300,186**

For comments on the changes in shareholders' equity, please see note 11 "shareholders' equity".

Consolidated Cash Flow Statement

Cash Flow Statement		€/000
	31 December 2016	31 December 2017
A - Net initial monetary availability	**(251,438)**	**(121,207)**
B- Monetary flow from operating activities		
Net profit (loss) deriving from operating activities	4,771	8,727
Amortisation, depreciation, write-downs and writebacks	83,516	100,337
Writedowns and writebacks of financial assets	(1,918)	-
Income from acquisition of equity investments		(7,562)
Capital (gains) losses on disposal of non-current assets	(1,328)	(98)
Capital (gains) losses on disposal of financial assets	(0)	(58)
Change in TFR and provisions for risks	(1,242)	2,622
Change in deferred tax assets and provision for deferred taxes	(2,918)	665
Profit (loss) for the period before changes in working capital	**80,880**	**104,632**
Change in inventories	11,194	(1,383)
Change in trade receivables	51,965	(8,709)
Change in trade payables	(26,582)	33,982
Change in other assets and liabilities	8,943	(1,971)
Change in net working capital	**45,519**	**21,919**
Assets held for sale and discontinued operations	**1,604**	**-**
Total B- Monetary flow from operating activities	**128,003**	**126,551**
C - Monetary flow from investing activities		
Investments in property, plant and equipment	(35,902)	(53,004)
Other increases in property, plant and equipment	(4,569)	(5,190)
Investments in intangible assets	(371)	(610)
Recognition of other non-current assets	(12,813)	(14,217)
Change in equity investments	568	(9,469)
Revenues from sales of fixed assets	20,139	17,708
Total C - Monetary flow from investing activities	**(32,948)**	**(64,781)**
D - Monetary flow from financing activities		
Change in non-current securities and financial receivables	4,932	31
Change in financial receivables and other current financial assets	31,502	13,825
Change in current and non-current other non-financial liabilities	(1,220)	532
New loans	14,056	4,875
Repayment of loans	(11,589)	(11,756)
Dividends distributed and/or resolved	(0)	-
Changes in Shareholders' Equity	(150)	79
Total D - Monetary flow from financing activities	**37,530**	**7,585**
E - Monetary flow for the period (B + C + D)	**132,586**	**69,354**
Net final monetary availability (A + E)	**(118,852)**	**(51,853)**

Below is a reconciliation of initial net monetary availability following the effects of the line by line consolidation of Gever spa.

Reconciliation of net initial monetary availability	€/000
Final net monetary availability 31/12/2016	**(118,852)**
Outgoing flows to purchase 51% of Gever	(8,757)
Final net monetary availability 31/12/2016 Gever	6,402
Initial net monetary availability 1/1/2017	**(121,207)**

For the structure of final net monetary availability, please see note 10 "cash and other cash equivalents", which provides a reconciliation statement regarding cash and other cash equivalents.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

General information

Group structure and scope of consolidation

Details of consolidated companies, broken down by the consolidation criteria used, with information about company name, registered office, equity and stake held, are provided below.

List of companies consolidated on a line by line basis

Company name	Registered office	Share capital (*)		Stake held %	by
Gever S.p.A. (electricity and steam production)	Altavilla Vicentina (VI)	EUR	-	100.00	Burgo Group S.p.A.
Burgo Ardennes S.a (paper industry)	Virton (Belgium)	EUR	-	99.99 0.01	Burgo Group S.p.A. Mosaico S.r.l.
Burgo Iberica Papel S.a. (sales)	Barcelona (Spain)	EUR	-	100.00	Burgo Ardennes S.a
Burgo Benelux S.a.r.l. (sales)	Brussels (Belgium)	EUR	-	100.00	Burgo Group S.p.A.
Burgo France S.a.r.l. (sales)	Champeaux (France)	EUR	-	100.00	Burgo Group S.p.A.
Burgo UK L.t.d. (sales)	Milton Keynes (UK)	GBP	-	100.00	Burgo Group S.p.A.
Burgo Central Europe G.m.b.h. (sales)	Munich (Germany)	EUR	-	100.00	Burgo Group S.p.A.
Burgo North America L.t.d. (sales)	Stamford - Connecticut (USA)	USD	-	100.00	Burgo Group S.p.A.
Burgo Factor S.p.A. (factoring)	Milan	EUR	-	90.00	Burgo Group S.p.A.
Burgo Distribuzione S.r.l. (sales)	Altavilla Vicentina (VI)	EUR	-	100.00	Burgo Group S.p.A.
S.E.F.E. S.a (forest management)	Ecouviez (France)	EUR	-	99.80 0.20	Burgo Ardennes S.a Burgo Group S.p.A.
Burgo Energia S.r.l. (energy wholesaler)	Altavilla Vicentina (VI)	EUR	-	100.00	Burgo Group S.p.A.
Mosaico S.r.l. (paper industry)	Altavilla Vicentina (VI)	EUR	-	100.00	Burgo Group S.p.A.
Burgo Polska Sp zoo (sales)	Warsaw (Poland)	PLN	-	100.00	Burgo Group S.p.A.

During 2017, 51% of Gever spa shares were purchased from the former controlling company Edison spa, making it 100% controlled.
Comecart spa merged by incorporation with Gever spa, taking its name.
The subsidiary Burgo Deutschland GmbH took a new name during 2017.

Accounting standards and consolidation criteria

The consolidated financial statements for Burgo Group spa at 31 December 2017 were prepared by applying the international accounting standards issued by the International Accounting Standard Board (IASB) and approved by the European Union, including among these the international subjects subject to interpretation (International Accounting Standards – IAS/IFRS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the previous Standing Interpretations Committee (SIC).

The Group adopted the referenced accounting standards as of 1 January 2006, with reference to Legislative Decree 38 of 28 February 2005, which implemented the option found within article 5 of Regulation EC 1606/2002.
During the year, the Group continued with the actions aimed at strengthening equity and restoring financial balance, necessary for the implementation of the Burgo2020 Plan.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Bankruptcy Law, as envisaged in the agreement reached with the lending institutions.

Financial statement schedules

All that illustrated in the previous section is understood to be fully referenced here.
The Group's consolidated financial situations are shown in thousands of euro. The euro is also the functional currency used by the Group, given that it is the currency used in the economies in which the Group mainly operates.
The Group's fiscal year coincides with the calendar year (1 January - 31 December).
Preparation of the consolidated financial statements and accounting schedules required the following choices:

- **Consolidated Balance Sheet:** a form of representation was selected that distinguishes between current and non-current assets and liabilities, based on that allowed under paragraphs 60 and subsequent of IAS 1;
- **Profit and loss statement for the year:** it was decided to classify items by nature, holding this the most representative with respect to presentation by destination. In fact, this complies with internal reporting and management methods and was therefore held to offer more reliable and significant information for the purposes of comprehending the profit (loss) for the year in question;
- **Cash Flow Statement:** this is structured on the basis of the indirect method.

The Group ended financial year 2017 with profits of € 8.7 million, shareholders' equity of € 300.2 million and net financial debt of € 534.9 million.
The consolidated financial situations were prepared using the general cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivatives, which were measured at fair value.
Assets and liabilities and income and expense are not offset, unless this is allowed or required under an international accounting standard or interpretation.

Consolidation standards

The consolidated financial statements include the financial statements of Burgo Group spa, the parent company, and those of subsidiaries over which Burgo Group spa holds direct or indirect control.
In addition to the subsidiaries, the scope of consolidation also includes associated companies and companies under joint control.

Control exists when the parent company has the power to determine the financial and operating policies of a company, in order to obtain benefits from its business.
Subsidiaries are consolidated starting on the date on which control is effectively obtained by the Group and consolidation ceases on the date on which control is transferred outside of the Group. These companies are consolidated on a line by line basis.
Associated companies, over which Burgo Group spa exercises significant influence, or companies for which it exercises joint control over financial and operating policies, are measured using the equity method.
In preparing the consolidated figures, the equity, economic and financial situations of subsidiaries as prepared at the reporting date were used, as well as additional information useful for the translation to the standards adopted in preparing the consolidated financial statements, in order to allow for application of homogeneous accounting standards.
The main operations carried out in preparing the consolidated financial statements are:

- elimination of the book value of equity investments held by the parent company and other companies within the scope of consolidation with the relative shareholders' equity, while taking on the assets and liabilities of companies consolidated with the line by line method. Positive differences emerging from the purchase cost of the equity investments with the relative shares of shareholders' equity are recognised as adjustments to the relevant assets item on the basis of the assessment carried out at the time of purchase. Any residual amount not allocated is recognised in an assets item called "goodwill", which is subject to an impairment test. Any negative residual amounts are recognised in the annual profit and loss statement, as envisaged under IFRS 3 (business combinations);
- elimination of reciprocal relationships between companies consolidated using the line by line method, specifically:
  - transactions that give rise to receivables and payables, as well as costs and revenues;
  - unrealised gains and losses, included in measurements of inventories;
- reversal of dividends received from consolidated companies;
- adjustment of the carrying value of companies consolidated using the equity method, in order to include the portion of the pertinent result.

Operations in foreign currencies

Revenues and costs relative to operations in foreign currencies are recorded at the exchange rate in effect at the time the operation was completed. Monetary assets and liabilities in foreign currencies are converted by applying the current exchange rate on the reporting date for the reference period, attributing any exchange differences generating to the annual profit and loss statement.

Financial statements of foreign companies

Translation into euro of items in the consolidated balance sheet for financial statements expressed in currencies other than the euro is done by applying the exchange rates at the end of the year. Items in the annual profit and loss statement are translated into euro using the average exchange rates for the year. Exchange differences originating from the translation into current end of year exchange rates of items in the initial shareholders' equity and the results of the year to average exchange rates are recognised in consolidated shareholders' equity. The table below shows the exchange rates applied when translating financial statements in currencies other than the euro for financial years ending on 31 December 2016 and 31 December 2017.

Exchange rates

	2016		2017	
	Balance sheet (exchange rate at end of year)	Profit and loss statement (average exchange rate)	Balance sheet (exchange rate at end of year)	Profit and loss statement (average exchange rate)
US dollar	1.054	1.107	1.199	1.129
Pound sterling	0.856	0.819	0.887	0.876
Polish zloty	4.410	4.364	4.177	4.256

Accounting standards and measurement criteria

The consolidated financial statements at 31 December 2017 were prepared in compliance with the IAS/IFRS accounting standards for preparing individual financial statements at 31 December 2016, taking into account the amendments and new standards which took effect as of 1 January 2017, listed below.

Accounting standards and interpretations approved by the European Union in effect as of 1 January 2017.

IAS 7 **Statement of Cash Flows** - Disclosure Initiative - Regulation 2017/1990 took effect as of 1 January 2017. The amendments require entities to provide additional information on changes in liabilities associated with lending activity, including both changes associated with cash flows and non-monetary variations (for example, exchange gains and losses).

IAS 12 **Income Taxes – Recognition of deferred tax assets for unrealised losses** – Regulation 2017/1989 took effect on 1 January 2017. The amendments clarify that an entity must consider whether tax regulations limit taxable income sources against which it is possible to make deductions associated with the reversal of temporary deductible differences. Additionally, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances under which taxable income could include the recovery of certain assets for a value exceeding their carrying value.

The application of the accounting standards listed above, which occurred in line with the schedule established at the time of approval by the EU Commission, had no significant effects on the consolidated financial statements.

Accounting standards and interpretations approved by the European Union but not yet in effect, for which the Group did not make use of early application, if allowed.

IFRS 15 **Amendments - Revenues from contracts with customers** - Regulation 2016/1905 will take effect on 1 January 2018. IFRS 15 was issued in May 2014 and amended in April 2016. It introduces a new five-phase model that will be applied to revenues deriving from contracts with customers. IFRS 15 establishes recognition of revenues in the amount of the payment that the entity holds it has the right to in exchange for the transfer of goods or services to the customer.

The new standard will replace all the current requirements found in the IFRSs regarding recognition of revenues.

IFRS 9 **Financial instruments** – Regulation 2016/2067 will take effect on 1 January 2018. In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments*, replacing *IAS 39 Financial Instruments: Recognition and measurement* and all previous versions of IFRS 9. IFRS 9 references all three aspects relative to accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is in effect for financial years starting on or after 1 January 2018. Early application is permitted. With the exception of hedge accounting, retrospective application of the standard is required, but comparison information is not obligatory. Relative to hedge accounting, the standard applies prospectively as a general rule, with certain limited exceptions.

IFRS 16 **Leases** – Regulation 2017/1986 will take effect on 1 January 2019. IFRS 16 was published in January 2016, replacing IAS 17 Leasing, *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 defines the standards used to recognise, measure, present and disclose leases and requires lessors to recognise all leasing contracts in the financial statements on the basis of a single model similar to that used for recognising financial leases, in accordance with IAS 17. The standard includes two exemptions for recognition by lessors - leasing contracts relative to assets of "low value" (for example, personal computers) and short-term leasing contracts (for example, contracts with a lease term of 12 months or less). On the date a leasing contract starts, the lessee recognises a liability against payment of the lease (lease liability) and an asset which represents the right to use the underlying asset for the duration of the contract (right-of-use asset). Lessees must recognise interest expense on the leasing liability and depreciation on the right-of-use asset separately.

Lessees must also remeasure the leasing liability if certain events occur (for example: a change in the conditions of the leasing contract, a change in future leasing payments consequent to a change in the index or rate used to determine said payments). Generally, the lessee recognises the remeasured amount of the leasing liability as an adjustment to the right-of-use asset.

Recognition established under IFRS 16 for lessors is substantially unchanged with respect to the current recognition done in compliance with IAS 17. Lessors will continue to classify all leasing following the same classification principle found in IAS 17, distinguishing between the two types of leasing: operating and financial.

IFRS 16 requires more extensive information from lessors and lessees with respect to IAS 17.

In 2017, the Group continued to determine the potential effects that could derive from application of IFRS 16 to its consolidated financial statements.

Standards IAS 14 "Segment reporting" and IAS 33 "Earnings per share" were not applied, as the Company is not obliged to apply them as it is not listed on regulated markets.

Below we examine in detail the criteria adopted for the following items:

Property, plant and equipment

A cost sustained to acquire a property, plant, machinery or part of the same is recognised as an asset on the condition that the cost of the asset can be reliably determined and the Group can make use of the relative future economic benefits.

Property, plant and equipment

Assets recognised among property, plant and equipment are recognised at the purchase cost, including any directly attributable accessory costs, necessary to render the asset functional to the use for which it was acquired, and net of any relative depreciation accumulated and impairment losses.

Expenses sustained subsequently are added to the cost to the extent in which these expenses are able to improve the originally determined performance of the asset.

Assets recognised among property, plant and equipment through business combinations are measured at their fair value upon initial recognition, as determined at the time they were acquired. Subsequently, they are measured using the historic cost method.

Assets recognised among property, plant and equipment, with the exception of land, depreciate at constant rates throughout the course of the useful life of the asset, understood to be the estimated period during which the asset will be used by the company, starting from the moment the asset becomes available for use. The value to be depreciated is represented by the carrying value of the asset net of any impairment and reduced by the presumable realisable value at the end of the useful life, if this is significant and can be reasonably determined.

If the asset is composed of several significant components with different useful lives, depreciation is carried out for each component, following the component approach established in IAS 16.

Spare parts of significant value relative to plant and machinery are capitalised and depreciated on the basis of the useful life of the asset to which they refer, in accordance with the indications found in IAS 16.

The book value of property, plant and equipment is subject to verification to identify any losses in value when events or changes indicate that the book value may not be recoverable.

For newly acquired assets, the following useful lives are applied:

Useful life of newly acquired assets

	Useful life
Industrial buildings	30 years
General plants	15 years
Specific plants	20 years
Miscellaneous equipment	4 years
Office machines and machinery	8 years
Vehicles	5 years
Electronic machines	5 years

Useful life and realisable values are reviewed every year and any changes are made prospectively. When necessary, they are applied prospectively and may involve an extension or r4eduction in the original amortisation/depreciation period.

Land, whether free of construction or containing civil or industrial buildings, is recognised separately and not depreciated, given that it is an element with unlimited useful life. When an asset is disposed of or when no future economic benefit is expected, it is eliminated from the financial statements and any losses or profits are recognised in the profit and loss statement for the year during the financial year in which it was eliminated.

Expenses for leasehold improvements such as expenses to remodel real estate that is not owned are capitalised in consideration of the fact that for the duration of the leasing contract the user company has control over the assets and can take advantage of their future economic benefits. Said costs are amortised over a period equal to the lesser of that representing the residual useful life of the fixed asset and the residual duration of the leasing contract.

Pursuant to IAS 23, the Group capitalises financial expense attributable to the purchase, construction or production of a capitalisable asset.

Property investments

The item includes land, buildings or parts of non-instrumental buildings, held in order to benefit from leasing fees, increases in value or both.

Property investments are measured at cost, net of any losses due to writedowns and depreciation accumulated.

Intangible assets

Intangible assets are non-monetary elements without physical substance, which can be identified and are controlled by the Group, intended to generate future economic benefits. Intangible assets can be recognised in the accounts when it is probable that use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.

Intangible assets acquired separately are initially recognised at cost, those acquired through business combinations are measured at fair value upon initial recognition.

Expenses sustained after initial acquisition are added to the cost of the asset to the degree in which these expenses are able to generate future economic benefits.

After initial recognition, intangible assets are measured net of provisions for amortisation and any accumulated losses of value.

Goodwill and other intangible assets with undefined life

An intangible asset is considered to have undefined life when, on the basis of analysis of the relevant factors, there is no foreseeable limit on the period of use during which it is expected the asset will generate net incoming financial flows for the Group.

The Group has identified goodwill as an intangible asset with undefined useful life, which represents the positive difference between the cost of a business combination and the equity interest held by the Group in the current fair value of the assets, liabilities and potential liabilities acquired and identifiable on the purchase date.

Any negative difference (negative goodwill) is instead recognised in the annual profit and loss statement at the time of acquisition.

After initial recognition, goodwill is not amortised, but is decreased relative to any losses of value, determined in accordance with IAS 36 (impairment of assets).

Goodwill is annually subject to recoverability analysis. This may also occur more frequently if events or changes in circumstances occur which could lead to possible losses of value.

In the cases in which goodwill is assigned to a cash generating unit (or group of units) whose assets are partially dismissed, the goodwill associated with the transferred asset is considered in order to determine any capital gains or losses deriving from the transaction, and is measured on the basis of the values of the disposed of assets, with respect to the assets still held relative to the same CGU.

Intangible assets with defined life

These assets are recognised at the acquisition or production cost, including all attributable accessory charges, and depreciated at a constant rate in relation to their utility over time, starting at the moment the asset becomes available for use.

Useful life is reviewed every year and any changes are made prospectively, when necessary.

Plant and expansion costs, if recognised in the assets, as well as patent and usage rights for intellectual property are depreciated over a maximum period of five years.

Concession, license, trademark costs and those for similar rights are annually reduced as a function of the contractual duration and the limits of the presumable period of economic utilisation.

Impairment test

The value of intangible assets and property, plant and equipment is subject to recoverability checks every time it is held that a lasting loss of value has occurred.

Relative to goodwill, other intangible assets with undefined useful life and other assets not available for use, impairment tests are performed at least once a year.

The test is done by comparing the book value with the greater of the fair value and the value in use of the asset.

If no binding sales agreement or an active market for the asset is available, the fair value is determined on the basis of the best available information, in order to reflect the amount that the Group could obtain, at the reporting date of the financial statements, if disposing of the asset in a free transaction between knowledgeable and willing parties, after deducting disposal costs.

The value in use of an asset is calculated by discounting expected cash flows from usage of the asset (both incoming and outgoing), basing financial flow projections on reasonable and sustainable suppositions, able to represent the best possible estimates by corporate management of a series of economic conditions that will exist throughout the remaining life of the asset, giving greater significance to information obtained externally.
The discount rate applied reflects current market evaluations of the time value of money and the specific risks of the asset.
Measurement is done for each individual or for the smallest combination of assets (cash generating units) that generate independent incoming cash flows deriving from their utilisation.
When the value determined with the impairment test is lower than the cost, the loss of value is recognised against the asset and among the costs in the annual profit and loss statement.
If in subsequent financial years the reasons behind recognising the impairment are determined to no longer exist following a new impairment test, the asset, with the exception of goodwill, is written back up to the new recoverable value, which in any case cannot exceed the value that would have existed if no loss in value had been recognised.
The writeback is recognised in the annual profit and loss statement, unless the asset is recognised at the written back value, in which case the writeback is recognised in the revaluation reserve.

Equity investments measured at equity

This item includes equity investments in associated companies and equity investments in jointly controlled companies.
These equity investments are measured using the equity method. Any losses exceeding shareholders' equity are recognised in the financial statements to the degree in which the investor has undertaken to fulfil legal or implicit obligations relative to the investee or, in any case, to cover its losses.
Associated companies are those over which the Group exercises significant influence, but does not have control or joint control over financial and operating policies. The consolidated financial statements include the portion pertaining to the Group of the results of its associated companies, accounted for using the equity method, starting on the date on which it begins to hold significant influence and until the moment in which this influence ceases to exist. Unrealised infragroup profits relative to minority shareholders are eliminated relative to the portion pertaining to the Group held in the investee. Unrealised infragroup losses relative to minority shareholders are also eliminated if they do not represent an effective lower value for the asset disposed of.

Financial assets

Financial assets are initially recognised at fair value, which generally coincides with the fee paid and includes accessory charges. Purchases and sales of financial assets are recognised on the settlement date, the date on which the Group undertook the commitment to acquire the asset.
After initial recognition, financial assets are measured in relation to their functional classification, as outlined below:

Financial assets at fair value through profit and loss

This category includes all assets held for trading, that is all assets acquired to be sold over the short term. Derivatives are classified as financial assets held for trading, unless they are designated as effective hedging instruments.

Profit or loss associated with assets held for trading is recognised in the profit and loss statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or foreseeable payments, not listed on an active market. These assets are recognised using the amortised cost criteria as well as the effective interest rate criteria. Gains and losses are recognised in the annual profit and loss statement when loans and receivables are eliminated for accounting purposes or losses of value are seen, as well as through the amortisation process.

Investments held to maturity

Financial assets that are not derivatives and involve fixed or foreseeable payments and with a fixed maturity are classified under this item when the Group has the intention or ability to hold them until maturity.

Financial assets that the Group decides to hold in its portfolio for an undefined period of time do not fall within this category. Long-term financial investments held to maturity, such as bonds, after initial recognition are measured using the amortised cost criteria and the effective interest rate criteria, which represents the rate that discounts future payments or receipts estimated throughout the expected life of the financial instrument.

Amortised cost is calculated taking into account any discounts or premiums, which are allocated throughout the entire period of time until maturity.

Financial assets available for sale

Financial assets available for sale include all assets not falling within the previous categories.

After initial recognition at cost, financial assets available for sale are measured at fair value and gains and losses are recognised in a separate item within shareholders' equity, until they are disposed of or until a lasting loss of value is identified. Profit and losses accumulated up to the point in equity are recognised in the annual profit and loss statement. In particular, with regards to shares, measurement parameters consist of a reduction in fair value exceeding half of the original recognised value, or which lasts for more than 36 months.

In the case of widely circulated securities traded on regulated markets, the fair value is determined in reference to the stock market price identified at the end of trading on the last day of the financial year.

For investments for which no active market exists, the fair value is determined using measurement techniques based on recent transactions between independent parties, or on the basis of the current market value of a substantially similar instrument, or through an analysis of discounted financial flows or pricing models of participatory investments.

Trade receivables and miscellaneous receivables

Trade receivables and miscellaneous receivables are recognised at the nominal value, or the fair value of the fee received during the course of the transaction. Receivables are recognised at current values when financial effects associated with forecast receipts over time are significant and receipt dates can be reliably estimated.
Receivables are recognised in the financial statements net of any provisions for impairment.

Impairment of financial assets

At the reporting date, it is assessed whether a given financial asset or group of financial assets has suffered impairment.

Financial assets recognised at amortised cost

If there is objective evidence of a loss of value in loans and receivables, the amount of the loss to be recognised in the annual profit and loss statement is calculated as the difference between the book value of the asset and the current value of the estimated future financial flows, discounted by the effective original interest rate for the financial asset.
If the amount of the loss of value decreases in a subsequent year and this reduction can be objectively traced to an event which occurred after the impairment was recognised, the previously reduced value can be written back.
Any subsequent writebacks are recognised in the annual profit and loss statement, to the extent that the book value of the asset does not exceed the amortised cost as of the date of the writeback.

Financial assets available for sale

If a financial asset available for sale suffers an effective reduction in value, any accumulated loss recognised in the shareholders' equity must be recognised in the annual profit and loss statement. Writebacks relative to equity instruments classified as available for sale are not recognised in the annual profit and loss statement.
Writebacks relative to debt instruments are recognised in the annual profit and loss statement if the increase in the fair value of the instrument can be objectively traced to an event which occurred after the loss had been recognised in the annual profit and loss statement.

Financial assets recognised at cost

If there is an objective indication of a loss of value for an unlisted equity instrument no recognised at fair value because it cannot be reliable measured, or for a derivative instrument connected to said investment instrument which must be settled through the delivery of said instrument, the amount of the impairment loss is equal to the difference between the book value of the asset and the current value of expected future financial flows, discounted using the current market return rate for a similar asset.

Derivatives

Derivatives are used with the sole purpose of hedging in order to reduce financial risks. They are measured at fair value starting on the date they are stipulated. When a hedging transaction begins, the Group formally designates and documents the hedging relationship for which hedge accounting

will be used, indicating its risk management objectives and the strategy pursued. This document involves identifying the hedging instrument, the element of the transaction being hedged, the nature of the risk and methods the Group intends to use to measure the efficacy of the hedge in compensating for variations in the fair value of the hedged element or financial flows associated with the hedged risk. Efficacy must be measured in a reliable manner. It is expected that these hedges are highly effective in compensating for the exposure of the hedged element to changes in the fair value of financial flows associated with the risk covered. Assessment of whether or not the hedges are effective is done continuously during the accounting periods in which they are designated as such.
Transactions which meet the criteria for hedge accounting are recognised as follows:

Fair value hedge

If a derivative is designated to hedge against exposure to variations in the fair value of an asset or liability attributable to a particular risk, profit or loss deriving from subsequent changes in the fair value of the hedging instrument is recognised in the annual profit and loss statement.
Profit or loss deriving from an adjustment in the fair value of the hedged item, relative to the portion attributable to the risk hedged against, changes the book value of this item and is recognised in the annual profit and loss statement.

Cash flow hedge

If a derivative is designated as an instrument hedging against exposure to changes in the financial flows of an asset or liability recognised in the financial statements or a transaction deemed highly probable, the effective portion of the profits or losses deriving from the fair value adjustment of the derivative is recognised in a specific shareholders' equity reserve and reclassified in the annual profit and loss statement when the effects of the transaction being hedged are recognised in the annual profit and loss statement. The profit or loss associated with this ineffective portion of the hedging is instead immediately recognised in the annual profit and loss statement. If a hedging instrument is closed by the transaction being hedged has not yet been realised, cumulative profits and losses remain in the shareholders' equity reserve and are reclassified in the annual profit and loss statement at the time the relative transaction is realised.
If the transaction being hedged is no longer deemed probable, profits or losses not yet realised and recognised in the shareholders' equity reserve are immediately recognised in the annual profit and loss statement.
If hedge accounting can no longer be applied, profits or losses deriving from the fair value measurement of the derivative are directly recognised in the annual profit and loss statement.

Fair value measurement

IFRS 7 requires that derivatives recognised at fair value be measured on the basis of a hierarchy of levels that reflects the significance of the input used to determine the relative fair value. The levels are as follows:

- level 1: prices obtained from an active market for the asset or liability being measured;
- level 2: measurement techniques based on directly or indirectly observable market data;

- level 3: measurement techniques not based on observable market data.

Inventories

Inventories of raw materials, products in progress and finished products are measured at the lesser of the cost, determined using the average weighted cost method, and the net realisable value presumable from market trends.

For raw materials, market value means replacement cost. For finished and semi-finished products it means the amount the Group expects to obtain from sales in normal business operations, net of estimated costs to complete the good and sales and distribution costs it will sustain.

Measurement of warehouse inventories include direct costs for materials and labour and indirect costs (variable and fixed).

Provisions for impairment of materials, finished products, spare parts and other obsolete or slow rotation stocks are calculated, taking into account future expected use and realisable value.

Products in progress relative to work orders are measured using the percentage of completion, recognising costs and revenues relative to said progress to the annual profit and loss statement.

Any losses from these contracts are recognised in the annual profit and loss statement in the full amount, at the time they become known.

Cash and other cash equivalents

This item indicates cash and other cash equivalents and short-term highly tradable financial investments that can be readily turned into cash and are subject to irrelevant risks in terms of variations in their value. These financial items are recognised at their nominal value.

For the purposes of the Consolidated Statement of Cash Flows, cash and other cash equivalents are shown net of bank overdrafts as of the reporting date.

Non-current assets held for sale

Non-current assets and groups of assets and liabilities for which the book value will mainly be recovered through sale, rather than through continuous use, are presented separately under other assets and liabilities in the consolidated balance sheet.

These assets, classified within a specific item in the consolidated balance sheet, are measured at the lower of the book value and the fair value minus foreseeable sales costs. Gains and losses, net of the relative tax effects, from non-current assets disposed of or held for sale are recognised in a specific item within the annual profit and loss statement.

Financial liabilities

Financial liabilities include financial liabilities and the negative fair value of derivatives.

All financial liabilities, other than derivatives, are initially recognised at their fair value, increased by the costs of the transaction, if relevant, and are subsequently measured at their amortised cost using the effective interest rate method.

Financial liabilities covered by derivatives aimed at dealing with the risk of changes in value (fair value hedges) are measured at fair value, using the methods established in IAS 39 for hedge

accounting: profits and losses deriving from subsequent changes in fair value are recognised in the annual profit and loss statement.
For the portion associated with the effective hedging portion, these changes are offset by changes recognised in the value of the derivative.
Financial liabilities covered by derivatives aimed at hedging against the risk of changes in financial flows (cash flow hedges) continue to be measured at their amortised cost, based on the methods established in IAS 39 for hedge accounting.

Derecognition of financial assets and liabilities

A financial asset or, when applicable, part of a financial asset or parts of a group of similar financial assets, is/are derecognised when:

- the rights to receive financial flows from the asset no longer exist;
- the Group retains the right to receive financial flows from the asset, but has undertaken a contractual obligation to fully transfer them to a third party, without delay;
- the Group has substantially transferred all risks and benefits of ownership of the financial asset, or has not substantially transferred or retained all the risks and benefits of the asset, but has transferred control over the same.

A financial liability is derecognised from the financial statements when the obligation underlying the liability is repaid, cancelled or fulfilled.

Trade payables and miscellaneous payables

This item includes payables due to suppliers and other liabilities, with the exception of financial liabilities which are recognised separately. These liabilities are initially recognised at the fair value of the fee to be paid.
Subsequently, payables are measured using the amortised cost criteria, determined with the effective interest method.

Employee benefits

Benefits due after the termination of the employment relationship are divided into defined contribution plans and defined benefit plans.
For defined contribution plans, the legal or implicit obligation of the company is limited to the amount of contributions to be paid: consequently, actuarial risk and investment risk fall to the employee.
For defined benefit plans, the company's obligation consists in granted and ensuring the agreed upon benefits for the employees: actuarial risk and investment risk fall to the company.
Until 31 December 2006, the severance indemnity was classifiable among defined benefit plans.
The regulations for this provision were amended by Italian Law 296 of 27 December 2006 ("2007 Financial Law"), and by subsequent Decrees and Regulations issued during the initial months of 2007. In the light of these changes, and in particular those with reference to companies with at least 50 employees, this practice is not to be considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 (and not yet liquidated as of the reporting date). Portions accruing after this date can be classified as a defined contribution plan.

The Group's obligation to finance defined benefit plans and the annual cost recognised in the annual profit and loss statement are determined by applying actuarial methodology, based on demographic hypotheses, in relation to mortality rates and turnover in the reference population and on financial hypotheses, in relation to the discount rate which reflects the value of money over time, the inflation rates, and future salary and wage levels.
The amount recognised as a liability for defined benefits indicates the current value of the obligation as of the reporting date, net of the current value of any existing program assets.
The amount recognised in the annual profit and loss statement consists of the following elements:

- social security costs relative to current work performed;
- interest expense;
- expected returns from program assets, if existing.

The revision of IAS 19 referenced above required the Group, as of the financial year which began on 1 January 2013, to directly recognise actuarial profits and losses relative to defined benefit plans deriving from changes in the actuarial hypotheses used or changes in plan conditions in shareholders' equity and the schedule of other components of the comprehensive profit and loss statement.
The amount of rights accrued by employees during the year is recognised under the item personnel expenses, while the financial component, which represents the charge that the company would face if it were to finance the amount of the severance indemnity (TFR) on the market, is recognised under financial income/expense.

Provisions for risks and charges

The Group allocates provisions for risks and charges when:

- there is a current obligation (legal or implied) relative to third parties and deriving from a past event;
- it is probable that the Group will need to use resources to comply with the obligation;
- a reliable estimate of the amount of the obligation can be made.

Provisions are recognised at the value which represents the best estimate that the Group would reasonably pay to fulfil the obligation (fair value) or to transfer it to third parties, on the reporting date.
Changes in estimates are shown in the profit and loss statement for the period in which the change occurred.
When financial effects associated with the time forecast of the payment is significant and the payment date for the obligations can be reliably estimated, the provision is discounted using a discount rate that reflects current assessments of the cost of money in relation to time. In this case, the amount recognised in the financial statements increases each year to reflect the passage of time and this increase is recognised in the annual profit and loss statement under the item "financial expense".
Significant potential liabilities represented by the following are illustrated in the Notes:

- possible (but not probable) obligations, deriving from past events, the existence of which will only be confirmed if one or more future events occur, which are not fully under the control of the company;
- current obligations deriving from past events, for which the amount cannot be reliably estimated, or for which compliance may not involve any expense.

Items in other currencies or subject to "exchange risk"

These are registered at the current exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currencies are converted using the exchange rate on the reporting date. Non-monetary items are kept at the conversion rate for the transaction, unless there is a persistent unfavourable trend in the exchange rate.
Both exchange differences generated from the repayment of items with different exchange rates relative to the conversion rate used at initial recognition, and those relative to the measurement of monetary items at the reporting date are recognised in the annual profit and loss statement.

Recognition of revenues and costs

Revenues are measured at the fair value of the payment received to sell the company's products or services.
Revenues from sales of products are recognised, net of discounts, rebates or returns, when the following conditions are met:

- the significant risks and benefits associated with ownership of the goods has been transferred to the purchaser of the goods (generally upon shipment or delivery of the goods);
- effective control over the merchandise is lost;
- the value of the revenues is reliably determined;
- it is probable that the economic benefits deriving from the sale will be used by the Group;
- the costs sustained or to be sustained are reliably determined.

Revenues from services are recognised once the services are complete.
Revenues of a financial nature are recognised on an accrual basis.
Dividends are recognised when they are received, under the item "Income from equity investments".
Costs are recognised using criteria analogous to those used for the recognition of revenues, and in any case on an accrual basis.

Current, prepaid and deferred taxes

Income taxes are determined on the basis of estimated taxable income, with reference to the current tax regulations, in the countries in which the Group companies reside.
Forecast debt, net of any advances and withholdings, is recognised under the balance sheet liabilities in the item "current tax payables".
Taxes relative to components recognised directly under shareholders' equity are recognised directly to shareholders' equity and not in the annual profit and loss statement.

Deferred tax assets and liabilities are calculated for all temporary differences between the book value attributed to assets and liabilities in the financial statements and the value attributed to the same assets and liabilities for tax purposes, unless the temporary differences derive from:

- initial recognition of goodwill;
- initial recognition of an asset or liability, in a transaction which
  - is not a business combination and
  - does not influence accounting results nor taxable income on the date of the transaction in question;
- equity investments in subsidiaries, associates and companies under joint control, when:
  - the Group is able to control the schedule for cancelling temporary taxable differences;
  - it is probable that the temporary differences will not be cancelled for the foreseeable future.

Deferred tax assets are not recognised when it is not reasonably certain they will be recovered, in compliance with the principle of prudence.
Additionally, their value is reviewed at the end of each period and is reduced to the extent that it is no longer probable sufficient taxable profits will be available in the future to allow full or partial use of these assets.
Deferred tax assets and liabilities are defined on the basis of the tax rates which are expected to be applied in the year in which the assets will be realised or the liabilities will be repaid, considering rates in effect or those substantially issued as of the reporting date.
Deferred tax assets and liabilities are classified among non-current assets and liabilities.

Estimates and assumptions

Application of certain accounting standards necessarily requires significant elements based on estimates and assumptions that are uncertain when formulated. For the 2017 financial statements, it is held that the assumptions made were appropriate and consequently, that the financial statements were prepared with the intent of clarity and to truly and accurately represent the equity and financial situation and the economic results for the year. Within the explanatory notes, information is provided in the relevant sections about the reasons underlying decisions made, measurements taken and estimate criteria adopted in applying the international accounting standards. In order to formulate reliable estimates and hypotheses, historic experience was used, as well as other factors deemed reasonable for the case in question, on the basis of the information available. Nonetheless, it cannot be excluded that changes in said estimates and assumptions could create significant effects on the equity and economic situation, as well as on the potential liabilities and assets reported within the financial statement disclosures, in the case that different elements of judgement arise with respect to those previously expressed. More specifically, greater use of subjective assessments on the part of company management was necessary in the following cases:

- determining impairment of goodwill, property, plant and equipment and equity investments;

- determining the fair value of financial assets and liabilities when the amounts could not be directly observed on active markets. In this case, the subjective elements are found in the selection of measurement models and input parameters that may not be observable on the market;
- quantifying provisions for risks and charges and provisions for employee benefits, due to the uncertainty of that required, survival times and actuarial hypotheses used;
- estimating the recoverability of prepaid tax assets.

The presentation of these cases is provided with the intention of allowing those reading the financial statements to better understand the main areas of uncertainty, but is not in any case to suggest that alternative assumptions could be appropriate or more valid.

Estimates and assumptions are periodically reviewed and the effects of each change are shown in the profit and loss statement for the period in which the change occurred.

Consolidated Balance Sheet

Non-current assets

1) Property, plant and equipment

The assets indicated in the following breakdown are included in this item:

Property, plant and equipment €/000

	31 December 2016	31 December 2017	Change
Property, plant and equipment	747,633	731,830	(15,803)
Property investments	743	717	(27)
Financially leased assets	-	414	414
	748,376	**732,960**	**(15,416)**

Property, plant and equipment

The table below shows changes occurring during the year.

Flows from property, plant and equipment €/000

	Land and buildings	Plant and machinery	Industrial and sales equipment	Other assets	Fixed assets in progress	Total
Historic cost at start of period	**635,685**	**2,904,630**	**19,912**	**53,814**	**29,967**	**3,644,007**
Increases during period	2,430	26,047	232	1,117	27,907	57,734
Disposals during period	(1,601)	(1,181)	(212)	(1,256)	-	(4,249)
Revaluations, impairment during period	-	(16,000)	-	-	-	(16,000)
Transfer	-	-	-	-	-	-
Other changes	(212)	94,773	253	(275)	(14,972)	79,567
Historic cost at period end	**636,302**	**3,008,269**	**20,185**	**53,399**	**42,902**	**3,761,058**
Provision for amortisation/depreciation at start of period	**399,291**	**2,429,037**	**17,942**	**50,104**		**2,896,374**
Amortisation/depreciation during period	10,596	71,293	519	1,368		83,776
Uses during period	(1,596)	(1,148)	(212)	(1,192)		(4,148)
Transfer	-	-	-	-		-
Other changes in the provision	(555)	53,650	152	(21)		53,226
Provision for amortisation/depreciation at period end	**407,736**	**2,552,832**	**18,401**	**50,260**		**3,029,228**
Net book value at period end	**228,565**	**455,438**	**1,785**	**3,140**	**42,902**	**731,830**

Capitalisation carried out during the year amounted to € 57,734 thousand and also included other increases for € 1,105 thousand relative to internal work; capitalisation of financial expense equal to € 485 thousand, calculated with reference to a rate of 2.03%, implementing IAS 23; and advances on maintenance work for € 3,840 thousand. Please see the Report on Operations for comments and details on investments in 2017.

The historic cost and the provision for depreciation eliminated due to disposals amounted respectively to € 4,249 thousand and € 4,148 thousand. The main operations involved the demolition of the mix preparation building at the Avezzano plant (€ 1,591 thousand) and disposal of obsolete plants for Mosaico srl (€ 1,488 thousand).

During the year, impairment was recognised on plant and machinery in the amount of € 15,400 thousand, relative to residual net values of systems at the Verzuolo plant, for which the residual life does not allow recoverability against the company's investment plans. Therefore the excess portion of value was written down, which will not be recovered over its residual life through normal use of the systems and consequent depreciation. Additional impairment of € 600 thousand was recognised relative to systems disposed of at the Avezzano plant, for which the recovery value through sale is, based on current market values, lower than the net carrying value at the end of the previous year.

At the end of the year, the residual life of the parent company's property, plant and equipment was reviewed, with the necessary changes made to the depreciation plans.

Property investments

Flow of property investments — €/000

	Civil land	Civil buildings	Total
Historic cost at start of period	**82**	**931**	**1,014**
Increases during period	-	-	-
Disposals during period	-	-	-
Revaluations, impairment during period	-	-	-
Other changes	-	-	-
Historic cost at period end	**82**	**931**	**1,014**
Provision for amortisation/depreciation at start of period		**270**	**270**
Amortisation/depreciation during period		27	**27**
Uses during period		-	**-**
Other changes in the provision		-	-
Provision for amortisation/depreciation at period end		**297**	**297**
Net book value at period end	**82**	**634**	**717**

Financially leased assets

Flow of financially leased assets	Financially leased assets	Total
		€/000
Historic cost at start of period	-	-
Increases during period	460	460
Disposals during period	-	-
Revaluations, impairment during period	-	-
Other changes	-	-
Historic cost at period end	**460**	**460**
Provision for amortisation/depreciation at start of period	-	-
Amortisation/depreciation during period	46	**46**
Uses during period	-	-
Other changes in the provision	-	-
Provision for amortisation/depreciation at period end	**46**	**46**
Net book value at period end	**414**	**414**

Financially leased assets refer to investments in machinery made by the subsidiary Burgo Ardennes during the year. The historic cost recognised during the year was € 460 thousand and relative amortisation is € 46 thousand.

2) Intangible assets

The balance is as follows:

Intangible assets	31 December 2016	31 December 2017	Change
			€/000
Goodwill and other assets with undefined life			
Goodwill	**26,915**	**26,915**	**-**
	26,915	**26,915**	**-**
Intangible assets with defined life			
Plant and expansion costs	0	0	-
Concessions, licenses, trademarks and similar rights	1,557	1,430	(127)
Other intangible assets	10,383	7,091	(3,292)
Fixed assets in progress and advances	-	250	250
	11,939	**8,771**	**(3,169)**
	38,855	**35,686**	**(3,169)**

The item goodwill includes that recognised through incorporation of the plants in Valchiampo, Sarego and Villorba di Cartiere Marchi spa during 2006 (€ 26,501 thousand) and for the acquisition of 100% of Cavallari srl, subsequently called Burgo Distribuzione srl (€ 414 thousand).

Recoverability of goodwill is verified annually or more frequently if deemed necessary, by determining the value in use.
Goodwill is allocated to the respective cash generating units (CGU). CGUs refer to individual production sites. To determine the value in use, the current value of future financial flows was calculated, estimated by applying discounting rates that reflect current market values of the temporal value of money and the specific risks of the business, as well as terminal growth rates in line with inflation levels.
Finally, the current value of the flows and the terminal value of the individual CGUs was compared with the capital invested in them.
For the purposes of the impairment test, the main assumptions, in line with current measurements of the cost of money, which taken into account the specific risks of the CGUs, involve the risk-free rate of 2.07%, the market risk premium of 5.5% (increased by 3% for some CGUs in order to incorporate other risks), a variable growth rate between 1.00% and 2.00% based on the CGU, the cost of debt gross of taxes of 2.25% and the ratio between equity and debt, respectively equal to 81.60% and 18.40% derived as the average value of a panel of comparable listed companies in the same sector.
The tests did not indicate the need for further writedowns with respect to those already carried out over the years.
Below is a breakdown of goodwill by individual CGU:

- Villorba € 10,837 thousand;
- Sarego € 9,854 thousand;
- Chiampo € 5,810 thousand.

Additionally, the test was carried out with reference to CGUs for which indicators of impairment were identified. Also in this case, the tests did not indicate the need for further writedowns with respect to those already carried out over the years.

Concessions, licenses, trademarks and similar rights mainly include software licenses as well as rights to connect to the electricity grid (€ 432 thousand) and railway connection expenses (€ 585 thousand) relative to the Duino plant.
The Group, which has the right to receive green certificates against the production of electricity from renewable sources, has recorded certificates totalling € 14,217 thousand in the financial statements, of which € 7,786 thousand already recognised and € 6,431 thousand in the progress of being recognised.
The table below shows changes occurring during the year.

Flow from intangible assets €/000

	Goodwill and other intangible assets with undefined life	Plant and expansion costs - historic cost	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Fixed assets in progress and advances	Total
Historic cost at start of period	**26,915**	**5,007**	**382**	**12,939**	**10,982**	**-**	**56,225**
Increases during period	-	-	-	360	14,217	250	14,826
Disposals during period	-	-	-	-	(17,508)	-	(17,508)
Revaluations, impairment during period	-	-	-	-	-	-	-
Other changes	-	-	-	1	(600)	-	(599)
Historic cost at period end	**26,915**	**5,007**	**382**	**13,300**	**7,091**	**250**	**52,944**
Provision for amortisation/depreciation at start of period		**5,007**	**382**	**11,382**	**600**		**17,370**
Amortisation/depreciation during period		-	-	488	-		**488**
Uses during period		-	-	-	-		**-**
Other changes in the provision		-	-	0	(600)		(599)
Provision for amortisation/depreciation at period end		**5,007**	**382**	**11,870**	**-**		**17,259**
Net book value at period end	**26,915**	**0**	**-**	**1,430**	**7,091**	**250**	**35,686**

The increases of € 14,826 thousand include software purchases for € 609 thousand, in addition to the recognition of green certificates for € 14,217 thousand.
Decreases relate to the sales and return of green certificates for € 17,508 thousand.

3) Other non-current assets

These include the items indicated below:

Equity investments and securities

Equity investments and securities **€/000**

	31 December 2016	31 December 2017	Variazione
Equity investments	15,680	-	(15,680)
Equity investments in other companies	135	9,662	9,527
	15,814	**9,662**	**(6,153)**

The change in equity investments measured on an equity basis can be attributed to the acquisition of 51% of the shares of Gever spa, controlled by Edison spa in 2016, now 100% controlled. Consequently, this equity investment was consolidated on a line by line basis. Additionally, note that the company was merged by incorporation with Comecart, which took on the Gever name.
The item "equity investments in other companies" increased by € 9,527 thousand due to the payment of the portion accruing within the capital increase of the Consorzio Paper Interconnector (€ 9,579 thousand) and the sale of the stake held in Alpe Adria Energia (€ 52 thousand).

Financial receivables and other non-current financial assets

Financial receivables and other non-current financial assets			**€/000**
	31 December 2016	**31 December 2017**	**Variazione**
Non-current financial receivables due from others	4,402	4,371	(31)
	4,402	**4,371**	**(31)**

The balance fell by € 31 thousand.
Financial receivables due from others, equal to € 4,371 thousand, includes € 3,829 thousand for a term deposit made by Burgo Ardennes as a guarantee for management of the rubbish dump used by the Virton plant and € 542 thousand in receivables due from Group employees held by the subsidiary Burgo Factor.

Other receivables and non-current assets

Other receivables and non-current assets			**€/000**
	31 December 2016	**31 December 2017**	**Variazione**
Non-current receivables due from customers	4	5	1
Non-current sundry receivables due from others	117	132	15
Non-current guarantee deposits	1,676	2,354	678
	1,797	**2,491**	**694**

The increase in other receivables and non-current assets, equal to € 694 thousand with respect to the previous year, is mainly due to the increase in the Interconnector guarantee deposit made by Burgo Group spa, relative to the portions paid to the guarantee fund for the creation of the Italy/France interconnection.

4) Deferred tax assets

These amount to € 69,356 thousand, a decrease of € 2,384 thousand. Below is a detailed explanation:

Deferred tax as+A12:G48sets — €/000

	31 December 2016			31 December 2017		
	Taxable	% rate	(Debit)/credit	Taxable	% rate	(Debit)/credit
IRES						
Taxed provisions (allocated)	117,751	24.0	28,260	100,621	23.9	24,064
Derivatives	(3,287)	24.0	(789)	(662)	24.0	(159)
Discounting	(62)	24.0	(15)	(146)	24.0	(35)
IAS 19 discounting - actuarial G/L	10,055	24.0	2,413	9,806	24.0	2,353
Amortisation, depreciation and writedowns	(67,727)	24.0	(16,255)	(57,406)	24.0	(13,777)
30% limit financial expense	82,503	24.0	19,801	80,542	24.0	19,330
IRES losses to be used in future financial years	221,991	24.0	53,278	214,981	24.0	51,595
Allocation of shortfall	(57,558)	24.0	(13,814)	(52,697)	24.0	(12,647)
Other items	(1,256)	24.0	(301)	(1,507)	24.0	(361)
	302,410		**72,579**	**293,532**		**70,363**
IRAP						
Taxed provisions (allocated)	48,682	3.9	1,899	35,058	3.9	1,367
Discounting	(416)	3.9	(16)	(500)	3.9	(20)
Amortisation, depreciation and writedowns	(7,433)	3.9	(290)	(7,771)	3.9	(303)
Allocation of shortfall	(57,558)	3.9	(2,245)	(52,697)	3.9	(2,055)
Derivatives	(3,287)	3.9	(128)	(662)	3.9	(26)
Other items	(1,539)	3.9	(60)	713	3.9	28
	(21,551)		**(840)**	**(25,861)**		**(1,009)**
Prepaid foreign taxes						
Other items	5	28.0	2	5	28.0	1
	5		**2**	**5**		**1**
			71,740			**69,356**

Deferred tax assets show the balance between positions receivable and payable deriving from companies for which offsetting is legally allowed.

The main differences seen during the year can be attributed to the following phenomena:

- provisions taxed for IRES and IRAP purposes;
- amortisation/depreciation and impairment for IRES and IRAP;
- IRES losses to be used in future financial years;
- allocation of shortfalls for IRES and IRAP.

For more details about the applicable rate, please see note 36 "income taxes".

Note that the losses of the parent company can currently all be carried forward indefinitely.

Recognition of deferred tax assets relative to a portion of IRES tax losses that can be carried forward is justified by a reasonable expectation of sufficient future taxable income, based on the economic forecasts found in the Burgo 2020 industrial plan.

Tax losses which led to tax losses, summarised by year of creation and maturity, relate to the parent company. 2001 and 2002 tax losses can be used only by Burgo Group spa, while the other losses can be used within the scope of consolidation. Tax losses arising in financial year 2007 were eliminated following their use when determining the IRES taxable amount of 2017.

Tax losses		2016		2017	€/000
	maturity	loss	tax	loss	tax
2001	can be carried forward indefinitely	16,860	4,046	16,860	4,046
2002	can be carried forward indefinitely	153,543	36,850	152,738	36,657
2007	can be carried forward indefinitely	6,205	1,489	-	-
2008	can be carried forward indefinitely	45,383	10,892	45,383	10,892
		221,991	**53,277**	**214,981**	**51,595**

Current assets

5) Inventories

Inventories			**€/000**
	31 December 2016	**31 December 2017**	**Variazione**
raw materials inventories	49,330	58,711	9,381
stock inventories	46,193	45,595	(598)
provision for impairment of stock	(15,218)	(14,810)	408
Raw materials, subsidiary and consumable items	**80,305**	**89,496**	**9,191**
Products in progress and semi-finished products	34,763	30,649	(4,114)
Products in progress	**34,763**	**30,649**	**(4,114)**
Finished products and goods	93,104	89,452	(3,651)
Provision for impairment of products	(2,334)	(2,039)	295
Finished products	**90,770**	**87,414**	**(3,356)**
	205,837	**207,559**	**1,721**

Warehouse inventories increased as a whole by € 1,721 thousand. More specifically: raw materials and stock increased by € 9,191 thousand, products in progress decreased by € 4,114 thousand and finished products decreased by € 3,356 thousand.

The value of inventories is net of the provision for impairment of stocks, € 14,810 thousand (€ 15,218 thousand in 2016) and that for product impairment, € 2,039 thousand (€ 2,334 thousand in 2016).

These provisions were adjusted during the year on the basis of the most recent assessments of the risk of not recovering the value of inventories.

6) Trade receivables

Trade receivables	31 December 2016	31 December 2017	Change
			€/000
Relative to customers	416,483	416,720	237
minus: provision for doubtful accounts	(64,229)	(55,558)	8,671
	352,254	**361,162**	**8,908**
for associated companies	4,049	-	(4,049)
	4,049	**-**	**(4,049)**
	356,303	**361,162**	**4,859**

Trade receivables do not accrue interest. It is held that the value inserted (adjusted by the provision for doubtful accounts) approximates the presumable realisable value.
The table below provides a breakdown of trade receivables by geographic area, exclusive of infragroup transactions.

Trade receivables by geographic area	31 December 2016	31 December 2017	Change
			€/000
Italy	237,613	220,652	(16,961)
Europe E.U.	94,875	112,214	17,338
Other countries	19,766	28,296	8,530
	352,254	**361,162**	**8,908**

7) Other receivables and current assets

Other receivables and current assets	31 December 2016	31 December 2017	Change
			€/000
Current tax receivables	**5,609**	**14,244**	**8,634**
Current sundry receivables due from others	19,775	19,873	99
Current receivables due from social security entities	431	290	(141)
Current derivative assets	3,689	751	(2,938)
Other sundry receivables	**23,895**	**20,915**	**(2,980)**
Other assets	**3,413**	**1,138**	**(2,275)**
	32,918	**36,297**	**3,379**

Other receivables and current assets decreased as a whole by € 3,379 thousand.

The main changes are due to the increase in tax receivables for € 8,634 thousand (greater VAT, IRES and IRAP receivables) and the reduction in derivative assets relative to the subsidiary Burgo Energia for € 2,938 thousand. The decrease of € 2,275 thousand in the item other assets is mainly relative to lower prepayments made by the subsidiary Burgo Energia.

8) Equity investments

Equity investments			**€/000**
	31 December 2016	**31 December 2017**	**Change**
Other equity investments	814	993	179
Equity investments	**814**	**993**	**179**
Securities other than equity investments	**1**	**1**	**-**
	815	**994**	**179**

Securities in the portfolio at the end of financial year 2017 consisted of 105,000 Mediobanca shares (unchanged with respect to 31 December 2016).
These are classified as available for sale (AFS) and adjustment to market values is done on the basis of stock market listings as of the end of the year, specifically: Mediobanca € 9.46 (€ 7.755 at 31 December 2016).
The adjustment to market value involved increasing the value of the Mediobanca shares by € 179 thousand, passing through the specific AFS reserve in shareholders' equity.

9) Financial receivables and other current financial assets

Financial receivables and other current financial assets			**€/000**
	31 December 2016	**31 December 2017**	**Change**
Financial receivables due from others	120,541	106,599	(13,942)
Derivative financial assets	292	362	70
Other financial assets	-	48	48
	120,833	**107,009**	**(13,825)**

Financial receivables due from others mainly regard:

- advances paid to suppliers of the parent company and the subsidiaries Mosaico and Burgo Ardennes by Burgo Factor for € 103,406 thousand (€ 102,729 thousand in 2016) at market rates, the average duration of which falls between 30 and 90 days;
- investments in managed savings by the parent company for € 2,453 thousand;
- the non-interest bearing escrow account of Gever, for € 795 thousand.

10) Cash and other cash equivalents

Cash on hand and other cash equivalents			€/000
	31 December 2016	31 December 2017	Change
Bank and postal deposits	45,861	74,680	28,819
Cash and cash on hand	30	31	1
	45,892	**74,711**	**28,819**

Cash and other cash equivalents totalled € 74,711 thousand. The book value is equal to the fair value.

Below is a reconciliation table for the item "Cash and other cash equivalents" with net monetary availability recognised in the cash flow statement:

Reconciliation of cash and other cash equivalents			€/000
	31 December 2016	31 December 2017	Change
Cash on hand and other cash equivalents	45,892	74,711	28,819
Current accounts and other loans	(164,744)	(126,564)	38,180
	(118,852)	**(51,853)**	**66,999**

Shareholders' equity

11) Shareholders' equity

Total consolidated shareholders' equity amounted to € 300,186 thousand (€ 293,111 thousand at 31 December 2016).

Share capital at 31 December 2017 consisted of 395,083,445 ordinary shares with no nominal value, for a total value of € 20,000,000.

The parent company has no treasury shares in its portfolio.

Consolidated shareholders' equity at 31 December 2017 increased by € 7,075 thousand with respect to 31 December 2016, as a consequence of the following changes:

- profit for the year of € 8,727 thousand;
- net fair value changes in derivatives recognised using hedge accounting for € -1,892 thousand;
- net changes in the fair value adjustment reserve for AFS assets for € +179 thousand;
- net changes of € +95 thousand due to discounting of employee severance indemnities (TFR) pursuant to IAS 19;

- other net changes totalling € -34 thousand.

For more information, please see the "Statement of changes in consolidated shareholders' equity".

Reserves and profits carried forward €/000

	31 December 2016	31 December 2017	Change
Non-distributable reserve from share capital reduction	138,797	138,797	-
Legal	13,149	13,149	-
Reserve for equity financial instruments	200,000	200,000	-
Non-distributable exchange gains reserve	125	125	-
Other reserves	(238)	(238)	-
Consolidation	(67,041)	(67,042)	(1)
IAS 19 reserve	(8,766)	(8,661)	105
Reserve for accounting standard change - FTA	4,131	4,131	-
Reserve for fair value adjustment of financial assets available f	354	533	179
Cash flow hedge reserve	2,370	478	(1,892)
	282,882	**281,273**	**(1,609)**
Profits (losses) carried forward reserve	(11,433)	(7,055)	4,378
	(11,433)	**(7,055)**	**4,378**

Deferred taxes relative to items directly attributed to shareholders' equity are as follows:

Deferred taxes recognised directly to shareholders' equity €/000

	31 December 2016	31 December 2017	Change
Fair value changes in cash flow hedges	(917)	(185)	732
Unrealised gains on financial assets available for sale	-	-	-
Actuarial losses	2,562	2,555	(7)
	1,645	**2,370**	**725**

Non-current liabilities

12) Non-current financial liabilities

Non-current financial liabilities			€/000
	31 December 2016	31 December 2017	Change
Bonds	3,750	2,500	(1,250)
Converting loan	100,000	100,000	-
Loan payables	484,851	467,155	(17,696)
Financial leasing	-	293	293
Non-current financial liabilities	**588,601**	**569,947**	**(18,653)**

Non-current financial liabilities include:

- Bonds issued by the subsidiary Burgo Ardennes for € 2,500 thousand;
- Convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- Amounts due to parent company shareholders for loans for € 274,627 thousand and MLT loans due to others for € 210,221 thousand.

The equity structure relative to non-current financial liabilities remained substantially unchanged with respect to the previous year.

Interest on variable rate loans was determined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date.

Note that the loans include a negative pledge clause which limits the Group's ability to provide collateral to cover its own obligations and those of third parties, with the exclusion of guarantees necessary to carry out its core business.

Loan payables - breakdown of maturity dates			€/000
	31 December 2016	31 December 2017	Change
from 2 - 3 years	43,053	43,887	833
from 4 - 5 years	44,943	422,479	377,536
over 5 years	396,851	884	(395,968)
	484,848	**467,249**	**(17,598)**

Bonds - breakdown of maturity dates			€/000
	31 December 2016	31 December 2017	Change
from 2 - 3 years	2,500	2,500	-
from 4 - 5 years	1,250	-	(1,250)
	3,750	**2,500**	**(1,250)**

Converting loan - breakdown of maturity dates			€/000
	31 December 2016	31 December 2017	Change
from 4 - 5 years	-	100,000	100,000
over 5 years	100,000	-	(100,000)
	100,000	**100,000**	**-**

13) Severance indemnities (TFR) and other provisions relative to personnel

TFR (severance indemnity)			€/000
	31 December 2016	31 December 2017	Change
Actuarial measurement of TFR at start of period	47,156	46,299	(856)
Provisions	205	178	(27)
Payments	(3,311)	(3,016)	295
TFR discounting - IAS 19 reserve	1,492	(144)	(1,636)
TFR discounting - financial expense (income)	922	594	(329)
Other changes - incoming (outgoing) transfers	(164)	425	589
	46,299	**44,336**	**(1,963)**

For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2017, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Group.
In the calculation, the actuary made use of the following demographic hypotheses:

- for probability of death, the RG48 survival table used by the Italian General Accounting Office to estimate pension expenses for the Italian population was used;
- for probability of disability, the INPS model was adopted, differentiated by age and sex;
- for retirement age for the generic active population, achievement of the minimum requirements established for General Obligatory Insurance was assumed;
- for probability of departure for reasons other than death, an annual frequency was used for the individual Group companies that varied between 3.00% and 6.00%;
- for the probability of TFR advances, a yearly value of 2.00% was assumed.

Financial economic hypotheses used in the measurement are described below:

Economic/financial hypotheses used

	2016	2017
Annual theoretical discounting rate	1.31%	1.30%
Annual inflation rate	1.50%	1.50%
Annual TFR increase rate	2.63%	2.63%

The validity of this data is connected to the stability of the reference regulatory situation, expected performance of interest rates on the financial market, the expected performance of salary trends, of future liquidation trends and the frequency with which employees make use of advances, which must be on average compatible with the economic/financial hypotheses made.
Based on the social security reform, for companies with more than 50 employees future portions of the TFR provision accruing no longer accumulate within the company but go to supplementary social security or the INPS treasury fund. Therefore, projection of salaries based on given growth rates and professional roles is no longer necessary.

14) Provision for deferred taxes

The provision for deferred taxes amounted to € 28,023 thousand. This provision includes amounts allocated for deferred taxes that cannot be compensated for with deferred tax assets.
Below is a breakdown:

Deferred tax liabilities €/000

	31 December 2016			31 December 2017		
	Taxable	% rate	Debit/credit	Taxable	% rate	Debit/credit
IRES						
Taxed provisions (allocated)	5,954	27.5	1,637	5,954	27.5	1,638
Amortisation, depreciation and writedowns	287	24.0	69	-	-	-
Other items	(389)	27.6	(107)	(259)	24.0	(62)
	5,852		**1,599**	**5,695**		**1,575**
IRAP						
Amortisation, depreciation and writedowns	287	3.9	11	-	-	-
Other items	(253)	3.9	(10)	(1,284)	3.9	(50)
	34		**1**	**(1,284)**		**(50)**
Deferred foreign taxes						
Taxed provisions (allocated)	84,924	34.1	28,947	81,392	34.0	27,662
Other items	(2,314)	32.6	(756)	(3,426)	34.0	(1,164)
	82,610		**28,192**	**77,966**		**26,498**
			29,792			**28,023**

The negative change in the balance at the end of the year totalling € 1,769 thousand is mainly due to the effects of deferred taxes on amortisation/depreciation relative to the subsidiary Burgo Ardennes.

Deferred tax liabilities refer to legal entities which have a negative balance in their individual financial statements. Specifically, these were Burgo Ardennes, Burgo Factor and Burgo Central Europe.

15) Provisions for risks and charges

Provisions for risks and charges			€/000
	31 December 2016	31 December 2017	Change
Provision for industrial charges	12,339	20,530	8,191
Provision for disputes in course	11,723	8,485	(3,238)
Provision for supplementary customer allowance	4,141	3,666	(475)
Provision for restructuring charges	7,302	9,460	2,158
Other provisions for risks and charges	2,073	590	(1,483)
Provision for future personnel plans	1,768	1,822	53
	39,345	**44,553**	**5,207**

Below a breakdown and information about changes in the provisions is provided:

Provisions for risks and charges - changes							€/000
	Actuarial change, start of period	Reclassifications	Other changes	Increases	Decreases	Discounting	Actuarial change, period end
Provision for industrial charges	12,339	3,345	134	9,292	(4,496)	(84)	20,530
Provision for disputes in course	11,723	(3,345)	-	699	(592)	-	8,485
Provision for supplementary customer allowance	4,141	-	-	445	(912)	(8)	3,666
Provision for restructuring charges	7,302	-	-	2,341	(184)	-	9,460
Other provisions for risks and charges	2,073	-	-	200	(1,683)	-	590
Unemployment fund with company contribution	1,768	-	-	80	(183)	156	1,822
	39,345	**-**	**134**	**13,057**	**(8,048)**	**64**	**44,553**

The **provision for industrial charges** is relative to:

- charges to purchase quotas for CO2 emissions for the deficit resulting from the difference between final emissions recorded and assignments. € 6,245 thousand was allocated in 2017. Uses during the year totalled € 1,444 thousand;
- covering expenses it is held will be sustained for reclamation of the sludge landfills;
- charges emerging from situations directly associated with production. In 2017 € 2,970 thousand was allocated relative to Burgo Ardennes for actions to adjust plants; uses during the period were also mainly due to actions carried out at the Ardennes plant (€ 2,913 thousand).

Following its line by line consolidation, the provision also included previous allocations made by Gever spa (€ 134 thousand).

The **provision for disputes in course** is created to deal with potential liabilities that could arise in relation to legal disputes and disputed items. Allocations during the year were associated with electricity risks relative to environmental certificates. Uses during the year were a consequence of the requirement to return green certificates, the resolution of pre-existing disputes and the elimination of the requirements met the previous year for provisions relative to disputes.
The **provision for supplementary customer allowance** is an estimate of the indemnities to be paid to sales agents for interruption of the agency relationship.
The **provision for restructuring costs** includes provisions made for expenses to be sustained to carry out the restructuring plan. During the year, € 183 thousand of the provision was used against charges expected which arose during the year in question. Allocations derive from updates to estimates of expenses that will be sustained to implement the restructuring plan (€ 2,341 thousand).
The **provision for other risk and charges** includes allocations for other potential liabilities, other than those above. The main change during the year was relative to the partial release of the allocation recognised for a dispute regarding the subsidiary Burgo Energia for balancing due to regulatory changes in the unbalancing rules for € 1,325 thousand.
The **provision "unemployment fund with company contribution"** refers to the subsidiary Burgo Ardennes which, as required under local regulations, must pay supplementary indemnities to employees with certain work seniority and age requirements, if they choose to make use of the pre-pension provided by the government and decide to leave work prior to the age established for old-age pensioning.
For actuarial measurement of the "unemployment fund with company contribution" at 31 December 2017, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Group.
In the calculation, the actuary made use of the following demographic hypotheses:

- for probability of death, the tables in effect in Belgium, specifically MR-3 for men and FR-3 for women;
- for the rate of adhesion to pre-pensioning it was assumed that 5% of employees over 60 and 4% of employees between 55 and 59 would opt for the benefit as soon as possible, and that the rest would remain in service until reaching 60.

Financial economic hypotheses used in the measurement are described below:

Economic/financial hypotheses used

	2016	2017
Annual theoretical discounting rate	0.00%	0.00%
Annual inflation rate	1.70%	1.70%

Similar to that done for the provision for employee severance indemnities, the interest cost component was recognised among financial expense.

16) Other payables and non-current liabilities

Other payables and non-current liabilities			€/000
	31 December 2016	31 December 2018	Change
Non-current payables due to suppliers	327	6,085	5,758
	327	**6,085**	**5,758**

These payables are relative to supplier invoices for maintenance and multi-year investments by the parent company to be paid in future financial years for € 5,531 thousand and to multi-year premiums paid to suppliers of timber by the subsidiary Burgo Ardennes for € 554 thousand.

Current liabilities

17) Current financial liabilities

Current financial liabilities			€/000
	31 December 2016	31 December 2017	Change
Bonds	1,250	1,250	-
Loan payables - current portion	10,471	22,120	11,650
Current accounts and other loans	164,744	126,564	(38,180)
Derivatives	-	337	337
Financial leasing	-	112	112
Other financial liabilities	442	647	205
	176,907	**151,030**	**(25,877)**

The decrease in current accounts payable and other loans of € 38,180 thousand was due to the decrease in net debt following the generation of cash flows during the year.
The current portion of payables relative to loans increased due to the reclassification of the portion of debt to be paid by the end of the next year in the short-term area.
The item other financial liabilities includes interest accruing on loans and the use of short-term bank lines, which increased in 2017 as an effect of different debit schedules for said liabilities in the current account with respect to the previous year.
Interest on variable rate loans is determined half-yearly, while that for fixed rate loans remained constant until the instrument matured. For all payables relative to loans, valued at the amortised cost, it is held that the book value approximates the fair value of the financial instrument as of the reporting date.
Also note that for short-term financial needs, credit lines are available totalling around € 390 million, at present used for current account payables and short-term financing for around 30% of the total.

18) Trade payables

Trade payables			€/000
	31 December 2016	31 December 2017	Change
Current payables due to suppliers	400,341	435,465	35,124
Current trade payables due to associated companies	5,589	-	(5,589)
	405,929	**435,465**	**29,536**

Trade payables do not accrue interest. The amount recognised in the financial statements approximates the market value.

The table below provides a breakdown by geographic area:

Trade payables by geographic area			€/000
	31 December 2016	31 December 2017	Change
Italy	220,150	224,662	4,512
Europe E.U.	169,199	201,704	32,505
Other countries	10,992	9,100	(1,893)
	400,341	**435,465**	**35,125**

19) Current tax payables

These amounted to € 11,782 thousand. The item mainly includes payables due to the tax authorities for substitute taxes and income taxes for IRES and IREP.

Payables for current taxes			€/000
	31 December 2016	31 December 2017	Change
Tax payables, income tax	4,478	4,593	116
Tax payables, VAT	276	288	12
Payables for withholdings	5,844	5,857	13
Other tax payables	2,053	1,044	(1,009)
	12,650	**11,782**	**(868)**

20) Other payables and current liabilities

These consist of the following:

Other payables and current liabilities **€/000**

	31 December 2016	31 December 2017	Change
Current sundry payables due to others	4,557	10,000	5,442
Payables for commissions and premiums	6,577	5,528	(1,048)
Payables due to personnel	15,961	17,009	1,048
Current payables due to social security entities	8,948	9,892	944
Current derivative liabilities	403	89	(314)
Deferred income from grants for plants	6,139	5,429	(709)
Other accrued expenses and deferred income	8,035	2,902	(5,134)
	50,620	**50,850**	**229**

Other payables and current liabilities were substantially stable, increasing by a total of € 229 thousand.

The main changes are specified below:

- an increase in sundry payables of € 5,442 thousand, mainly caused by the reclassification of payables for general system expense (equal to € 3,525 thousand) and the increase in guarantee deposits received from customers of the subsidiary Burgo Energia (equal to € 952 thousand);
- an increase in payables for commissions and premiums of € 1,048 thousand;
- an increase in payables due to personnel for € 1,048 thousand and payables due to social security institutions for € 944 thousand;
- a decrease in deferred income for € 5,134 thousand, mainly due to the decrease in liabilities associated with operations on the electricity market, contracted following the new management policy which no longer involves charges prior to cascading, but only at contract maturity (€ 4,349 thousand).

21) Commitments and potential liabilities

Commitments and potential liabilities	31 December 2016	31 December 2017	Change €/000
Personal guarantees provided in favour of:			
subsidiaries	55,584	55,927	343
other subjects	29,601	20,097	(9,504)
	85,186	**76,025**	**(9,161)**
Others:			
third party securities in custody	16,892	16,882	(10)
third party assets	1,673	2,637	964
other commitments	5	-	(5)
	18,570	**19,519**	**949**
	103,755	**95,543**	**(8,212)**

Sureties are provided by bank and insurance institutions within the context of the Group's core business.
Third party securities refers to parent company shares held in custody by the same.

Consolidated Profit and Loss Statement for the Year

Below are the main items which were not commented on relative to the consolidated balance sheet. For comments on changes in the most significant items, please see the analysis of the Group's income results in the Report on Operations.

22) Revenues

Revenues	31 December 2016	31 December 2017	Change €/000
Paper	1,426,343	1,440,329	13,986
Cellulose	79,793	84,385	4,591
Energy	309,913	291,486	(18,427)
Gas	97,480	96,694	(786)
Others	22,505	20,812	(1,693)
	1,936,034	**1,933,706**	**(2,328)**

Revenues decreased by € 2,328 thousand (-0.1%). In particular, revenues from paper increased by 1.0%, those from cellulose by 5.8%. On the other hand, total revenues from energy (electricity and gas) decreased by 4.7%, and other revenues fell by 7.5%.

Below is a breakdown of revenues by geographic area:

Markets			€/000
	31 December 2016	31 December 2017	Change
Italy	885,059	842,398	(42,661)
Europe E.U.	870,532	902,191	31,660
Other countries	180,400	189,117	8,717
	1,935,991	**1,933,706**	**(2,285)**

23) Other income

Other income			€/000
	31 December 2016	31 December 2017	Change
Insurance settlements	1,078	1,949	871
Environmental certificates	16,954	40,284	23,330
Energy expense recovery and reimbursements	19,975	20,623	647
Sundry income and expense recovery	14,286	9,633	(4,652)
Grants for current expenses	2,225	2,026	(199)
	54,518	**74,515**	**19,996**

Other income increased by € 19,996 thousand. The change was for the most part due to greater income of € 23,330 thousand from sales of environmental certificates.
Sundry income and recovery of expenses decreased by € 4,652 thousand, mainly due to lower contingent assets from Burgo Energia for balancing, following regulatory changes in unbalancing rules. Additionally, sundry income included commissions receivable for Burgo Factor factoring business (€ 2,396 thousand).

24) Purchases of materials and external services

Purchases of materials and external services			€/000
	31 December 2016	31 December 2017	Change
Purchases of raw materials, subsidiary and consumable items a	844,285	895,018	50,733
Transport and accessory expense on purchases	32,200	29,356	(2,845)
Transport and accessory expense on sales	132,663	135,436	2,773
Other industrial services	22,918	22,743	(175)
Industrial maintenance	20,574	22,171	1,597
Electricity and methane	525,255	512,374	(12,881)
Fees to independent auditing firm	295	332	37
Fees to statutory auditors	188	226	38
Other general and administrative services	29,755	24,118	(5,637)
Rentals and leases	3,861	4,097	236
	1,611,995	**1,645,871**	**33,876**

Purchases of materials and external services increased by € 33,876 thousand. The most significant changes involved:

- an increase in expenses to purchase raw materials, subsidiaries, consumables and goods of (€ 50,733 thousand), in particular due to the increase in the prices to purchase cellulose;
- a decrease in the cost of electricity and methane (€ 12,881 thousand) as an effect of the integration of Gever Spa within the Group, net of which an increase in the average purchase price of gas was seen with respect to the previous year;
- a decrease in other general and administrative services (€ 5,637 thousand), mainly due to a reduction in consulting services received.

25) Personnel expenses

Personnel expenses			€/000
	31 December 2016	31 December 2017	Change
Wages and salaries	131,220	131,700	480
Social security contributions	47,797	48,106	309
Expenses for defined benefit programs	7,505	7,485	(20)
Others	11,410	12,345	935
	197,932	**199,636**	**1,704**

The cost of labour increased by € 1,704 thousand. For more details, please see the Report on Operations, under the item "Personnel".

Other costs include fees paid to directors and fees paid for temporary work provided within the companies of the Group. Additionally, the item includes premiums, pre-pensions and insurance for employees of the subsidiary Burgo Ardennes.

26) Other operating costs

Other operating costs			€/000
	31 December 2016	31 December 2017	Change
Provisions			
for impairment of receivables	9,557	5,850	(3,707)
for industrial charges	1,799	8,626	6,827
for disputes in course	6,269	699	(5,571)
for supplementary customer allowance	387	217	(170)
for other provisions	2,154	200	(1,954)
	20,166	15,592	(4,575)
Other costs			
Corporate expenses, taxes and indirect taxes	15,373	15,231	(142)
Membership fees	1,331	1,377	46
Losses and other costs	4,587	1,728	(2,859)
	21,290	18,336	(2,955)
	41,457	**33,927**	**(7,529)**

Other operating costs decreased by € 7,529 thousand, due to the combined effects of:

- lower allocations for doubtful accounts of € 3,707 thousand;
- greater allocations to the provision for industrial charges of € 6,827 thousand;
- lower allocations to the provision for disputes in course of € 5,571 thousand, which during the previous year had been allocated relative to disputes regarding environmental certificates;
- a decrease in other costs, mainly losses and other costs for € 2,955 thousand.

For an analysis of allocations, please see note 15 "provisions for risks and charges" and note 6 "trade receivables".

27) Change in inventories

Change in inventories			€/000
	31 December 2016	31 December 2017	Change
Change in inventories	(11,197)	1,721	12,918
	(11,197)	**1,721**	**12,918**

The change in inventories led to income for the year of € 1,721 thousand, following the increase in the value of stock at the end of the year.

28) Capitalised costs for internal work

Capitalised costs for internal work			€/000
	31 December 2016	31 December 2017	Change
Capitalised costs	1,237	1,105	(132)
	1,237	**1,105**	**(132)**

This item includes costs for employee work, warehouse materials and other costs sustained to complete internal systems work. Please see the Report on Operations for more details on the main investments made during 2017.

29) Depreciation and amortisation

Depreciation and amortisation			€/000
	31 December 2016	31 December 2017	Change
Buildings	11,313	10,596	(717)
Plant and machinery	68,354	71,293	2,939
Industrial equipment	624	519	(106)
Other assets	2,370	1,368	(1,001)
Buildings for civil use	27	27	(0)
Leased assets	-	46	46
Intangible assets with defined life	559	488	(72)
	83,248	**84,337**	**1,089**

30) Capital gains/losses on disposal of non-current assets

Capital gains/losses on disposal of non-current assets			€/000
	31 December 2016	31 December 2017	Change
Capital gains	1,472	171	(1,301)
Capital losses	(144)	(73)	71
	1,328	**98**	**(1,230)**

The main capital gains seen during the year were relative to the disposal of the systems from the Tolmezzo plant (Mosaico srl) and the renewal of the corporate auto fleet. Capital losses involved the disposal of various systems from Group plants.

31) Writebacks/writedowns of non-current assets

Writebacks/writedowns of assets			€/000
	31 December 2016	31 December 2017	Change
Land and buildings	149	-	(149)
Plant and machinery	55	16,000	15,945
Fixed assets in progress and advances	41	-	(41)
Land and buildings for civil use	0	-	(0)
Intangible assets with defined life	22	-	(22)
Current assets	-	-	-
	268	**16,000**	**15,732**

During the year, writedowns were recognised relative to assets totalling € 16,000 thousand, specifically € 15,400 thousand for the Verzuolo plant and € 600 thousand for the Avezzano plant. For more details, please see note 1 "property, plant and equipment".

32) Net expenses/income of a non-recurring nature

Net expenses/income of a non-recurring nature			€/000
	31 December 2016	31 December 2017	Change
Non-recurring income	-	(6,751)	(6,751)
Non-recurring charges	12,350	460	(11,890)
	12,350	**(6,291)**	**(18,641)**

Non-recurring income amounted to € 6,751 thousand and refers to the sales of white certificates, which had been reclassified among the extraordinary part at the end of the previous year.
Non-recurring expenses during the year totalled € 460 thousand and refer to expenses sustained at plants which are no longer operational (Chieti, Marzabotto and the San Mauro offices).

33) Net restructuring expenses

Net restructuring expenses			€/000
	31 December 2016	31 December 2017	Change
Restructuring expenses	-	2,341	2,341
	-	**2,341**	**2,341**

€ 2,341 thousand was allocated for restructuring and reorganisation at production sites in which production has been stopped.

34) Financial expense

Financial expenses			€/000
	31 December 2016	31 December 2017	Change
Interest expense on payables due to banks	18,783	15,733	(3,051)
Discounting of severance indemnities (TFR)	922	594	(329)
Interest expense on infragroup current account	0	-	(0)
Other financial expense	15,413	15,210	(203)
Exchange losses	215	919	704
Exchange losses on P&L elisions	12	25	12
Financial expenses	**35,345**	**32,479**	**(2,866)**

Financial expense amounted to € 32,479 thousand, showing a € 2,866 thousand decrease with respect to the previous year. The main changes involved:

- financial expense from amounts due to banks decreasing by € 3,051 thousand, consisting of interest and charges payable on loans;

Financial expense other than the above mainly refers to advances on payments granted to customers.

35) Financial income

Financial income			€/000
	31 December 2016	31 December 2017	Change
Dividends from other companies	28	39	11
	28	39	11
Other financial income			
Financial income from disposal of equity investments	-	58	58
Interest income from banks	59	91	31
Interest income on infragroup current account	37	-	(37)
Interest income from long-term receivables	5,881	5,333	(548)
Other financial income	310	8,014	7,704
Exchange gains	398	1,120	722
Exchange gains on P&L elisions	5	5	(0)
	6,690	14,620	7,930
Net portion of result from equity investments	1,918	-	(1,918)
	8,637	**14,659**	**6,023**

Financial income amounted to € 14,659 thousand and increased by € 6,023 thousand with respect to the previous year.
The increase was mainly due to income deriving from the acquisition of 51% of Gever S.p.A. equal to € 7,562 thousand (recorded under financial income other than the above). This income is equal to the difference between the relevant portion of shareholders' equity acquired and the price paid.
"Interest income from long-term receivables" includes discount interest for Burgo Factor.

36) Income taxes

Current taxes reflect the amount allocated relative to the regulations in effect in the various countries in which the Group operates.
Deferred tax assets and liabilities recognised in the annual profit and loss statement reflect the changes in the same occurring at the equity level, with respect to the previous year.

Income taxes			€/000
	31 December 2016	31 December 2017	Change
Current taxes - IRES	1,778	644	(1,134)
Current taxes - IRAP	2,922	1,783	(1,138)
Current taxes - foreign companies	2,500	4,934	2,434
Deferred tax assets/liabilities - IRES	(589)	2,837	3,426
Deferred tax assets/liabilities - IRAP	(1,375)	224	1,599
Deferred tax assets/liabilities - foreign companies	(1,843)	(1,647)	197
	3,391	**8,776**	**5,384**

By way of illustration, below are the nominal rates applied in each jurisdiction.

Tax rates

	2017
Italy	27.90%
Belgium	33.99%
France	33.33%
Spain	28.00%
Great Britain	20.00%
Germany	32.97%
Poland	19.00%
United States of America	35.00%

For Italy, note that the 2016 stability law (Law 208 of 28.12.2015) established a reduction in the IRES rate from 27.5% to 24%, effective as of 01/01/2017.

Reconciliation of income taxes recognised in the annual profit and loss statement and theoretical taxes resulting from application of the tax rate in effect on before tax profit is as follows:

Reconciliation between income tax and theoretical tax **€/000**

	2017	
Before tax results for the year	**17,503**	
Theoretical tax (IRES) - Italian tax rate in effect: 24.0%*		4,813
Current taxes (IRES) recognised in the financial statements		644
Deferred taxes (IRES) recognised in the financial statements		2,837
Current/deferred taxes, foreign companies		3,287
Total taxes recognised in the financial statements		**6,768**
Effective tax rate on before tax profit		38.7%
Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		1,783
Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		224
Total (IRAP) taxes recognised in the financial statements		2,008
Effective (IRAP) tax rate on before tax profit		11.5%
Effect of change in effective rates on foreign companies		2,584
Total taxes recognised in the financial statements		8,776
Effective tax rate on before tax profit		50.1%

**In 2016, the Italian tax rate in effect was 27.5%*

37) Consolidated Schedule of Other Components of the Comprehensive Profit and Loss Statement

The schedule presented, found after the profit and loss statement at the start of the explanatory notes, illustrates the economic result that would be achieved in the case that all changes in items directly attributed to shareholders' equity passed through the annual profit and loss statement and has been adjusted to the provisions of IAS 1, indicating through grouping the items which, upon the meeting of specific conditions, will be reclassified to profit (loss) for the year and, separately, those that will not be reclassified to profit (loss) for the year.
The Group presents the following items:

- year-end fair value adjustment of hedging derivatives. During the year, the gross variation was negative for € 2,624 thousand, which net of taxes (€ 732 thousand) is equal to € -1,892 thousand;
- adjustment of financial instruments available for sale to the end of year market value. At the end of the year, the parent company classified the Mediobanca shares held in its portfolio as AFS. During 2017, the change was positive for € 179 thousand (see note 8 for more details);
- profits and losses from discounting of defined benefit plans associated with defined benefit plans recognised within a specific shareholders' equity reserve: in 2017 profits of € 101 thousand were recognised which, net of tax effects of € -7 thousand, led to a negative change of € 95 thousand;
- the effects of translating the financial statements of foreign companies (€ -10 thousand).

Relations with related parties

Related party transactions, including infragroup transactions, are not classified as atypical or unusual, as they are part of the ordinary business of the Group's companies.
These operations, when not completed under standard conditions or those dictated by specific regulatory provisions, are in any case carried out under market conditions.
Related party transactions (based on the definition in IAS 24) essentially involve the exchange of goods, the provision of services or the supply and use of financial means.
Below are the economic and equity effects of transactions with related parties for the consolidated figures of the Burgo Group at 31 December 2017.

Relations with related parties €/000

	Parent company		Subsidiaries		Associates		Total		Total financial statement items			
	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	%	31 December 2017	%
Equity relationships												
Financial receivables and other non-current financial asse	-	-	3,593	3,768	-	-	3,593	3,768	8,001	45%	8,139	46%
Trade receivables	76,215	80,615	108,471	107,004	4,049	-	188,735	187,619	1,158,913	16%	548,082	34%
Other receivables and current assets	2,176	2,197	11,405	7,739	-	-	13,580	9,937	91,785	15%	46,291	21%
Financial receivables and other current financial assets	607	5,549	36,889	30,820	-	-	37,496	36,369	158,332	24%	143,378	25%
Non-current financial liabilities	(2,800)	(2,800)	(793)	(800)	-	-	(3,593)	(3,600)	(1,463,667)	0%	(573,642)	1%
Current financial liabilities	(36,889)	(31,025)	(608)	(5,546)	-	-	(37,497)	(36,571)	(395,397)	9%	(187,511)	20%
Trade payables	(71,352)	(65,863)	(110,748)	(119,133)	(5,589)	-	(187,688)	(184,996)	(854,546)	22%	(620,491)	30%
Payables for current taxes	(1)	-	-	-	-	-	(1)	-	(27,364)	0%	(12,124)	0%
Other payables and current liabilities	(11,035)	(7,429)	(3,092)	(3,214)	-	-	(14,127)	(10,643)	(120,375)	12%	(61,505)	17%
Economic relationships												
Revenues	214,226	271,525	276,704	347,891	35,893	-	526,823	619,417	4,189,070	13%	2,553,302	24%
Other income	10,481	54	3,323	10,702	-	-	13,804	10,756	818,745	2%	94,955	11%
Costs for materials and external services	(175,164)	(243,363)	(325,579)	(382,929)	(35,943)	-	(536,686)	(626,292)	(3,316,500)	16%	(2,273,670)	28%
Personnel expenses	(1,128)	(827)	-	-	-	-	(1,128)	(827)	(448,854)	0%	(201,393)	0%
Other operating costs	(26)	(46)	(13)	(14)	-	-	(39)	(59)	(763,376)	0%	(34,966)	0%
Financial expenses	(2,210)	(1,082)	(590)	(739)	-	-	(2,800)	(1,821)	(127,762)	2%	(35,045)	5%
Financial income	574	724	20,606	32,705	598	-	21,778	33,429	36,963	59%	40,529	82%
Net profit (loss) from assets disposed of/held for sale	52	-	-	-	-	-	52	-	252	21%	-	0%

In addition the transactions reported above, at 31 December 2017 there were medium/long-term loans, interest rate and exchange rate hedging contracts and insurance policies covering industrial risks and civil liability with related parties, all stipulated at market conditions.

At 31 December 2017, loans with related parties amounted to a nominal € 277,339 thousand (€ 279,681 thousand at 31 December 2016).

Significant events after year end

Relative to management, the year began with a good number of orders, but also with an increase in the cost of fibrous raw materials, against which paper producers are raising the sales prices of their products.
At the end of March 2018, container board production began at the Avezzano plant, after reconversion of line 2 which had been stopped in 2014. All personnel in solidarity returned to work.
Relative to the Duino plant, on 2 March 2018 an agreement was signed to extend the solidarity contract for 322 people for an additional 11 months.
Finally, at the Verzuolo plant, effective as of 22 January 2018 and for a duration of 12 months, an extraordinary redundancy fund for company crisis was granted, which involves an average of 150 people.

Other information

Fees paid to executives with strategic responsibilities

Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2017 totalled € 550 thousand.

Reconciliation statement of parent company and Group results

The statement below illustrates the connection between the shareholders' equity and results for the year of Burgo Group spa and the shareholders' equity and result for the year in the consolidated financial statements.

Reconciliation between shareholders' equity and parent company and consolidated result €/000

	Shareholders' equity		Profit/(loss) for the period	
	31/12/2016	**31/12/2017**	**31/12/2016**	**31/12/2017**
Parent Company Financial Statements	**386,083**	**389,054**	**2,515**	**2,690**
Elision of consolidated equity investments	(102,537)	(88,237)	18,810	38,304
Adjustment of carrying value for equity investments valued at equity	9,555	-	1,918	-
Elimination of dividends from consolidated companies	-	-	(18,978)	(31,608)
Adjustments for adaptation to Group accounting standards	11	(630)	506	(659)
Consolidated Financial Statements	**293,111**	**300,186**	**4,771**	**8,727**

Number of employees

Number of employees

	Start of year	Year end	Average 2016	Average 2017
Executives	52	50	54	50
Office Workers	903	919	910	916
Manual Workers	2,715	2,694	2,720	2,706
	3,670	**3,663**	**3,684**	**3,673**

Independent auditing fees (article 2427, paragraph 1, 16 bis, Civil Code)

Compensation for statutory auditing pursuant to article 2427, paragraph 1, no. 16 bis, Civil Code	**€/000**
	2017 Financial Statements
Statutory auditing services for the annual accounts:	
Parent Company	147,150
Italian subsidiaries	106,398
Foreign subsidiaries	63,302
	316,850

Information about the financial risk management policy

The following information, pursuant to current accounting standard IFRS 7, is aimed at illustrating the impact that financial instruments have on the amount of risk exposure, providing details on measurements and mechanisms that the Group has implemented to manage this exposure.

Significance of financial instruments relative to the equity and financial situation and economic result

Below is information regarding the significance of financial instruments relative to the consolidated equity situation and the consolidated economic result is provided separately.

Significance of financial instruments to the equity and financial situation

The table below shows the book value recognised for each financial asset and liability in the consolidated profit and loss statement and the fair value for each.

Financial instruments				€/000
	31 December 2016		31 December 2017	
	Book value	Fair value	Book value	Fair value
Financial assets available for sale	815	815	994	994
Trade receivables and other receivables	512,272	512,272	510,169	510,169
Cash and cash equivalents	45,892	45,892	74,759	74,759
Hedging derivatives:				
Assets	3,981	3,981	1,113	1,113
Liabilities	(403)	(403)	(426)	(426)
Lending from banks	(215,638)	(241,317)	(211,936)	(230,504)
Financial leasing liabilities	-	-	(405)	(293)
Loans from associated companies	(279,683)	(313,944)	(277,339)	(306,747)
Bonds and converting loan	(105,000)	(120,504)	(103,750)	(118,753)
Trade payables and other payables	(469,124)	(469,124)	(504,093)	(504,093)
Due to banks	(164,744)	(164,744)	(126,564)	(126,564)
	(671,632)	**(747,076)**	**(637,478)**	**(700,345)**

Note that the values shown under the item "hedging derivatives" include all derivatives recognised using hedge accounting rules, regardless of the type of risk covered.
The analysis below shows the portion of derivatives designated as hedges against the specific risk analysed, on a case by case basis.
In particular, in analysing liquidity risk, only derivatives which hedge against financial liabilities are included, excluding positions which hedge against commodity risk.
After summarising the criteria and financial models used to estimate the fair value of the financial instruments shown above, further details will be provided about the individual financial items.

Derivatives

In general, the fair value of derivatives is determined on the basis of market prices, if available.
If this reference is not available/accessible, fair value estimates are made on the basis of standard financial algorithms.
In particular, the fair value of forward exchange rate derivatives is calculated by discounting the difference between the contractual price and the end price, redetermined on the basis of market conditions on the reporting date.
For interest rate derivatives, different models are used based on the type of instrument being evaluated. In particular:

- For interest rate swaps, the discount cash flow model is used. Fair value is determined by discounting estimated future cash flows on the basis of interest rate conditions at the reporting date;
- The Black & Scholes model is used for collars. Use of this model is common practice and makes it possible to assess the fair value of the option, quantifying the probability of receiving a positive payoff.

For commodity derivatives, the discount cash flow model is used, estimating future cash flows on the basis of market prices available at the reporting date.

Details on market risk hedging instruments

Among commodity exposures, price risk deriving from volatility in electricity purchase prices was partially managed through the establishment of commodity swaps and futures, recognised based on hedge accounting rules, and in part through setting prices with counterparties, while price risk relative to gas was managed through fixed price contracts.

As shown in the table, the fair value of derivatives generated financial receivables of € 1.1 million (€ 4.0 million in 2016) and financial payables for € 0.4 million (€ 0.4 million in 2016).

Investments in equity instruments

The fair value of equity instruments held to maturity and financial assets held for sale is determined on the basis of official stock market listings obtained on the reporting date.

Debt securities

The value of debt securities is calculated by adding together the current values, determined on the reporting date, of all future cash flows, including capital and interest. To quantify the portion of interest held in indexed instruments, the rate curve available at the reporting date was used.

Capital management

No particular risks nor significant information was identified relative to capital management.

Financial assets

The tables below provide a breakdown of financial assets.

Non-current financial assets		**€/000**
	31 December 2016	**31 December 2017**
Loans and receivables	6,199	6,862
	6,199	**6,862**

Current financial assets		**€/000**
	31 December 2016	**31 December 2017**
Loans and receivables	506,073	503,307
Cash and cash equivalents	45,892	74,759
Financial assets available for sale	815	994
Current hedging derivatives	3,981	1,113
Non-current assets held for sale	-	-
	556,761	**580,173**

Receivables and loans include trade receivables, factoring business, temporary cash deposits, guarantee deposits and other receivables and receivables due from social security institutions and tax authorities.

Financial assets available for sale represent shares listed on the Milan stock market.

Financial liabilities

The table below provides a breakdown of financial liabilities.

Non-current financial liabilities		€/000
	31 December 2016	31 December 2017
Lending from banks	(210,221)	(201,726)
Loans from associated companies	(274,630)	(265,429)
Non-current bonds	(3,750)	(2,500)
Converting loan	(100,000)	(100,000)
Financial leasing liabilities	-	(293)
Other payables	(327)	(6,085)
	(588,928)	**(576,033)**

Current financial liabilities		€/000
	31 December 2016	31 December 2017
Lending from banks	(5,417)	(10,211)
Loans from associated companies	(5,054)	(11,910)
Bonds	(1,250)	(1,250)
Hedging derivatives	(403)	(426)
Financial leasing liabilities	-	(112)
Due to banks	(164,744)	(126,564)
Trade payables and other payables	(469,239)	(498,654)
	(646,106)	**(649,127)**

Other additional information

The Group did not carry out any reclassification of financial assets, changing the measurement criteria relative to the same. As a consequence, no remeasurement was done. Additionally, no assets were transferred that did not involve elimination from the accounts.

Credit Risk

This section describes credit risk exposures and methods used to manage them in qualitative and quantitative terms.

Risk exposure

As of the reporting date, the Group's exposure to credit risk was as follows:

Exposure to credit risk		€/000
	31 December 2016	31 December 2017
Financial assets available for sale	815	994
Trade receivables and other receivables	512,272	510,169
Cash and cash equivalents	45,892	74,759
	558,979	**585,922**

Trade receivables and impairment of receivables

Positions are subject to individual impairment when an objective situation of partial or full non-collectability is determined, if individually significant. Relative to receivables not subject to individual impairment, provisions are allocated on a collective basis, taking historical experience and statistical data into account.

Changes in the provision for impairment of trade receivables are summarised in the table below.

Provision for impairment of financial assets €/000

	31 December 2016	31 December 2017	Change
Balance at start of period	(57,548)	(64,229)	(6,681)
Uses	5,876	14,516	8,641
Provisions	(12,557)	(5,850)	6,707
Other changes	-	5	5
	(64,229)	**(55,558)**	**8,671**

Concentration of credit risk

As of the reporting date, the Company's exposure to credit risk was as follows:

Breakdown of risk by customer type €/000

	31 December 2016	31 December 2017
End consumers	230,070	243,574
Retailers	3,857	3,873
Stock exchange	11,279	12,974
Wholesalers	43,069	44,738
Printers	58,415	58,662
Publishers	5,568	5,591
Other group companies	4,049	-
Credit institutions	45,892	74,759
Tax authorities	5,609	14,244
Others	151,171	135,752
	558,979	**594,167**

Credit risk management methods

Trade receivables and other receivables

Within the context of its normal credit management activities through the dedicated department, the Group has instituted an internal credit risk management process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Regarding measurement of creditworthiness, functional to assignment of credit and the creation of commercial relationships, internal procedures require the collection and analysis of qualitative and quantitative information. Customer credit levels are periodically reviewed using a process that also makes use of historic solvency information. Customers are classified based on a two level scoring system, that differentiates between reliable and non-reliable customers. At-risk customers are subject to strict controls and any future orders are only fulfilled after approval by the Credit

Committee. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for application of corrective actions, which range from blocking orders to legal action.

Financial investments

The Group limits its exposure to credit risk by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market. At 31 December 2017 its exposure to securities referred to its Mediobanca shares.

Guarantees

Group policies allow for the issuing of financial guarantees for associated companies.

Market Risk

Market risk is defined as the possibility that the fair value or cash flows associated with a given financial instrument fluctuate as a consequence of changes in market variables, such as exchange rates, interest rates, raw materials prices or stock market prices.

The market risk to which the Group was exposed during the year just ended can be classified as follows:

- Price risk for equity instruments and other listed securities;
- Exchange risk;
- Interest rate risk;
- Commodity risk.

Below is an analysis of the significance of these risks and the methods used to manage them.

Price risk for equity instruments and other listed securities

All equity investments held by the Company are shares listed on the Milan stock market, within the FTSE-MIB index, representing Mediobanca risk capital.

The amount of Mediobanca shares, 105,000 units, did not change with respect to the previous year.

Below is a table summarising the exposure of the above within the financial statements.

Shares and funds **€/000**

	31 December 2016	31 December 2017
Funds	1	1
Shares	814	993
	815	**994**

Sensitivity analysis relative to equity risk

The shares held in the portfolios of Group companies are significantly correlated with the FTSE MIB index, as they are listed on the same stock market.

Sensitivity analysis was done hypothesising a +/-10% change in the value of the indices. This analysis led to a fair value change of the securities in the portfolio of € 0.23 million (€ 0.19 million

in 2016) and of € 0.04 million (€ 0.03 million in 2016). All effects would be seen in shareholders' equity.
Exposure to risk relative to changes in stock market prices remained unchanged in 2017 with respect to the previous year.

Equity risk management methods

General aspects

In the context of its investment activities, the Group purchases equity investments for investment purposes. In this context, the Group may carry out financial hedging transactions relative to the portion of assets held for possible sale. The general objectives of a hedging transaction therefore involve stabilising the value of the investment, neutralising the effects generated by market variability. During the year, the Group did not establish any hedges of this type.

Equity risk management policies

Hedges are organised with reference to pre-established development strategies and with the aim of minimising exposure to unfavourable trends on the market, stabilising the impact on the annual profit and loss statement.

Exchange risk

The Group holds some of its trade receivables/payables in currencies other than the euro, and also has short-term loans in foreign currencies.
The exchange risk management policy establishes that derivatives should only be used to hedge against risk. Derivatives existing at 31 December 2017 used to manage exchange risk include only futures contract to purchase/sell foreign currencies. Even if these serve hedging purposes, these derivatives are not recognised using hedge accounting, as the rigidity of this treatment would negative impact the operational efficiency of the hedges.
The foreign currencies used by the Group are CHF, JPY, AUD, GBP and USD, with the final three representing almost the entirety of trade items in foreign currencies.

Sensitivity analysis relative to exchange risk

In order to measure the possible effects of changes in the exchange rate obtained at the reporting date on the consolidated balance sheet and annual profit and loss statement, a variation in the value of the euro with respect to the reference foreign currencies at 31 December 2017 was hypothesised.
Specifically, a 10% upward and downward shock in the euro exchange rate was applied, recognising the additional profit or loss with respect to the market scenario to risky items, which in this case were represented by trade payables and receivables and exchange rate derivatives.
Since the exchange rate derivatives are not recognised using hedge accounting, the impact of these transactions - similar to trade payables/receivables - is seen solely in the profit or loss for the year and hence in the annual profit and loss statement.

The net impact on the result from the year deriving from a +/- 10% shock would have been, respectively, € +293 thousand (€ -1,168 thousand in 2016) and € -359 thousand (€ +1,427 thousand in 2016).

Exchange risk management methods

In relation to sales activities, the Group makes purchases and sales other currencies, at present mainly in USD and GBP. Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.
Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.

General aspects

Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget and/or forecasts into account.

Exchange risk management policies

The special nature of the Group's business allows it to make forecasts relative to financial issues relative to flows in foreign currencies.
Estimates of flows must meet all the formal requirements relative to amount, currency, date of manifestation and status relative to the probability of manifestation, necessary when producing exposure measurements.
Exchange risk hedging transactions are carried out in compliance with cash flow hedge principles, which amount to neutralising the effects induced by changes in the exchange rate on the value in euros of cash flows denominated in foreign currencies.
Hedging policies are managed exclusively through the use of forward contracts and options relative to exchange rates, to guarantee more flexible coverage with respect to forward contracts. Currently, exposure to exchange rate derivatives falls within the forward category.

Interest rate risk

Financial liabilities which expose the Group to interest rate risk are medium/long-term variable rate loans.
These assets are classified as "held to maturity" and do not generate effects on the annual profit and loss statement/consolidated balance sheet if not due to effects of cash flows received (financial income) or any lasting losses of value which make recognition of impairment necessary.
The table below identifies positions subject to interest rate risk.

Positions with interest rate risk €/000

	31 December 2016	31 December 2017
Fixed rate financial instruments		
Financial assets		
Non-current guarantee deposits	1,676	2,354
Financial liabilities		
Fixed rate loans	(10,372)	(7,832)
	(8,696)	(5,478)
Variable rate financial instruments		
Financial assets		
Financial instruments with positive FV	3,981	1,113
Financial liabilities		
Derivatives with negative FV	(403)	(426)
Variable rate loans	(589,946)	(585,598)
Current account advances	(165,186)	(127,211)
	(751,554)	**(712,122)**
	(760,250)	**(717,599)**

Sensitivity analysis relative to interest risk

Analysis was done to determine the impacts of a +/- 100 basis point shift in the estimated interest rate curve at 31 December 2017 on the annual profit and loss statement and consolidated balance sheet.

Analysis was done supposing that the other variables, in particular exchange rates, remained constant and was done using the same suppositions as in 2016.

In each curve scenario, and limited to derivatives subject to hedge accounting rules, an after the fact efficacy test was done to quantify the impact on shareholders' equity (efficacy component) and on the results for the year (any inefficacy component). In every case, for non-linear derivatives (collar) the time value change with respect to the effective market scenario was recognised in the annual profit and loss statement.

In order to determine the impacts of asset and liability items indexed at variable rates on the result for the year, a shock was also applied to cash flows effectively paid during the administrative period. These analyses made it possible to identify the greater financial expense/income that would have been recorded in the annual profit and loss statement if interest rates had been 100 bps higher or lower than those actually recorded.

The impact on the annual profit and loss statement deriving from a +/- 100 bps shock would have been, respectively, € -5.2 million and € 0.4 million (in 2016: € -6.4 million and € 1.0 million). The effect on shareholders' equity was null in that there are not financial liabilities relative to derivatives.

Interest risk management methods

General aspects

In the context of its own economic production, which is capital intensive, the Group makes investments for production purposes by taking out loans. In this context, it carries out cash flow hedge transactions, which serve to neutralise the effects of an increase in the rates on the cost the Group must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable.

Interest risk management policies

Medium/long-term hedges are organised on the basis of forecasts developed over a multi-year time frame on the basis of financial/economic budgets, cash flow estimates and the net financial position. The amount hedged may vary between 30% to 100% of the notional value of the instrument hedged and be structured for a period of time that in general ranges from a minimum of 3 years to a maximum of 10 years.

Commodity risk

Commodity price risk derives from purchases and sales of electricity and gas.

Fuel price risk

In order to supply its various plants with the electricity necessary for production, the Group has various contracts to purchase gas. Given the variable nature of the price of the commodity, the Group suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by setting prices with counterparties.

At 31 December 2017, the company had gas purchases with the following characteristics in effect:

- Fixed price purchases;
- Variable price purchases on the basis of the spot gas price recorded on the Italian PSV market;
- Variable price purchases on the basis of the spot gas price recorded on the European TTF market.

Hedging derivatives for fuel and electricity price risk

Within exposures to commodities, price risk deriving from an imbalance between indexed purchases and sale was in part managed during the year through the subscription of a commodity swap. Use of derivatives was made by applying hedge accounting methodology, in accordance with that established in IAS 39.

Financial instruments used were of a type that made it possible to recognise them as a cash flow hedge.

Sensitivity analysis relative to commodity risk

A change in the coverage provided by the cash flow hedge, following a 5% increase or decrease in the reference indexes, would create an impact, respectively, of € 577 thousand or € -577 thousand on shareholders' equity (€ 975 thousand and € -975 thousand respectively in 2016).

Commodity risk management methods

General aspects

The Group's strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in electricity purchase/sales prices and purchase prices of materials used in production processes, in order to minimise exposure to the correlated risk and losses. With an eye to continuously reducing loss risks, the Group has the simultaneous objective of minimising costs associated with obtaining its production factors.

When negotiating financial contracts for raw materials, the Group does not have the ability to take risk positions on the commodities market. These contracts will have the sole purpose of reducing the risk of an increase in the purchase prices of the production factors used in production processes.

Relative to risk monitoring, the Group applies a quantitative measure for risks, both with reference to analysing physical portfolio exposures to VaR analysis of trading activities, and when measuring the efficacy of derivatives negotiated for hedging purposes.

Commodity risk management policies

Management of risks associated with oscillations in commodities prices involves several administrative departments, at the individual Group company level.

In determining its hedging strategy and with reference to the various types of supply contracts, the Group implements mitigation strategies with the objective of stabilising its profit margin.

With reference to the procedures used to estimate exposure to risks associated with commodities, the following elements are considered:

- nominal quantities, that it is the quantity recognised within physical and financial contracts;
- fair value/stop loss, that is the amount calculated on the basis of the current value of future financial flows generated by the contract as a function of price indexing rules. Stop loss identifies the largest sustainable loss in terms of fair value. In addition to this threshold, the position must also be closed with a symmetrical contract in the opposite direction;
- the change in the value of the position following a marginal variation in the price of energy (only for variable price contracts);
- the change in the value of the position following a marginal variation in the price of the fuels (only for indexed price contracts).

Liquidity Risk

Liquidity risk is the risk that the Group will have difficulty complying with its future obligations relative to financial liabilities.

Risk analysis is done with the aim of quantifying cash flows deriving from the various types of financial liabilities held by the Group at 31 December 2017, at each contractual repayment date.

Financial liabilities have been broken down into non-derivative financial liabilities and derivative financial liabilities, based on their nature. For the latter, given the difference in accounting

treatment, it was necessary to carry out a further classification based on whether or not the derivative is classified as a hedging instrument according on the accounting standards.
Relative to cash flow maturities, given the nature of the Group's monetary cycle it was held expedient to group payments into half-yearly payment buckets.
To quantify cash flows on liabilities index at variable rates, the measurement method based on forward interest rates implicit in the market rate curve was used.
For derivatives, the following approach was used:

- Collar: cash flows were estimated on the basis of the non-discounted fair value of individual caplets/floorlets.

Below is a summary of analysis done on derivative financial liabilities and non-derivative financial liabilities, providing a comparison between the situations at 31 December 2016 and 31 December 2017.

31 December 2016							€/000
	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5years	more than 5 years
Non-derivative financial liabilities:							
Loans	600,321	679,417	4,175	14,892	31,838	139,664	488,847
Trade payables and other payables	469,124	469,124	469,124	-	-	-	-
Derivative financial liabilities:							
Hedging derivatives	(3,578)	(3,578)	(3,578)	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-	-
Currency futures contracts	-	-	-	-	-	-	-
	1,065,867	**1,144,962**	**469,721**	**14,892**	**31,838**	**139,664**	**488,847**

31 December 2017							€/000
	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5years	more than 5 years
Non-derivative financial liabilities:							
Loans	593,430	667,086	5,485	25,521	61,169	572,628	2,284
Trade payables and other payables	504,093	504,093	504,093	-	2,998	2,533	-
Derivative financial liabilities:							
Hedging derivatives	(687)	(687)	(687)	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-	-
Currency futures contracts	-	-	-	-	-	-	-
	1,096,835	**1,170,492**	**508,890**	**25,521**	**64,167**	**575,161**	**2,284**

Liquidity risk management methods

General aspects

The Group's approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.

Liquidity risk management policies

The Group performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows. Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for the short term (around 3 months). For short-term financial needs, credit lines are available totalling around € 390 million, at present used for current account payables and short-term financing for around 30% of the total. For long-term financial requirements, the Group has loans of around € 594 million.

The Group also has a liquidity reserve, consisting of cash and highly liquid time deposits.

REPORT OF THE INDEPENDENT AUDITING FIRM

Building a better working world

Burgo Group S.p.A.

Consolidated financial statements as at December 31, 2017

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Building a better working world

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

To the Shareholders of
Burgo Group S.p.A.

Report on the Audit of the consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Burgo Group S.p.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report.
We are independent of the Group in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Burgo Group S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's 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 auditor's 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 International Standards on Auditing (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 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated 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.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities 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 have communicated with those charged with governance, identified at an appropriate level as 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.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Burgo Group S.p.A. are responsible for the preparation of the Report on Operations of the Group as at December 31, 2017, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of the Group as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Verona, April 13, 2018

EY S.p.A.

Signed by: Daniele Tosi, Partner

This report has been translated into the English language solely for the convenience of international readers.

INDIVIDUAL FINANCIAL STATEMENTS FOR BURGO GROUP SPA AT 31.12.2017

Balance Sheet

Statement of equity/financial position: Assets €

	Note	31 December 2016	31 December 2017	Change
Non-current assets		**1,036,463,634**	**1,014,271,545**	**(22,192,089)**
Property, plant and equipment		**536,873,581**	**500,391,573**	**(36,482,007)**
Property, plant and equipment	1	536,455,164	499,987,343	(36,467,821)
Property investments	1	418,417	404,230	(14,186)
Intangible assets		**23,622,101**	**22,176,363**	**(1,445,738)**
Goodwill and other intangible assets with undefined life	2	20,691,073	20,691,073	-
Intangible assets with defined life	2	2,931,028	1,485,290	(1,445,738)
Other non-current assets		**408,561,652**	**427,266,444**	**18,704,792**
Equity investments in subsidiaries	3	398,190,381	412,442,684	14,252,302
Equity investments in associated companies	3	6,125,000	-	(6,125,000)
Equity investments in other companies	3	134,906	9,661,533	9,526,627
Financial receivables and other non-current financial assets	3	2,800,000	2,968,194	168,194
Other receivables and non-current assets	3	1,311,365	2,194,033	882,668
Deferred tax assets		**67,406,301**	**64,437,165**	**(2,969,136)**
Deferred tax assets	4	67,406,301	64,437,165	(2,969,136)
Current assets		**420,708,159**	**448,368,117**	**27,659,958**
Inventories	5	103,325,908	104,099,309	773,401
Trade receivables	6	203,683,351	207,034,591	3,351,240
Other receivables and current assets	7	18,009,235	32,469,887	14,460,652
Equity investments	8	814,275	993,300	179,025
Securities other than equity investments	8	1,002	1,002	-
Financial receivables and other current financial assets	9	54,051,364	33,320,564	(20,730,800)
Cash on hand and other cash equivalents	10	40,823,024	70,449,464	29,626,441
Total assets		**1,457,171,793**	**1,462,639,662**	**5,467,869**

Statement of equity/financial position: Liabilities €

	Note	31 December 2016	31 December 2017	Change
Shareholders' equity		**386,083,046**	**389,053,856**	**2,970,811**
Share capital	11	20,000,000	20,000,000	-
Reserves	11	349,354,413	349,635,117	280,705
Accumulated profits (losses)	11	14,213,774	16,728,633	2,514,859
Profit (loss) for the year	11	2,514,859	2,690,106	175,248
Shareholders' equity attributable to non-controlling interests	11	-	-	-
Non-current liabilities		**637,489,796**	**629,011,812**	**(8,477,984)**
Non-current financial liabilities	12	580,097,408	563,748,836	(16,348,572)
Severance indemnities and other provisions related to personnel	13	32,860,438	31,205,235	(1,655,202)
Provisions for deferred tax liabilities	14	-	-	-
Provisions for risks and charges	14	24,531,950	28,526,825	3,994,875
Other payables and non-current liabilities	15	-	5,530,916	5,530,916
Current liabilities		**433,598,952**	**444,573,993**	**10,975,042**
Current financial liabilities	16	84,600,559	71,366,740	(13,233,819)
Trade payables	17	318,054,949	342,114,285	24,059,336
Payables for current taxes	18	6,722,100	3,980,361	(2,741,740)
Other payables and current liabilities	19	24,221,343	27,112,608	2,891,265
Total shareholders' equity and liabilities		**1,457,171,793**	**1,462,639,662**	**5,467,869**

Profit and Loss Statement for the Year

Profit and loss statement for the year	note	31 December 2016	31 December 2017	% change
				€
Revenues	21	1,196,798,857	1,201,049,761	0.4%
Other income	22	30,336,220	50,490,977	
Total operating revenues and income		**1,227,135,077**	**1,251,540,738**	**2.0%**
Costs for materials and external services	23	(1,029,371,474)	(1,076,251,403)	
Personnel expenses	24	(101,132,031)	(99,968,953)	
Other operating costs	25	(17,890,520)	(13,920,017)	
Change in inventories	26	(9,841,362)	773,401	
Capitalised costs for internal work	27	746,181	865,175	
Total operating costs		**(1,157,489,206)**	**(1,188,501,796)**	**2.7%**
EBITDA		**69,645,871**	**63,038,941**	**-9.5%**
Depreciation and amortisation	28	(59,769,280)	(61,033,203)	
Capital gains/losses on disposal of non-current assets	29	1,277,749	32,609	
EBIT before non-recurring expenses and income		**11,154,340**	**2,038,347**	
Writebacks/writedowns of non-current assets	30	(168,445)	(16,000,000)	
Income/expenses of a non-recurring nature	31	(9,349,836)	6,291,003	
Net restructuring expenses	32	-	(2,341,477)	
Operating result		**1,636,058**	**(10,012,128)**	
Financial expenses	33	(29,153,738)	(26,311,509)	
Financial income	34	21,296,484	33,744,440	
Profit/(loss) before tax		**(6,221,195)**	**(2,579,197)**	
Income taxes	35	8,736,054	5,269,303	
Profit/(loss) for the period		**2,514,859**	**2,690,106**	**7.0%**

Schedule of Other Components of the Comprehensive Profit and Loss Statement

Schedule of other components of the comprehensive profit and loss statement	note	31 December 2016	31 December 2017
			€
A - Profit (loss) for the period		**2,514,859**	**2,690,106**
Other components of the comprehensive profit and loss statement:			
Other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement:			
Net (loss) profit from cash flow hedge		-	-
		-	-
Net (loss) profit from financial assets available for sale	36	(118,650)	179,025
Income taxes		3,006	-
		(115,644)	179,025
B- Total other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement net of taxes		**(115,644)**	**179,025**
Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement:			
(Losses) gains from discounting of defined benefit plans	36	(983,492)	133,789
Income taxes		236,038	(32,109)
		(747,454)	101,680
C- Total Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement net of taxes		**(747,454)**	**101,680**
D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)		**(863,097)**	**280,705**
E - Total comprehensive profit (loss) net of taxes (D +A)		**1,651,761**	**2,970,811**

Statement of Changes in Shareholders' Equity

Changes in shareholders' equity										€/000
	Share capital	Legal reserve	Non-distributable reserve from share capital reduction	IAS reserve	Reserve for equity financial instruments	Non-distributable exchange gains reserve	Other reserves	Undistributed profits - Carried forward	Result for the year	Total
Balances at start of previous period (*)	**20,000**	**13,149**	**185,443**	**(2,092)**	**-**	**-**	**238**	**14,214**	**153,479**	**384,431**
Destination of result - distribution of dividends				-	153,354	125	-	-	(153,479)	0
Net change profits (losses) directly recognised in shareholders' equity				(863)			-	-		(863)
Other changes in shareholders' equity	-	-	(46,646)	-	46,646	-	-	-	-	-
Exchange differences from translation of foreign financial statements				-			-	-		-
Profit/(loss) for the period				-			-	-	2,515	2,515
Balances at end of previous period (*)	**20,000**	**13,149**	**138,797**	**(2,955)**	**200,000**	**125**	**238**	**14,214**	**2,515**	**386,083**
Destination of result - distribution of dividends				-			-	2,515	(2,515)	-
Net change profits (losses) directly recognised in shareholders' equity				281			-	-		281
Other changes in shareholders' equity	-	-	-	-	-	-	-	-	-	-
Exchange differences from translation of foreign financial statements				-			-	-		-
Profit/(loss) for the period				-			-	-	2,690	2,690
Balances at period end	**20,000**	**13,149**	**138,797**	**(2,675)**	**200,000**	**125**	**238**	**16,729**	**2,690**	**389,054**

For comments on the changes in shareholders' equity, please see note 11 "shareholders' equity".

Cash Flow Statement

Cash Flow Statement		€/000
	31 December 2016	31 December 2017
A - Net initial monetary availability	**(67,822)**	**2,942**
B- Monetary flow from operating activities		
Net profit (loss) deriving from operating activities	2,515	2,690
Amortisation, depreciation, write-downs and writebacks	59,938	77,033
Writedowns and writebacks of financial assets	-	630
Capital (gains) losses on disposal of non-current assets	(1,278)	(33)
Capital (gains) losses on disposal of financial assets	-	(58)
Change in TFR and provisions for risks	491	2,473
Change in deferred tax assets and provision for deferred taxes	(2,355)	2,937
Profit (loss) for the period before changes in working capital	**59,310**	**85,673**
Change in inventories	9,841	(773)
Change in trade receivables	31,014	(3,351)
Change in trade payables	(30,661)	24,059
Change in other assets and liabilities	6,624	(9,663)
Change in net working capital	**16,818**	**10,272**
Total B- Monetary flow from operating activities	**76,128**	**95,945**
C - Monetary flow from investing activities		
Investments in property, plant and equipment	(15,975)	(35,032)
Other increases in property, plant and equipment	(4,569)	(5,190)
Investments in intangible assets	(243)	(441)
Recognition of other non-current assets	(1,537)	-
Change in equity investments	(41)	(18,226)
Revenues from sales of fixed assets	6,742	1,591
Total C - Monetary flow from investing activities	**(15,623)**	**(57,299)**
D - Monetary flow from financing activities		
Change in non-current securities and financial receivables	2,143	(168)
Change in financial receivables and other current financial assets	14,369	14,662
Change in current and non-current other non-financial liabilities	(1,252)	536
New loans	4,518	4,463
Repayment of loans	(9,520)	(9,433)
Total D - Monetary flow from financing activities	**10,258**	**10,060**
E - Monetary flow for the period (B + C + D)	**70,763**	**48,706**
Net final monetary availability (A + E)	**2,942**	**51,648**
Additional information:		
Interest received during the period	2,338	1,256
Interest paid during the period	(27,479)	(25,416)
Taxes paid during the period	-	(4,912)
Dividends received during the period	18,777	31,487

For the structure of final net monetary availability, please see note 10 "cash and other cash equivalents", which provides a reconciliation statement regarding cash and other cash equivalents.

EXPLANATORY NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

General information

Burgo Group spa is an Italian company, registered with the Vicenza Business Registry (no.13051890153), with its registered offices in Altavilla Vicentina (prov. Vicenza), in via Piave 1.
These draft financial statements were approved by the Board of Directors on 28 March 2018.

Accounting standards

The individual financial statements for Burgo Group spa at 31 December 2017 were prepared by applying the International Accounting Standards issued by the International Accounting Standard Board (IASB) and approved by the European Union, including among these the international subjects subject to interpretation (International Accounting Standards – IAS/IFRS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the previous Standing Interpretations Committee (SIC).
The Company adopted the referenced accounting standards as of 1 January 2007, with reference to Legislative Decree 38 of 28 February 2005, which implemented the option found within article 5 of Regulation EC 1606/2002.
During the year, the Company and the Group which it heads continued with the actions aimed at strengthening equity and restoring financial balance, necessary for the implementation of the Burgo2020 Plan.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Bankruptcy Law, as envisaged in the agreement reached with the lending institutions.

Financial statement schedules

All that illustrated in the previous section is understood to be fully referenced here.
The profit and loss statement, other components of the comprehensive profit and loss statement and the Company's equity/financial situation are presented in euros, while the cash flow statement, statement of changes in shareholders' equity and the explanatory notes are presented in thousands of euro. In fact, the euro is the functional currency used by the Company, given that it is the currency used in the economies in which the Company operates.
The Company's fiscal year coincides with the calendar year (1 January - 31 December).
Preparation of the individual financial statements of Burgo Group spa and the accounting schedules required the following choices:

- Balance sheet: a form of representation was selected that distinguishes between current and non-current assets and liabilities, based on that allowed under paragraphs 60 and subsequent of IAS 1;
- Profit and loss statement: it was decided to classify items by nature, holding this the most representative with respect to presentation by destination. In fact, this complies with internal reporting and management methods and was therefore held to offer more reliable

and significant information for the purposes of comprehending the profit (loss) for the year in question;

- Cash flow statement: this is structured on the basis of the indirect method.

The Company ended 2017 with profits of € 2.7 million (€ 8.7 million in consolidated profits), shareholders' equity of € 389.1 million (€ 300.2 million in consolidated shareholders' equity) and net financial debt of € 528.4 million (€ 534.9 million in consolidated net financial debt).

The financial situations were prepared using the general cost principle, with the exception of financial assets available for sale, financial assets held for trading and derivatives, if subscribed, which were measured at fair value.

Assets and liabilities and income and expense are not offset, unless this is allowed or required under an international accounting standard or interpretation.

Accounting standards and measurement criteria

The individual financial statements at 31 December 2017 were prepared in compliance with the IAS/IFRS accounting standards for preparing individual financial statements at 31 December 2016, taking into account the amendments and new standards which took effect as of 1 January 2017, listed below.

Accounting standards and interpretations approved by the European Union in effect as of 1 January 2017

IAS 7 **Statement of Cash Flows - Disclosure Initiative** - Regulation 2017/1990 took effect as of 1 January 2017. The amendments require entities to provide additional information on changes in liabilities associated with lending activity, including both changes associated with cash flows and non-monetary variations (for example, exchange gains and losses).

IAS 12 **Income Taxes – Recognition of deferred tax assets for unrealised losses** – Regulation 2017/1989 took effect on 1 January 2017. The amendments clarify that an entity must consider whether tax regulations limit taxable income sources against which it is possible to make deductions associated with the reversal of temporary deductible differences. Additionally, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances under which taxable income could include the recovery of certain assets for a value exceeding their carrying value.

The application of the accounting standards listed above, which occurred in line with the schedule established at the time of approval by the EU Commission, had no significant effects on the financial statements.

Accounting standards and interpretations approved by the European Union but not yet in effect, for which the Group did not make use of early application, if allowed

IFRS 15 **Amendments - Revenues from contracts with customers** - Regulation 2016/1905 will take effect on 1 January 2018. IFRS 15 was issued in May 2014 and amended in April 2016. It introduces a new five-phase model that will be applied to revenues deriving from contracts with customers. IFRS 15 establishes recognition of revenues in the amount of the payment that the entity holds it has the right to in exchange for the transfer of goods or services to the customer.

The new standard will replace all the current requirements found in the IFRSs regarding recognition of revenues.

IFRS 9 **Financial instruments** – Regulation 2016/2067 will take effect on 1 January 2018. In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments*, replacing *IAS 39 Financial Instruments: Recognition and measurement* and all previous versions of IFRS 9. IFRS 9 references all three aspects relative to accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is in effect for financial years starting on or after 1 January 2018. Early application is permitted. With the exception of hedge accounting, retrospective application of the standard is required, but comparison information is not obligatory. Relative to hedge accounting, the standard applies prospectively as a general rule, with certain limited exceptions.

IFRS 16 **Leases** – Regulation 2017/1986 will take effect on 1 January 2019. IFRS 16 was published in January 2016, replacing IAS 17 Leasing, *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 defines the standards used to recognise, measure, present and disclose leases and requires lessors to recognise all leasing contracts in the financial statements on the basis of a single model similar to that used for recognising financial leases, in accordance with IAS 17. The standard includes two exemptions for recognition by lessors - leasing contracts relative to assets of "low value" (for example, personal computers) and short-term leasing contracts (for example, contracts with a lease term of 12 months or less). On the date a leasing contract starts, the lessee recognises a liability against payment of the lease (lease liability) and an asset which represents the right to use the underlying asset for the duration of the contract (right-of-use asset). Lessees must recognise interest expense on the leasing liability and depreciation on the right-of-use asset separately.

Lessees must also remeasure the leasing liability if certain events occur (for example: a change in the conditions of the leasing contract, a change in future leasing payments consequent to a change in the index or rate used to determine said payments). Generally, the lessee recognises the remeasured amount of the leasing liability as an adjustment to the right-of-use asset.

Recognition established under IFRS 16 for lessors is substantially unchanged with respect to the current recognition done in compliance with IAS 17. Lessors will continue to classify all leasing following the same classification principle found in IAS 17, distinguishing between the two types of leasing: operating and financial.

IFRS 16 requires more extensive information from lessors and lessees with respect to IAS 17.

In 2017, the Group continued to determine the potential effects that could derive from application of IFRS 16 to its consolidated financial statements.

Standards IAS 14 "Segment reporting" and IAS 33 "Earnings per share" were not applied, as the Company is not obliged to apply them as it is not listed on regulated markets.

Below we examine in detail the criteria adopted for the following items:

Property, plant and equipment

A cost sustained to acquire a property, plant, machinery or part of the same is recognised as an asset on the condition that the cost of the asset can be reliably determined and the Company can make use of the relative future economic benefits.

Property, plant and equipment

Assets recognised among property, plant and equipment are recognised at the purchase cost, including any directly attributable accessory costs, necessary to render the asset functional to the use for which it was acquired, and net of any relative depreciation accumulated and impairment losses.

Expenses sustained subsequently are added to the cost to the extent in which these expenses are able to improve the originally determined performance of the asset.

Assets recognised among property, plant and equipment through business combinations are measured at their fair value upon initial recognition, as determined at the time they were acquired. Subsequently, they are measured using the historic cost method.

Assets recognised among property, plant and equipment, with the exception of land, depreciate at constant rates throughout the course of the useful life of the asset, understood to be the estimated period during which the asset will be used by the company, starting from the moment the asset becomes available for use. The value to be depreciated is represented by the carrying value of the asset net of any impairment and reduced by the presumable realisable value at the end of the useful life, if this is significant and can be reasonably determined.

If the asset is composed of several significant components with different useful lives, depreciation is carried out for each component, following the component approach established in IAS 16.

Spare parts of significant value relative to plant and machinery are capitalised and depreciated on the basis of the useful life of the asset to which they refer, in accordance with the indications found in IAS 16.

The book value of property, plant and equipment is subject to verification to identify any losses in value when events or changes indicate that the book value may not be recoverable.

For newly acquired assets, the following useful lives are applied:

Useful life of newly acquired assets

	Useful life
Industrial buildings	30 years
General plants	15 years
Specific plants	20 years
Miscellaneous equipment	4 years
Office machines and machinery	8 years
Vehicles	5 years
Electronic machines	5 years

Useful life and realisable values are reviewed every year and any changes are made prospectively. When necessary, they are applied prospectively and may involve an extension or r4eduction in the original amortisation/depreciation period.

Land, whether free of construction or containing civil or industrial buildings, is recognised separately and not depreciated, given that it is an element with unlimited useful life. When an asset is disposed of or when no future economic benefit is expected, it is eliminated from the financial statements and any losses or profits are recognised in the profit and loss statement for the year during the financial year in which it was eliminated.

Expenses for leasehold improvements such as expenses to remodel real estate that is not owned are capitalised in consideration of the fact that for the duration of the leasing contract the user company has control over the assets and can take advantage of their future economic benefits. Said costs are amortised over a period equal to the lesser of that representing the residual useful life of the fixed asset and the residual duration of the leasing contract.

Pursuant to IAS 23, the Company capitalises financial expense attributable to the purchase, construction or production of a capitalisable asset.

Property investments

The item includes land, buildings or parts of non-instrumental buildings, held in order to benefit from leasing fees, increases in value or both.

Property investments are measured at cost, net of any losses due to writedowns.

Intangible assets

Intangible assets are non-monetary elements without physical substance, which can be identified and are controlled by the Company, intended to generate future economic benefits. Intangible assets can be recognised in the accounts when it is probable that use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.

Intangible assets acquired separately are initially recognised at cost, those acquired through business combinations are measured at fair value upon initial recognition.

Expenses sustained after initial acquisition are added to the cost of the asset to the degree in which these expenses are able to generate future economic benefits.

After initial recognition, intangible assets are measured net of provisions for amortisation and any accumulated losses of value.

Goodwill and other intangible assets with undefined life

An intangible asset is considered to have undefined life when, on the basis of analysis of the relevant factors, there is no foreseeable limit on the period of use during which it is expected the asset will generate net incoming financial flows for the Company.

The Company has identified goodwill as an intangible asset with undefined useful life, which represents the positive difference between the cost of a business combination and the equity interest held by the Company in the current fair value of the assets, liabilities and potential liabilities acquired and identifiable on the purchase date.

Any negative difference (negative goodwill) is instead recognised in the annual profit and loss statement at the time of acquisition.

After initial recognition, goodwill is not amortised, but is decreased relative to any losses of value, determined in accordance with IAS 36 (impairment of assets). Goodwill is annually subject to recoverability analysis. This may also occur more frequently if events or changes in circumstances occur which could lead to possible losses of value.

In the cases in which goodwill is assigned to a cash generating unit (or group of units) whose assets are partially dismissed, the goodwill associated with the transferred asset is considered in order to determine any capital gains or losses deriving from the transaction, and is measured on the basis of the values of the disposed of assets, with respect to the assets still held relative to the same CGU.

Intangible assets with defined life

These assets are recognised at the acquisition or production cost, including all attributable accessory charges, and depreciated at a constant rate in relation to their utility over time, starting at the moment the asset becomes available for use. Useful life is reviewed every year and any changes are made prospectively, when necessary.

Plant and expansion costs, if recognised in the assets, as well as patent and usage rights for intellectual property are depreciated over a maximum period of five years.

Concession, license, trademark costs and those for similar rights are annually reduced as a function of the contractual duration and the limits of the presumable period of economic utilisation.

Impairment test

The value of intangible assets and property, plant and equipment is subject to recoverability checks every time it is held that a lasting loss of value has occurred.

Relative to goodwill, other intangible assets with undefined useful life and other assets not available for use, impairment tests are performed at least once a year.

The test is done by comparing the book value with the greater of the fair value and the value in use of the asset.

If no binding sales agreement or an active market for the asset is available, the fair value is determined on the basis of the best available information, in order to reflect the amount that the

Company could obtain, at the reporting date of the financial statements, if disposing of the asset in a free transaction between knowledgeable and willing parties, after deducting disposal costs.
The value in use of an asset is calculated by discounting expected cash flows from usage of the asset (both incoming and outgoing), basing financial flow projections on reasonable and sustainable suppositions, able to represent the best possible estimates by corporate management of a series of economic conditions that will exist throughout the remaining life of the asset, giving greater significance to information obtained externally.
The discount rate applied reflects current market evaluations of the time value of money and the specific risks of the asset.
Measurement is done for each individual or for the smallest combination of assets (cash generating units) that generate independent incoming cash flows deriving from their utilisation.
When the value determined with the impairment test is lower than the cost, the loss of value is recognised against the asset and among the costs in the annual profit and loss statement.
If in subsequent financial years the reasons behind recognising the impairment are determined to no longer exist following a new impairment test, the asset, with the exception of goodwill, is written back up to the new recoverable value, which in any case cannot exceed the value that would have existed if no loss in value had been recognised. The writeback is recognised in the annual profit and loss statement, unless the asset is recognised at the written back value, in which case the writeback is recognised in the revaluation reserve.

Equity investments in subsidiaries, companies under joint control and associated companies

Subsidiaries are companies over which the Company has the power to directly or indirectly determine administrative and management choices and obtain the relative benefits. Generally, control is assumed to exist when the Company directly or indirectly holds more than half of voting rights exercisable at the Shareholders' Meeting, including potential voting rights deriving from convertible securities.
Joint control companies are companies over which the Company exercises joint control over their economic activities with one or more other parties. Joint control assumes that strategic, financial and management decisions are taken by unanimous consent by the parties exercising control.
Associated companies are those over which the Company exercises significant influence when determining administrative and management choices, although it does not hold control. Generally significant influence is assumed to exist when the Company directly or indirectly holds at least 20% of the voting rights exercisable at the Shareholders' Meeting.
Equity investments in subsidiaries, jointly controlled companies and associated companies are recognised at cost, subsequently adjusted for any changes in value if, following appropriate impairment tests, conditions are identified which make it necessary to adjust the book value to the effective economic value of the equity investment. The original cost is restored in subsequent years if the reasons for the writedowns cease to exist.
Any writedowns or writebacks are recognised in the profit and loss statement.
The risk deriving from losses exceeding cost are recognised among provisions, to the degree that the Company is required to meet legal and implicit obligations.

Note that, when the switch was made to the international accounting standards, an impairment test was performed which confirmed the book value of the equity investments recognised in the financial statements.

Financial assets

Financial assets are initially recognised at fair value, which generally coincides with the fee paid and includes accessory charges. Purchases and sales of financial assets are recognised on the settlement date, the date on which the Company undertook the commitment to acquire the asset.
After initial recognition, financial assets are measured in relation to their functional classification, as outlined below:

Financial assets at fair value through profit and loss

This category includes all assets held for trading, that is all assets acquired to be sold over the short term. Derivatives are classified as financial assets held for trading, unless they are designated as effective hedging instruments.
Profit or loss associated with assets held for trading is recognised in the profit and loss statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or foreseeable payments, not listed on an active market. These assets are recognised using the amortised cost criteria as well as the effective interest rate criteria. Gains and losses are recognised in the annual profit and loss statement when loans and receivables are eliminated for accounting purposes or losses of value are seen, as well as through the amortisation process.

Investments held to maturity

Financial assets that are not derivatives and involve fixed or foreseeable payments and with a fixed maturity are classified under this item when the Company has the intention or ability to hold them until maturity.
Financial assets that the Company decides to hold in its portfolio for an undefined period of time do not fall within this category. Long-term financial investments held to maturity, such as bonds, after initial recognition are measured using the amortised cost criteria and the effective interest rate criteria, which represents the rate that discounts future payments or receipts estimated throughout the expected life of the financial instrument.
Amortised cost is calculated taking into account any discounts or premiums, which are allocated throughout the entire period of time until maturity.

Financial assets available for sale

Financial assets available for sale include all assets not falling within the previous categories.
After initial recognition at cost, financial assets available for sale are measured at fair value and gains and losses are recognised in a separate item within shareholders' equity, until they are disposed of or until a lasting loss of value is identified. Profit and losses accumulated up to the point in equity are recognised in the annual profit and loss statement. In particular, with regards to

shares, measurement parameters consist of a reduction in fair value exceeding half of the original recognised value, or which lasts for more than 36 months.
In the case of widely circulated securities traded on regulated markets, the fair value is determined in reference to the stock market price identified at the end of trading on the last day of the financial year.
For investments for which no active market exists, the fair value is determined using measurement techniques based on recent transactions between independent parties, or on the basis of the current market value of a substantially similar instrument, or through an analysis of discounted financial flows or pricing models of participatory investments.

Trade receivables and miscellaneous receivables

Trade receivables and miscellaneous receivables are recognised at the nominal value, or the fair value of the fee received during the course of the transaction. Receivables are recognised at current values when financial effects associated with forecast receipts over time are significant and receipt dates can be reliably estimated.
Receivables are recognised in the financial statements net of any provisions for impairment.

Impairment of financial assets

At the reporting date, it is assessed whether a given financial asset or group of financial assets has suffered impairment.

Financial assets recognised at amortised cost

If there is objective evidence of a loss of value in loans and receivables, the amount of the loss to be recognised in the annual profit and loss statement is calculated as the difference between the book value of the asset and the current value of the estimated future financial flows, discounted by the effective original interest rate for the financial asset.
If the amount of the loss of value decreases in a subsequent year and this reduction can be objectively traced to an event which occurred after the impairment was recognised, the previously reduced value can be written back.
Any subsequent writebacks are recognised in the annual profit and loss statement, to the extent that the book value of the asset does not exceed the amortised cost as of the date of the writeback.

Financial assets available for sale

If a financial asset available for sale suffers an effective reduction in value, any accumulated loss recognised in the shareholders' equity must be recognised in the annual profit and loss statement.
Writebacks relative to equity instruments classified as available for sale are not recognised in the annual profit and loss statement.
Writebacks relative to debt instruments are recognised in the annual profit and loss statement if the increase in the fair value of the instrument can be objectively traced to an event which occurred after the loss had been recognised in the annual profit and loss statement.

Financial assets recognised at cost

If there is an objective indication of a loss of value for an unlisted equity instrument no recognised at fair value because it cannot be reliable measured, or for a derivative instrument connected to said investment instrument which must be settled through the delivery of said instrument, the amount of the impairment loss is equal to the difference between the book value of the asset and the current value of expected future financial flows, discounted using the current market return rate for a similar asset.

Derivatives

Derivatives are used with the sole purpose of hedging in order to reduce financial risks. They are measured at fair value starting on the date they are stipulated.

When a hedging transaction begins, the Company formally designates and documents the hedging relationship for which hedge accounting will be used, indicating its risk management objectives and the strategy pursued. This document involves identifying the hedging instrument, the element of the transaction being hedged, the nature of the risk and methods the Company intends to use to measure the efficacy of the hedge in compensating for variations in the fair value of the hedged element or financial flows associated with the hedged risk. Efficacy must be measured in a reliable manner. It is expected that these hedges are highly effective in compensating for the exposure of the hedged element to changes in the fair value of financial flows associated with the risk covered. Assessment of whether or not the hedges are effective is done continuously during the accounting periods in which they are designated as such.

Transactions which meet the criteria for hedge accounting are recognised as follows:

Fair value hedge

If a derivative is designated to hedge against exposure to variations in the fair value of an asset or liability attributable to a particular risk, profit or loss deriving from subsequent changes in the fair value of the hedging instrument is recognised in the annual profit and loss statement.

Profit or loss deriving from an adjustment in the fair value of the hedged item, relative to the portion attributable to the risk hedged against, changes the book value of this item and is recognised in the annual profit and loss statement.

Cash flow hedge

If a derivative is designated as an instrument hedging against exposure to changes in the financial flows of an asset or liability recognised in the financial statements or a transaction deemed highly probable, the effective portion of the profits or losses deriving from the fair value adjustment of the derivative is recognised in a specific shareholders' equity reserve and reclassified in the annual profit and loss statement when the effects of the transaction being hedged are recognised in the annual profit and loss statement. The profit or loss associated with this ineffective portion of the hedging is instead immediately recognised in the annual profit and loss statement. If a hedging instrument is closed by the transaction being hedged has not yet been realised, cumulative profits and losses remain in the shareholders' equity reserve and are reclassified in the annual profit and loss statement at the time the relative transaction is realised.

If the transaction being hedged is no longer deemed probable, profits or losses not yet realised and recognised in the shareholders' equity reserve are immediately recognised in the annual profit and loss statement.

If hedge accounting can no longer be applied, profits or losses deriving from the fair value measurement of the derivative are directly recognised in the annual profit and loss statement.

Fair value measurement

IFRS 7 requires that derivatives recognised at fair value be measured on the basis of a hierarchy of levels that reflects the significance of the input used to determine the relative fair value. The levels are as follows:

level 1: prices obtained from an active market for the asset or liability being measured;

level 2: measurement techniques based on directly or indirectly observable market data;

level 3: measurement techniques not based on observable market data.

Inventories

Inventories of raw materials, products in progress and finished products are measured at the lesser of the cost, determined using the average weighted cost method, and the net realisable value presumable from market trends.

For raw materials, market value means replacement cost. For finished and semi-finished products it means the amount the Company expects to obtain from sales in normal business operations, net of estimated costs to complete the good and sales and distribution costs it will sustain.

Measurement of warehouse inventories include direct costs for materials and labour and indirect costs (variable and fixed).

Provisions for impairment of materials, finished products, spare parts and other obsolete or slow rotation stocks are calculated, taking into account future expected use and realisable value.

Cash and other cash equivalents

This item indicates cash and other cash equivalents and short-term highly tradable financial investments that can be readily turned into cash and are subject to irrelevant risks in terms of variations in their value. These financial items are recognised at their nominal value.

For the purposes of the Statement of Cash Flows, cash and other cash equivalents are shown net of bank overdrafts as of the reporting date.

Non-current assets held for sale

Non-current assets and groups of assets and liabilities for which the book value will mainly be recovered through sale, rather than through continuous use, are presented separately under other assets and liabilities in the balance sheet.

These assets, classified within a specific item in the balance sheet, are measured at the lower of the book value and the fair value minus foreseeable sales costs. Gains and losses, net of the relative tax effects, from non-current assets disposed of or held for sale are recognised in a specific item within the annual profit and loss statement.

Financial liabilities

Financial liabilities include financial liabilities and the negative fair value of derivatives.

All financial liabilities, other than derivatives, are initially recognised at their fair value, increased by the costs of the transaction, if relevant, and are subsequently measured at their amortised cost using the effective interest rate method.

Financial liabilities covered by derivatives aimed at dealing with the risk of changes in value (fair value hedges) are measured at fair value, using the methods established in IAS 39 for hedge accounting: profits and losses deriving from subsequent changes in fair value are recognised in the annual profit and loss statement.

For the portion associated with the effective hedging portion, these changes are offset by changes recognised in the value of the derivative.

Financial liabilities covered by derivatives aimed at hedging against the risk of changes in financial flows (cash flow hedges) continue to be measured at their amortised cost, based on the methods established in IAS 39 for hedge accounting.

Derecognition of financial assets and liabilities

A financial asset or, when applicable, part of a financial asset or parts of a group of similar financial assets, is/are derecognised when:

- the rights to receive financial flows from the asset no longer exist;
- the Company retains the right to receive financial flows from the asset, but has undertaken a contractual obligation to fully transfer them to a third party, without delay;
- the Company has substantially transferred all risks and benefits of ownership of the financial asset, or has not substantially transferred or retained all the risks and benefits of the asset, but has transferred control over the same.

A financial liability is derecognised from the financial statements when the obligation underlying the liability is repaid, cancelled or fulfilled.

Trade payables and miscellaneous payables

This item includes payables due to suppliers and other liabilities, with the exception of financial liabilities which are recognised separately. These liabilities are initially recognised at the fair value of the fee to be paid.

Subsequently, payables are measured using the amortised cost criteria, determined with the effective interest method.

Employee benefits

Benefits due after the termination of the employment relationship are divided into defined contribution plans and defined benefit plans.

For defined contribution plans, the legal or implicit obligation of the company is limited to the amount of contributions to be paid: consequently, actuarial risk and investment risk fall to the employee.

For defined benefit plans, the company's obligation consists in granted and ensuring the agreed upon benefits for the employees: actuarial risk and investment risk fall to the company.

Until 31 December 2006, the severance indemnity was classifiable among defined benefit plans.
The regulations for this provision were amended by Italian Law 296 of 27 December 2006 ("2007 Financial Law"), and by subsequent Decrees and Regulations issued during the initial months of 2007. In the light of these changes, and in particular those with reference to companies with at least 50 employees, this practice is not to be considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 (and not yet liquidated as of the reporting date). Portions accruing after this date can be classified as a defined contribution plan.
The Company's obligation to finance defined benefit plans and the annual cost recognised in the annual profit and loss statement are determined by applying actuarial methodology, based on demographic hypotheses, in relation to mortality rates and turnover in the reference population and on financial hypotheses, in relation to the discount rate which reflects the value of money over time, the inflation rates, and future salary and wage levels.
The amount recognised as a liability for defined benefits indicates the current value of the obligation as of the reporting date, net of the current value of any existing program assets.
The amount recognised in the annual profit and loss statement consists of the following elements:

- social security costs relative to current work performed;
- interest expense;
- expected returns from program assets, if existing.

The revision of IAS 19 referenced above required the Company, as of the financial year beginning on 01 January 2013, to directly recognise actuarial profits and losses relative to defined benefit plans deriving from changes in the actuarial hypotheses used or changes in plan conditions in shareholders' equity and the schedule of other components of the comprehensive profit and loss statement.
The amount of rights accrued by employees during the year is recognised under the item personnel expenses, while the financial component, which represents the charge that the company would face if it were to finance the amount of the severance indemnity (TFR) on the market, is recognised under financial income/expense.

Provisions for risks and charges

The Company allocates provisions for risks and charges when:

- there is a current obligation (legal or implied) relative to third parties and deriving from a past event;
- it is probable that the Company will need to use resources to comply with the obligation;
- a reliable estimate of the amount of the obligation can be made.

Provisions are recognised at the value which represents the best estimate that the Company would reasonably pay to fulfil the obligation (fair value) or to transfer it to third parties, on the reporting date.
Changes in estimates are shown in the profit and loss statement for the period in which the change occurred.

When financial effects associated with the time forecast of the payment is significant and the payment date for the obligations can be reliably estimated, the provision is discounted using a discount rate that reflects current assessments of the cost of money in relation to time. In this case, the amount recognised in the financial statements increases each year to reflect the passage of time and this increase is recognised in the annual profit and loss statement under the item "financial expense".

Significant potential liabilities represented by the following are illustrated in the Notes:

- possible (but not probable) obligations, deriving from past events, the existence of which will only be confirmed if one or more future events occur, which are not fully under the control of the company;
- current obligations deriving from past events, for which the amount cannot be reliably estimated, or for which compliance may not involve any expense.

Items in other currencies or subject to "exchange risk"

These are registered at the current exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currencies are converted using the exchange rate on the reporting date. Non-monetary items are kept at the conversion rate for the transaction, unless there is a persistent unfavourable trend in the exchange rate.

Both exchange differences generated from the repayment of items with different exchange rates relative to the conversion rate used at initial recognition, and those relative to the measurement of monetary items at the reporting date are recognised in the annual profit and loss statement.

Recognition of revenues and costs

Revenues are measured at the fair value of the payment received to sell the company's products or services.

Revenues from sales of products are recognised, net of discounts, rebates or returns, when the following conditions are met:

- the significant risks and benefits associated with ownership of the goods has been transferred to the purchaser of the goods (generally upon shipment or delivery of the goods);
- effective control over the merchandise is lost;
- the value of the revenues is reliably determined;
- it is probable that the economic benefits deriving from the sale will be used by the Company;
- the costs sustained or to be sustained are reliably determined.

Revenues from services are recognised once the services are complete.

Revenues of a financial nature are recognised on an accrual basis.

Dividends are recognised when they are received, under the item "Income from equity investments".

Costs are recognised using criteria analogous to those used for the recognition of revenues, and in any case on an accrual basis.

Current, prepaid and deferred taxes

Income taxes are determined on the basis of estimated taxable income, with reference to the current tax regulations.

Forecast debt, net of any advances and withholdings, is recognised under the balance sheet liabilities in the item "current tax payables".

Taxes relative to components recognised directly under shareholders' equity are recognised directly to shareholders' equity and not in the annual profit and loss statement.

Deferred tax assets and liabilities are calculated for all temporary differences between the book value attributed to assets and liabilities in the financial statements and the value attributed to the same assets and liabilities for tax purposes, unless the temporary differences derive from:

- initial recognition of goodwill;
- initial recognition of an asset or liability, in a transaction which
    - is not a business combination and
    - does not influence accounting results nor taxable income on the date of the transaction in question;
- equity investments in subsidiaries, associates and companies under joint control, when:
    - the Company is able to control the schedule for cancelling temporary taxable differences;
    - it is probable that the temporary differences will not be cancelled for the foreseeable future.

Deferred tax assets are not recognised when it is not reasonably certain they will be recovered, in compliance with the principle of prudence.

Additionally, their value is reviewed at the end of each period and is reduced to the extent that it is no longer probable sufficient taxable profits will be available in the future to allow full or partial use of these assets.

Deferred tax assets and liabilities are defined on the basis of the tax rates which are expected to be applied in the year in which the assets will be realised or the liabilities will be repaid, considering rates in effect or those substantially issued as of the reporting date.

Deferred tax assets and liabilities are classified among non-current assets and liabilities.

Estimates and assumptions

Application of certain accounting standards necessarily requires significant elements based on estimates and assumptions that are uncertain when formulated. For the 2017 financial statements, it is held that the assumptions made were appropriate and consequently, that the financial statements were prepared with the intent of clarity and to truly and accurately represent the equity and financial situation and the economic results for the year. Within the explanatory notes, information is provided in the relevant sections about the reasons underlying decisions made, measurements taken and estimate criteria adopted in applying the international accounting standards. In order to formulate reliable estimates and hypotheses, historic experience was used, as well as other factors deemed reasonable for the case in question, on the basis of the information available. Nonetheless, it cannot be excluded that changes in said estimates and assumptions could create significant effects on the equity and economic situation, as well as on the potential liabilities and assets reported within the financial statement disclosures, in the case that different elements of judgement arise with respect to those previously expressed. More specifically, greater use of subjective assessments on the part of company management was necessary in the following cases:

- determining impairment of goodwill, property, plant and equipment and equity investments;
- determining the fair value of financial assets and liabilities when the amounts could not be directly observed on active markets. In this case, the subjective elements are found in the selection of measurement models and input parameters that may not be observable on the market;
- quantifying provisions for risks and charges and provisions for employee benefits, due to the uncertainty of that required, survival times and actuarial hypotheses used;
- estimating the recoverability of prepaid tax assets.

The presentation of these cases is provided with the intention of allowing those reading the financial statements to better understand the main areas of uncertainty, but is not in any case to suggest that alternative assumptions could be appropriate or more valid.

Estimates and assumptions are periodically reviewed and the effects of each change are shown in the profit and loss statement for the period in which the change occurred.

Balance Sheet

Non-current assets

1) Property, plant and equipment

The assets indicated in the following breakdown are included in this item:

Property, plant and equipment			€/000
	31 December 2016	31 December 2017	Change
Property, plant and equipment	536,455	499,987	(36,468)
Property investments	418	404	(14)
	536,874	**500,392**	**(36,482)**

Property, plant and equipment

The table below shows changes occurring during the year:

Flows from property, plant and equipment	Land and buildings	Plant and machinery	Industrial and sales equipment	Other assets	Fixed assets in progress	Total €/000
Historic cost at start of period	**480,655**	**2,037,902**	**7,163**	**36,236**	**27,109**	**2,589,064**
Increases during period	430	13,612	157	687	25,336	40,222
Disposals during period	(1,595)	(59)	(183)	(457)	-	(2,295)
Revaluations, impairment during period	-	(16,000)	-	-	-	(16,000)
Transfer	-	-	-	-	-	-
Other changes	74	12,424	1	(320)	(12,237)	(59)
Historic cost at period end	**479,564**	**2,047,879**	**7,138**	**36,145**	**40,207**	**2,610,933**
Provision for amortisation/depreciation at start of period	**303,440**	**1,708,202**	**6,978**	**33,990**		**2,052,609**
Amortisation/depreciation during period	8,043	51,636	143	847		60,669
Uses during period	(1,591)	(48)	(183)	(452)		(2,274)
Transfer	-	-	-	-		-
Other changes in the provision	-	-	(1)	(58)		(59)
Provision for amortisation/depreciation at period end	**309,892**	**1,759,790**	**6,936**	**34,327**		**2,110,945**
Net book value at period end	**169,672**	**288,089**	**201**	**1,817**	**40,207**	**499,987**

The decrease in the net book value of property, plant and equipment, for € 36,468 thousand, originated mainly from the following components:

- increases for € 40,222 thousand (€ 20,544 thousand in 2016) relative to: investments for € 35,032 thousand during the year (the main investments were made in the Avezzano, Duino and Sora plants, see the Report on Operations for more details); other increases for € 865 thousand relative to internal work; capitalisation of financial expense for € 485 thousand, calculated using a 2.03% rate, in implementation of IAS 23; advances on extraordinary maintenance projects for € 3,840 thousand.
- decreases for disposal and sales for € 2,295 thousand, of which € 1,591 thousand relative to the demolition of the mix preparation building at the Avezzano plant.

The provision for depreciation saw a net change of € 58,336 thousand (€ 12,076 thousand in 2016) which can be broken down as follows:

- increases for depreciation during the year of € 60,669 thousand;

- decreases following the disposal of systems for € 2,274 thousand, as listed above.

Impairment was recognised in the financial statements for € 15,400 thousand, relative to residual net values of systems at the Verzuolo plant, for which the residual life does not allow recoverability against the company's investment plans. Therefore the excess portion of value was written down, which will not be recovered over its residual life through normal use of the systems and consequent depreciation. Additional impairment of € 600 thousand was recognised relative to systems disposed of at the Avezzano plant, for which the recovery value through sale is, based on current market values, lower than the net carrying value at the end of the previous year.

At the end of the year, the residual life of the company's property, plant and equipment was reviewed, with the necessary changes made to the depreciation plan.

Fully depreciated assets still in use have a historic cost equal to € 1,065,813 thousand.

Pursuant to article 10 of Law 72 of 19 March 1983, relative to revaluations, below is a breakdown of revaluation balances at 31/12/2017, equal to € 188,517 thousand and almost entirely depreciated.

Monetary revaluations pursuant to article 2427, no. 2, Civil Code — €/000

	Law 576/75	Law 72/83	Law 413/91	Other	Total
Land and buildings	4,488	17,573	36,190	20,549	78,801
Plants and machinery	14,092	79,767		13,996	107,855
Industrial and sales equipment	89	266		83	438
Other assets	277	963		183	1,423
	18,946	**98,569**	**36,190**	**34,812**	**188,517**

Property investments

Flow of property investments — €/000

	Civil land	Civil buildings	Total
Historic cost at start of period	**69**	**473**	**542**
Increases during period	-	-	-
Disposals during period	-	-	-
Revaluations, impairment during period	-	-	-
Other changes	-	-	-
Historic cost at period end	**69**	**473**	**542**
Provision for amortisation/depreciation at start of period		**124**	**124**
Amortisation/depreciation during period		14	**14**
Uses during period		-	**-**
Other changes in the provision		-	-
Provision for amortisation/depreciation at period end		**138**	**138**
Net book value at period end	**69**	**335**	**404**

2) Intangible assets

The balance is as follows:

Intangible assets			€/000
	31 December 2016	31 December 2017	Variazione
Goodwill and other assets with undefined life			
Goodwill	**20,691**	**20,691**	**-**
	20,691	**20,691**	**-**
Intangible assets with defined life			
Concessions, licenses, trademarks and similar rights	1,394	1,236	(158)
Other intangible assets	1,537	-	(1,537)
Fixed assets in progress and advances	-	250	250
	2,931	**1,485**	**(1,446)**
	23,622	**22,176**	**(1,446)**

The item goodwill consists of goodwill acquired following business combinations and allocated between to cash generating units, specifically the individual production sites in Villorba and Sarego.

Recoverability of goodwill is verified annually or more frequently if deemed necessary, by determining the value in use.

To determine the value in use, the current value of future financial flows was calculated, estimated by applying discounting rates that reflect current market values of the temporal value of money and the specific risks of the business, as well as terminal growth rates in line with inflation levels.

Finally, the current value of the flows and the terminal value of the individual CGUs was compared with the capital invested in them.

For the purposes of the impairment test, the main assumptions, in line with current measurements of the cost of money, which taken into account the specific risks of the CGUs, involve the risk-free rate of 2.07%, the market risk premium of 5.5% (increased by 3% for some CGUs in order to incorporate other risks), a variable growth rate between 1.00% and 2.00% based on the CGU, the cost of debt gross of taxes of 2.25% and the ratio between equity and debt, respectively equal to 81.60% and 18.40% derived as the average value of a panel of comparable listed companies in the same sector.

The tests performed did not indicate the need for further writedowns with respect to those already carried out over the years.

Below is a breakdown of goodwill by individual CGU:

- Villorba € 10,837 thousand;
- Sarego € 9,854 thousand;

Additionally, the impairment test was carried out with reference to CGUs for which indicators of impairment were identified in previous years.

The decrease with respect to the previous year, equal to € 1,446 thousand, is mainly due to sales of green certificates recognised in the financial statements (€ 1,537 thousand).
Increases, totalling € 441 thousand, refer to investments in software and usage licenses.
Amortisation during the year was equal to € 350 thousand.
The value of intangible assets fully amortised but still in use was € 3,518 thousand.

Flow from intangible assets €/000

	Goodwill and other intangible assets with undefined life	Concessions, licenses, trademarks and similar rights	Other intangible assets	Fixed assets in progress and advances	Total
Historic cost at start of period	**20,691**	**8,826**	**2,137**	**-**	**31,654**
Increases during period	-	191	-	250	441
Disposals during period	-	-	(1,537)	-	(1,537)
Revaluations, impairment during period	-	-	-	-	-
Other changes	-	-	(600)	-	(600)
Historic cost at period end	**20,691**	**9,018**	**-**	**250**	**29,959**
Provision for amortisation/depreciation at start of period		**7,433**	**600**		**8,032**
Amortisation/depreciation during period		350	-		**350**
Uses during period		-	-		**-**
Other changes in the provision		-	(600)		(600)
Provision for amortisation/depreciation at period end		**7,782**	**-**		**7,782**
Net book value at period end	**20,691**	**1,236**	**-**	**250**	**22,176**

3) Other non-current assets

Equity investments and securities

These include the items indicated below:

Equity investments and securities			**€/000**
	31 December 2016	**31 December 2017**	**Change**
Gever S.p.A*	3,000	17,882	14,882
Burgo Ardennes S.a.	292,701	292,701	-
Burgo Benelux S.a.r.l.	290	290	-
Burgo France S.a.r.l.	772	142	(630)
Burgo UK L.t.d.	388	388	-
Burgo Central Europe G.m.b.h.**	377	377	-
Burgo North America L.t.d.	110	110	-
Burgo Factor S.p.A.	4,105	4,105	-
Burgo Distribuzione S.r.l.	11,530	11,530	-
S.E.F.E. S.a.	0	0	-
Burgo Energia S.r.l.	15	15	-
Mosaico S.r.l.	84,903	84,903	-
Burgo Polska Sp zoo	1	1	-
Equity investments in subsidiaries	**398,190**	**412,443**	**14,252**
Gever S.p.A.	6,125	-	(6,125)
Equity investments in associated companies	**6,125**	**-**	**(6,125)**
Equity investments in other companies	**135**	**9,662**	**9,527**
	404,450	**422,104**	**17,654**

**During 2017, 51% of Gever S.p.A. shares were purchased from the former controlling company Edison S.p.A., making it 100% controlled. Comecart spa incorporated Gever spa, taking its name.*

***The subsidiary Burgo Deutschland GmbH took a new name during 2017.*

Equity investments in subsidiaries

The item "equity investments in subsidiaries" shows a total increase of € 14,252 thousand due to the effects of the acquisition of 51% of Gever and the incorporation of it within Co.Me.Cart. spa. Additionally, the equity investment in Burgo France was written down by € 630 thousand.

Equity investments in other companies

The item "equity investments in other companies" increased by € 9,527 thousand due to the payment of the portion accruing within the capital increase of the Consorzio Paper Interconnector (€ 9,579 thousand) and the sale of the stake held in Alpe Adria Energia (€ 52 thousand).

The list of equity investments held, with the information requested under article 2427, no. 5 of the Italian Civil Code is provided in the following schedules, together with the list of companies controlled indirectly.

List of equity investments pursuant to article 2427, no. 5, Italian Civil Code €/000

Company name	Registered office		Share capital (*)	Shareholders' equity (*)	Profit (loss) (*)	Stake directly held		Book value
Subsidiaries								
Gever S.p.A.	Altavilla Vicentina (VI)	EUR	3,120	26,215	1,229	100.00		17,882
Burgo Ardennes S.a	Virton (Belgium)	EUR	75,000	141,712	4,066	99.99	**	292,701
Burgo Benelux S.a.r.l.	Brussels (Belgium)	EUR	248	411	(7)	100.00		290
Burgo France S.a.r.l.	Champeaux (France)	EUR	600	142	(20)	100.00		142
Burgo UK L.t.d.	Milton Keynes (UK)	GBP	250	652	164	100.00		388
Burgo Central Europe G.m.b.h.	Munich (Germany)	EUR	256	908	244	100.00		377
Burgo North America L.t.d.	Stamford - Connecticut (USA)	USD	100	367	31	100.00		110
Burgo Factor S.p.A.	Milan	EUR	3,000	27,651	3,134	90.00		4,105
Burgo Distribuzione S.r.l.	Altavilla Vicentina (VI)	EUR	9,060	13,977	2,283	100.00		11,530
S.E.F.E. S.a	Ecouviez (France)	EUR	76	321	8	0.20		-
Burgo Energia S.r.l.	Altavilla Vicentina (VI)	EUR	5,015	8,840	722	100.00		15
Mosaico S.r.l.	Altavilla Vicentina (VI)	EUR	50,000	103,813	17,877	100.00		84,903
Burgo Polska Sp zoo	Warsaw (Poland)	PLN	5	2,705	791	100.00		1
								412,443

(*) The figures for each investee were taken from the 2017 financial statements of 2017 draft financial statements. In the cases in which the carrying value was higher than the portion of shareholders' equity, also taking into account adjustments required in preparation of the consolidated financial statements, the greater value is justified by unexpressed values relative to the investee, such as goodwill. More specifically, in terms of significance, we note that the differential between the carrying value of the equity investment in Burgo Ardennes and the relative recognisable shareholders' equity (statutory shareholders' equity plus profits from the current year), equal to € 202.5 million, originated with the allocation within the carrying value of the equity investment of the portion of the shortfall arising from the Cartiere Burgo/Dieci merger in financial year 2001, for a total of € 103 million. This greater value was allocated, in the consolidated financial statements, to tangible fixed assets associated with Burgo Ardennes on the basis of a specific exchange appraisal. At 31 December 2017, the value of the subsidiary's shareholders' equity, expressed on the basis of international accounting standards for the consolidated financial statements of Burgo Group spa, was € 141.7 million with a difference of € 151.0 million with respect to the carrying value in the parent company's financial statements, consisting of total and accumulated dividends distributed between financial year 2001 and financial 2017 and positive results achieved. Despite the profits recognised by the associated company, which has always achieved annual profits, cash flows forecast for coming years as well as the strategic importance of the equity investment within the Burgo Group, an impairment test was still performed, which did not indicate any lasting losses of value (paragraph 12.h.i IAS 36).

(1) 100% held, including the indirect shares held by Mosaico srl.

Financial receivables and other non-current financial assets

Financial receivables and other non-current financial assets **€/000**

	31 December 2016	31 December 2017	Variazione
Non-current financial receivables due from subsidiaries	2,800	2,968	168
	2,800	**2,968**	**168**

The balance shows an increase of € 168 thousand, due to the recognition in the financial statements of a financial receivable due to the subsidiary Burgo North America in the amount of USD 200 thousand.

The remaining receivable, already present the previous year, consists of a medium-term loan disbursed to the subsidiary Mosaico srl for € 2,800 thousand.

Other receivables and non-current assets

Other receivables and non-current assets **€/000**

	31 December 2016	31 December 2017	Variazione
Non-current sundry receivables due from others	2	2	-
Non-current guarantee deposits	1,310	2,192	883
	1,311	**2,194**	**883**

Other receivables and non-current assets mainly consist of guarantee deposits for € 2,192 thousand. The increase of € 883 thousand is due to the increase in the Interconnector guarantee deposit, relative to portions paid during 2017 to guarantee completion of the interconnection power line between France and Italy.

4) Deferred tax assets

These amounted to € 64,437 thousand. The balance in the accounts includes allocations for deferred taxes which it is held can be compensated for with deferred tax payables.
Below are the details:

	31 December 2016			31 December 2017		
	Taxable	% rate	(Debit)/credit	Taxable	% rate	(Debit)/credit
IRES						
Taxed provisions (allocated)	95,866	24.0	23,008	78,502	24.0	18,840
Discounting	(416)	24.0	(100)	(500)	24.0	(120)
IAS 19 discounting - actuarial G/L	8,711	24.0	2,091	8,577	24.0	2,059
Amortisation, depreciation and writedowns	(68,714)	24.0	(16,491)	(58,101)	24.0	(13,944)
30% limit financial expense	82,503	24.0	19,801	80,542	24.0	19,330
IRES losses to be used in future financial years	221,991	24.0	53,278	214,981	24.0	51,595
Allocation of shortfall	(54,065)	24.0	(12,976)	(49,372)	24.0	(11,849)
Other items	(1,539)	24.0	(369)	(1,589)	24.0	(381)
	284,337		**68,241**	**273,040**		**65,529**
IRAP						
Taxed provisions (allocated)	43,240	3.9	1,686	32,023	3.9	1,249
Discounting	(416)	3.9	(16)	(500)	3.9	(20)
Amortisation, depreciation and writedowns	(8,420)	3.9	(328)	(8,420)	3.9	(328)
Allocation of shortfall	(54,065)	3.9	(2,109)	(49,372)	3.9	(1,926)
Other items	(1,739)	3.9	(68)	(1,739)	3.9	(68)
	(21,401)		**(835)**	**(28,008)**		**(1,092)**
			67,406			**64,437**

In 2017, the Company recognised the following main effects in the item deferred tax assets:

- lower IRES tax assets for the 30% limit on financial charges for € 471 thousand;
- lower IRES tax liabilities for net changes in provisions for non-deductible impairment and amortisation/depreciation for € 2,547 thousand;
- lower IRES tax assets for losses to be used in future financial years for € 1,683 thousand. The provision for current taxes at 31 12 2017 made use of previous losses for € 6,527 thousand relative to group tax losses in 2007;
- lower IRES and IRAP tax liabilities for depreciation of assets relative to which was allocated the shortfall from the Burgo-Marchi merge for € 1,310 thousand;
- lower IRES tax assets for TFR discounting pursuant to IAS 19 (actuarial gains/losses) for € 824 thousand;
- lower IRES and IRAP tax assets on taxed provisions for € 3,813 thousand, in particular for allocations made to provisions for risks and charges.

For more details about the applicable rate, please see note 35 "income taxes".

Note that the Company's losses can currently all be carried forward indefinitely.

Recognition of deferred tax assets relative to a portion of IRES tax losses that can be carried forward is justified by a reasonable expectation of sufficient future taxable income, in the context of national tax consolidation, based on the economic forecasts found in the Burgo 2020 industrial plan.

Below are the details of tax losses recognised in the financial statements, which generated deferred taxes, net of uses for the group.

€/000

Tax losses		2016		2017	
	maturity	loss	tax	loss	tax
2001	can be carried forward indefinitely	16,860	4,046	16,860	4,046
2002	can be carried forward indefinitely	153,543	36,850	152,738	36,657
2007	can be carried forward indefinitely	6,205	1,489	0	-
2008	can be carried forward indefinitely	45,383	10,892	45,383	10,892
		221,991	**53,277**	**214,981**	**51,595**

Note that 2001 and 2002 tax losses can only be used by Burgo Group spa.

As indicated above, tax losses arising in financial year 2007 were eliminated following their use when determining the group IRES taxable amount of 2017.

Current assets

5) Inventories

Inventories			€/000
	31 December 2016	31 December 2017	Change
raw materials inventories	24,868	32,665	7,796
stock inventories	28,112	27,149	(963)
provision for impairment of stock	(10,462)	(10,073)	389
Raw materials, subsidiary and consumable items	**42,518**	**49,740**	**7,222**
Products in progress and semi-finished products	16,551	14,923	(1,628)
Products in progress	**16,551**	**14,923**	**(1,628)**
Finished products and goods	45,181	40,582	(4,599)
Provision for impairment of products	(925)	(1,146)	(222)
Finished products	**44,257**	**39,436**	**(4,821)**
	103,326	**104,099**	**773**

The value of raw materials, consumables and finished products is shown net of the provision for obsolescence for € 11,220 thousand (€ 11,387 thousand the previous year).
This provision was adjusted during the year on the basis of the most recent assessments of the risk of not recovering the value of inventories.
The increase in the value of raw materials can mainly be attributed to the increase in purchase prices and, consequently, in their average weighted cost.
The decrease in the value of products in progress and finished products is due to a reduction in their volumes.

6) Trade receivables

Trade receivables			€/000
	31 December 2016	31 December 2017	Change
Relative to customers	177,923	180,856	2,933
minus: provision for doubtful accounts	(49,397)	(39,666)	9,731
	128,526	**141,190**	**12,664**
Relative to the Group companies	71,108	65,845	(5,263)
for associated companies	4,049	-	(4,049)
	75,158	**65,845**	**(9,313)**
	203,683	**207,035**	**3,351**

Trade receivables due from third parties increased by € 3,351 thousand following an increase in sales seen during the year.
Trade receivables do not accrue interest. It is held that the value inserted (adjusted by the provision for doubtful accounts) approximates the presumable realisable value.
The provision for doubtful accounts is adequate to risk coverage requirements.
The table below provides a breakdown of trade receivables by geographic area, exclusive of infragroup transactions.

Trade receivables by geographic area €/000

	31 December 2016	31 December 2017	Change
Italy	53,406	48,996	(4,411)
Europe E.U.	61,039	72,569	11,530
Other countries	14,081	19,625	5,544
	128,526	**141,190**	**12,663**

7) Other receivables and current assets

Other receivables and current assets €/000

	31 December 2016	31 December 2017	Change
Current tax receivables	**1,698**	**9,933**	**8,236**
Current sundry receivables due from subsidiaries	725	968	243
Current tax consolidation receivables due from subsidiaries	10,310	6,763	(3,547)
Sundry receivables due from group companies	**11,036**	**7,731**	**(3,305)**
Current sundry receivables due from others	4,399	14,152	9,752
Current receivables due from social security entities	369	222	(147)
Other sundry receivables	**4,769**	**14,374**	**9,605**
Other assets	**507**	**432**	**(75)**
	18,009	**32,470**	**14,461**

Other receivables and current assets increased by € 14,461 thousand. The main changes are described in detail below:

- tax receivables: these went from € 1,698 the previous year to € 9,933 thousand. Among the most significant changes, note the increase in the VAT receivable for € 5,726 thousand and the increase in IRES and IRAP deferred tax assets for € 2,582 thousand;
- receivables for tax consolidation relative to subsidiaries: these fell mainly due to lower receivables due from the subsidiary Mosaico Srl for € 3,024 thousand;

- sundry receivables due from others: the increase of € 9,605 thousand can be attributed to the combined effects of the recognition of € 7,598 in advances to suppliers, a non-interest bearing guarantee deposit for white certificates of € 4,947 thousand paid relative to a dispute with the GSE and lower other receivables for € 3,592 thousand, mainly due to the receipt of energy tax rebates during the year.

8) Equity investments

Equity investments			**€/000**
	31 December 2016	**31 December 2017**	**Change**
Other equity investments	814	993	179
Equity investments	**814**	**993**	**179**
Securities other than equity investments	**1**	**1**	**-**
	815	**994**	**179**

Securities in the portfolio at the end of 2017 were represented by:

- 105,000 Mediobanca shares (unchanged with respect to 31 December 2016).

These are classified as available for sale (AFS) and adjustment to market values is done on the basis of stock market listings: Mediobanca € 9.46 (€ 7.755 at 31 December 2016).
The adjustment to market value involved increasing the value of the Mediobanca shares by € 179 thousand, passing through the specific AFS reserve in shareholders' equity.

9) Financial receivables and other current financial assets

Financial receivables and other current financial assets			**€/000**
	31 December 2017	**31 December 2017**	**Change**
Financial receivables due from subsidiaries	36,889	30,820	(6,069)
Financial receivables due from others	16,870	2,453	(14,417)
Derivative financial assets	292	-	(292)
Other financial assets	-	48	48
	54,051	**33,321**	**(20,731)**

Among other things, the balance includes financial receivables due from subsidiaries represent pass-through items in the context of coordinated treasury management (€ 30,820 thousand).
Specifically, receivables due from subsidiaries consist of the following positions:

- Burgo Energia: € 20,721 thousand (€ 21,031 thousand at 31 December 2016);
- Mosaico: € 25 thousand (€ 4,243 thousand at 31 December 2016);

- Burgo Distribuzione: € 2,494 thousand (€ 0 thousand at 31 December 2016);
- Burgo Factor: € 7,580 thousand (€ 6,231 thousand at 31 December 2016);
- Burgo Ardennes: € 0 thousand (€ 5,384 thousand at 31 December 2016).

Financial receivables due from others decreased by € 14,417 thousand, mainly following the elimination of temporary cash deposits which accrued interest income at variable market rates.

10) Cash and other cash equivalents

Cash on hand and other cash equivalents — €/000

	31 December 2016	31 December 2017	Change
Bank and postal deposits	40,808	70,438	29,630
Cash and cash on hand	15	12	(3)
	40,823	**70,449**	**29,626**

Liquidity and on demand bank deposits accrue interest at variable market rates. The book value, which represents the nominal value, is also equal to the fair value.
For a comment on the change in the item current accounts and other loans, please see note 16 "current financial liabilities".
Below is a reconciliation table for the item "Cash and other cash equivalents" with net monetary availability recognised in the cash flow statement:

Reconciliation of cash and other cash equivalents — €/000

	31 December 2016	31 December 2017	Change
Cash on hand and other cash equivalents	40,823	70,449	29,626
shared current accounts receivable	36,889	30,820	(6,069)
shared current accounts payable	(607)	(5,546)	(4,939)
Current accounts and other loans	(74,164)	(44,076)	30,088
	2,942	**51,648**	**48,706**

Shareholders' equity

11) Shareholders' equity

Total shareholders' equity amounted to € 389,054 thousand (€ 386,083 thousand at 31 December 2016).

Share capital at 31 December 2017 consisted of 395,083,445 ordinary shares with no nominal value, for a total value of € 20,000 thousand.

The company has no treasury shares in its portfolio.

Shareholders' equity at 31 December 2017 increased by € 2,971 thousand with respect to 31 December 2016, as a consequence of the following changes:

- profit for the year of € 2,690 thousand;
- fair value changes, net of taxes, on equity investments and other securities classified as available for sale, which led to an increase of € 179 thousand from fair value adjustments;
- the recognition in the reserve, net of taxes, of actuarial gains based on that required under IAS 19, which led to an increase of € 102 thousand.

For more information, please see the "Statement of changes in shareholders' equity".

The table below breaks down the reserves, including profits carried forward:

Reserves and profits carried forward **€/000**

	31 December 2016	31 December 2017	Change
Non-distributable reserve from share capital reduction	138,797	138,797	-
Legal	13,149	13,149	-
Reserve for equity financial instruments	200,000	200,000	-
Non-distributable exchange gains reserve	125	125	-
Other reserves	(238)	(238)	-
IAS 19 reserve	(7,440)	(7,339)	102
Reserve for accounting standard change - FTA	4,131	4,131	-
Reserve for fair value adjustment of financial assets availa	354	533	179
	348,879	**349,159**	**281**
Profits (losses) carried forward reserve	14,214	16,729	2,515
	14,214	**16,729**	**2,515**

Deferred taxes relative to items directly attributed to shareholders' equity are as follows:

Deferred taxes recognised directly to shareholders' equity **€/000**

	31 December 2016	31 December 2017	Change
Actuarial losses	2,091	2,059	(32)
	2,091	**2,059**	**(32)**

To complete the information provided about shareholders' equity, below is the schedule pursuant to article 2427, no. 7 bis of the Civil Code, which provides the items composing shareholders' equity, broken down on the basis of their origin, possibility of use and whether they can be distributed, as well as uses made in previous years. This classification takes into account the amendments made to the Civil Code by Legislative Decree 139 of 18 August 2015, and was also carried out on the basis of the indications found in "Guide to regulations on distribution of profits and reserves pursuant to Legislative Decree 38 of 28 February 2005", issued by the Italian Accounting Body.

Distributability of reserves pursuant to article 2427, no. 7 bis, Civil Code **€/000**

	amount	possibility of use	portion available (for distribution)	
Capital reserves:				
Non-distributable reserve from share capital reduction	138,797	B	0	
SFP reserve, non-distributable	46,646	B	0	
	185,443		0	
Profit reserves:				
SFP reserve, non-distributable	153,354	B	0	
Legal reserve	13,149	B	13,149	
CFH reserve	0		0	(2)
IAS 19 reserves	(7,339)		0	(3) (5)
Reserve for FV adjustment of AFS assets	533		0	(4)
FTA reserve (Legislative Decree 38/2005 art.7 paragraph 7)	4,131	B	0	
Merger surplus	238	A, B, C	238	
Exchange reserve	125	B	0	
	164,191		13,387	
Profits (losses) carried forward reserve	16,729	A, B, C	6,774	(1) (5)
	16,729		6,774	
	180,920		20,161	
	366,363		**20,161**	

Key:
A: for capital increase
B: to cover losses
C: for distribution to shareholders
D: for other constraints in the Articles of Association
(1) Recall that, for the purposes of Law 488 of 1992, the 2004 profit carried forward derives in part from the reversal of advance amortisation recognised in the annual profit and loss statement in previous years, destined to cover the following investment programs:
- Law 488 program 21165 Duino € 11,448 thousand
- Law 488 program 82305 Duino € 9,676 thousand
(2) Reserve for fair value adjustment of hedging derivatives and the relative underlying assets/liabilities. This reserve is correlated with the recognition of cash flow hedges. In particular, it refers to unrealised gains and losses, net of the relative tax effects, which derive from the fair value adjustment of a cash flow hedge and its relative underlying elements. Note that, in application of Legislative Decree 38/2005, this reserve is subject to the unavailability regime established under article 6, paragraph 1, letter b of the same decree.
(3) Reserve for gains/losses from discounting of defined benefit plans, based on that required under IAS 19.
(4) Reserve for fair value adjustment of financial assets available for sale. Note that, in application of Legislative Decree 38/2005, this reserve is subject to the unavailability regime established under article 6, paragraph 1, letter b of the same decree.
(5) The purposes for which this reserve can be used are not indicated, given that it is a negative value which is offset by decreasing the portion available of profits carried forward.

The tax regime for the reserve is illustrated below.

In regards to suspended tax reserves, the legal reserve is bound for tax purposes in the amount of € 709 thousand for the reconstitution of suspended tax reserves of companies incorporated in previous years. Recall that, for tax purposes, a constraint is set on amounts in reserves, equal to the balance of off the accounts deductions made and not yet reabsorbed, net of associated deferred taxes. This balance is estimated to be around € 71 million at the end of the year, net of deferred IRES taxes.

Recall that tax regulations do not envisage taxation, provided that after any distribution shareholders' equity reserves remain that are equal to the net amount reported above.

Non-current liabilities

12) Non-current financial liabilities

Non-current financial liabilities			€/000
	31 December 2016	31 December 2017	Change
Converting loan	100,000	100,000	-
Loan payables	480,097	463,749	(16,349)
Non-current financial liabilities	**580,097**	**563,749**	**(16,349)**

The equity structure relative to non-current financial liabilities remained substantially unchanged with respect to the previous year.

Non-current financial liabilities include:

- convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- amounts due to shareholders for loans for € 265,429 thousand and MLT loans due to others for € 198,320 thousand.

Interest on variable rate loans was determined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date.

Note that the loans stipulated in the context of the recovery plan include a negative pledge clause which limits the company's ability to provide collateral to cover its own obligations and those of third parties, with the exclusion of guarantees necessary to carry out its core business.

Converting loan - breakdown of maturity dates			€/000
	31 December 2016	31 December 2017	Change
from 4 - 5 years	-	100,000	100,000
over 5 years	100,000	-	(100,000)
	100,000	**100,000**	**-**

Loan payables - breakdown of maturity dates			€/000
	31 December 2016	31 December 2017	Change
from 2 - 3 years	41,623	41,623	-
from 4 - 5 years	41,623	422,126	380,503
over 5 years	396,851	-	(396,851)
	480,097	**463,749**	**(16,349)**

13) Severance indemnities (TFR) and other provisions relative to personnel

TFR (severance indemnity)			€/000
	31 December 2016	31 December 2017	Change
Actuarial measurement of TFR at start of period	33,700	32,860	(839)
Provisions	-	-	-
Payments	(2,482)	(1,939)	543
TFR discounting - IAS 19 reserve	983	(134)	(1,117)
TFR discounting - financial expense (income)	659	418	(241)
Other changes - incoming (outgoing) transfers	0	-	(0)
	32,860	**31,205**	**(1,655)**

For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2017, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Company.
In the calculation, the actuary made use of the following demographic hypotheses:

- to estimate probability of death within the group of employees subject to measurement, the RG48 survival table used by the Italian General Accounting Office to estimate pension expenses for the Italian population was used;
- to estimate probability of disability within the group of employees subject to measurement, an INPS table was used, broken down by age and sex;
- for retirement age for the generic active population, achievement of the minimum requirements established for General Obligatory Insurance was assumed;
- for probability of departure for reasons other than death, an annual frequency of 3.00% was considered;
- for the probability of TFR advances, a yearly value of 2.00% was assumed.

Financial economic hypotheses used in the measurement are described below:

Economic/financial hypotheses used	2016	2017
Annual theoretical discounting rate	1.31%	1.30%
Annual inflation rate	1.50%	1.50%
Annual TFR increase rate	2.63%	2.63%

The validity of this data is connected to the stability of the reference regulatory situation, expected performance of interest rates on the financial market, the expected performance of salary trends, of

future liquidation trends and the frequency with which employees make use of advances, which must be on average compatible with the economic/financial hypotheses made.
Based on the social security reform, since the Company has more than 50 employees future portions of the TFR provision accruing no longer accumulate within the company but go to supplementary social security or the INPS treasury fund. Therefore, projection of salaries based on given growth rates and professional roles is no longer necessary.

14) Provisions for risks and charges

Provisions for risks and charges			€/000
	31 December 2016	31 December 2017	Change
Provision for industrial charges	6,250	10,460	4,210
Provision for disputes in course	9,715	7,712	(2,004)
Provision for supplementary customer allowance	1,264	896	(369)
Provision for restructuring charges	7,302	9,460	2,158
	24,532	**28,527**	**3,995**

Below is a breakdown of changes in the provisions:

Provisions for risks and charges - changes						€/000
	Actuarial change, start of period	Reclassifications	Increases	Decreases	Discounting	Actuarial change, period end
Provision for industrial charges	6,250	1,885	3,410	(1,001)	(84)	10,460
Provision for disputes in course	9,715	(1,885)	366	(484)	-	7,712
Provision for supplementary customer allowance	1,264	-	-	(372)	3	896
Provision for restructuring charges	7,302	-	2,341	(184)	-	9,460
	24,532	**-**	**6,117**	**(2,041)**	**(81)**	**28,527**

The **provision for industrial charges** is mainly intended to cover expenses that are expected to be sustained for reclamation of the sludge landfills; it also covers the emerging risk of obligations associated with carbon dioxide (CO_2) emissions. The increase during the year was due in large part to the provisions for risks associated with black certificates, which in 2017 totalled € 3,353 thousand, against uses of € 862 thousand.
The **provision for disputes in course** is created to deal with potential liabilities that could arise in relation to legal disputes and disputed items. The decrease is due to reclassification of the risk for CO_2 emissions to the provision for industrial charges.
The **provision for supplementary customer allowance** represents the updated estimate of the indemnities to be paid to sales agents for interruption of the agency relationship.
The **provision for restructuring costs** includes provisions made for expenses to be sustained to carry out the restructuring plan.

15) Other payables and non-current liabilities

Other payables and non-current liabilities			€/000
	31 December 2016	31 December 2017	Change
Non-current payables due to suppliers	-	5,531	5,531
	-	**5,531**	**5,531**

These payables are associated with invoices from suppliers for maintenance and multi-year investments to be paid in coming years for € 5,531 thousand.

Current liabilities

16) Current financial liabilities

Current financial liabilities			€/000
	31 December 2016	31 December 2017	Change
Loan payables - current portion	9,433	20,812	11,378
Current accounts and other loans	74,164	44,076	(30,088)
Payables due to subsidiaries	607	5,546	4,939
Derivatives	-	337	337
Other financial liabilities	397	597	200
	84,601	**71,367**	**(13,234)**

Interest on variable rate loans was redetermined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date.

The decrease in negative balances in current accounts and other loans is due to the generation of cash flows achieved during the year.

Amounts due to subsidiaries for € 5,546 thousand includes payables relative to shared current accounts with Burgo Ardennes for € 3,973 thousand, with Gever spa for € 1,445 thousand and with Burgo Factor for € 127 thousand.

Other financial liabilities, equal to € 597 thousand, include interest expense payable accruing on loans and relative to the use of short-term bank credit lines.

Also note that for short-term financial needs, credit lines are available totalling around € 284 million, currently used for around 19% of the total.

17) Trade payables

Trade payables			€/000
	31 December 2016	31 December 2017	Change
Current payables due to suppliers	238,893	264,077	25,183
Current trade payables due to subsidiaries	73,573	78,038	4,464
Current trade payables due to associated companies	5,589	-	(5,589)
	318,055	**342,114**	**24,059**

Trade payables do not accrue interest. The amount recognised in the financial statements approximates the market value.

The table below provides a breakdown by geographic area:

Trade payables by geographic area			€/000
	31 December 2016	31 December 2017	Change
Italy	137,553	152,240	14,687
Europe E.U.	92,471	105,814	13,344
Other countries	8,870	6,023	(2,847)
	238,893	**264,077**	**25,183**

18) Current tax payables

Payables for current taxes			€/000
	31 December 2016	31 December 2017	Change
Tax payables, income tax	2,692	-	(2,692)
Tax payables, VAT	276	287	12
Payables for withholdings	3,737	3,683	(53)
Other tax payables	18	10	(8)
	6,722	**3,980**	**(2,742)**

Current tax payables amount to € 3,980 thousand. This item mainly includes payables due to tax authorities for taxes to be paid in the form of replacement tax. The decrease is due to the reduction in payables due to tax authorities for direct taxes (IRES and IRAP), following advances paid during the course of the year.

19) Other payables and current liabilities

Other payables and current liabilities			€/000
	31 December 2016	31 December 2017	Change
Current sundry payables due to others	670	4,391	3,721
Current sundry payables due to subsidiaries	903	1,967	1,064
Payables for commissions and premiums	5,340	4,304	(1,036)
Current tax consolidation payables due to subsidiaries	1,155	-	(1,155)
Payables due to personnel	7,196	7,886	690
Current payables due to social security entities	4,659	5,210	551
Deferred income from grants for plants	1,655	1,359	(296)
Other accrued expenses and deferred income	2,643	1,996	(647)
	24,221	**27,113**	**2,891**

The increase of € 2,891 thousand, is due in particular to:

- an increase in sundry payables due to reclassification of payments for general system charges for self-produced and self-consumed electricity (article 24, Law 116/2014) equal to € 3,525 thousand, moved from trade payables to sundry payables;

- an increase in current sundry payables due to subsidiaries (VAT payable) for € 1,064 thousand;
- a decrease in payables for commissions and premiums of € 1,036 thousand;
- a decrease in payables for tax consolidation relative to subsidiaries for € 1,155 thousand.

20) Commitments and potential liabilities

Commitments and potential liabilities			**€/000**
	31 December 2016	**31 December 2017**	**Change**
Personal guarantees provided in favour of:			
subsidiaries	55,584	55,927	343
other subjects	16,229	20,097	3,868
	71,813	**76,025**	**4,211**
Real guarantees provided in favour of:			
	-	-	-
Others:			
third party securities in custody	16,882	16,882	(0)
third party assets	1,510	2,152	642
	18,392	**19,034**	**642**
	90,205	**95,058**	**4,853**

Guarantees provided to third parties in the interest of subsidiaries relate to credit institutions that issue sureties on the account of subsidiaries. Other guarantees consist of sureties provided by banks and insurance companies within the context of the Company's normal core business.
Third party securities refer to the Company's shares held in custody by Burgo Group spa.

Profit and Loss Statement for the Year

Below are the main items which were not commented on relative to the balance sheet. For comments on changes in the most significant items, please see analysis of income results in the Report on Operations.

21) Revenues

Revenues			€/000
	31 December 2016	31 December 2017	Change
Paper	1,118,071	1,111,225	(6,846)
Energy	33,665	31,446	(2,219)
Gas	35,893	46,671	10,778
Others	9,169	11,707	2,538
	1,196,799	**1,201,050**	**4,251**

Revenues increased by € 4,251 thousand. Paper sales decreased by € 6,846 thousand. Turnover associated with electricity also fell by € 2,219 thousand, while an increase in gas sales was seen in the amount of € 10,778 thousand, in particular due to greater reinvoicing of gas to Gever spa, due to higher gas costs.
The decrease in paper turnover was due to the decline in net sales prices, in part compensated for by greater volumes of paper sold, which rose from 1,708 thousand t the previous year to 1,739 thousand t in 2017.

Below is a breakdown of revenues by geographic area:

Markets			€/000
	31 December 2016	31 December 2017	Change
Italy	397,123	416,457	19,334
Europe E.U.	657,199	641,577	(15,622)
Other countries	142,477	143,015	538
	1,196,799	**1,201,050**	**4,251**

22) Other income

Other income			€/000
	31 December 2016	31 December 2017	Change
Insurance settlements	1,000	1,191	191
Environmental certificates	5,141	23,362	18,221
Energy expense recovery and reimbursements	17,246	18,297	1,052
Sundry income and expense recovery	6,449	7,005	557
Grants for current expenses	501	635	134
	30,336	**50,491**	**20,155**

Other income increased by € 20,155 thousand. The increase was substantially due to greater income from sales of environmental certificates.

23) Purchases of materials and external services

Purchases of materials and external services	31 December 2016	31 December 2017	Change
			€/000
Purchases of raw materials, subsidiary and consumable items and goods	716,784	757,002	40,218
Transport and accessory expense on purchases	11,263	11,328	65
Transport and accessory expense on sales	94,540	93,491	(1,049)
Other industrial services	13,367	12,595	(772)
Industrial maintenance	8,861	9,743	882
Electricity and methane	163,966	175,948	11,982
Fees to independent auditing firm	162	147	(15)
Fees to statutory auditors	105	105	-
Other general and administrative services	19,498	15,031	(4,467)
Rentals and leases	826	860	35
	1,029,371	**1,076,251**	**46,880**

Costs for materials and external services increased by € 46,880 thousand. The most significant changes included the increase in purchase costs for raw materials, subsidiary materials, consumables and goods (€ 40,218 thousand), the cost of electricity and methane (€ 11,982 thousand), which saw purchase prices increase during the current year, and the decrease in other general and administrative services (€ 4,467 thousand).

24) Personnel expenses

Personnel expenses	31 December 2016	31 December 2017	Change
			€/000
Wages and salaries	70,121	69,541	(579)
Social security contributions	24,383	24,100	(283)
Expenses for defined benefit programs	5,215	5,155	(60)
Others	1,413	1,173	(240)
	101,132	**99,969**	**(1,163)**

Personnel expenses decreased by € 1,163 thousand with respect to the previous year, accounting for 8.0% of turnover (8.2% in 2016). For more details, please see the Report on Operations, under the item "Personnel".

Other costs include fees to directors and expenses for personnel training.

25) Other operating costs

Other operating costs			€/000
	31 December 2016	31 December 2017	Change
Provisions			
for impairment of receivables	5,378	3,289	(2,089)
for industrial charges	301	3,326	3,025
for disputes in course	5,390	366	(5,025)
Provision for supplementary customer allowance_Other changes	(195)	(220)	(25)
for supplementary customer allowance	(141)	(217)	(76)
Other provisions for risks and charges_Other changes	-	-	-
	10,928	6,763	(4,165)
Other costs			
Corporate expenses, taxes and indirect taxes	4,714	5,555	842
Membership fees	653	655	2
Losses and other costs	1,595	946	(649)
	6,962	7,157	194
	17,891	**13,920**	**(3,971)**

Other operating costs decreased by € 3,971 thousand. For an analysis of provisions, please see note 14 "provisions for risks and charges" and note 6 "trade receivables. Relative to the increase in other costs of € 194 thousand, we note greater corporate expenses for indirect taxes and duties (€ 842 thousand) and lower extraordinary items relative to previous years recognised as contingencies (€ 649 thousand).

26) Change in inventories

Change in inventories		
	31 December 2016	31 December 2017
Change in inventories	(9,841)	773
	(9,841)	**773**

The change in warehouse inventories constitute revenues for the year of € 773 thousand, as a consequence of the increase in stocks at the end of the period. For more detailed information, please see note 5 to the balance sheet.

27) Capitalised costs for internal work

Capitalised costs for internal work			€/000
	31 December 2016	31 December 2017	Change
Capitalised costs	746	865	119
	746	**865**	**119**

This item includes costs for employee work, warehouse materials and other costs sustained to complete internal systems work, which were capitalised among property, plant and equipment. Please see the Report on Operations for more details on the main investments made during 2017.

28) Depreciation and amortisation

Depreciation and amortisation			€/000
	31 December 2016	31 December 2017	Change
Buildings	8,187	8,043	(144)
Plant and machinery	50,104	51,636	1,532
Industrial equipment	199	143	(55)
Other assets	906	847	(59)
Buildings for civil use	14	14	-
Intangible assets with defined life	360	350	(10)
	59,769	**61,033**	**1,264**

Depreciation and amortisation, equal to € 61,033 thousand, increased by € 1,264 thousand.

29) Capital gains/losses on disposal of non-current assets

Capital gains/losses on disposal of non-current assets			€/000
	31 December 2016	31 December 2017	Change
Capital gains	1,390	44	(1,346)
Capital losses	(112)	(12)	101
	1,278	**33**	**(1,245)**

The main capital gains from the year are associated with the disposal of cars to renew the fleet.

30) Writebacks/writedowns of assets

Writebacks/writedowns of assets			€/000
	31 December 2016	31 December 2017	Change
Land and buildings	149	-	(149)
Plant and machinery	19	16,000	15,981
Land and buildings for civil use	0	-	(0)
Current assets	-	-	-
	168	**16,000**	**15,832**

During the year, writedowns were recognised relative to assets totalling € 16,000 thousand, specifically € 15,400 thousand for the Verzuolo plant and € 600 thousand for the Avezzano plant. For more details, please see note 1.

31) Net expenses/income of a non-recurring nature

Net expenses/income of a non-recurring nature for the year, equal to net income of € 6,291 thousand, are associated with the sale of white certificates, which had been written down and classified among the extraordinary portion at the end of the previous year, as well as other industrial expense for the no longer operating plants (Chieti, Marzabotto and San Mauro offices).

32) Net restructuring expenses

Net restructuring expenses			€/000
	31 December 2016	31 December 2017	Change
Restructuring expenses	-	2,341	2,341
	-	**2,341**	**2,341**

€ 2,341 thousand was allocated for restructuring and reorganisation at production sites in which production has been stopped.

33) Financial expense

Financial expenses			€/000
	31 December 2016	31 December 2017	Change
Interest expense on payables due to banks	16,010	13,288	(2,723)
Discounting of severance indemnities (TFR)	659	418	(241)
Interest expense on infragroup current account	574	724	151
Other financial expense	11,911	11,251	(659)
Write-downs of equity investments	-	630	630
Financial expenses	**29,154**	**26,312**	**(2,842)**

Financial expense decreased during the year by € 2,842 thousand. More specifically, the main components of this item were the following:

- financial expense from amounts due to banks decreased by € 2,723 thousand, consisting of interest and charges payable on loans;
- lower other financial expense for € 659 thousand, relative to advances on payments granted to customers;
- items in foreign currencies did not lead do any net negative exchange differences.
- during the year, a writedown was recognised relative to the equity investment in Burgo France in the amount of € 630 thousand.
-

34) Financial income

Financial income			€/000
	31 December 2016	31 December 2017	Change
Income from equity investments			
Dividends from subsidiaries	18,150	31,448	13,298
Dividends from associated companies	598	-	(598)
Dividends from other companies	28	39	11
	18,777	31,487	12,711
Other financial income			
Financial income from disposal of equity investments	-	58	58
Interest income from banks	59	90	31
Interest income on infragroup current account	2,247	1,081	(1,165)
Other financial income	32	84	52
Exchange gains	182	943	761
	2,520	2,257	(263)
	21,296	**33,744**	**12,448**

Financial income increased by € 12,448 thousand with respect to the previous year. More specifically, the main components of this item were the following:

- dividends from subsidiaries:
    - Burgo Ardennes € 1,700 thousand (€ 8,200 thousand in 2016);
    - Burgo Central Europe € 450 thousand (€ 450 thousand in 2016);
    - Burgo Energia € 0 thousand (€ 1,300 thousand in 2016);
    - Burgo Distribuzione € 4,000 thousand (€ 2,400 thousand in 2016);
    - Mosaico € 15,000 thousand (€ 5,800 thousand in 2016);
    - Burgo Polska € 298 thousand (€ 0 thousand in 2016);
    - Gever € 10,000 thousand (€ 598 thousand in 2016);
- dividends from other companies for € 39 thousand refer to listed shares held in the portfolio.
- interest income from infragroup current accounts relative to subsidiaries for € 1,081 thousand.
- exchange gains achieved through transactions in foreign currencies.

35) Income taxes

Income taxes			€/000
	31 December 2016	31 December 2017	Change
Current taxes - IRES	(7,336)	(8,237)	(901)
Current taxes - IRAP	956	-	(956)
Deferred tax assets/liabilities - IRES	(1,033)	2,710	3,743
Deferred tax assets/liabilities - IRAP	(1,323)	258	1,580
	(8,736)	**(5,269)**	**3,467**

These include income from current IRES taxes from tax consolidation for € 8,237 thousand and net deferred tax liabilities for € 2,968 thousand.
Note that the 2016 stability law (Law 208 of 28.12.2015) established a reduction in the IRES rate from 27.5% to 24%, effective from the start of the current tax period in effect at 31/12/2017.

Reconciliation of income taxes recognised in the annual profit and loss statement and theoretical taxes resulting from application of the tax rate in effect before tax profit is as follows:

Reconciliation between income tax and theoretical tax €/000

	2016		2017	
Before tax results for the year	**(6,221)**		**(2,579)**	
Theoretical tax (IRES) - Italian tax rate in effect: 24% *		(1,711)		(619)
increases (temporary and permanent)	66,422		60,133	
decreases (temporary and permanent)	(54,979)		(71,006)	
	5,222		**(13,452)**	
Current taxes recognised in the financial statements		1,835		489
Charge (income) from tax consolidation		(9,171)		(8,726)
Deferred taxes (IRES) recognised in the financial statements		(1,033)		2,710
Total (IRES) taxes recognised in the financial statements		**(8,369)**		**(5,527)**
Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		956		0
Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		(1,323)		258
Total (IRAP) taxes recognised in the financial statements		**(367)**		**258**
Total taxes recognised in the financial statements		**(8,736)**		**(5,269)**
Effective tax rate (IRES and IRAP) on before tax result		0.0%		0.0%

* for 2016, the Italian tax rate in effect was 27.5%

Increases in income are for the most part temporary and without time limits, which is the reason the relative deferred tax assets were allocated.
Decreases in income on the other hand mainly consist of dividends, which are 95% exempt, uses of provisions for risks and charges taxed in previous year, and the reversal effect relative to writedowns not deducted in previous year.
Please see note 4 "deferred tax assets" for more information on deferred taxes, relative to both other increases and decreases and tax losses.

36) Schedule of other components of the comprehensive profit and loss statement

The schedule presented, found after the profit and loss statement at the start of the explanatory notes, illustrates the theoretical economic result that would be achieved in the case that all changes in items directly attributed to shareholders' equity passed through the annual profit and loss statement and has been adjusted to the provisions of IAS 1, indicating through grouping the items which, upon the meeting of specific conditions, will be reclassified to profit (loss) for the year and, separately, those that will not be reclassified to profit (loss) for the year.
The company has the following items:

- adjustment of financial instruments available for sale to the end of year market value. At the end of the year, the company classified the Mediobanca shares held in its portfolio as AFS. During 2016, the change was positive for € 179 thousand (see note 8 for more details).

- actuarial gains (losses) during the year which, pursuant to the revised IAS 19, are allocated to a specific shareholders' equity reserve. During the year, the gross variation was positive for € 134 thousand, which net of taxes (€ 32 thousand) is equal to € 102 thousand.

Relations with related parties

Related party transactions, including infragroup transactions, are not classified as atypical or unusual, as they are part of the Company's ordinary business.

These operations, when not completed under standard conditions or those dictated by specific regulatory provisions, are in any case carried out under market conditions.

Below are the economic and equity effects of transactions with related parties for the individual figures of Burgo Group spa at 31 December 2017.

Related party transactions (based on the definition in IAS 24) essentially involve the exchange of goods, the provision of services or the supply and use of financial means.

Relations with related parties €/000

	Subsidiaries		Associates		Total		Total financial statement items			
	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	%	31 December 2017	%
Equity relationships										
Financial receivables and other non-current financial asse	2,800	2,968	-	-	2,800	2,968	2,800	100%	2,968	100%
Trade receivables	71,294	65,845	4,049	-	75,343	65,845	203,683	37%	207,035	32%
Other receivables and current assets	11,396	7,731	-	-	11,396	7,731	18,009	63%	32,470	24%
Financial receivables and other current financial assets	36,889	30,820	-	-	36,889	30,820	54,051	68%	33,321	92%
Current financial liabilities	(607)	(5,546)	-	-	(607)	(5,546)	(84,601)	1%	(71,367)	8%
Trade payables	(73,573)	(78,038)	(5,589)	-	(79,162)	(78,038)	(318,055)	25%	(342,114)	23%
Other payables and current liabilities	(3,092)	(3,158)	-	-	(3,092)	(3,158)	(24,221)	13%	(27,113)	12%
Economic relationships										
Revenues	173,680	236,387	35,893	-	209,574	236,387	1,196,799	18%	1,201,050	20%
Other income	2,628	7,795	-	-	2,628	7,795	30,336	9%	50,491	15%
Costs for materials and external services	(222,221)	(268,825)	(35,943)	-	(258,164)	(268,825)	(1,029,371)	25%	(1,076,251)	25%
Financial expenses	(574)	(724)	-	-	(574)	(724)	(29,154)	2%	(26,312)	3%
Financial income	20,360	32,530	598	-	20,958	32,530	21,296	98%	33,744	96%

In addition the transactions reported above, at 31 December 2017 there were medium/long-term loans, exchange rate hedging contracts and insurance policies covering industrial risks and civil liability with related parties, all stipulated at market conditions.

At 31 December 2017, loans with related parties amounted to a nominal € 277,339 thousand (€ 279,681 thousand at 31 December 2016).

Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2017 totalled € 550 thousand.

As the parent company, the Company adheres to tax consolidation, together with its subsidiaries Burgo Distribuzione srl, Burgo Energia srl, Gever spa[8] , Mosaico srl and Burgo Factor spa. The first four subsidiaries also participate in group VAT liquidation pursuant to article 73 of Presidential Decree 633/72 and the Ministerial Decree of 13 December 1979.

[8] During 2017, Comecart spa incorporated Gever spa and took its company name.

Disputes

Legal disputes

At present, the Company is not involved in any legal disputes that could have a noticeable effect on its accounts.

Tax disputes

This brief note provides the status of the main tax disputes involving the company, updated as of the date these draft financial statements were prepared.

Marchi group reorganisation and non-deductibility of black list costs

The dispute relative to tax period 2003 mainly refers to certain areas of interpretation regarding an extraordinary reorganisation operation carried out prior to the incorporation of the former subsidiary Cartiere Marchi SpA.

The company was successful at the first two levels of the tax dispute (with the minor exception of certain costs relative to a supplier residing in a black list country, for which the sums have already been paid) and currently the case is headed for the Court of Cassation.

Tax audit for financial years 2007, 2008 and 2009

Financial year 2017 saw a significant development in favour of the company.

In fact, in December a settlement agreement was signed with the tax authorities which entirely eliminated the dispute for all the years in question.

Recall that the company had already been successful at the first two court levels in relation to 2007, without the counterparty appealing to the Court of Cassation. On the other hand, for 2008 and 2009 the discussion on the merits had been postponed several times by request of the tax authorities, which in the end had decided to submit a settlement proposal to the company.

The company agreed to sign this proposal, both in the spirit of resolving the dispute and also because it was deemed expedient to accept the terms as eventually defined.

The effects of the settlement agreement essentially amount to an approximately € 2.5 million reduction in IRES tax losses for 2008, nonetheless almost entirely converted to interest expense which can be carried forward, meaning there are no significant impacts on the company.

From a financial point of view, the settlement led to the payment of around € 14,000 of taxes and various accessory charges, while the tax authorities undertook in writing to repay the company that which had been provisionally advanced in relation to the R&D credit used in 2009, for around € 70,000 plus interest.

Dispute regarding exemption for excise taxes on consumption of self-produced electricity

As a reminder, note that this situation arose following certain entirely formal findings issued by the Inter-Regional Triveneto Customs Office, regarding presumed delays in the monthly communications of self-produced electricity consumption data and has evolved in a manner entirely favourable to the Company.

In fact, relative to the excise taxes, equal to € 72 thousand and relative to the Sarego plant, on 9 June 2014 the Venezia-Mestre Regional Tax Commission confirmed the favourable first level judgement which had annulled all the findings for all years in question (2006-2010). In December 2014, the Customs Office appealed to the Court of Cassation, with the company counterfiling. Hence, the case is currently headed for the Court of Cassation.

For excise taxes relative to the Tolmezzo plant (transferred to Mosaico srl as of 1 January 2014), originally equal to € 1,107 thousand, after the March 2013 sentence issued by the Udine Provincial Tax Commission, the Customs Office fully acquiesced to the ruling which annulled all claims and fines.

Significant events after year end

Relative to management, the year began with a good number of orders, but also with an increase in the cost of fibrous raw materials, against which paper producers are raising the sales prices of their products.

At the end of March 2018, container board production began at the Avezzano plant, after reconversion of line 2 which had been stopped in 2014. All personnel in solidarity returned to work.

Relative to the Duino plant, on 2 March 2018 an agreement was signed to extend the solidarity contract for 322 people for an additional 11 months.

Finally, at the Verzuolo plant, effective as of 22 January 2018 and for a duration of 12 months, an extraordinary redundancy fund for company crisis was granted, which involves an average of 150 people.

Proposal for approval of the financial statements and destination of the profits for the year

The financial year ended on 31 December with profits of € 2,690,106.22.

The Board of Directors submits the following proposal to the Shareholders' Meeting to resolve the following destination of the profits for the year:

- Reserve for unrealised exchange gains € 1,154,600.29
- Profit for the year carried forward € 1,535,505.93

Other information

Number of employees

Number of employees

	Start of year	Year end	Average 2017	Average 2016
Executives	26	25	25	27
Office Workers	457	455	454	465
Manual Workers	1,587	1,574	1,582	1,595
	2,070	**2,054**	**2,061**	**2,087**

Information about the financial risk management policy

The following information, pursuant to current accounting standard IFRS 7, is aimed at illustrating the impact that financial instruments have on the amount of risk exposure, providing details on measurements and mechanisms that the company has implemented to manage this exposure.

Significance of financial instruments relative to the equity and financial situation and economic result

Below is information regarding the significance of financial instruments relative to the equity situation and the economic result is provided separately.

Significance of financial instruments to the equity and financial situation

The table below shows the book value recognised in the annual profit and loss statement and the fair value for each financial asset and liability.

Financial instruments	31 December 2016		31 December 2017 €/000	
	Book value	Fair value	Book value	Fair value
Financial assets available for sale	815	815	994	994
Trade receivables and other receivables	242,674	242,674	247,119	247,119
Cash and cash equivalents	77,712	77,712	101,317	101,317
Hedging derivatives:				
Assets	292	292	-	-
Liabilities	-	-	(337)	(337)
Lending from banks	(209,850)	(235,256)	(207,221)	(225,613)
Loans from associated companies	(279,680)	(313,944)	(277,339)	(306,747)
Bonds	(100,000)	(114,986)	(100,000)	(114,707)
Trade payables and other payables	(348,998)	(348,998)	(378,738)	(378,738)
Current loans from associated companies	(607)	(607)	(5,546)	(5,546)
Due to banks	(74,164)	(74,164)	(44,076)	(44,076)
	(691,806)	**(766,462)**	**(663,826)**	**(726,333)**

Note that the values shown under the item "hedging derivatives" include all derivatives recognised using hedge accounting rules, regardless of the type of risk covered.
The analysis below shows the portion of derivatives designated as hedges against the specific risk analysed, on a case by case basis.
In particular, in analysing liquidity risk, only derivatives which hedge against financial liabilities are included, excluding positions which hedge against commodity risk.
After summarising the criteria and financial models used to estimate the fair value of the financial instruments shown above, further details will be provided about the individual financial items.

Derivatives

In general, the fair value of derivatives is determined on the basis of market prices, if available. If this reference is not available/accessible, fair value estimates are made on the basis of standard financial algorithms.
In particular, the fair value of forward exchange rate derivatives is calculated by discounting the difference between the contractual price and the end price, redetermined on the basis of market conditions on the reporting date.
For interest rate derivatives, when recognised, different models are used based on the type of instrument being evaluated. In particular:

- for interest rate swaps, the discount cash flow model is used. Fair value is determined by discounting estimated future cash flows on the basis of interest rate conditions at the reporting date;

- the Black & Scholes model is used for collars. Use of this model is common practice and makes it possible to assess the fair value of the option, quantifying the probability of receiving a positive payoff.

Details on financial risk hedging instruments

As part of its financial risk management processes the Company stipulates derivative contracts. Although these derivatives are traded solely for hedging purposes, not all transactions are subject to hedge accounting rules.

Details on market risk hedging instruments

Among commodity exposures, price risk deriving from volatility in the purchase prices of gas was managed by signing contracts that set prices to be paid with counterparties. Note that in 2017 the Company did not subscribe any commodity swaps.

As shown in the "financial instruments" table, the fair value of derivatives generated financial assets of € 0 million (€ 292 million in 2016) and financial liabilities for € 337 million (€ 0 million in 2016).

Investments in equity instruments

The fair value of equity instruments held to maturity and financial assets held for sale is determined on the basis of official stock market listings obtained on the reporting date.

Debt securities

The value of debt securities is calculated by adding together the current values, determined on the reporting date, of all future cash flows, including capital and interest. To quantify the portion of interest held in indexed instruments, the rate curve available at the reporting date was used.

Capital management

No particular risks nor significant information was identified relative to capital management.

Financial assets

The tables below provide a breakdown of financial assets.

Non-current financial assets €/000

	31 December 2016	31 December 2017
Loans and receivables	4,111	5,162
	4,111	**5,162**

Current financial assets		€/000
	31 December 2016	31 December 2017
Loans and receivables	275,452	272,777
Cash and cash equivalents	40,823	70,497
Financial assets available for sale	815	994
Current hedging derivatives	292	-
Non-current assets held for sale	-	-
	317,382	**344,269**

Loans and receivables include trade receivables, financial receivables due from subsidiaries, receivables due from social security entities, receivables due from tax authorities and sundry receivables.
Financial assets available for sale represent shares listed on the Milan stock market.

Financial liabilities

The table below provides a breakdown of financial liabilities.

Non-current financial liabilities		€/000
	31 December 2016	31 December 2017
Lending from banks	(205,471)	(198,320)
Loans from associated companies	(274,627)	(265,429)
Converting loan	(100,000)	(100,000)
Other payables	-	(5,531)
	(580,097)	**(569,280)**

Current financial liabilities		€/000
	31 December 2016	31 December 2017
Lending from banks	(4,379)	(8,902)
Loans from associated companies	(5,661)	(17,456)
Hedging derivatives	-	(337)
Due to banks	(74,164)	(44,076)
Trade payables and other payables	(349,395)	(373,804)
	(433,599)	**(444,574)**

Other additional information

The Company did not carry out any reclassification of financial assets, changing the measurement criteria relative to the same. As a consequence, no remeasurement was done. Additionally, no assets were transferred that did not involve elimination from the accounts.

Impact of financial instruments on the annual profit and loss statement

To highlight the impact financial instruments have on the result for the year, the following tables are provided.

Financial income and expense recognised in the profit and loss statement €/000

	31 December 2016	31 December 2017
Interest income from current account	2,306	1,172
Dividends from other companies	28	39
Income from customers	-	7
Exchange gains	182	943
Other income	32	136
	2,548	**2,296**
Interest expense from current account	(4,482)	(2,257)
Interest expense on mortgages	(12,102)	(11,756)
Charges due to suppliers	(6)	(1)
Factoring commissions	(98)	(188)
Other expense	(11,806)	(11,693)
	(28,495)	**(25,894)**
Dividends from subsidiaries and associated companies	18,748	31,448
Net income (expense) from discounting	(659)	(418)
	(7,857)	**7,433**

Financial income and expense recognised in shareholders' equity €/000

	31 December 2016	31 December 2017
Change in cash flow hedge reserve	-	-
Change in AFS securities revaluation reserve	(116)	179
	(116)	**179**
recognised to:		
fair value revaluation reserve	(116)	179
	(116)	**179**

Credit Risk

This section describes credit risk exposures and methods used to manage them in qualitative and quantitative terms.

Risk exposure

As of the reporting date, the Company's exposure to credit risk was as follows:

Exposure to credit risk €/000

	31 December 2016	31 December 2017
Financial assets available for sale	815	994
Trade receivables and other receivables	279,563	277,940
Cash and cash equivalents	40,823	70,497
	321,202	**349,431**

Trade receivables and impairment of receivables

Positions are subject to individual impairment when an objective situation of partial or full non-collectability is determined, if individually significant. Relative to receivables not subject to individual impairment, provisions are allocated on a collective basis, taking historical experience and statistical data into account.

Changes in the provision for impairment of trade receivables are summarised in the table below:

Provision for impairment of financial assets €/000

	31 December 2016	31 December 2017	Change
Balance at start of period	(44,922)	(49,397)	(4,475)
Uses	903	13,020	12,117
Provisions	(5,378)	(3,289)	2,089
	(49,397)	**(39,666)**	**9,731**

Concentration of credit risk

There are no particular risks deriving from concentration of credit, as shown in the table below.

Breakdown of risk by customer type €/000

	31 December 2016	31 December 2017
End consumers	128,526	141,190
Other group companies	125,883	107,364
Credit institutions	40,823	70,497
Tax authorities	1,698	9,933
Others	24,273	20,447
	321,202	**349,431**

Credit risk management methods

Trade receivables and other receivables

Within the context of its normal credit management activities through the dedicated department, the Company has instituted an internal credit risk management process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Regarding measurement of creditworthiness, functional to assignment of credit and the creation of commercial relationships, internal procedures require the collection and analysis of qualitative and quantitative information. Customer credit levels are periodically reviewed using a process that also makes use of historic solvency information. Customers are classified based on a two level scoring system, that differentiates between reliable and non-reliable customers. At-risk customers are subject to strict controls and any future orders are only fulfilled after approval by the Credit Committee. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for activation of corrective actions, which range from blocking orders to legal action.

In 2017, the company covered itself against credit risk relative to Italian customers by stipulating a credit insurance contract with a major insurance company.

Financial investments

The Company limits its exposure to credit risk by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market.

At 31 December 2017, exposure through securities consisted of Mediobanca shares (see the section on market risk). Additionally, financial assets also include managed savings investments made with Italian banks known to be reliable.

Guarantees

Company policies allow for the issuing of financial guarantees for associated companies.

Market Risk

Market risk is defined as the possibility that the fair value or cash flows associated with a given financial instrument fluctuate as a consequence of changes in market variables, such as exchange rates, interest rates, raw materials prices or stock market prices.

The market risk to which the Company was exposed during the year just ended can be classified as follows:

- price risk for equity instruments and other listed securities;
- exchange risk;
- interest rate risk;
- commodity risk.

Below is an analysis of the significance of these risks and the methods used to manage them.

Price risk for equity instruments and other listed securities

All equity investments held by the Company are shares listed on the Milan stock market, within the FTSE-MIB index, representing Mediobanca risk capital.

The amount of Mediobanca shares, 105,000 units, did not change with respect to the previous year. Below is a table summarising the exposure of the above within the financial statements.

Shares and funds		**€/000**
	31 December 2016	**31 December 2017**
Funds	1	1
Shares	814	993
	815	**994**

Sensitivity analysis relative to equity risk

The shares held in the Company's portfolio are significantly correlated with the FTSE MIB index, as they are listed on the same stock market.

Sensitivity analysis was done hypothesising a +/-10% change in the value of the indices. This analysis led to a fair value change of the securities in the portfolio of € 0.23 million (€ 0.19 million in 2016) and of € 0.04 million (€ 0.03 million in 2016). All effects would be seen in shareholders' equity.

Equity risk management methods

General aspects

In the context of its investment activities, the Burgo Group purchases equity investments for investment purposes. In this context, the Company may carry out financial hedging transactions relative to the portion of assets held for possible sale. The general objectives of a hedging transaction therefore involve stabilising the value of the investment, neutralising the effects generated by market variability. During the current year, the Company did not carry out any hedging transactions.

Equity risk management policies

Hedges are organised with reference to pre-established development strategies and with the aim of minimising exposure to unfavourable trends on the market, stabilising the impact on the annual profit and loss statement.

Exchange risk

The Company holds some of its trade receivables/payables in currencies other than the euro, and also has short-term loans in foreign currencies.
The exchange risk management policy establishes that derivatives should only be used to hedge against risk. Derivatives existing at 31 December 2017 used to manage exchange risk include only futures contract to purchase/sell foreign currencies. Even if these serve hedging purposes, these derivatives are not recognised using hedge accounting, as the rigidity of this treatment would negative impact the operational efficiency of the hedges.
The foreign currencies used by the Company are CHF, JPY, PLN, AUD, GBP and USD, with the final three representing almost the entirety of trade items in foreign currencies.

Sensitivity analysis relative to exchange risk

In order to measure the possible effects of changes in the exchange rate obtained at the reporting date on the balance sheet and annual profit and loss statement, a variation in the value of the euro with respect to the reference foreign currencies at 31 December 2017 was hypothesised.
Specifically, a 10% upward and downward shock in the euro exchange rate was applied, recognising the additional profit or loss with respect to the market scenario to risky items, which in this case were represented by trade payables and receivables and exchange rate derivatives.
Since the exchange rate derivatives are not recognised using hedge accounting, the impact of these transactions - similar to trade payables/receivables - is seen solely in the profit or loss for the year and hence in the annual profit and loss statement.
The net impact on the result from the year deriving from a +/- 10% shock would have been, respectively, € -1,576 thousand (€ -2,005 thousand in 2016) and € 1,926 thousand (€ 2,451 thousand in 2016).

Exchange risk management methods

In relation to sales activities, the Company makes purchases and sales other currencies, at present in USD and GBP. Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.

Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.

General aspects

Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget and/or forecasts into account.

Exchange risk management policies

The special nature of the Company's business allows it to make forecasts relative to financial issues relative to flows in foreign currencies. Estimates of flows must meet all the formal requirements relative to amount, currency, date of manifestation and status relative to the probability of manifestation, necessary when producing exposure measurements.

Exchange risk hedging transactions are carried out in compliance with cash flow hedge principles, which amount to neutralising the effects induced by changes in the exchange rate on the value in euros of cash flows denominated in foreign currencies.

Hedging policies are managed exclusively through the use of forward contracts and options relative to exchange rates, to guarantee more flexible coverage with respect to forward contracts. Currently, exposure to exchange rate derivatives falls within the forward category.

Interest rate risk

Financial liabilities which expose the Company to interest rate risk are medium/long-term variable rate loans.

In terms of assets, items sensitive to interest rate risk are:

- a loan to an associated company indexed to the variable 6-month Euribor rate.

This asset is classified as "held to maturity" and do not generate effects on the annual profit and loss statement/balance sheet if not due to effects of cash flows received (financial income) or any lasting losses of value which make recognition of impairment necessary.

The table below identifies positions subject to interest rate risk.

Positions with interest rate risk		€/000
	31 December 2016	31 December 2017
Fixed rate financial instruments		
Financial assets		
Non-current guarantee deposits	1,310	2,192
Financial liabilities		
Fixed rate loans	(622)	-
	688	2,192
Variable rate financial instruments		
Financial assets		
Financial instruments with positive FV	292	-
Loans to associated companies	2,800	2,968
Financial liabilities		
Derivatives with negative FV	-	(337)
Variable rate loans	(588,909)	(584,560)
Current account advances	(74,561)	(44,673)
	(660,378)	**(626,602)**
	(659,689)	**(624,409)**

Sensitivity analysis relative to interest risk

Analysis was done to determine the impacts of a +/- 100 basis point shift in the estimated interest rate curve at 31 December 2017 on the annual profit and loss statement and balance sheet.

Analysis was done supposing that the other variables, in particular exchange rates, remained constant and was done using the same suppositions as in 2017.

In each curve scenario, and limited to derivatives subject to hedge accounting rules, an after the fact efficacy test was performed again to quantify the impact on shareholders' equity (efficacy component) and on the results for the year (any inefficacy component). In every case, for non-linear derivatives (collar) the time value change with respect to the effective market scenario was recognised in the annual profit and loss statement.

At 31 December 2017 the company did not have any derivatives.

In order to determine the impacts of asset and liability items indexed at variable rates on the result for the year, a shock was also applied to cash flows effectively paid during the administrative period. These analyses made it possible to identify the greater financial expense/income that would have been recorded in the annual profit and loss statement if interest rates had been 100 bps higher or lower than those actually recorded.

The impact on the annual profit and loss statement deriving from a +/- 100 bps shock would have been, respectively, € -5.2 million and € 0.4 million (in 2016: € -6.4 million and € 1.0 million). The effect on shareholders' equity was null in that there are not financial liabilities relative to derivatives.

Interest risk management methods

General aspects

In the context of its own economic production, which is capital intensive, the Company makes investments for production purposes by taking out loans. In this context, it carries out cash flow hedge transactions, which serve to neutralise the effects of an increase in the rates on the cost the Company must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable.

Interest risk management policies

Medium/long-term hedges are organised, if necessary, on the basis of forecasts developed over a multi-year time frame on the basis of financial/economic budgets, cash flow estimates and the net financial position. The amount hedged may vary between 30% to 100% of the notional value of the instrument hedged and be structured for a period of time that in general ranges from a minimum of 3 years to a maximum of 10 years.

Commodity risk

Commodity risk arises relative to gas purchases.

Gas price risk

In order to supply its various plants with the electricity necessary for production, the Company has various contracts to purchase gas. Given the variable nature of the price of the commodity, the Company suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by using derivatives (although none were in existence at the end of the year) and by setting prices with counterparties. At 31 December 2017, the Company had gas purchases with the following characteristics in effect:

- fixed price purchases;
- variable price purchases on the basis of the spot gas price recorded on the Italian PSV market.

Commodity risk management methods

General aspects

The Company's strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in electricity purchase/sales prices and purchase prices of materials used in production processes, in order to minimise exposure to the correlated risk and losses. With an eye to continuously reducing loss risks, the Company has the simultaneous objective of minimising costs associated with obtaining its production factors.

When negotiating financial contracts for raw materials, the Company does not have the ability to take risk positions on the commodities market. These contracts will have the sole purpose of reducing the risk of an increase in the purchase prices of the production factors used in production processes.

Relative to risk monitoring, the Company applies a quantitative measure for risks, both with reference to analysing exposures and to measuring the efficacy of derivatives negotiated for hedging purposes.

Commodity risk management policies

Management of risks associated with oscillations in the prices of commodities includes the involvement of several administrative departments within the Company. These include, in addition to those already cited, the Purchasing Department and the Sales Department. In determining its hedging strategy and with reference to the various types of supply contracts, the Company implements mitigation strategies with the objective of stabilising its profit margin.
With reference to the procedures used to estimate exposure to risks associated with commodities, the following elements are considered:

- nominal quantities, that it is the quantity recognised within physical and financial contracts;
- fair value/stop loss, that is the amount calculated on the basis of the current value of future financial flows generated by the contract as a function of price indexing rules. Stop loss identifies the largest sustainable loss in terms of fair value. In addition to this threshold, the position must also be closed with a symmetrical contract in the opposite direction;
- the change in the value of the position following a marginal variation in the price of energy (only for variable price contracts);
- the change in the value of the position following a marginal variation in the price of the commodities (only for indexed price contracts).

Liquidity Risk

Liquidity risk is the risk that the Company will have difficulty complying with its future obligations relative to financial liabilities. Risk analysis is done with the aim of quantifying cash flows deriving from the various types of financial liabilities held by the Company at 31 December 2017, at each contractual repayment date.
Financial liabilities have been broken down into non-derivative financial liabilities and derivative financial liabilities, based on their nature. For the latter, given the difference in accounting treatment, it was necessary to carry out a further classification based on whether or not the derivative is classified as a hedging instrument according on the accounting standards.
Relative to cash flow maturities, given the nature of the Company's monetary cycle it was held expedient to group payments into half-yearly payment buckets.
To quantify cash flows on liabilities index at variable rates, the measurement method based on forward interest rates implicit in the market rate curve was used.
For derivatives, the following approach was used:

- *Collar:* cash flows were estimated on the basis of the non-discounted fair value of individual caplets/floorlets;

- *swaption:* expected cash flows deriving from the swaption were measured on a non-discounted fair value basis relative to the financial instrument, weighted by the probability the option will be exercised.

Below is a summary of analysis done on derivative financial liabilities and non-derivative financial liabilities, providing a comparison between the situations at 31 December 2017 and 31 December 2016.

31 December 2016							€/000
	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financial liabilities:							
Loans	589,530	664,954	4,168	12,597	31,368	131,448	485,373
Trade payables and other payables	348,998	348,998	348,998	-	-	-	-
Derivative financial liabilities:							
Hedging derivatives	(292)	(292)	(292)	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-	-
Currency futures contracts	-	-	-	-	-	-	-
	938,237	**1,013,661**	**352,874**	**12,597**	**31,368**	**131,448**	**485,373**

31 December 2017							€/000
	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financial liabilities:							
Loans	584,560	655,444	3,998	24,055	56,228	571,163	-
Trade payables and other payables	378,738	378,738	373,207	-	2,998	2,533	-
Derivative financial liabilities:							
Hedging derivatives	337	337	337	-	-	-	-
Non-hedging derivatives	-	-	-	-	-	-	-
Currency futures contracts	-	-	-	-	-	-	-
	963,635	**1,034,519**	**377,542**	**24,055**	**59,226**	**573,696**	**-**

Liquidity risk management methods

General aspects

The Company's approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.

Liquidity risk management policies

The Company performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows. Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for the short term (around 3 months). For short-term financial needs, credit lines are available totalling around € 284 million, currently used for around 19% of the total. For long-term financial requirements, the Company has loans of around € 585 million at market rates.

REPORT OF THE INDEPENDENT AUDITING FIRM

EY
Building a better working world

Burgo Group S.p.A.

Financial statements as at December 31, 2017

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

Building a better working world

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

To the Shareholders of
Burgo Group S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Burgo Group S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2017 and the statement of income, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
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The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 International Standards on Auditing (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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as 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.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Burgo Group S.p.A. are responsible for the preparation of the Report on Operations of Burgo Group S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Burgo Group S.p.A. as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Burgo Group S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Verona, April 13, 2018

EY S.p.A.

Signed by: Daniele Tosi, Partner

This report has been translated into the English language solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS

BURGO GROUP S.p.A.

Registered office: Via Piave 1 – Altavilla Vicentina (VI) Italy
Fully paid up share capital: € 205,443,391.40
Registered with the Vicenza Business Registry, no. 13051890153

Board of Statutory Auditors' Report to the Shareholders' Meeting pursuant to article 2429, paragraph 2 of the Italian Civil Code

Dear Shareholders,
This report was approved by the Board in time for it to be filed at the company's registered offices in the 15 days prior to the date of the first call of the Shareholders' Meeting called to approve the financial statements commented on herein.
In doing so, the administrative body made available the following documents relative to the financial year ending on 31 December 2017, approved on 28 March 2018:

the draft financial statements, together with the explanatory notes;
the report on operations;
the consolidated financial statements.

The layout of this report is similar to that used the previous year, inspired by the law and further influenced by Standard No. 7.1. of the "Standards of Conduct of Boards of Statutory Auditors – Principles of Conduct of Boards of Statutory Auditors of Unlisted Companies", issued by Italy's National Council of Chartered Accountants and Accounting Experts and in effect since 30 September 2015.

General introduction

Explanatory Notes in XBRL format

The Board of Statutory Auditors noted that the administrative body did not prepare the explanatory notes making use of the "XBRL taxonomy", as the Company is exempt from this requirement, as it prepares its annual financial statements on the basis of the provisions of Italian Legislative Decree 38/2005, implementing the International Financial Reporting Standards (IFRS).

Knowledge of the company, assessment of risks and report on assignments

The Board of Statutory Auditors notes that planning of its supervisory activities was carried out by making use of the information it has acquired over time with reference (i) to the type of business carried out by the Company, (ii) its organisational and accounting structure, and (iii) its size and issues. The Board of Statutory Auditors recalls that during planning of its supervisory activities, it is necessary to evaluate the intrinsic risks and critical issues relative to the above-referenced parameters.

It was thus possible to confirm that:
the core business conducted by the Company did not change during the reporting year and is consistent with the Company's objective;
its organisational structure and IT structures and equipment remained essentially unchanged;
the human resources constituting its "workforce" decreased, from 2,070 units to 2,054 units, in line with the schedule restructuring plans;
the foregoing is indirectly borne out by a comparison of the figures presented in the statements of profit or loss for the past two years, i.e., the reporting year (2017) and the previous year (2016). Consequently, our checks were carried out with these presuppositions, having verified the substantial compliance of the figures and results with those of the previous year.

This report therefore summarises activities relative to the disclosure required under article 2429, paragraph 2 of the Civil Code and, more specifically:
the results for the reporting year;
the activity performed in fulfilment of the duties imposed by law;
remarks and proposals concerning the financial statements, with particular regard to any use by the administrative body of exceptions pursuant to article 2423, paragraph 4 of the Civil Code;
any complaints received from the shareholders pursuant to article 2408 of the Civil Code.

The activities carried out by the Board of Statutory Auditors concerned the entire year. During the year, the meetings set out in article 2404 of the Civil Code were regularly held, documented with specific minutes that were duly signed indicating unanimous approval.

Supervisory activities
During its periodic verification, the Board of Statutory Auditors inquired into the course of the Company's business, with a particular focus on matters of a contingent and/or extraordinary nature, so as to identify their impact on the Company's operating performance and financial structure, in addition to any risks, such as risks deriving from losses on receivables, which were subject to regular monitoring.
The Board of Statutory Auditors also periodically assessed the adequacy of the enterprise's organisational and functional structure and any changes in that structure with respect to the minimum needs established by operating performance. Relations with persons operating within the aforementioned structure — directors, employees and external advisors — were inspired by mutual collaboration, in accordance with the roles entrusted to each, with a clear understanding of those of the Board of Statutory Auditors.

For the entire year, it was determined that:

internal administrative personnel tasked with recording company events remained essentially unchanged compared to the previous year;
their level of technical competency remained appropriate to the nature of the ordinary operating events to be recorded and they have sufficient knowledge of the Company’s concerns;
external advisors and professionals assigned to provide accounting, tax, corporate and employment law assistance did not change and have long-standing knowledge of the business conducted and ordinary and extraordinary management concerns that affected the results presented in the financial statements.

The information required under article 2381, paragraph 5 of the Civil Code was provided by the CEO even more frequently than the minimum schedule of every 6 months, both at the time of scheduled meetings and through individual communications with members of the Board of Statutory Auditors at the company's offices, as well as through telephone and digital flows of information with members of the Board of Directors. From all of this, it derived that the executive directors complied with that established under the cited norm, both in substance and form.

In conclusion, to the extent it could be determined in the course of the activity performed during the year, the Board of Statutory Auditors may state that:
the decisions made by the shareholders during the sole Shareholders' Meeting held during the year, as well as those made by the administrative body during their six Board of Directors meetings were compliant with the law and the Articles of Association and were not manifestly imprudent or such as to definitively compromise the Company’s financial integrity;
sufficient information was acquired relative to the general trend of management and foreseeable outlook, as well as on the transactions of the greatest significance, relative to size of characteristics, carried out by the company; the transactions implemented were also compliant with the law and the Articles of Association and were not potentially in conflict with the resolutions made by the Shareholders' Meeting or such as to compromise the integrity of company equity;
there were no specific remarks on the adequacy of the Company’s organisational structure, nor on the adequacy of its managing and accounting system, or the reliability of the latter in properly representing operating events;
the information acquired by the Oversight Committee did not indicate any problems with respect to the current Organisational Model that must be highlighted in this report;
in performing our supervisory activity, as described above, no further material information or events that would require mention in this report have been identified;
it was not necessary to take action in response to omissions by the administrative body pursuant to article 2406 of the Civil Code;
no complaints were received pursuant to article 2408 of the Civil Code;
no complaints were made pursuant to article 2409, paragraph 7 of the Civil Code;
during the year, the Board of Statutory Auditors provided its opinion on the proposal for variable remuneration of the CEO pursuant to article 2389, paragraph 3 of the Civil Code.

Individual Financial Statements

Recalling that we are not responsible for the independent auditing of the financial statements, we examined the annual financial statements at 31 December 2017 made available to us pursuant to the terms of article 2429 of the Civil Code, relative to which we note the following.

We monitored the general structure given to these financial statements, their general compliance with the law in terms of format and structure and to that end we have no particular observations to make. We verified compliance with the provisions of law governing the preparation of the Report on Operations and have no particular observations to make.

To the extent of our knowledge, in preparing the financial statements, the Directors did not elect to apply any exceptions to provisions of law pursuant to article 2423, paragraph 4 of Civil Code.

The financial statements were prepared in application of the international accounting standards issued by the International Accounting Standard Board (IASB) and approved by the European Commission pursuant to regulation EC 1606/2002, in the same manner as the previous year.

The financial statements show net profits of € 2.7 million, compared to the profits of € 2.5 million seen the previous year. Shareholders' equity amounted to € 389.1 million against € 386.1 million at 31 December 2016.

Consolidated Financial Statements

We also examined the draft consolidated financial statements at 31 December 2017, made available to us pursuant to article 2429, Civil Code, together with the draft financial statements of the parent company and the relative reports on operations. The reporting date of the financial statements of the companies within the scope of consolidation coincides with that of the financial statements of the consolidating company.

The consolidated financial statements were prepared in compliance with the provisions of Legislative Decree 127 of 9 April 1991. The year ended with profits of € 8.4 million and shareholders' equity of € 300.2 million.

The explanatory notes analytically indicate criteria and the scope of consolidation and there are no differences with respect to the previous year in terms of the criteria used to prepare the consolidated financial statements. In particular, the scope of consolidation includes companies controlled in compliance with articles 26 and 28 of Legislative Decree 127/1991 and the changes with respect to the previous year. The consolidation procedures adopted follow the line-by-line and global method relative to measuring the controlling stake held. Relative to associated companies, the equity method was used.

In regards to the report on operations, we note that the information is complete and the figures are congruent with those found in the consolidated financial statements.

Report of the Independent Auditing Firm

Note that the Independent Auditing Firm appointed to audit the individual and consolidated financial statements issued its own reports on the individual and consolidated financial statements at 31 December 2017 on 13 April 2018. Both reports indicate compliance with the IFRS/IAS accounting standards, with no requests for additional information.

Conclusions

In the light of the above, the Board of Statutory Auditors, in regards to its areas of responsibility, has not found any reasons to prevent the approval of the draft financial statements at 31 December 2017 for Burgo Group S.p.A., as presented to you by the Board of Directors. We therefore invite you to make the consequent resolutions.

Altavilla Vicentina, 13 April 2018

Signed by the Board of Statutory Auditors:

Fedele Gubitosi - Chairperson

Franco Corgnati - Regular Auditor

Gaetano Terrin - Regular Auditor