BURGO GROUP

*paper power & passion*

# TWO THOUSAND EIGHTEEN

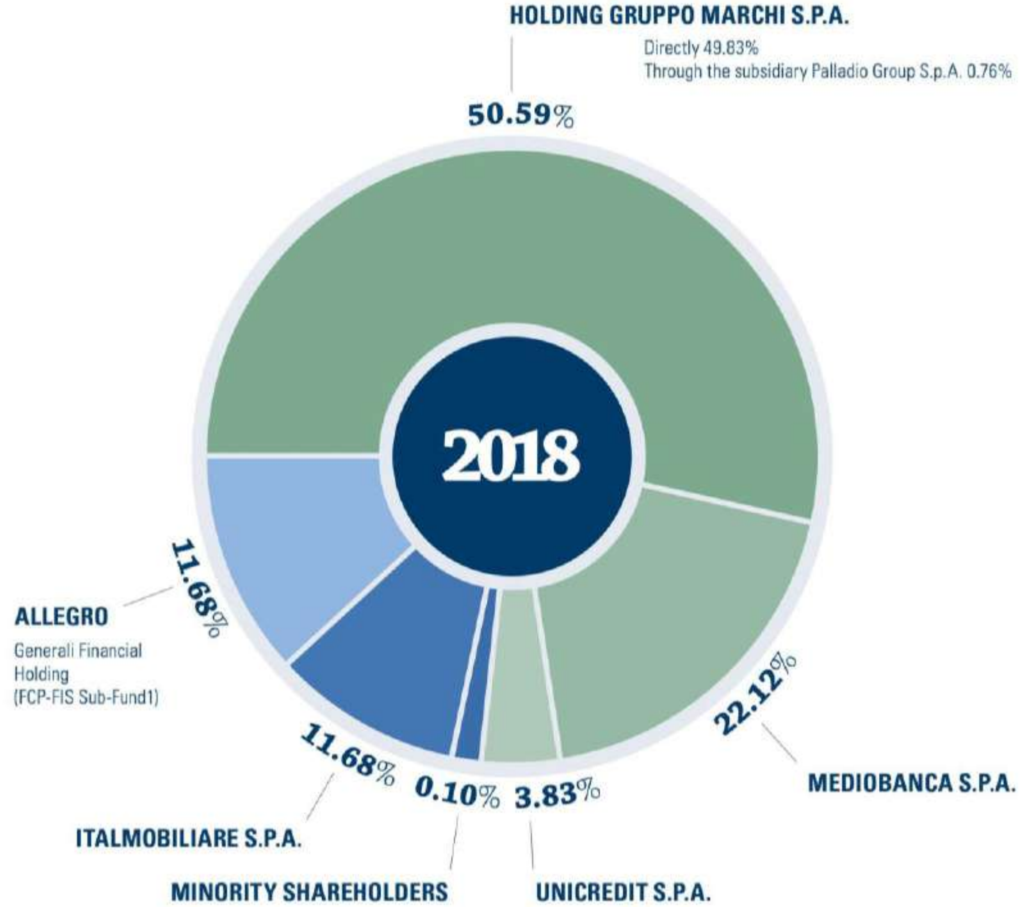
Financial statements as at 31st december 2018

BURGO
GROUP
*paper power & passion*

# THE BURGO GROUP STRUCTU RE

# The Burgo Group Structure

## BURGO GROUP S.P.A. SHAREHOLDERS

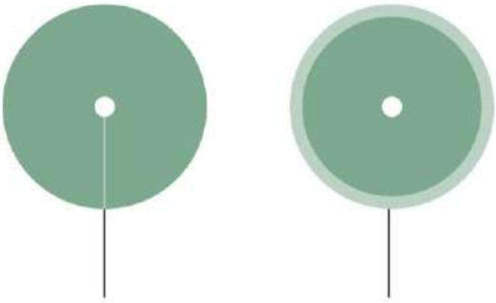


# Equity investments

**THE PARENT COMPANY BURGO GROUP S.P.A. HOLDS**

**100%**
of the share capital of

**90%**
of



**Burgo Ardennes SA (BE)**
**Burgo Distribuzione S.r.l.**
**Burgo Energia S.r.l.**
**Mosaico S.r.l.**

**Burgo Factor S.p.A.**

**Gever S.p.A.**

THE BURGO GROUP ALSO HAS FULL CONTROL OVER THE COMPANIES THAT PERFORM SALES AND DISTRIBUTION ACTIVITIES ABROAD:

**Burgo Benelux SA (B)**
**Burgo France Sarl (F)**
**Burgo UK Ltd (UK)**

through **Burgo Ardennes SA** (100.00%)
**Burgo Ibérica Papel SA (E)**

through **Burgo Ardennes SA** (99.80%)
and **Burgo Group S.p.A.** (0.20%)
**S.E.F.E. Sarl (F)**

**Burgo Central Europe (D)**
**Burgo North America Inc. (USA)**
**Burgo Polska Sp.z.o.o. (PL)**

# Burgo Group

**HONORARY CHAIRPERSONS**

**Giuseppe Lignana**
**Aldo Marchi**

**BOARD OF DIRECTORS**
*(three years 2018 - 2020)*

Chairperson
**Alberto Marchi**

Chief Executive Officer
**Ignazio Capuano**

Directors
**Alberto Franzone**
**Alessandro Foti**
**Enrico Laghi**
**Lorenzo Marzotto**
**Alfonso Sonato** *(in office until 30/09/2017)*
**Pietro Manzonetto** *(in office 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**
*(three years 2016 - 2018)*

**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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BURGO GROUP

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# REPORT ON OPERATIONS

# REPORT ON OPERATIONS

## THE GROUP AND THE MARKET IN 2018

In 2018, the global economy remained solid although, especially during the second half of the year, signs of slowing began to appear with regards to production and commerce. The main reasons for this are the increase in tariffs, in particular by the United States, and the return measures adopted by other nations such as China, in the context of a situation tending towards growing protectionism in global commerce. Among the emerging countries, the Chinese economy, although solid, showed signs of weakening. Prospects for 2019, therefore, generally suggest a slowing of trade and growth, taking into account inflation that will, as a rule, remain moderate in the main world economies.
The euro zone also continued to expand during the first half of the year, but subsequently also showed signs of suffering from the slowdown in global trade. Inflation remained at around 2%, even if the basic component remained low, but the need to continue with an accommodating monetary policy has appeared again. For Europe, an additional element of uncertainty was associated with the results of the negotiations with the United Kingdom, which seem to be making little progress, increasing the risks associated with a no-agreement exit.
Within Europe, Italy showed more moderate growth than other countries which, during the last two quarters, seemed to translate into a genuine technical recession. At the financial level, the spread relative to return differentials on ten-year government bonds and the corresponding German bonds rose significantly, at present exceeding 200 basis points.
During 2018, the exchange rate between the euro and the dollar fell progressively from values of around 1.23 during the first months, fluctuating between 1.13 and 1.14 at the end of the year, taking into account, beyond the greater positive growth trends in the economy, the policy to increase interest rates implemented by the Federal Reserve in the United States.
In this situation, our Group operated on the basis of the guidelines established in the "*Burgo2020*" Business Plan, with a strategy increasingly focussed on business with greater added value, such as special paper and cellulose, and those with prospects for increased demand such as cardboard. In this way, the transformation of the Toscolano plant from the production of graphic paper to special paper was completed, with the consequent decision to transfer the plant, effective as of 1 January 2019, from Burgo Group spa to Mosaico srl.
In terms of strategic investments, projects to modernise cellulose production were begun, which also include objectives associated with energy savings and safety, which will be completed during 2020. Similarly, the decision to increase our presence on the cardboard market was supported through the reconversion of another graphic paper production line. This was a further move associated with the strategy of reducing our presence in this market segment.
The focus on these aspects also supported the group in its decision to stop selling electricity and gas to end consumers, with the Burgo Energia srl business unit disposed of during the year.
The economic and financial results for the year were influenced by certain particularly significant events.

First of all, relative to energy markets, the average price of gas for the thermal year (October 2017/September 2018) saw an average increase of 22%. Prices during the last quarter of 2018 were even higher, when the price of gas per standard cubic metre reached prices of around € 0.29, negatively influencing the results for the final part of the year. During the initial months of 2019, the price has progressively fallen, with prices at around € 0.21.

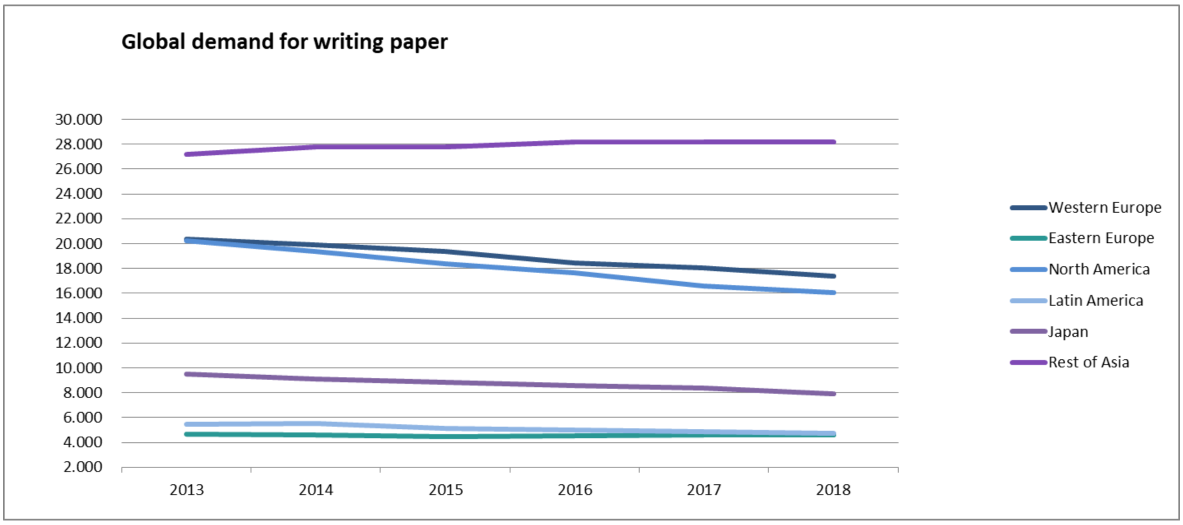
Moving on to the electricity market, the average price of the average SNP for the year was greater than € 61 per Mwh, showing a 13.6% increase with respect to 2017. An additional increase was seen in January 2019, with prices exceeding € 67 per Mwh, while in February the price fell to around € 58 per Mwh.

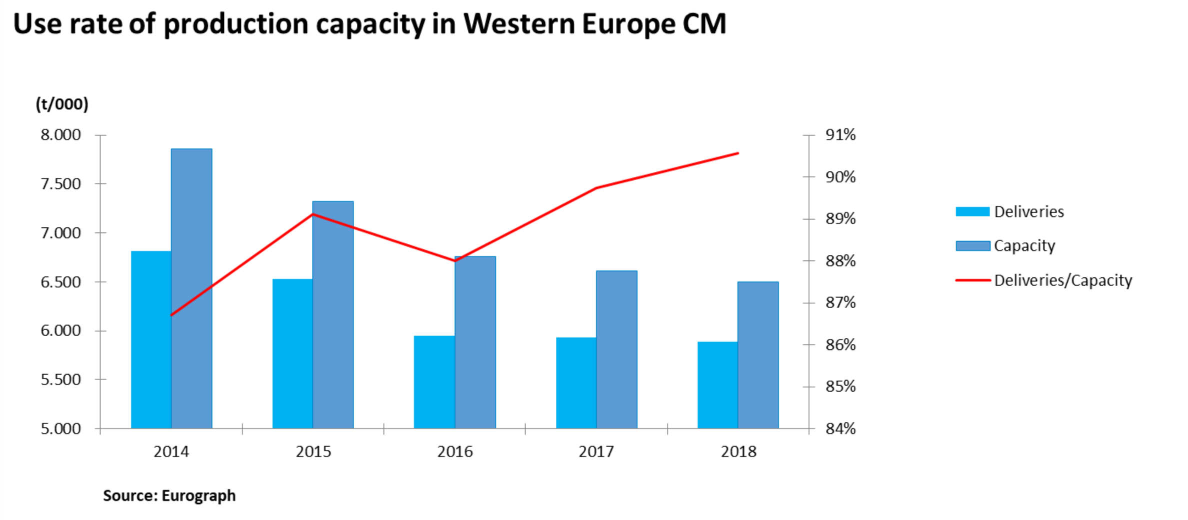
Relative to our Group's reference market, demand for graphic paper globally fell by 2.3%, while in western Europe the decrease was greater, -3.6%, with forecasts through 2022 indicating an average annual reduction of 3.9%. Demand is also falling in North America, -3.3%, and in Asia, -1.4%.

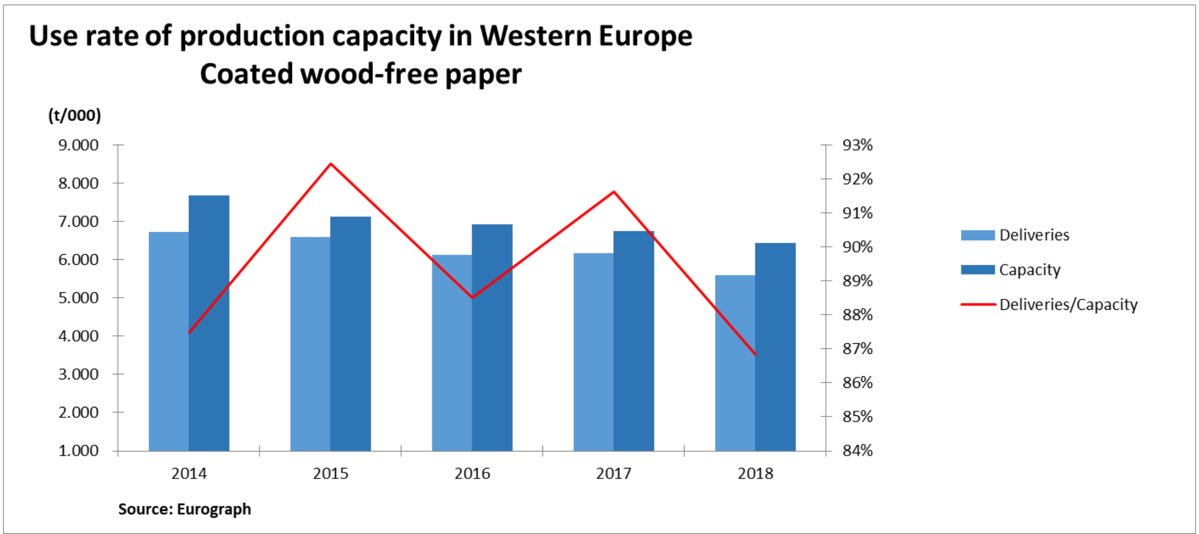
Analysing the situation in the western European market, in the sectors in which our Group works, we see:

- with regards to graphic paper production capacity, a reduction of 1.5% relative to coated paper and of 3.8% relative to woodfree coated paper;
- with regards to demand, a reduction of 3.1% for the coated segment (CM), of 7.1% for woodfree coated (CWF) and of 3% for the natural paper sector (UWF).

In conclusion, the actions carried out to implement the strategy outlined in the *Burgo 2020* plan, strengthened by investments to convert to the production of cardboard and special paper, in a situation where costs for electricity and raw materials are rising sharply, have allowed the group to improve its economic results with respect to the previous year and to further reduce its net financial position, achieving all the financial objectives and commitments established.






## DEVELOPMENT LINES AND MANAGEMENT OUTLOOK

In relation to the market situation, a further reduction in the consumption of graphic paper is predicted for 2019, of around 3.8% with regards to western Europe.

During the first months of the year, slowdowns in orders appear to be occurring, also due to the trade reprisal policies that certain countries are implementing. It is to be hoped that these can be overcome as quickly as possible to rebuild an environment favourable to an increase in global trade.

During 2018, the group began certain significant investments which will see completion during 2019 and 2020. The first objective is to increase our presence in the cardboard market by conversion another production line. The second objective involves updating and modernising systems dedicated to cellulose production, which will also offer significant energy savings.

As of 1 January 2019, the Toscolano plant, after substantially completing conversion of production from graphic paper to special paper, as originally established in the *Burgo 2020* plan, was transferred to Mosaico s.r.l.

Hence, production lines for special paper have increased, while reductions in those dedicated to graphic paper continue.

## PRODUCTION

Paper production, the Group's main area of business, amounted to **2,039,068 tonnes**, with a negative change of -0.9% with respect to the previous year.
Production of cellulose came to **414,233 tonnes**, up by 1.9%, while wood pulp production totalled **248,445 tonnes**, showing a decrease of -7.6%.
Finally, electricity production amounted to **2,518,897 MWh**, a 0.7% increase.

**Production Data**

| | | 2017 | 2018 | % change |
|---|---|---|---|---|
| Paper | t/000 | 2.057 | 2.039 | -0,9% |
| Cellulose | t/000 | 406 | 414 | 1,9% |
| Wood pulp and Deir | t/000 | 269 | 248 | -7,6% |
| Electricity | kWh/mln | 2.501 | 2.519 | 0,7% |

## SALES

Group turnover amounted to € 1,812 million, down by -6.3% (-€122 million) with respect to 2017, when the figure was € 1,934 million. Paper revenues totalled € 1,451 million, up by 0.7% with respect to the previous year. Cellulose revenues came to € 97 million, showing a positive change of 15.2%. Energy revenues fell by 36.8%, as did other revenues, which include sales of ligninsulphonate, amounting to € 18 million compared to € 21 million (-11.2%).

**Business segments** €/mln

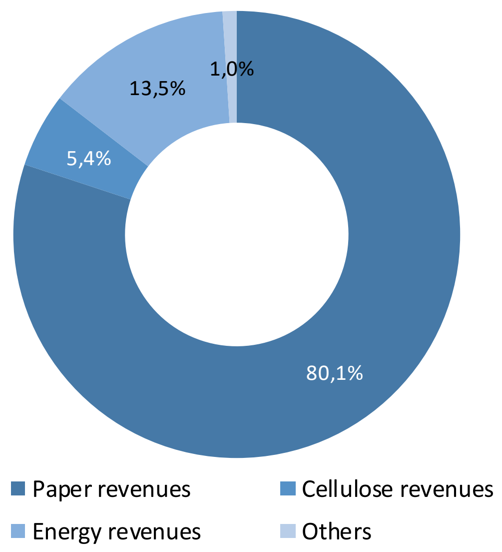
| | 2017 | 2018 | % change |
|---|---|---|---|
| Paper revenues | 1,440 | 1,451 | 0.7% |
| *% of total revenues* | *74.5%* | *80.1%* | |
| Cellulose revenues | 84 | 97 | 15.2% |
| *% of total revenues* | *4.4%* | *5.4%* | |
| Energy revenues | 388 | 245 | -36.8% |
| *% of total revenues* | *20.1%* | *13.5%* | |
| Others | 21 | 18 | -11.2% |
| *% of total revenues* | *1.1%* | *1.0%* | |
| | **1,934** | **1,812** | **-6.3%** |

The breakdown of sales between the internal market and exports showed a decrease in sales in the domestic market in 2018 greater than that seen abroad. It follows that exports saw their impact in percentage terms grow with respect to sales in Italy.

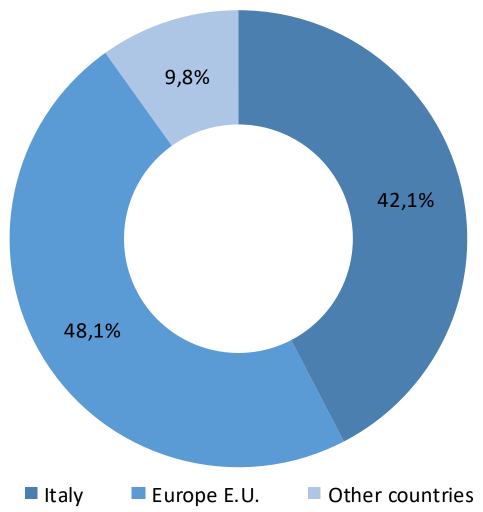
**Markets** **€/mln**

| | 2017 | 2018 | % change |
|---|---|---|---|
| Italy | 842 | 768 | -8.8% |
| *% of total revenues* | *43.6%* | *42.4%* | |
| Europe E.U. | 902 | 865 | -4.1% |
| *% of total revenues* | *46.7%* | *47.7%* | |
| Other countries | 189 | 179 | -5.3% |
| *% of total revenues* | *9.8%* | *9.9%* | |
| | **1,934** | **1,812** | **-6.3%** |

**Turnover by business sector - 2018**




**Turnover by market – 2018**




## PRICES

In 2018, the average gross sales price of graphic paper rose in all segments with respect to the previous year.

More specifically:

In Europe:

- prices for ***CM*** (coated mechanical) increased on average by +6% with respect to 2017. The annual trend showed constant price growth from Q1 to Q3 and stability in Q4;
- the group of ***CWF*** (coated woodfree) saw constant price increases in all quarters, ending the year at +10% over 2017, with more significant price increases;

- the ***UWF*** (uncoated woodfree) segment saw the average price increase, reaching +9% with respect to the previous year;
- ***Speciality Papers*** also saw growth with respect to 2017;

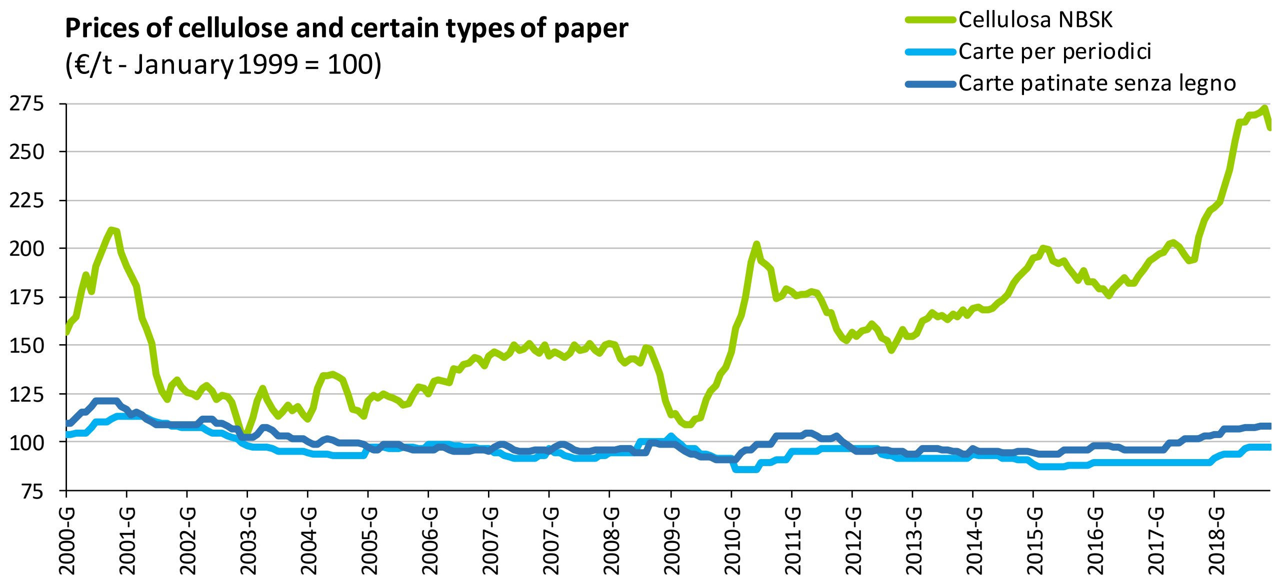
In Italy:

- prices of ***CM*** (coated mechanical) followed the same trend as other European markets, showing an average increase of +6% with respect to 2017;
- the family of ***CWF*** (coated woodfree) saw a price increase of +8.5%, less significant with respect to the average for other European countries;
- in the ***UWF*** (uncoated woodfree) sector the average price saw a greater increase with respect to the other segments, totalling 11.5%. It was also higher than the European market as a whole;
- the price of **containerboard** also rose, recording +12% over 2017.

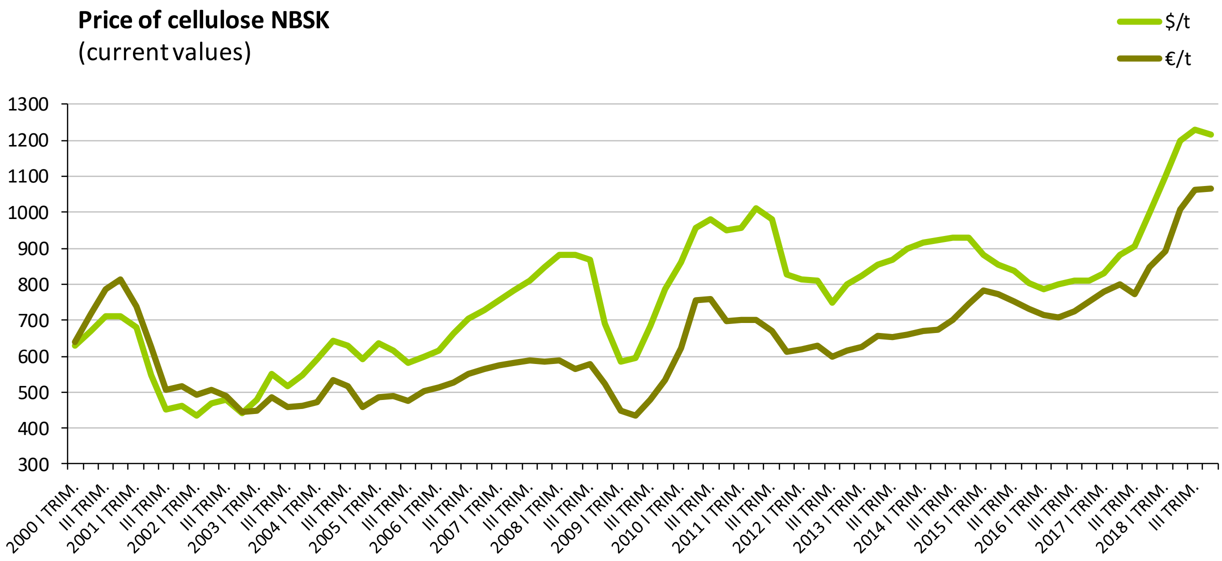
*source: RISI*

## COSTS

In 2018, the average price for NBSK long-fibre cellulose (US$1,186/t) increased with respect to 2017 by 31.1% in dollars and 25.7 % in euro. The price for short fibre eucalyptus (US$1,039/t) increased both in dollars and in euro, respectively by 22.5% and 17.7% (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 on the GME (day ahead and infraday markets - MGP and MI), on the EEX (futures market for French, German and Italian electricity), the IDEX (futures market for German and Italian electricity), on the German spot market and on bilateral trading platforms (Over the Counter - OTC). In this context, the subsidiary Burgo Energia manages the excess and gaps for the Group's plants.
In 2017 the company began operating as the Balance Service Provider (BSP) in the context of the services supplied to the TERNA electrical grid, through demand aggregation areas (UVAC). During 2018, Burgo Energia confirmed and extended its role as BSP relative to Terna, also aggregating additional end consumers within its scope beyond the Burgo and Mosaico production plants. For 2018, Burgo Energia was awarded balancing capacity of a total of 78 MW, making it one of the most important operators in the sector at the national level.
Additionally, in the year just ended, it began to participate with greater interest in the CCC auctions, which involve awarding of hedging tools relative to the risk of volatility in the fee awarded for transport capacity (CCC) for market operators who own dispatching points for production and importation.
As regards gas, Burgo Energia carried out 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.
One of the most significant events of the year was the Group's decision to leave the market of gas and electricity sales to end consumers, giving rise to the disposal of the relative business unit on 28 June

2018, following which the company redefined its scope, and ending sales of gas and electricity to end consumers.

In 2018, Burgo Energia sold electricity totalling 2.6 **billion kWh** (3.7 billion in 2017) and gas totalling **196 million Smc** (472 million in 2017).
In Italy, Burgo Group and Mosaico, also through the subsidiary GEVER, produced electricity totalling 2.12 billion kWh, mainly for internal consumption (1.69 billion kWh).

Finally, Burgo Ardennes produced 0.404 billion kWh (0.371 billion in 2017).

## INVESTMENTS

In terms of total investments in property, plant and equipment made during the course of **2018**, totalling € 76.3 million (€ 58.2 million in 2017), the mos strictly technical ones came to **€ 71.5 million** (€ 53.0 million in 2017).
The investment plan, consistent with the guidelines found in the *Burgo 2020* Business Plan, continued that already begun in previous years, identifying innovative solutions for plants to ensure improvements in production efficiency, while optimising costs, conserving plants and safeguarding quality.
In terms of paper, special efforts were focussed on starting up the system for packing cardboard production at the Avezzano Plant, as well as on designing and carrying out actions preparatory to converting line 9 a the Verzuolo Plant. The new system is expected to see its first test runs by the end of 2019.
With regards to technological updates, widespread actions to restore functionality continued, and will also move forward in the coming year, with the introduction of new automation and control systems at certain production sites, as well as updates to existing ones. This program will make it possible to resolve the greatest obsolescence problems while also achieving greater efficiency.
In the context of the Mosaico division, new structural initiatives have mainly been focused on maintaining plants and consolidating the quality levels of the Group's special papers.
Additionally, the second stage relative to the changes in PM5 in Lugo were completed, a project developed using innovative technological solutions and preparatory to future production repositioning for the Plant.
At the Ardennes plant, actions to modernise the cellulose cooking department began. The newly supplied parts are sized to achieve the production objective of 400,000 t, with the additional goal of significantly reducing energy consumption.
In terms of cogeneration, 2018 saw projects involving the hot parts of one of the two Gever turbogases and a general overhaul of a Duino turbogas, accompanied by updating of the air filtration system. The first intermediate revision of the endothermic motor was carried out in Treviso, with the cylinder/piston/valve assemblies replaced.

In Duino, a system was implemented for rapid turbogas and recovery boiler start up, to allow the power plant to increase its ability to participate in grid services with greater power, increasing the flexibility of the system and strengthening the group's presence in a rapidly developing sector.
With an eye to continuously monitoring and improving environmental impact performance, the increase in height of the exhaust chimney at the Sora power plant was completed. The project was designed in 2017 and completed during the plant stoppage in August 2018.
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 2018

Activities were mainly focussed on:

- production processes, such as development of innovative technologies to improve competitiveness, especially relative to raw materials;
- new products in the graphic, special and packaging sectors;
- environmental sustainability.

### Production processes

Studies to optimise and analyse the processes used to obtain self-produced fibrous pulps continued, both aimed at increasing the foundation of virgin fibres used in graphic and special products and at using recycling fibres in packaging.
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 non-woodfree paper segment, a reallocation process was begun, focused on the range of high-thickness LWC for offset printing.
Relative to woodfree paper, the range for inkjet printers was extended and strengthened, also focussing on developing the segment of high graphic performance where at present the reference is to traditional printing technologies.
Additionally, a new range of light pure cellulose paper for offset printing was structured and introduced, with various level of surface coating, aimed at the pharmaceutical sector.
The group entered the packaging sector, initially with recycled pulp, with an array of corrugated cardboard and paperback, creating a portfolio of products that will be further developed.
Also in the packaging sector, but starting with virgin fibres, a new packaging product was industrialised using highly environmentally responsible alternative fibrous essences.
For the special paper segment, consolidation of one-side coated products not for the self-adhesive sector was carried out, as well as paper for metallisation and humidity resistance products for labels

in sectors with high added value. At the same time, the number of production lines potentially available for the one-side coated kraft sector was increased.
Further developments involved paper specifically for the food & bakery sector and paper for use in food packaging with relative performance and composting requirements. Significant developments were made with regards to products in niche sectors such as casting release and bill posting.

### Environmental sustainability

In terms of certifications, constant management work regarding the chain of custody for forest certifications (FSC and PEFC) continued, which saw rewards during the year in the form of all plants passing the renewal audits for both forest certifications. With an eye to optimising use of time and resources, the Burgo Distribuzione FSC and PEFC certificates were added to the Burgo Group Corporate Certificates.
During the year, UNI EN 15593 certification, regarding health and safety for packaging in contact with food products, was granted to the Lugo plant, similar to what had already occurred for the other plants in the Mosaico division.
Control activities were guaranteed for all purchases of wood and of wood-derived materials, based on the EU Timber Regulations, and cooperation with the main European research institutions/laboratories and working groups within trade associations continued.
Finally, the maintenance activities required by Ecolabel certification were regularly performed at all certified plants (Duino, Verzuolo, Lugo and Tolmezzo).

## PERSONNEL

During 2018, **70,000** hours of training were provided.
In the context of agreements relative to closed production lines, after having offered affected employees placement at other group plants:

- on 19 November 2018 the collective dismissal process began at the Verzuolo plant for 62 employees following the deadline in the CIGS and expiring on 21 January 2019. The procedure was completed in February 2019;
- on 19 November 2018 the collective dismissal process began at the Duino plant for 100 employees following the end of the solidarity contract and expiring on 2 February 2019. The procedure was completed in March 2019.

During the same period, the return to production at the Avezzano plant, which since 2017 had been active only for paper cutting with an average of 40 employees, made it possible to see a progressive increase up to the current 132 employees.
Group employees in the employee register at 31 December 2018 totalled **3,537**, compared to **3,663** at the end of 2017.

**Personnel at 31 December**

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Burgo Group* | 2,054 | 1,948 | (106) |
| Italian subsidiaries | 963 | 949 | (14) |
| Foreign subsidiaries | 646 | 640 | (6) |
| | **3,663** | **3,537** | **(126)** |
| *of which | | | |
| in Solidarity Contract agreement | 84 | 64 | |
| **Personnel excluded from solidarity contracts** | **3,579** | **3,473** | |

The Group also makes use of temporary workers, for the most part at Burgo Ardennes, which in 2018 had 106 (FTE), compared to 94 in 2017.
Redundancy fund/solidarity hours used, as reported in the table below, increased as a whole by 42%, going from 193,075 hours in 2017 to 275,185 hours in 2018:

**Social safety net**

| | 2017 | 2018 | Change | Change |
|---|---|---|---|---|
| CIGO | 12,612 | 30,822 | 18,210 | 144.4% |
| CIGS | - | 132,254 | 132,254 | |
| Solidarity | 180,463 | 112,109 | - 68,354 | -37.9% |
| | **193,075** | **275,185** | **82,110** | **42.5%** |

## 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 2018 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 credit management activities through the dedicated department, the Group has established an internal 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 are further supported by instruments of coverage available on the market, including insurance policies and without recourse transfer of receivables. Sales activities are 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 2018, 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 only relative to associated companies. Collateral is also provided in certain cases, relative to subsidised finance operations or for medium-term financing.

### 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 a period of around 3 months.

For short-term financial needs, at 31.12.2018 credit lines were available totalling around € 381 million, used for current account payables and short-term financing for around 27% of the total. For long-term financial requirements, the Group has loans of € 567 million.

Note that on 12 March 2019, the Group signed an update to existing agreements with credit institutions regarding the short-term credit lines originally committed at 31 December 2019. The new agreement establishes committed credit lines for a total of € 200 million, until 31 March 2022. For more details, please see the section on significant events after the end of the year.

### 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, 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, when used, are organised on the basis of projections over a multi-year period prepared on the basis of economic and financial budgets and cash flow projections, as well as 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 euro of cash flows denominated in foreign currencies.

Hedging policies allow 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 the prices of gas and materials used in production processes, in order to minimise exposure to risk and possible associated 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 2018 shows that the Group's results improved, with a gross operating margin (EBITDA) of € 136.6 million against € 131.6 million the previous year, despite a reduction in operating revenues and proceeds, which went from € 2,008.2 million to € 1,882.5 million. The year saw heavy increases in the prices of fibrous raw materials and gas, with a consequent increase in sales prices for paper, which in part attenuated the decrease in margins. The industrial medium-term focus was on increasing attention to special paper and cardboard while decreasing graphic paper, which nonetheless allowed the Group to maintain and improve its overall margins.
In terms of financial position, 2018 also saw a significant reduction, recording a debt to EBITDA ratio of 3.6 at the end of the year.

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

| | 2017 | 2018 | |
|---|---|---|---|
| Revenues | 1,933.7 | 1,812.1 | -6.3% |
| Other income | 74.5 | 70.4 | |
| **Total operating revenues and income** | **2,008.2** | **1,882.5** | **-6.3%** |
| Operating costs | (1,876.6) | (1,745.9) | -7.0% |
| **EBITDA** | **131.6** | **136.6** | **3.8%** |
| Depreciation and amortisation | (84.3) | (80.9) | |
| Capital gains/losses on disposal of non-current assets | 0.1 | 2.0 | |
| **Operating profit/(loss) excluding operations of a non-recurring nature** | **47.4** | **57.7** | |
| Financial expenses | (32.5) | (30.5) | |
| Financial income | 14.7 | 7.3 | |
| Portions of profit/(loss) of associates | - | - | |
| **Profit/(loss) before tax excluding operations of a non-recurring nature** | **29.6** | **34.4** | |
| Writebacks/writedowns of non-current assets | (16.0) | (22.6) | |
| Net income/expenses of a non-recurring nature | 6.3 | (0.4) | |
| Net restructuring expenses | (2.3) | - | |
| **Profit/(loss) before tax** | **17.5** | **11.4** | |
| Income taxes | (8.8) | (1.5) | |
| Net profit/(loss) from assets held for sale and from discontinued operations | - | - | |
| **Profit/(loss) for the period** | **8.7** | **9.9** | |

**Revenues** from ordinary operations in 2018 amounted to € 1,812.1 million, down by € 121.6 million (-6.3%) with respect to the € 1,933.7 million seen in 2017. The decrease was for the most part due to sales of energy products to third parties which saw turnover fall of € 143 million, in part due to the decision to leave the market of sales of gas and electricity end consumers, which occurred midway through financial year 2018. Paper sales instead increased by € 11 million despite the fact that sales of cardboard began in May rather than in January of 2018 as had initially been planned. Other income totalled € 70.4 million (€ 74.5 million the previous year) due, in particular, to environmental certificates, interruptibility agreements and sales of ligninsulphonate. As a whole, total operating revenue and income came to € 1882.5 million, compared to € 2,008.2 million in 2017 (-6.3%).

The amount of paper sold totalled 1,996,302 to, down by -4.4% with respect to the 2,087,751 sold in 2017. **Operating expenses** totalled € 1,745.9 million against € 1,876.6 million the previous year, a decrease of 7%. Within operating costs, personnel amounted to € 199.0 million, compared to € 199.6 million the previous year.

The **gross operating margin (EBITDA)** was € 136.6 million, against € 131.6 million in 2017. In percentage terms, EBITDA amounted to 7.3% of sales, compared to 6.6% the previous year.

**Amortisation and depreciation** came to € 80.9 million (€ 84.3 million in 2017).

**Operating income**, **before non-recurring transactions**, amounted to € 57.7 million, compared to € 47.4 million the previous year (+21.7%).

Financial expense decreased from € 32.5 million in 2017 to € 30.5 million in the current year, following a reduction in debt. Financial income instead came to € 7.3 million compared to € 14.7 million in 2017, during which year the proceeds deriving from the acquisition of 51% of Gever S.p.A. were recorded, in the amount of € 7.6 million.

In terms of net non-recurring expenses, writedowns totalling € 22.6 million were allocated, against € 12 million in 2017. 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:

- € 9.9 million goodwill writedown following the impairment test;
- € 12.7 million plants writedown also following the impairment test;
- € 0.4 million in expenses associated with closed plants;

As a consequence of the above, **net profit**, after taxes payable for the year of € 1.5 million, came to € 9.9 million, compared to profit of € 8.7 million the previous year.

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| **Non-current assets** | **854.5** | **828.0** | **(26.5)** |
| Property, plant and equipment | 733.0 | 715.3 | (17.7) |
| Intangible assets | 35.7 | 26.1 | (9.6) |
| Other non-current assets | 16.5 | 17.7 | 1.2 |
| Deferred tax assets | 69.4 | 69.0 | (0.4) |
| **Current assets** | **787.7** | **725.8** | **(62.0)** |
| **Assets held for sale and discontinued operations** | - | - | - |
| **Total assets** | **1,642.3** | **1,553.8** | **(88.5)** |

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| **Shareholders' equity** | **300.2** | **308.0** | **7.8** |
| Shareholders' equity pertaining to the Group | 297.4 | 304.9 | 7.4 |
| Shareholders' equity attributable to non-controlling inter | 2.8 | 3.1 | 0.3 |
| **Non-current liabilities** | **692.9** | **660.2** | **(32.8)** |
| **Current liabilities** | **649.1** | **585.7** | **(63.5)** |
| **Liabilities related to assets held for sale and to discontinued operations** | - | - | - |
| **Total shareholders' equity and liabilities** | **1,642.3** | **1,553.8** | **(88.5)** |

**Intangible assets and property, plant and equipment** fell from € 768.6 million to € 741.4 million, in particular due to writedowns totalling € 23 million, while amortisation/depreciation of € 80.9 million was more or less equal to investments of € 77.2 million.
During the year, the Group began a large series of projects at the Ardennes and Verzuolo plants which will continue through 2020 at Ardennes and through 2019 at Verzuolo, generating more significant outlays of cash for the three year period from 2018 to 2020.
**Warehouse** inventories increased by € 40.9 million while **amounts due to suppliers** fell by € 17.2 million leading to cash absorption of € 58.1 million, balanced by a reduction in **trade receivables** of € 67.9 million.
**Working capital** therefore fell as a whole by € 20 million, while **net financial debt** fell from € 534.9 million to € 486.9 million at the end of 2018, a decrease of € 48 million.
**Shareholders' equity** increased from € 300.2 million to € 308 million. Note that costs of € 3.3 million were charged to shareholders' equity with regards to changes due to application of the new accounting standard IFRS 9 relative to writedowns on receivables.

**Breakdown of net financial debt** €/mln

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current financial assets | 181.7 | 155.2 | (26.5) |
| Short-term financial payables | (151.0) | (103.6) | 47.5 |
| Medium/long-term financial assets | 4.4 | 4.4 | 0.0 |
| Medium/long-term financial payables | (569.9) | (542.9) | 27.0 |
| **Net financial debt** | **(534.9)** | **(486.9)** | **48.0** |

**Capital and financial structure** €/mln

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Intangible assets | 35.7 | 26.1 | (9.6) |
| Property, plant and equipment | 733.0 | 715.3 | (17.7) |
| Other non-current assets: | | | |
| Equity investments | 9.7 | 9.7 | - |
| Other receivables and non-current assets | 2.5 | 3.6 | 1.2 |
| **Net fixed assets** | **780.8** | **754.7** | **(26.1)** |
| Inventories | 207.6 | 248.5 | 40.9 |
| Trade receivables | 361.2 | 293.2 | (67.9) |
| Trade payables | (435.5) | (418.3) | 17.2 |
| **Working capital** | **133.3** | **123.4** | **(9.8)** |
| Equity investments in current assets | 1.0 | 0.8 | (0.2) |
| Other receivables and current assets | 36.3 | 28.1 | (8.2) |
| Deferred tax assets | 69.4 | 69.0 | (0.4) |
| Provisions for deferred tax liabilities | (28.0) | (20.3) | 7.8 |
| Provisions for risks and charges | (44.6) | (55.4) | (10.9) |
| Other payables and non-current liabilities | (6.1) | (3.2) | 2.9 |
| Payables for current taxes | (11.8) | (12.5) | (0.7) |
| Other payables and current liabilities | (50.8) | (51.4) | (0.5) |
| **Other operating assets and liabilities** | **(34.6)** | **(44.8)** | **(10.1)** |
| **Working capital** | **98.6** | **78.6** | **(20.0)** |
| **Invested capital, after deducting operating liabilities** | **879.4** | **833.3** | **(46.1)** |
| Severance indemnities and other provisions related to personnel | (44.3) | (38.4) | 5.9 |
| **Invested capital, after deducting operating liabilities and severance indemnities (TFR)** | **835.1** | **794.9** | **(40.2)** |
| Share capital | (20.0) | (20.0) | - |
| Reserves | (281.7) | (284.1) | (2.3) |
| Accumulated profits/(losses) including profit/(loss) for the period | 4.3 | (0.8) | (5.1) |
| Shareholders’ equity attributable to non-controlling interests | (2.8) | (3.1) | (0.3) |
| **Own capital** | **(300.2)** | **(308.0)** | **(7.8)** |
| 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 | 107.0 | 94.4 | (12.7) |
| Cash on hand and other cash equivalents | 74.7 | 60.8 | (13.9) |
| Non-current financial liabilities | (569.9) | (542.9) | 27.0 |
| Current financial liabilities | (151.0) | (103.6) | 47.5 |
| **Net financial debt** | **(534.9)** | **(486.9)** | **48.0** |
| **Total coverage** | **(835.1)** | **(794.9)** | **40.2** |

**Analysis by index**

| | 31 December 2017 | 31 December 2018 |
|---|---|---|
| ROS (EBIT/Turnover) | 2.36% | 3.06% |
| AT (Assets turnover: Turnover/Average invested capital) | 1.22 | 1.18 |
| **ROI (EBIT/Average invested capital) = ROS x AT** | **2.88%** | **3.61%** |
| | | |
| ROI (EBIT/Average invested capital) = ROS x AT | 2.88% | 3.61% |
| Debt ratio (CI/CN) | 5.54 | 5.26 |
| Impact of non-management expense | 0.18 | 0.17 |
| **ROE (ROI*CI/CN*RN/RO)** | **2.94%** | **3.26%** |
| | | |
| **ROCE (Operating income/Net average invested capital)** | **5.50%** | **7.07%** |
| | | |
| **PFN/Shareholders' equity** | **1.78** | **1.58** |
| | | |
| **PFN/MOL** | **4.06** | **3.56** |

# PARENT COMPANY BURGO GROUP SPA RESULTS AND FINANCIAL STRUCTURE

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

| | 2017 | 2018 | |
|---|---|---|---|
| Revenues | 1,201.0 | 1,212.0 | 0.9% |
| Other income | 50.5 | 43.7 | |
| **Total operating revenues and income** | **1,251.5** | **1,255.6** | **0.3%** |
| Operating costs | (1,188.5) | (1,177.1) | -1.0% |
| **EBITDA** | **63.0** | **78.5** | **24.6%** |
| Depreciation and amortisation | (61.0) | (56.3) | |
| Capital gains/losses on disposal of non-current assets | 0.0 | 1.9 | |
| **Operating profit/(loss) excluding operations of a non-recurring nature** | **2.0** | **24.2** | |
| Financial expenses | (26.3) | (24.7) | |
| Financial income | 33.7 | 29.1 | |
| **Profit/(loss) before tax excluding operations of a non-recurring nature** | **9.5** | **28.6** | |
| Writebacks/writedowns of non-current assets | (16.0) | (22.6) | |
| Net income/expenses of a non-recurring nature | 6.3 | (0.4) | |
| Net restructuring expenses | (2.3) | - | |
| **Profit/(loss) before tax** | **(2.6)** | **5.5** | |
| Income taxes | 5.3 | 2.2 | |
| **Profit/(loss) for the period** | **2.7** | **7.7** | |

**Revenues** from ordinary operations in 2018 amounted to € 1,212 million, against € 1,201 million in 2017.

Additionally, other income totalling € 44 million was seen, in particular coming from environmental certificates and interruptibility agreements (€ 50.5 million the previous year).

As a whole, total operating revenue and income came to € 1,255.6 million, compared to € 1,251.6 million in 2017.

Paper quantities sold came to 1,665,464 t against 1,739,046 t the previous year.

Total **operating costs** came to € 1,177.1 million against € 1,188.5 million in 2017. Within operating costs, personnel costs amounted to € 97.7 million, compared to € 100 million in 2017.

The **gross operating margin (EBITDA)** was € 78.5 million against € 63 million the previous year (+24.6%), while **amortisation and depreciation** amounted to € 56.3 million against € 61 million in 2017.

**Operating income**, **before non-recurring transactions** amounted to € 24.2 million, against € 2 million the previous year.

The result of financial management was positive at € 4.4 million, against the positive € 7.4 million recorded in 2017. The change is mainly due to dividends received by subsidiaries, equal to € 27 million in 2018 and € 31.4 million in 2017. **Profit before taxes and non-recurring expenses** totalled € 28.6 million, against € 9.5 million the previous year.

Therefore, net non-recurring charges of € 23 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:

- € 9.9 million goodwill writedown following the impairment test;
- € 12.7 million plants writedown also following the impairment test;
- € 0.4 million in expenses associated with closed plants;

The net result is profit of € 7.7 million, compared to profit of € 2.7 million the previous year.

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| **Non-current assets** | **1,014.3** | **982.8** | **(31.5)** |
| Property, plant and equipment | 500.4 | 478.7 | (21.7) |
| Intangible assets | 22.2 | 12.8 | (9.4) |
| Other non-current assets | 427.3 | 428.3 | 1.0 |
| Deferred tax assets | 64.4 | 63.0 | (1.4) |
| **Current assets** | **448.4** | **438.6** | **(9.8)** |
| **Assets held for sale and discontinued operations** | - | - | - |
| **Total assets** | **1,462.6** | **1,421.4** | **(41.3)** |

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| **Shareholders' equity** | **(389.1)** | **(396.9)** | **(7.9)** |
| Shareholders' equity pertaining to the Group | (389.1) | (396.9) | (7.9) |
| **Non-current liabilities** | **(629.0)** | **(604.5)** | **24.6** |
| **Current liabilities** | **(444.6)** | **(420.0)** | **24.6** |
| **Liabilities related to assets held for sale and to discontinued operations** | - | - | - |
| **Total shareholders' equity and liabilities** | **(1,462.6)** | **(1,421.4)** | **41.3** |

During the year technical investments totalling € 43 million were made (€ 35 million in 2017). Together with capitalisation of financial expense, internal work and advances on plant maintenance, these bring the total to € 47.7 million. Increases relative to intangible fixed assets amounted to € 0.8 million (€ 0.4 million in 2017). Trade receivables went from € 207 million in 2017 to € 187.6 million and warehouse inventories went from € 104.1 million to € 134.4 million. Payables due to suppliers increased from € 342.1 million at the end of 2017 to € 348.8 million.

Net financial debt came to € 484.3 million, compared to € 528.4 million at the end of 2017, a reduction of € 44.1 million.

Shareholders' equity amounted to € 396.9 million against € 389.1 million at the end of 2017.

**Breakdown of net financial debt** €/mln

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current financial assets | 103.8 | 90.0 | (13.8) |
| Short-term financial payables | (71.4) | (37.2) | 34.1 |
| Medium/long-term financial assets | 3.0 | 2.8 | (0.2) |
| Medium/long-term financial payables | (563.7) | (539.9) | 23.9 |
| **Net financial debt** | **(528.4)** | **(484.3)** | **44.1** |

**Capital and financial structure** €/mln

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Intangible assets | 22.2 | 12.8 | (9.4) |
| Property, plant and equipment | 500.4 | 478.7 | (21.7) |
| Other non-current assets: | | | |
| Equity investments | 422.1 | 422.1 | - |
| Other receivables and non-current assets | 2.2 | 3.4 | 1.2 |
| **Net fixed assets** | **946.9** | **917.0** | **(29.9)** |
| Inventories | 104.1 | 134.4 | 30.3 |
| Trade receivables | 207.0 | 187.6 | (19.5) |
| Trade payables | (342.1) | (348.8) | (6.7) |
| **Working capital** | **(31.0)** | **(26.8)** | **4.1** |
| Equity investments in current assets | 1.0 | 0.8 | (0.2) |
| Other receivables and current assets | 32.5 | 25.8 | (6.7) |
| Deferred tax assets | 64.4 | 63.0 | (1.4) |
| Provisions for risks and charges | (28.5) | (35.0) | (6.5) |
| Other payables and non-current liabilities | (5.5) | (2.5) | 3.0 |
| Payables for current taxes | (4.0) | (4.8) | (0.8) |
| Other payables and current liabilities | (27.1) | (29.2) | (2.0) |
| **Other operating assets and liabilities** | **32.7** | **18.1** | **(14.7)** |
| **Working capital** | **1.8** | **(8.8)** | **(10.5)** |
| **Invested capital, after deducting operating liabilities** | **948.6** | **908.2** | **(40.4)** |
| Severance indemnities and other provisions related to personn | (31.2) | (27.0) | 4.2 |
| **Invested capital, after deducting operating liabilities and severance indemnities (TFR)** | **917.4** | **881.2** | **(36.2)** |
| Share capital | (20.0) | (20.0) | - |
| Reserves | (349.6) | (350.9) | (1.3) |
| Accumulated profits/(losses) including profit/(loss) for the peric | (19.4) | (26.0) | (6.6) |
| **Own capital** | **(389.1)** | **(396.9)** | **(7.9)** |
| Financial receivables and other non-current financial assets | 3.0 | 2.8 | (0.2) |
| Securities other than equity investments | 0.0 | - | (0.0) |
| Financial receivables and other current financial assets | 33.3 | 39.6 | 6.3 |
| Cash on hand and other cash equivalents | 70.4 | 50.4 | (20.1) |
| Non-current financial liabilities | (563.7) | (539.9) | 23.9 |
| Current financial liabilities | (71.4) | (37.2) | 34.1 |
| **Net financial debt** | **(528.4)** | **(484.3)** | **44.1** |
| **Total coverage** | **(917.4)** | **(881.2)** | **36.2** |

# PERFORMANCE OF SUBSIDIARIES AND ASSOCIATED COMPANIES

## Subsidiaries

**Burgo Ardennes SA**
*(reporting prepared in accordance with the international accounting standards)*
Revenues amounted to € 299.8 million (€ 301.6 million the previous year).
The gross operating margin (EBITDA) was € 25.0 million, against € 23.8 million the previous year.
Net profits for the year came to € 8.7 million, against € 6.3 million the previous year.

**Mosaico srl**
*(financial statements prepared in accordance with the international accounting standards)*
Revenues amounted to € 392.2 million (€ 356.8 million the previous year).
The gross operating margin (EBITDA) was € 24.3 million, against € 32.7 million the previous year.
Net profits for the year came to € 11.4 million, against € 17.9 million the previous year.

**Burgo Distribuzione srl**
*(financial statements prepared in accordance with the international accounting standards)*
Revenues amounted to € 211.8 million (€ 209.4 million the previous year).
The gross operating margin (EBITDA) was € 3.9 million, against € 4.0 million the previous year.
Net profits for the year came to € 2.2 million, against € 2.3 million the previous year.

**Burgo Energia srl**
*(financial statements prepared in accordance with the international accounting standards)*
Revenues amounted to € 264.9 million (€ 406.9 million the previous year).
The gross operating margin (EBITDA) was € 0.8 million, against € 1.9 million the previous year.
Net profits for the year came to € 0.2 million, against € 0.7 million the previous year.

**Burgo Factor SpA**
*(financial statements prepared in accordance with the international accounting standards)*
The company managed total receivables equal to € 381.0 million (€ 407.5 million the previous year).
Net profits for the year came to € 3.3 million, against € 3.1 million the previous year.

**Gever SpA**
*(financial statements prepared in accordance with the international accounting standards)*
Revenues amounted to € 60.3 million (€ 57.1 million the previous year).
The gross operating margin (EBITDA) was € 0.9 million, against € 4.2 million the previous year.
Net profits for the year came to € -1.3 million, against € 1.2 million the previous year.

**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 the previous year).

# 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;
- 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 power 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 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

| | Parent Company | | Other group companies | | Total | | Total financial statement items | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | % | 31 December 2018 | % |
| Financial receivables and other non-current financial asse | 3.768 | 3.600 | - | - | 3.768 | 3.600 | 8.147 | 46% | 7.982 | 45% |
| Trade receivables | 107.004 | 91.537 | - | - | 187.619 | 170.124 | 1.140.358 | 16% | 462.794 | 37% |
| Other receivables and current assets | 7.739 | 7.622 | - | - | 9.937 | 9.172 | 120.954 | 8% | 37.319 | 25% |
| Financial receivables and other current financial assets | 30.820 | 36.896 | - | - | 36.369 | 47.766 | 143.378 | 25% | 142.130 | 34% |
| Non-current financial liabilities | (800) | (800) | - | - | (3.600) | (3.600) | (1.488.080) | 0% | (546.529) | 1% |
| Current financial liabilities | (5.546) | (10.894) | - | - | (36.571) | (47.768) | (373.405) | 10% | (151.324) | 32% |
| Trade payables | (119.133) | (102.946) | - | - | (184.996) | (167.346) | (817.302) | 23% | (585.619) | 29% |
| Other payables and current liabilities | (3.214) | (2.566) | - | - | (10.643) | (10.236) | (130.698) | 8% | (61.605) | 17% |
| **Economic relationships** | | | | | | | | | | |
| Revenues | 347.891 | 393.429 | - | - | 619.417 | 649.276 | 4.374.333 | 14% | 2.461.533 | 26% |
| Other income | 10.702 | 21.446 | - | - | 10.756 | 25.395 | 604.553 | 2% | 95.830 | 26% |
| Costs for materials and external services | (382.929) | (385.924) | - | - | (626.292) | (670.980) | (3.480.291) | 18% | (2.217.197) | 30% |
| Personnel expenses | - | - | - | - | (827) | (813) | (492.618) | 0% | (200.901) | 0% |
| Other operating costs | (14) | (13) | - | - | (59) | (26) | (613.781) | 0% | (43.351) | 0% |
| Financial expenses | (739) | (965) | - | - | (1.821) | (1.945) | (76.965) | 2% | (32.514) | 6% |
| Financial income | 32.705 | 28.118 | - | - | 33.429 | 29.069 | 69.844 | 48% | 36.434 | 80% |
| Income taxes | - | 5.803 | - | - | - | - | (16.575) | 0% | (1.698) | 0% |

## CORPORATE GOVERNANCE AND INTERNAL AUDIT SYSTEM

### *General information*

Burgo Group spa share capital amounts to € 20,000,000.00, divided into 395,083,445 shares with no 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 31.12.2018, share capital can be broken down as follows:

- Marchi spa Holding Group (directly and through the subsidiary Palladio Zannini Industrie Grafiche Cartotecniche spa) 50.59%
- Mediobanca spa 22.12%,
- Italmobiliare spa 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 9 May 2018, 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.
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.
During 2018, the Burgo Group spa Board of Directors met five times.

### Equity financial instruments

In execution of the restoration agreement pursuant to article 67, paragraph 3, letter d) of Italian 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 S.p.A. 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 of the Italian 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 Italian 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 Italian 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 2018, the Board of Statutory Auditors met four times.
Auditing of the accounts is delegated to an independent auditing firm.

## PRIVACY PROTECTION, ITALIAN LEGISLATIVE DECREE 196 OF 30 JUNE AND GDPR, NO. 679 OF 27 APRIL 2016

The Company adjusted to the requirements established under the European regulations prior to the deadline.

With reference to financial year 2018, 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 of the Italian Civil Code, note that the Company has no secondary offices.

BURGO GROUP

*paper power & passion*

# CONSOLIDATED FINANCIAL STATEMENTS

# Consolidated Balance Sheet

**Statement of equity/financial position: Assets** €/000

| | Note | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|---|
| **Non-current assets** | | **854,526** | **828,042** | **(26,483)** |
| **Property, plant and equipment** | | **732,960** | **715,289** | **(17,671)** |
| Property, plant and equipment | 1 | 731,830 | 714,277 | (17,552) |
| Property investments | 1 | 717 | 690 | (26) |
| Financially leased assets | 1 | 414 | 322 | (92) |
| **Intangible assets** | | **35,686** | **26,066** | **(9,620)** |
| Goodwill and other intangible assets with undefined life | 2 | 26,915 | 17,061 | (9,854) |
| Intangible assets with defined life | 2 | 8,771 | 9,005 | 234 |
| **Other non-current assets** | | **16,524** | **17,689** | **1,166** |
| Equity investments | 0 | - | - | - |
| Equity investments in other companies | 3 | 9,662 | 9,662 | - |
| Financial receivables and other non-current financial assets | 3 | 4,371 | 4,382 | 11 |
| Other receivables and non-current assets | 3 | 2,491 | 3,646 | 1,155 |
| **Deferred tax assets** | | **69,356** | **68,998** | **(358)** |
| Deferred tax assets | 4 | 69,356 | 68,998 | (358) |
| **Current assets** | | **787,732** | **725,756** | **(61,976)** |
| Inventories | 5 | 207,559 | 248,456 | 40,897 |
| Trade receivables | 6 | 361,162 | 293,217 | (67,945) |
| Other receivables and current assets | 7 | 36,297 | 28,125 | (8,171) |
| Equity investments | 8 | 993 | 774 | (219) |
| Securities other than equity investments | 8 | 1 | - | (1) |
| Financial receivables and other current financial assets | 9 | 107,009 | 94,357 | (12,652) |
| Cash on hand and other cash equivalents | 10 | 74,711 | 60,826 | (13,885) |
| **Total assets** | | **1,642,257** | **1,553,798** | **(88,459)** |

**Statement of equity/financial position: Liabilities** €/000

| | Note | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|---|
| **Shareholders' equity** | | **300,186** | **307,959** | **7,773** |
| Share capital | 11 | 20,000 | 20,000 | - |
| Reserves | 11 | 281,749 | 284,055 | 2,306 |
| Accumulated profits/(losses) including profit/(loss) for the period | 11 | (4,328) | 811 | 5,139 |
| Shareholders' equity attributable to non-controlling interests | 11 | 2,765 | 3,093 | 328 |
| **Non-current liabilities** | | **692,944** | **660,180** | **(32,764)** |
| Non-current financial liabilities | 12 | 569,947 | 542,932 | (27,015) |
| Severance indemnities and other provisions related to personn | 13 | 44,336 | 38,415 | (5,921) |
| Provisions for deferred tax liabilities | 14 | 28,023 | 20,255 | (7,769) |
| Provisions for risks and charges | 15 | 44,553 | 55,407 | 10,855 |
| Other payables and non-current liabilities | 16 | 6,085 | 3,171 | (2,914) |
| **Current liabilities** | | **649,127** | **585,659** | **(63,468)** |
| Current financial liabilities | 17 | 151,030 | 103,556 | (47,474) |
| Trade payables | 18 | 435,465 | 418,262 | (17,203) |
| Payables for current taxes | 19 | 11,782 | 12,469 | 687 |
| Other payables and current liabilities | 20 | 50,850 | 51,372 | 522 |
| **Total shareholders' equity and liabilities** | | **1,642,257** | **1,553,798** | **(88,459)** |

## Consolidated Profit and Loss Statement for the Year

| Profit and loss statement for the year | | | | €/000 |
|---|---|---|---|---|
| | note | 31 December 2017 | 31 December 2018 | |
| Revenues | 22 | 1,933,706 | 1,812,115 | -6.3% |
| Other income | 23 | 74,515 | 70,423 | |
| **Total operating revenues and income** | | **2,008,220** | **1,882,537** | **-6.3%** |
| Costs for materials and external services | 24 | (1,645,871) | (1,545,294) | |
| Personnel expenses | 25 | (199,636) | (199,059) | |
| Other operating costs | 26 | (33,927) | (43,447) | |
| Change in inventories | 27 | 1,721 | 40,897 | |
| Capitalised costs for internal work | 28 | 1,105 | 976 | |
| **Total operating costs** | | **(1,876,608)** | **(1,745,926)** | **-7.0%** |
| **EBITDA** | | **131,612** | **136,611** | **3.8%** |
| Depreciation and amortisation | 29 | (84,337) | (80,916) | |
| Capital gains/losses on disposal of non-current assets | 30 | 98 | 1,961 | |
| **EBIT before non-recurring expenses and income** | | **47,374** | **57,656** | |
| Writebacks/writedowns of non-current assets | 31 | (16,000) | (22,603) | |
| Net income/expenses of a non-recurring nature | 32 | 6,291 | (427) | |
| Net restructuring expenses | 33 | (2,341) | - | |
| **Operating result** | | **35,323** | **34,626** | |
| Financial expenses | 34 | (32,479) | (30,546) | |
| Financial income | 35 | 14,659 | 7,284 | |
| Portions of profit/(loss) of associates | | - | - | |
| **Profit/(loss) before tax** | | **17,503** | **11,364** | |
| Income taxes | 36 | (8,776) | (1,455) | |
| **Profit/(loss) for the period** | | **8,727** | **9,909** | |
| *Attributable to:* | | | | |
| *Minority shareholders* | | *313* | *326* | |
| *Group (parent company shareholders)* | | *8,414* | *9,583* | |

# 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 2017 | 31 December 2018 |
|---|---|---|---|
| **A - Profit (loss) for the period** | | 8,727 | 9,909 |
| 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 | | (10) | 1 |
| | | (10) | 1 |
| Net (loss) profit from cash flow hedge | 37 | (2,624) | 768 |
| Income taxes | | 732 | (214) |
| | | (1,892) | 554 |
| Net (loss) profit from financial assets FVOCI | 37 | 179 | (219) |
| | | 179 | (219) |
| **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** | | **(1,723)** | **336** |
| **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 | 154 | 1,248 |
| Income taxes | | (60) | (312) |
| | | 95 | 936 |
| **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** | | **95** | **936** |
| **D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)** | | **(1,629)** | **1,272** |
| **E - Total comprehensive profit (loss) net of taxes (D +A)** | | **7,098** | **11,181** |
| *Attributable to:* | | | |
| *Minority shareholders* | | *313* | *326* |
| *Group (parent company shareholders)* | | *6,785* | *10,855* |

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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Adjustments, Previous Years | | | | - | | | - | - | | - | - | | - |
| **Balances at start 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 end of previous period (*)** | **20,000** | **13,149** | **138,797** | **(3,519)** | **200,000** | **125** | **(66,804)** | **(12,742)** | **8,414** | **297,421** | **2,452** | **313** | **300,186** |
| Destination of result - distribution of dividends | | - | | - | | 1,155 | - | 7,259 | (8,414) | - | 313 | (313) | - |
| Net change profits (losses) directly recognised in shareholders' equity | | | | 1,271 | | | - | - | | 1,271 | - | | 1,271 |
| Other changes in shareholders' equity | - | - | - | (120) | - | - | - | (3,289) | - | (3,409) | 2 | - | (3,408) |
| Exchange differences from translation of foreign financial statements | | | | - | | | 1 | - | | 1 | - | | 1 |
| Profit/(loss) for the period | | | | - | | | - | - | 9,583 | 9,583 | - | 326 | 9,909 |
| **Balances at period end** | **20,000** | **13,149** | **138,797** | **(2,369)** | **200,000** | **1,280** | **(66,803)** | **(8,773)** | **9,583** | **304,866** | **2,767** | **326** | **307,959** |

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

# Consolidated Cash Flow Statement

| Cash Flow Statement | | €/000 |
|---|---|---|
| | 31 December 2017 | 31 December 2018 |
| **A - Net initial monetary availability** | **(121,207)** | **(51,853)** |
| **B- Monetary flow from operating activities** | | |
| Net profit (loss) deriving from operating activities | 8,727 | 9,909 |
| Amortisation, depreciation, write-downs and writebacks | 100,337 | 103,519 |
| Writedowns and writebacks of financial assets | - | - |
| Income from acquisition of equity investments | (7,562) | |
| Capital (gains) losses on disposal of non-current assets | (98) | (1,961) |
| Capital (gains) losses on disposal of financial assets | *(58)* | 1 |
| Change in TFR and provisions for risks | *2,622* | 6,181 |
| Change in deferred tax assets and provision for deferred taxes | *665* | (7,722) |
| **Profit (loss) for the period before changes in working capital** | **104,632** | **109,927** |
| Change in inventories | (1,383) | (40,897) |
| Change in trade receivables | (8,709) | 67,945 |
| Change in trade payables | 33,982 | (17,203) |
| Change in other assets and liabilities | *(1,971)* | 5,866 |
| **Change in net working capital** | **21,919** | **15,711** |
| **Assets held for sale and discontinued operations** | - | - |
| **Total B- Monetary flow from operating activities** | **126,551** | **125,638** |
| **C - Monetary flow from investing activities** | **128,462** | |
| Investments in property, plant and equipment | (53,004) | (71,496) |
| Other increases in property, plant and equipment | (5,190) | (4,768) |
| Investments in intangible assets | (610) | (915) |
| Recognition of other non-current assets | (14,217) | (14,226) |
| Change in equity investments | (9,469) | (1) |
| Revenues from sales of fixed assets | 17,708 | 17,137 |
| **Total C - Monetary flow from investing activities** | **(64,781)** | **(74,269)** |
| **D - Monetary flow from financing activities** | | |
| Change in non-current securities and financial receivables | 31 | (11) |
| Change in financial receivables and other current financial assets | 13,825 | 12,653 |
| Change in current and non-current other non-financial liabilities | 532 | (418) |
| New loans | 4,875 | 4,435 |
| Repayment of loans | (11,756) | (31,072) |
| Dividends distributed and/or resolved | - | - |
| Changes in Shareholders' Equity | 79 | (3,404) |
| **Total D - Monetary flow from financing activities** | **7,585** | **(17,817)** |
| **E - Monetary flow for the period (B + C + D)** | **69,354** | **33,552** |
| **Net final monetary availability (A + E)** | **(51,853)** | **(18,301)** |

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.<br>(electricity and steam production) | Altavilla Vicentina (VI) | EUR | 3,120,000 | 100.00 | Burgo Group S.p.A. |
| Burgo Ardennes S.a<br>(paper industry) | Virton (Belgium) | EUR | 75,000,000 | 99.99<br>0.01 | Burgo Group S.p.A.<br>Mosaico S.r.l. |
| Burgo Iberica Papel S.a.<br>(sales) | Barcelona (Spain) | EUR | 268,000 | 100.00 | Burgo Ardennes S.a |
| Burgo Benelux S.a.r.l.<br>(sales) | Brussels (Belgium) | EUR | 247,900 | 100.00 | Burgo Group S.p.A. |
| Burgo France S.a.r.l.<br>(sales) | Champeaux (France) | EUR | 600,000 | 100.00 | Burgo Group S.p.A. |
| Burgo UK L.t.d.<br>(sales) | Milton Keynes (UK) | GBP | 250,000 | 100.00 | Burgo Group S.p.A. |
| Burgo Central Europe G.m.b.h.<br>(sales) | Munich (Germany) | EUR | 256,000 | 100.00 | Burgo Group S.p.A. |
| Burgo North America L.t.d.<br>(sales) | Stamford - Connecticut (USA) | USD | 100,000 | 100.00 | Burgo Group S.p.A. |
| Burgo Factor S.p.A.<br>(factoring) | Milan | EUR | 3,000,000 | 90.00 | Burgo Group S.p.A. |
| Burgo Distribuzione S.r.l.<br>(sales) | Altavilla Vicentina (VI) | EUR | 9,060,000 | 100.00 | Burgo Group S.p.A. |
| S.E.F.E. S.a<br>(forest management) | Ecouviez (France) | EUR | 76,250 | 99.80<br>0.20 | Burgo Ardennes S.a<br>Burgo Group S.p.A. |
| Burgo Energia S.r.l.<br>(energy wholesaler) | Altavilla Vicentina (VI) | EUR | 5,015,000 | 100.00 | Burgo Group S.p.A. |
| Mosaico S.r.l.<br>(paper industry) | Altavilla Vicentina (VI) | EUR | 50,000,000 | 100.00 | Burgo Group S.p.A. |
| Burgo Polska Sp zoo<br>(sales) | Warsaw (Poland) | PLN | 5,000 | 100.00 | Burgo Group S.p.A. |

### Accounting standards and consolidation criteria

The consolidated financial statements for Burgo Group spa at 31 December 2018 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 Italian 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 *Burgo 2020* Plan.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Italian 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;
- **Consolidated Profit and Loss and Income 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 Group ended financial year 2018 with profits of € 9.9 million, shareholders' equity of € 308 million and net financial debt of € 486.9 million.
The consolidated financial situations were prepared using the general cost principle, with the exception of financial assets, measured in accordance with IFRS 9, and derivatives, 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 2017 and 31 December 2018.

**Exchange rates**

| | 2017 | | 2018 | |
|---|---|---|---|---|
| | 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 | 1.199 | 1.129 | 1.145 | 1.181 |
| Pound sterling | 0.887 | 0.876 | 0.895 | 0.885 |
| Polish zloty | 4.177 | 4.256 | 4.301 | 4.262 |

## Accounting standards and measurement criteria

The consolidated financial statements at 31 December 2018 were prepared in compliance with the IAS/IFRS accounting standards for preparing individual financial statements at 31 December 2017, taking into account the amendments and new standards which took effect as of 1 January 2018, listed below.

**Accounting standards and interpretations approved by the European Union in effect as of 1 January 2018.**

**IFRS 15** **Amendments - Revenues from contracts with customers** - Regulation 2016/1905 took 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 replaced all the previous requirements found in the IFRSs regarding recognition of revenues. The replaced standards were IAS 18, IAS 11 and IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

Revenues deriving from sales are recognised by the Group when the asset is transferred to the customer or at the time the customer acquires control over the asset. In terms of recognising revenues, application of IFRS 15 did not create significant changes from that which occurred when the previous standard was applied. Revenues are recognised net of discounts, rebates and returns. Provisions for future returns relative to sales already completed are recognised, in the same way as occurred when the previous standard was applied.

Analysis of contracts with customers did not give rise to any adjustments associated with the adoption of IFRS 15. The application of accounting standard IFRS 15, 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.

**IFRS 9** **Financial instruments** – Regulation 2016/2067 took 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:

a) With reference to classification and measurement, the Group saw no significant impacts on its financial statements consequent to the application of the classification and measurement requirements established under IFRS 9. Other financial assets, as well as trade receivables, are held for the purpose of collecting sums at the contractual deadlines, and they are expected to generate cash flows represented solely by collection of principal and interest. Therefore, the Group will continue to measure them in accordance with IFRS 9.
b) With reference to the impairment model for receivables, the new standard requires that estimated credit losses be done on the basis of expected losses (and not with the model of suffered losses), using reliable information, available without unreasonable cost or efforts and including historic, current and forward looking information. At 1 January 2018, the Group reviewed and measured its trade receivables and recalculated credit risk using the expected loss model as of the date the individual receivables were initially recognised. On the basis of the analysis, in relation to the Group's type of business, historic experience in terms of actual losses and its customer segments, an addition to the provision for writedowns on receivables of € 4.4 million was recognised (which net of deferred taxes amounts to 3.3 million) against other Shareholders' Equity reserves. The Group adopted a retrospective approach.
c) With reference to hedge accounting, the Group holds that all existing hedging relationships currently designated as effective hedges will continue to qualify as hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not change the general principle based on which an entity recognises effective hedging relationships, the Group saw no significant impacts due to application of the standard.

**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 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 2018, the Group continued to determine the potential effects that could derive from application of IFRS 16 to its consolidated financial statements. The Group decided not to apply IFRS 16 in advance and to comply with the new standard as of 1 January 2019.

There are no other new standards, amendments or interpretations that are effective as of the reference date of these Consolidated Financial Statements and which are likely to have a significant impact on the Group.

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 instruments

A financial instrument is any contract that gives rise to a financial asset for an entity and a financial liability or an instrument representing capital for another entity.

#### Financial assets

*Initial recognition and measurement*

At the time of initial recognition, financial assets are classified, based on the case, on the basis of subsequent measurement methods, that is at amortised cost, at fair value through other comprehensive income or at fair value through profit and loss.

Classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows associated with the financial assets and the business model used by the Group to manage them. With the exception of trade receivables which do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial recognised in the income statement not at fair value. Trade receivables which do not contain significant financing component or for which the Group has applied the practical expedient are measured at the transaction price, determined according to IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it must generate cash flows associated solely with payments of principal and interest (SPPI). Assessment of this aspect is known as the SPPI test and is performed at the individual instrument level.

The Group's business model for managing financial assets refers to the manner in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows derive from collecting contractual cash flows, sales of financial assets or from both.

The purchase or sale of a financial asset which requires delivery either through a standardised sale or through regular way trade is recognised on the negotiation date, that is the date on which the Group undertook to purchase or sell the asset.

*Subsequent measurement*

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of cumulated profits and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reversal of cumulated profits and losses at the time of elimination (equity instruments);
- Financial assets at fair value through profit and loss.

Classification depends on the purpose for which the assets are acquired and held. The Group determines classification of assets at initial recognition, verifying the category at each subsequent reporting date.

**Financial assets at amortised cost (debt instruments)**

The Group measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held under a business model with the objective of holding financial assets to collect contractual cash flows;
- The contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

Financial assets at amortised cost are subsequently measured using the criteria of effective interest and are subject to impairment. Profits and losses are recognised in the income statement when the asset is eliminated, amended or remeasured.

**Financial assets at fair value through other comprehensive income (debt instruments)**

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held under a business model which has the dual objectives of collecting contractual cash flows and sale of the financial assets;
- the contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

For assets involving debt instruments measured at fair value through other comprehensive income, interest receivable, variations due to exchange differences and impairment, together with writebacks, are recognised in the income statement and calculated in the same way as financial assets measured at amortised cost. Remaining changes in fair value are recognised in other comprehensive income. At the time of elimination, the cumulative change in fair value recognised in OCI is reclassified to the income statement.

***Investments in equity instruments***

At initial recognition, the Group may irrevocably decide to classify its stock investments as equity instruments recognised at fair value through other comprehensive income when the satisfy the definition of equity instruments pursuant to IAS 32 "Financial instruments: Presentation" and are not held for trading. Classification is done for each individual instrument.

Profits and losses resulting from these financial assets are never reversed to the income statement. Dividends are recognised as other revenues in the income statement when the right to payment has been resolved, except when the Group benefits from these amounts as recovery of part of the cost of the financial asset, in which case, the profits are recognised under OCI. Equity instruments recognised at fair value through other comprehensive income are not subject to impairment testing.

**Financial assets at fair value through profit and loss**

This category includes assets held for trading, assets designated at initial recognition as financial assets at fair value with changes recognised in the income statement and financial assets necessarily measured at fair value. Assets held for trading are all assets acquired to be sold or repurchased over the short term. Derivatives, including separated ones, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows which do not pass the SPPI test are classified and measured at fair value through profit and loss, regardless of the business mode. Despite the criteria for debt instruments for classification at amortised cost or at fair value through other comprehensive income, as described above, debt instruments can be recognised at fair value through profit and loss at initial recognition if this involves the elimination or significant reduction of an accounting misalignment.

***Derecognition***

A financial asset (or, when applicable, part of a financial asset or part of a group of similar financial assets) is derecognised in the first place (e.g. removed from the statement of the Group's equity/financial situation) when:

- the rights to receive financial flows from the asset no longer exist, or
- the Group has transferred the right to receive cash flows from the asset to a third party or has taken on the contractual obligation to pay them fully and promptly and (a) has substantially transferred all risks and benefits of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control over the same.

In cases where the Group has transferred the rights to receive cash flows from an asset or has signed an agreement based on which it maintains contractual rights to receive cash flows from the financial asset, but has a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it determines if and to what extent it has retained the risks and benefits inherent to ownership. If it has neither substantially transferred nor retained all the risks and benefits or has not lost control over the same, the asset continues to be recognised in the Group's financial statements to the extent of its residual involvement with the asset in question. In this case, the Group also recognises an associated liability. The asset transferred and the associated liability are measured so as to reflect the rights and obligations that continue to apply to the Group.

When the entity's residual involvement is a guarantee for the transferred asset, involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of the fee received which the entity may have to repay.

***Impairment of financial assets***

The Group recognises impairment due to expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit and loss. ECLs are based on the difference between contractual cash flows due in compliance with the contract and all the cash flows the Group expects to receive, discounted by an approximation of the original effective interest rate. Expected cash flows include cash flows deriving from enforcement of collateral held or other credit guarantees which are an integral part of the contractual conditions.

Expected losses are recognised in two phases. Relative to credit exposures for which no significant increase in credit risk has been seen following initial recognition, it is necessary to recognise credit losses deriving from an estimate of default events likely to occur within the subsequent 12 months (12-month ECL). For credit exposures that have seen a significant increase in credit risk after initial recognition, expected losses relative to the full residual duration of the exposure must be recognised, regardless of when the default event is expected to occur ("lifetime ECL").

For trade receivables and assets deriving from contracts, the Group applies a simplified approach to calculate expected losses. Therefore, the Group does not monitor changes in credit risk but recognises the expected loss in full at each reference date. The Group has established a matrix system based on historic information, revised to consider forward looking elements with reference to specific types of debtors and the economic environment, used as tool to determine expected losses.

For assets represented by debt instruments measured at fair value through other comprehensive income, the Group applies the simplified approach allowed for low credit risk assets. At each reporting date, the Group evaluates whether a debt instrument has low credit risk, using available information.

**Financial liabilities**

*Initial recognition and measurement*

At initial recognition, financial liabilities are classified among financial liabilities measured at fair value through profit and loss, among mortgages and loans or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value, to which is added in the cases of mortgages, loans and payables, the transaction costs directly attributable to the same.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts, guarantees granted and derivatives.

*Subsequent measurement*

Measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at fair value through profit and loss**

Financial liabilities at fair value through profit and loss with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value with changes recognised in the income statement.

Liabilities held for trading are all those kept to be sold over the short term. This category also includes derivative financial instruments subscribed by the Group which are not designated as hedging instruments in a hedging relationship as defined under IFRS 9.

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

Financial liabilities are designated at fair value with changes recognised in the income statement as of the initial recognition date only if the criteria in IFRS 9 are satisfied. At initial recognition, the Group has not designated financial liabilities at fair value with changes recognised in the income statement.

**Loans and receivables**

This is the most significant category for the Group. After initial recognition, loans are measured using the amortised cost criteria, using the effective interest rate method. Profits and losses are recognised in the income statement when the liability is extinguished, as well as through the amortisation process.

The amortised cost is calculated by recognising the discount or premium on acquisition and fees or costs which are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the profit and loss statement.

**Financial guarantee liabilities**

Financial guarantee liabilities issued by the Group are contracts which require payment to reimburse the holder of a debt security against a loss suffered by them following the debtor not making payments at contractually established due dates. Financial guarantee contracts are initially recognised as liabilities at fair value, plus any transaction costs directly attributable to issuing of the guarantee. Subsequently, the liability is measured as the greater of the best estimate of the payment required to fulfil the guaranteed obligation as of the reporting date and the amount initially recognised, net of cumulative amortisation.

***Derecognition***

A financial liability is derecognised when the obligation underlying the liability is repaid, cancelled or fulfilled. When an existing financial liability is replaced by another of by the same lender, under substantially different conditions, or the conditions for an existing liability are substantially changed, this exchange or change is recognised as the accounting derecognition of the original liability, followed by recognition of a new liability, with any differences between the book values recognised in the profit and loss statement for the year.

***Offsetting of financial instruments***

An asset and a financial liability can be offset and the net balance recognised in the balance sheet if there is a current legal right to offset the amounts recognised for accounting purpose and there is an intention to extinguish the residual net amount or to realise the asset and simultaneously extinguish the liability.

### Derivatives

The Group made use of the right to continue to make use of the provisions established in IAS 39 solely relative to hedge accounting.

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.

### 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.

### 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 on the basis of the payment the company believes it is entitled to receive for the sale of its products or services.

Revenues from sales of products are recognised, net of discounts, rebates or returns, when control over the assets or services is transferred to the customer. Transfer of control occurs when the following conditions are met:

- the company does not have the possibility to make use of the goods or services, as this has been transferred to the customer;
- 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);

- the value of the revenues is reliably determined;
- 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 2018 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Property, plant and equipment | 731,830 | 714,277 | (17,552) |
| Property investments | 717 | 690 | (26) |
| Financially leased assets | 414 | 322 | (92) |
| | **732,960** | **715,289** | **(17,671)** |

### *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** | **636,302** | **3,008,269** | **20,185** | **53,399** | **42,902** | **3,761,058** |
| Increases during period | 2,344 | 27,869 | 217 | 1,617 | 44,218 | 76,265 |
| Disposals during period | (2) | (53,847) | (326) | (2,828) | (42) | (57,045) |
| Revaluations, impairment during period | (87) | (12,663) | - | - | - | (12,749) |
| Transfer | - | - | - | - | - | - |
| Other changes | 2,802 | 28,828 | 162 | (68) | (31,463) | 263 |
| **Historic cost at period end** | **641,359** | **2,998,457** | **20,239** | **52,120** | **55,616** | **3,767,791** |
| **Provision for amortisation/depreciation at start of period** | **407,736** | **2,552,832** | **18,401** | **50,260** | | **3,029,228** |
| Amortisation/depreciation during period | 10,334 | 67,954 | 506 | 1,505 | | 80,300 |
| Uses during period | (2) | (53,168) | (326) | (2,780) | | (56,277) |
| Transfer | - | - | - | - | | - |
| Other changes in the provision | (0) | 369 | - | (106) | | 263 |
| **Provision for amortisation/depreciation at period end** | **418,068** | **2,567,987** | **18,581** | **48,878** | | **3,053,514** |
| **Net book value at period end** | **223,291** | **430,470** | **1,658** | **3,242** | **55,616** | **714,277** |

Capitalisation carried out during the year amounted to € 76,265 thousand (€ 57,734 thousand in 2017) and also included other increases for € 976 thousand (€ 1,105 thousand in 2017) relative to internal work; capitalisation of financial expense equal to € 253 thousand (€ 485 thousand in 2017), calculated with reference to a rate of 2.03%, implementing IAS 23; and advances on maintenance work for € 3,998 thousand (€ 3,840 thousand in 2017).

Please see the Report on Operations for comments and details on investments in 2018.

The historical cost and amortisation provision eliminated due to disposals amounted respectively to € 57,045 thousand (€ 68,745 thousand after reversal of the impairment provision for € 11,700 thousand) and € 56,277 thousand. The main operations involved Burgo Group spa, in particular the Avezzano plant, from which assets relative to production line were disposed of. The assets sold were MC 1, recognised for a historical cost of € 45,138 thousand, the calendars from line 2 recognised for € 280 thousand and the MC 1 pulper recognised for € 254 thousand.

During the year, writedowns were recognised for plant and machinery totalling € 9,731 thousand, relative to assets from the Sarego plant, following impairment testing. Additional impairment of

€ 3,018 thousand was recognised relative to systems disposed of at certain Group plants, 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** | | **297** | **297** |
| Amortisation/depreciation during period | | 26 | **26** |
| Uses during period | | - | **-** |
| Other changes in the provision | | - | - |
| **Provision for amortisation/depreciation at period end** | | **324** | **324** |
| **Net book value at period end** | **82** | **608** | **690** |

With regards to real estate activities during the year, with the exception of depreciation for the period totalling € 26 thousand (€ 27 thousand in 2017), no other changes occurred.

### *Financially leased assets*

| Flow of financially leased assets | | €/000 |
|---|---|---|
| | Financially leased assets | Total |
| **Historic cost at start of period** | **460** | **460** |
| Increases during period | - | - |
| Disposals during period | - | - |
| Revaluations, impairment during period | - | - |
| Other changes | - | - |
| **Historic cost at period end** | **460** | **460** |
| **Provision for amortisation/depreciation at start of period** | **46** | **46** |
| Amortisation/depreciation during period | 92 | **92** |
| Uses during period | - | **-** |
| Other changes in the provision | - | - |
| **Provision for amortisation/depreciation at period end** | **138** | **138** |
| **Net book value at period end** | **322** | **322** |

Financially leased assets refer to investments in machinery made by the subsidiary Burgo Ardennes during the year. The historic cost recognised is € 460 thousand and did not undergo changes during

2018. The relative provision for depreciation is € 138 thousand, which increased due to depreciation during the period of € 92,000 (€ 46,000 in 2017).

### 2) Intangible assets

The balance is as follows:

**Intangible assets** €/000

| | 31 December 2017 | 31 December 2018 | Variazione |
|---|---|---|---|
| **Goodwill and other assets with undefined life** | | | |
| Goodwill | 26,915 | 17,061 | (9,854) |
| | 26,915 | 17,061 | (9,854) |
| **Intangible assets with defined life** | | | |
| Plant and expansion costs | 0 | 0 | - |
| Concessions, licenses, trademarks and similar rights | 1,430 | 1,511 | 81 |
| Other intangible assets | 7,091 | 6,909 | (183) |
| Fixed assets in progress and advances | 250 | 585 | 336 |
| | 8,771 | 9,005 | 234 |
| | 35,686 | 26,066 | (9,620) |

The item goodwill includes that recognised through incorporation of the plants in Valchiampo and Villorba di Cartiere Marchi spa during 2006 (€ 16,647 thousand) and for the acquisition of 100% of Cavallari srl, subsequently called Burgo Distribuzione srl (€ 414 thousand).

During the year, the carrying value of the goodwill allocated to the Sarego plant was decreased by € 9,854 thousand following the impairment test, reducing it to zero.

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 2.62% (2.07% in 2017), the market risk premium of 5.5% in line with that of the previous year (increased to 2.5% to incorporate other risks for certain CGUs), a variable growth rate between 1.00% and 2.50% based on the CGU, the cost of debt before taxes of 2.25% and the ratio between equity and debt, respectively equal to 78.72% and 21.28% (respectively 81.60% and 18.40% the previous year) derived as the average value of a panel of comparable listed companies in the same sector.

As stated above, the impairment test gave rise to the need to partially writedown assets relative to the Sarego plant.
Below is a breakdown of residual goodwill at the end of the year for each CGU:

- Villorba € 10,837 thousand;
- Chiampo € 5,810 thousand;
- Burgo Distribuzione € 414 thousand.

Additionally, the test was carried out with reference to CGUs for which indicators of impairment were identified. In this case, the test 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 (€ 414 thousand) and railway connection expenses (€ 551 thousand) relative to the Duino plant. Additionally, € 585 thousand of intangible fixed assets in progress were recognised, mainly for the project to update and develop the corporate management system.
The Group, which as the right to receive green certificates against the production of energy from renewable sources at the Ardennes plant, recognised securities totalling € 14,226 thousand in the balance sheet (€ 14,217 thousand in 2017), of which € 6,909 recognised among intangible assets at year end.
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** | **13,300** | **7,091** | **250** | **52,944** |
| Increases during period | - | - | - | 579 | 14,226 | 336 | 15,140 |
| Disposals during period | - | - | - | - | (14,408) | - | (14,408) |
| Revaluations, impairment during period | (9,854) | - | - | - | - | - | (9,854) |
| Other changes | - | - | - | - | - | - | - |
| **Historic cost at period end** | **17,061** | **5,007** | **382** | **13,879** | **6,909** | **585** | **43,823** |
| **Provision for amortisation/depreciation at start of period** | | **5,007** | **382** | **11,870** | **-** | | **17,259** |
| Amortisation/depreciation during period | | - | - | 498 | - | | **498** |
| Uses during period | | - | - | - | - | | **-** |
| Other changes in the provision | | - | - | - | - | | - |
| **Provision for amortisation/depreciation at period end** | | **5,007** | **382** | **12,368** | **-** | | **17,756** |
| **Net book value at period end** | **17,061** | **0** | **-** | **1,511** | **6,909** | **585** | **26,066** |

The increases of € 15,140 thousand include software purchases for € 914 thousand, in addition to the recognition of green certificates for € 14,226 thousand.
Decreases relate to the sales green certificates for € 14,408 thousand.

### 3) Other non-current assets

These include the items indicated below:

#### *Equity investments and securities*

| Equity investments and securities | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| Equity investments in other companies | 9,662 | 9,662 | - |
| | **9,662** | **9,662** | **-** |

The item "equity investments in other companies" did not see any changes during the year.
The main equity investment, with a recognised value of € 9,651 thousand, refers to the portion pertaining to the Burgo Group of the Consorzio Paper Interconnector, mainly acquired in 2017 in the context of the last capital increase.

#### *Financial receivables and other non-current financial assets*

| Financial receivables and other non-current financial assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| Non-current financial receivables due from others | 4,371 | 4,382 | 11 |
| | **4,371** | **4,382** | **11** |

Financial receivables due from others, equal to € 4,382 thousand, mainly include € 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 € 553 thousand in receivables due from Group employees held by the subsidiary Burgo Factor. The balance increased by € 11 thousand.

#### *Other receivables and non-current assets*

| Other receivables and non-current assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| Non-current receivables due from customers | 5 | 5 | (0) |
| Non-current sundry receivables due from others | 132 | 103 | (29) |
| Non-current guarantee deposits | 2,354 | 3,538 | 1,184 |
| | **2,491** | **3,646** | **1,155** |

The increase in other receivables and non-current assets, equal to € 1,155 thousand with respect to the previous year, is mainly due to the increase in the Interconnector guarantee deposit made by

Burgo, relative to the portions paid to the guarantee fund for the creation of the Italy/France interconnection.

### 4) Deferred tax assets

These amount to € 69,998 thousand, a decrease of € 358 thousand. Below is a detailed explanation:

**Deferred tax assets** €/000

| | 31 December 2017 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Taxable | % rate | (Debit)/credit | Taxable | % rate | (Debit)/credit |
| **IRES** | | | | | | |
| Taxed provisions (allocated) | 100.621 | 24,0 | 24.064 | 109.235 | 24,0 | 26.216 |
| Derivatives | (662) | 24,0 | (159) | (1.431) | 24,0 | (343) |
| Discounting | (146) | 24,0 | (35) | (113) | 24,0 | (27) |
| IAS 19 discounting - actuarial G/L | 9.806 | 24,0 | 2.353 | 8.943 | 24,0 | 2.146 |
| Amortisation, depreciation and writedowns | (57.406) | 24,0 | (13.777) | (48.443) | 24,0 | (11.626) |
| 30% limit financial expense | 80.542 | 24,0 | 19.330 | 75.679 | 24,0 | 18.163 |
| IRES losses to be used in future financial years | 214.981 | 24,0 | 51.595 | 188.064 | 24,0 | 45.135 |
| Allocation of shortfall | (52.697) | 24,0 | (12.647) | (41.416) | 24,0 | (9.940) |
| Other items | (1.507) | 24,0 | (361) | (1.668) | 24,0 | (400) |
| | **293.532** | | **70.363** | **288.851** | | **69.325** |
| **IRAP** | | | | | | |
| Taxed provisions (allocated) | 35.058 | 3,9 | 1.367 | 43.148 | 3,9 | 1.683 |
| Discounting | (500) | 3,9 | (20) | (467) | 3,9 | (18) |
| Amortisation, depreciation and writedowns | (7.771) | 3,9 | (303) | (7.814) | 3,9 | (305) |
| Allocation of shortfall | (52.697) | 3,9 | (2.055) | (41.416) | 3,9 | (1.615) |
| Derivatives | (662) | 3,9 | (26) | (1.431) | 3,9 | (56) |
| Other items | 713 | 3,9 | 28 | (425) | 3,9 | (17) |
| | **(25.861)** | | **(1.009)** | **(8.406)** | | **(328)** |
| **Prepaid foreign taxes** | | | | | | |
| Other items | 5 | 28,0 | 1 | - | - | 1 |
| | **5** | | **1** | **-** | | **1** |
| | | | **69.356** | | | **68.998** |

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 tax 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. In the context of determining taxable IRES for 2018 for the parent company, part of the tax losses resulting from financial year 2001 were included, while in determining taxable CNM 2018 part of the tax losses recognised among assets were also used, resulting from financial year 2008.

€/000

| Tax losses | | 2017 | | 2018 | |
|---|---|---|---|---|---|
| | maturity | loss | tax | loss | tax |
| 2001 | can be carried forward indefinitely | 16,860 | 4,046 | 5,585 | 1,340 |
| 2002 | can be carried forward indefinitely | 152,738 | 36,657 | 152,738 | 36,657 |
| 2007 | can be carried forward indefinitely | - | - | - | - |
| 2008 | can be carried forward indefinitely | 45,383 | 10,892 | 29,741 | 7,138 |
| | | **214,981** | **51,595** | **188,064** | **45,135** |

## Current assets

### 5) Inventories

| **Inventories** | | | **€/000** |
|---|---|---|---|
| | **31 December 2017** | **31 December 2018** | **Variazione** |
| raw materials inventories | 58,711 | 62,489 | 3,778 |
| stock inventories | 45,595 | 46,286 | 690 |
| provision for impairment of stock | (14,810) | (12,040) | 2,771 |
| **Raw materials, subsidiary and consumable items** | **89,496** | **96,735** | **7,239** |
| Products in progress and semi-finished products | 30,649 | 35,955 | 5,306 |
| **Products in progress** | **30,649** | **35,955** | **5,306** |
| Finished products and goods | 89,452 | 117,891 | 28,439 |
| Provision for impairment of products | (2,039) | (2,125) | (87) |
| **Finished products** | **87,414** | **115,766** | **28,352** |
| | **207,559** | **248,456** | **40,897** |

Warehouse inventories increased as a whole by € 40,897 thousand (in 2017 the change also involved an increase, in the amount of € 1,721 thousand). More specifically:

- raw materials and stocks increased by € 7,239 thousand (in 2017 the change also involved an increase, in the amount of € 9,191 thousand);
- products in progress increased by € 5,306 thousand (in 2017 they had decreased by € 4,114 thousand);
- finished products increased by € 28,352 thousand (in 2017 they had decreased by € 3,356 thousand).

The value of inventories is net of the provision for impairment of stocks, € 12,040 thousand (€ 14,810 thousand in 2017) and that for product impairment, € 2,125 thousand (€ 2,039 thousand in 2017).

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 and the sales of obsolete materials occurring during financial year 2018.

### 6) Trade receivables

| Trade receivables | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Relative to customers | 416,720 | 352,944 | (63,776) |
| Advances from customers | - | 2 | 2 |
| minus: provision for doubtful accounts | (55,558) | (59,729) | (4,170) |
| | **361,162** | **293,217** | **(67,945)** |
| for associated companies | - | 0 | 0 |
| | **-** | **0** | **0** |
| | **361,162** | **293,217** | **(67,945)** |

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.
With reference to 1/1/2018, the provision for doubtful accounts was recalculated on the basis of the new accounting standard IFRS 9. The total effect of this recalculation was an increase of € 4,361 thousand to the provision for doubtful accounts.
Allocations to the provision for doubtful accounts during the year amounted to € 3,113 thousand (€ 5,850 thousand in 2017) while uses of the provision came to € 3,303 thousand.
The table below provides a breakdown of trade receivables by geographic area, exclusive of infragroup transactions.

| Trade receivables by geographic area | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Italy | 220,652 | 174,099 | (46,553) |
| Europe E.U. | 112,214 | 96,891 | (15,323) |
| Other countries | 28,296 | 22,227 | (6,069) |
| | **361,162** | **293,218** | **(67,944)** |

## 7) Other receivables and current assets

| Other receivables and current assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| **Current tax receivables** | **14,244** | **8,793** | **(5,450)** |
| Current sundry receivables due from others | 19,873 | 16,752 | (3,121) |
| Current receivables due from social security entities | 290 | 50 | (240) |
| Current derivative assets | 751 | 1,579 | 828 |
| **Other sundry receivables** | **20,915** | **18,382** | **(2,533)** |
| **Other assets** | **1,138** | **950** | **(188)** |
| | **36,297** | **28,125** | **(8,171)** |

Other receivables and current assets decreased as a whole by € 8,171 thousand.
The main changes were due to the decrease in tax receivables of € 5,450 thousand, mainly due to lower VAT credits, and in other receivables due from others for € 3,121 thousand, mainly due to a decrease in guarantee deposits. Assets relative to derivatives increased by € 828 thousand relative to hedging contracts for electricity, gas and emission rights.

## 8) Equity investments

| Equity investments | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| | 31 dic 2019 | 31 dic 2019 | Change |
| Other equity investments | 993 | 774 | (219) |
| **Equity investments** | **993** | **774** | **(219)** |
| **Securities other than equity investments** | **1** | **-** | **(1)** |
| | **994** | **774** | **(220)** |

Securities in the portfolio at the end of financial year 2018 consisted of 105,000 Mediobanca shares (unchanged with respect to 31 December 2017).
Pursuant to accounting standard IFRS 9, the Mediobanca shares are classified as financial assets measured at fair value through other comprehensive income (FVOCI). Adjustment to market values is done on the basis of stock market listings as of the end of the year, specifically: Mediobanca € 7.376 (€ 9.46 at 31 December 2017).
The adjustment to market value involved reducing the value of the Mediobanca shares by € 219 thousand, passing through the specific fair value through other comprehensive income reserve.

## 9) Financial receivables and other current financial assets

| Financial receivables and other current financial assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Financial receivables due from subsidiaries | - | (0) | (0) |
| Financial receivables due from others | 106,599 | 93,932 | (12,667) |
| Derivative financial assets | 362 | 335 | (26) |
| Other financial assets | 48 | 90 | 42 |
| | **107,009** | **94,357** | **(12,652)** |

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 € 91,099 thousand (€ 103,406 thousand in 2017) 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.

## 10) Cash and other cash equivalents

| Cash on hand and other cash equivalents | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Bank and postal deposits | 74,680 | 60,789 | (13,891) |
| Cash and cash on hand | 31 | 37 | 6 |
| | **74,711** | **60,826** | **(13,885)** |

Cash and other cash equivalents totalled € 60,826 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 2017 | 31 December 2018 | Change |
| Cash on hand and other cash equivalents | 74,711 | 60,826 | (13,885) |
| shared current accounts receivable | - | (0) | (0) |
| Current accounts and other loans | (126,564) | (79,127) | 47,437 |
| | **(51,853)** | **(18,301)** | **33,552** |

# Shareholders' equity

### 11) Shareholders' equity

Total consolidated shareholders' equity amounted to € 307,959 thousand (€ 300,186 thousand at 31 December 2017).
Share capital at 31 December 2018 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 2018 increased by € 7,773 thousand with respect to 31 December 2017, as a consequence of the following changes:

- an increase due to profits for the year of € +9,909 thousand (€ +8,727 thousand in 2017);
- an increase due to net fair value changes in financial derivatives recognised using hedge accounting for € +554 thousand (€ -1,892 thousand in 2017);
- a decrease for net changes in the adjustment reserve for AFS assets for € -219 thousand (€ +179 thousand in 2017);
- an increase for net changes equal to € +936 thousand (€ +95 thousand in 2017) due to discounting of TFR and other social security plans pursuant to IAS 19;
- a decrease of € -3,314 thousand due to the recognition of the net change (before taxes the change was € -4,361 thousand) from recalculating the provision for doubtful accounts at first time application of the new standard IFRS 9;
- a decrease due other net changes of € -93 thousand (€ -34 thousand in 2017).

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

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

| | 31 December 2017 | 31 December 2018 | 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 | 1,280 | 1,155 |
| Other reserves | 238 | 238 | - |
| Consolidation | (67,042) | (67,041) | 1 |
| IAS 19 reserve | (8,661) | (7,725) | 936 |
| Reserve for accounting standard change - FTA | 4,131 | 4,011 | (120) |
| Reserve for adjustment to FVOCI | 533 | 314 | (219) |
| Cash flow hedge reserve | 478 | 1,032 | 554 |
| | **281,749** | **284,055** | **2,306** |
| Profits (losses) carried forward reserve | (12,741) | (8,772) | 3,970 |
| | **(12,741)** | **(8,772)** | **3,970** |

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

| Deferred taxes recognised directly to shareholders' equity | | | €/000 |
|---|---|---|---|
| | 31 Dec 2017 | 31 Dec 2018 | Change |
| Fair value changes in cash flow hedges | (185) | (399) | (214) |
| Unrealised gains on financial assets available for sale | - | - | - |
| Actuarial gains/(losses) | 2,555 | 2,243 | (312) |
| | **2,370** | **1,844** | **(526)** |

In addition to deferred taxes directly charged to shareholders' equity, indicated in the above table, during 2018 deferred taxes relative to the adjustment of the provision for doubtful accounts following adoption of accounting standard IFRS 9 was also recognised. The effect was that of € 1,047 thousand in deferred tax assets.

## Non-current liabilities

### 12) Non-current financial liabilities

| Non-current financial liabilities | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Bonds | 2,500 | 1,250 | (1,250) |
| Converting loan | 100,000 | 100,000 | - |
| Loan payables | 467,155 | 441,503 | (25,651) |
| Financial leasing | 293 | 179 | (114) |
| **Non-current financial liabilities** | **569,947** | **542,932** | **(27,015)** |

Non-current financial liabilities include:

- Bonds issued by the subsidiary Burgo Ardennes for € 1,250 thousand;
- Convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- Amounts due to parent company shareholders for loans for € 251,932 thousand (€ 274,627 thousand at the end of the previous year) and MLT loans to others for € 187,940 thousand (€ 210,221 thousand at the end of the previous year).

In compliance with contractual provisions established with credit institutions, during 2018 advance repayments of loan debt were made, following sales of non-core assets (€ 2,789 thousand) and excess cash recorded at the end of financial year 2017 (€ 4,711 thousand). These repayments will be subtracted from the final payment in the amortisation plan for the loans.

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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| from 2 - 3 years | 43,887 | 43,252 | (635) |
| from 4 - 5 years | 422,479 | 398,251 | (24,228) |
| over 5 years | 884 | - | (884) |
| | **467,249** | **441,503** | **(25,747)** |

**Bonds - breakdown of maturity dates** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| from 2 - 3 years | 2,500 | 1,250 | (1,250) |
| from 4 - 5 years | - | - | - |
| over 5 years | - | - | - |
| | **2,500** | **1,250** | **(1,250)** |

**Converting loan - breakdown of maturity dates** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| from 2 - 3 years | - | - | - |
| from 4 - 5 years | 100,000 | 100,000 | - |
| over 5 years | - | - | - |
| | **100,000** | **100,000** | **-** |

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

**TFR (severance indemnity)** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Actuarial measurement of TFR at start of period | 46,299 | 44,336 | (1,964) |
| Provisions | 178 | 138 | (39) |
| Payments | (3,016) | (5,718) | (2,702) |
| TFR discounting - IAS 19 reserve | (144) | (893) | (749) |
| TFR discounting - financial expense (income) | 594 | 539 | (55) |
| Other changes - incoming (outgoing) transfers | 425 | 14 | (412) |
| | **44,336** | **38,415** | **(5,921)** |

The main component involved in the decrease is the liquidation of TFR liabilities relative to the employees let go from the Verzuolo and Duino plants of Burgo Group spa and of the company Burgo Energia slr following disposal of the business unit.

For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2018, 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**

| | 2017 | 2018 |
|---|---|---|
| Annual theoretical discounting rate | 1.30% | 1.57% |
| 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 € 20,255 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 2017 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Taxable | % rate | Debit/credit | Taxable | % rate | Debit/credit |
| **IRES** | | | | | | |
| Taxed provisions (allocated) | 5,954 | 27.5 | 1,638 | 5,954 | 27.5 | 1,637 |
| Other items | (231) | 27.0 | (62) | (827) | 24.0 | (199) |
| | **5,723** | | **1,575** | **5,127** | | **1,439** |
| **IRAP** | | | | | | |
| Other items | (1,284) | 3.9 | (50) | (1,562) | 3.9 | (61) |
| | **(1,284)** | | **(50)** | **(1,562)** | | **(61)** |
| **Deferred foreign taxes** | | | | | | |
| Taxed provisions (allocated) | 81,392 | 34.0 | 27,662 | 77,095 | 25.0 | 19,274 |
| Other items | (3,426) | 34.0 | (1,164) | (1,518) | 26.1 | (396) |
| | **77,966** | | **26,498** | **75,576** | | **18,877** |
| | | | **28,023** | | | **20,255** |

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.

The negative change in the balance at the end of the year totalling € 7,769 thousand is mainly due to the effects of deferred taxes relative to the subsidiary Burgo Ardennes. In 2018, beyond the ordinary release of deferred tax assets regarding the difference between fiscal and statutory amortisation/depreciation, which would have been around € 1,300 thousand using stable tax rates, a change was seen due to the decrease in the tax rate for direct taxes in Belgium (ISOC). In 2018, a tax reform was approved that involved a switch from the 33.99% rate which was valid through the end of 2017 to a rate of 29.58% for financial years 2018 and 2019, with an additional decrease to 25% in 2020. The effect of this rate change led to a decrease of around € 6,600 thousand in deferred tax liabilities.

## 15) Provisions for risks and charges

**Provisions for risks and charges** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Provision for industrial charges | 20,530 | 33,259 | 12,729 |
| Provision for disputes in course | 8,485 | 9,006 | 522 |
| Provision for supplementary customer allowance | 3,666 | 3,688 | 22 |
| Provision for restructuring charges | 9,460 | 7,380 | (2,080) |
| Other provisions for risks and charges | 590 | 821 | 231 |
| Provision for future personnel plans | 1,822 | 1,253 | (568) |
| | **44,553** | **55,407** | **10,855** |

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 | Increases | Decreases | Discounting | Actuarial change, period end |
|---|---|---|---|---|---|---|
| Provision for industrial charges | 20,530 | - | 20,926 | (8,230) | 33 | 33,259 |
| Provision for disputes in course | 8,485 | - | 1,125 | (603) | - | 9,006 |
| Provision for supplementary customer allowance | 3,666 | - | 485 | (469) | 6 | 3,688 |
| Provision for restructuring charges | 9,460 | - | - | (2,080) | - | 7,380 |
| Other provisions for risks and charges | 590 | - | 649 | (418) | - | 821 |
| Provision for future personnel plans | 1,822 | - | 121 | (335) | (354) | 1,253 |
| | **44,553** | **-** | **23,306** | **(12,136)** | **(315)** | **55,407** |

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. € 18,789 thousand was allocated in 2018 (€ 6,245 thousand in 2017). Uses during the year totalled € 7,841 thousand (€ 1,444 thousand in 2017);
- covering expenses it is held will be sustained for reclamation of the sludge landfills;
- charges emerging from situations directly associated with production. In 2018 € 2,136 thousand was allocated mainly relative to Burgo Ardennes for actions to adjust plants; uses totalled € 469 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, the provision was used for € 2,080 thousand (€ 183 thousand in 2017) against charges expected and arising during the year in question, following the closure of the Verzuolo and Duino production lines. During the year,the requisites for additional allocations were not met.

The **provision for other risk and charges** includes allocations for other potential liabilities, other than those above. Changes during the year are mainly due to uses and allocations for disputes and balancing of charges relative to the subsidiary Burgo Energia.

The **provision for other personnel expenses** includes:

- 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;

- a provision for a defined social security plan determined through payments to an insurance company;

For actuarial measurement of the "unemployment fund with company contribution" at 31 December 2018, 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**

| | 2017 | 2018 |
|---|---|---|
| Annual theoretical discounting rate | 0.00% | 0.01% |
| Annual inflation rate | 1.70% | 1.90% |

For the actuarial assessment of the social security plan at 31 December 2018 on the basis of accounting standard IAS 19, the same basic hypotheses adopted for the "provision for unemployment fund with company contribution" were used.

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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Non-current payables due to suppliers | 6,085 | 3,141 | (2,944) |
| Non-current sundry payables due from others | - | 30 | 30 |
| | **6,085** | **3,171** | **(2,914)** |

These payables are relative to supplier invoices for maintenance and multi-year investments to be paid in future financial years for € 2,533 thousand and to multi-year premiums paid to suppliers of timber by the subsidiary Burgo Ardennes for € 609 thousand.

## Current liabilities

### 17) Current financial liabilities

**Current financial liabilities** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Bonds | 1,250 | 1,250 | - |
| Loan payables - current portion | 22,120 | 22,499 | 379 |
| Current accounts and other loans | 126,564 | 79,127 | (47,437) |
| Payables due from other lenders | - | 39 | 39 |
| Derivatives | 337 | - | (337) |
| Financial leasing | 112 | 114 | 2 |
| Other financial liabilities | 647 | 528 | (119) |
| | **151,030** | **103,556** | **(47,474)** |

The decrease in current accounts payable and other loans of € 47,437 thousand after the decrease already seen the previous year (€ 38,180 thousand) is due to the decrease in net debt following generation of cash flows during the year.

The current portion of payables relative to loans changed 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 fell in 2018 as an effect of the reduction in charges due to lower debt.

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, at the end of 2018 credit lines were available totalling around € 381 million (€ 390 million at the end of the previous year), used for current account payables and short-term financing for around 27% of the total. Please refer to the section on significant events after the end of the year for information about developments in the availability of credit lines.

### 18) Trade payables

**Trade payables** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current payables due to suppliers | 435,465 | 418,262 | (17,203) |
| | **435,465** | **418,262** | **(17,203)** |

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 dic 2017 | 31 dic 2018 | Change |
|---|---|---|---|
| Italy | 224,662 | 210,032 | (14,630) |
| Europe E.U. | 201,704 | 199,715 | (1,989) |
| Other countries | 9,100 | 8,527 | (573) |
| | **435,465** | **418,273** | **(17,192)** |

## 19) Current tax payables

These amounted to € 12,469 thousand. The item mainly includes payables due to the tax authorities for substitute taxes and income taxes for IRES and IREP, as well as income taxes for foreign subsidiaries.

**Payables for current taxes** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Tax payables, income tax | 4,593 | 5,445 | 852 |
| Tax payables, VAT | 288 | 285 | (3) |
| Payables for withholdings | 5,857 | 5,924 | 67 |
| Tax payables for municipal taxes | - | 6 | 6 |
| Other tax payables | 1,044 | 810 | (234) |
| | **11,782** | **12,469** | **687** |

## 20) Other payables and current liabilities

These consist of the following:

| Other payables and current liabilities | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Current sundry payables due to others | 10,000 | 8,787 | (1,213) |
| Payables for commissions and premiums | 5,528 | 6,340 | 812 |
| Payables due to personnel | 17,009 | 19,959 | 2,950 |
| Current payables due to social security entities | 9,892 | 9,040 | (852) |
| Current derivative liabilities | 89 | 149 | 60 |
| Deferred income from grants for plants | 5,429 | 4,712 | (717) |
| Deferred income from capital account grants | - | 48 | 48 |
| Other accrued expenses and deferred income | 2,902 | 2,337 | (564) |
| | **50,850** | **51,372** | **522** |

Other payables and current liabilities were substantially stable.

## 21) Commitments and potential liabilities

| Commitments and potential liabilities | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| **Personal guarantees provided in favour of:** | | | |
| subsidiaries | 55,927 | 42,543 | (13,385) |
| other subjects | 20,097 | 21,474 | 1,377 |
| | **76,025** | **64,017** | **(12,008)** |
| **Others:** | | | |
| third party securities in custody | 16,882 | 16,882 | - |
| third party assets | 2,637 | 1,315 | (1,322) |
| | **19,519** | **18,197** | **(1,322)** |
| | **95,543** | **82,213** | **(13,330)** |

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 profit and loss statement. 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 | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Paper | 1,440,329 | 1,450,957 | 10,627 |
| Cellulose | 84,385 | 97,238 | 12,853 |
| Energy | 291,486 | 207,668 | (83,818) |
| Gas | 96,694 | 37,776 | (58,918) |
| Others | 20,812 | 18,476 | (2,336) |
| | **1,933,706** | **1,812,115** | **(121,591)** |

Revenues decreased by € 121,591 thousand (-6.3%). In particular, revenues from paper remained stable (+0.7%) and those from cellulose increased by 15%. On the other hand, total revenues from energy (electricity and gas) decreased respectively by 29% and 61%, while other revenues fell by 11%. Below is a breakdown of revenues by geographic area:

| Markets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Italy | 842,398 | 767,879 | (74,519) |
| Europe E.U. | 902,191 | 865,206 | (36,986) |
| Other countries | 189,117 | 179,029 | (10,088) |
| | **1,933,706** | **1,812,115** | **(121,592)** |

### 23) Other income

| Other income | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Insurance settlements | 1,949 | 1,488 | (461) |
| Environmental certificates | 40,284 | 41,980 | 1,697 |
| Energy expense recovery and reimbursements | 20,623 | 14,559 | (6,064) |
| Sundry income and expense recovery | 9,633 | 10,311 | 677 |
| Grants for current expenses | 2,026 | 2,085 | 59 |
| | **74,515** | **70,423** | **(4,092)** |

Other income decreased by € 4,092 thousand. The change was for the most part due to lower proceeds of € 6,100 thousand for interruptibility services.
Other income and recovery of expenses increased by € 677 thousand, mainly including income from the disposal of the business unit which sold electricity and gas to end users. Other income included commissions receivable for Burgo Factor spa factoring business for € 2,368 thousand (€ 2,396 thousand the previous year).
The item "grants for current expenses" includes:

- the portion accruing for 2018 (€ 718 thousand) of grants maturing in previous years;
- grants for personnel training (€ 460 thousand);
- grants for subsidies associated with personnel expenses (€ 907 thousand).

## 24) Purchases of materials and external services

**Purchases of materials and external services** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Purchases of raw materials, subsidiary and consumable items a | 895,018 | 922,177 | 27,159 |
| Transport and accessory expense on purchases | 29,356 | 31,501 | 2,145 |
| Transport and accessory expense on sales | 135,436 | 128,447 | (6,989) |
| Other industrial services | 22,743 | 28,817 | 6,074 |
| Industrial maintenance | 22,171 | 26,681 | 4,510 |
| Electricity and methane | 512,374 | 377,545 | (134,830) |
| Fees to independent auditing firm | 332 | 293 | (39) |
| Fees to statutory auditors | 226 | 210 | (16) |
| Other general and administrative services | 24,118 | 25,628 | 1,510 |
| Rentals and leases | 4,097 | 3,994 | (103) |
| | **1,645,871** | **1,545,294** | **(100,577)** |

Purchases of materials and external services decreased by € 100,577 thousand. The most significant changes involved:

- an increase in expenses to purchase raw materials, subsidiaries, consumables and goods (€ 27,159 thousand), in particular due to the increase in the prices to purchase cellulose;
- a decrease in transport costs for sales associated with the reduction in volumes;
- a decrease in the cost of electricity and methane for sales (€ 134,830 thousand) due to the disposal of the business unit which sold electricity and gas to end consumers; the cost of methane for own consumption and electricity for operating production plants increased.

Energy costs are shown net of payments the Group has the right to as a heavy energy consumption business (the payments received in 2018 totalled € 609 thousand).

## 25) Personnel expenses

| Personnel expenses | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Wages and salaries | 131,700 | 129,963 | (1,737) |
| Social security contributions | 48,106 | 47,315 | (791) |
| Expenses for defined benefit programs | 7,485 | 7,455 | (30) |
| Others | 12,345 | 14,326 | 1,981 |
| | **199,636** | **199,059** | **(577)** |

The cost of labour decreased by € 577 thousand in 2018, following the increase of € 1,704 thousand seen in 2017.
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 complementary insurance for employees of the subsidiary Burgo Ardennes.

## 26) Other operating costs

| Other operating costs | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| **Provisions** | | | |
| for impairment of receivables | 5,850 | 3,113 | (2,737) |
| for industrial charges | 8,626 | 20,399 | 11,773 |
| for disputes in course | 699 | 1,125 | 426 |
| for supplementary customer allowance | 217 | 488 | 271 |
| for other provisions | 200 | 649 | 449 |
| | 15,592 | 25,773 | 10,181 |
| **Other costs** | | | |
| Corporate expenses, taxes and indirect taxes | 15,231 | 15,004 | (227) |
| Membership fees | 1,377 | 1,347 | (30) |
| Losses and other costs | 1,728 | 1,323 | (405) |
| | 18,336 | 17,674 | (662) |
| | **33,927** | **43,447** | **9,520** |

Other operating costs increased by € 9,520 thousand, mainly due to the combined effects of:

- lower allocations for doubtful accounts of € 2,737 thousand;
- greater allocations to the provision for industrial charges, in particular as an effect of greater allocations for CO2, which in 2018 amounted to € 18,789 thousand (€ 6,245 thousand the previous year), and actions to adjust plants for € 1,950 thousand (€ 325 thousand the previous year);
- a decrease in other costs of € 662 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Change in inventories | 1,721 | 40,897 | 39,176 |
| | **1,721** | **40,897** | **39,176** |

The change in inventories led to income for the year of € 39,176 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Capitalised costs | 1,105 | 976 | (129) |
| | **1,105** | **976** | **(129)** |

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 2018.

## 29) Depreciation and amortisation

**Depreciation and amortisation** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Buildings | 10,596 | 10,334 | (262) |
| Plant and machinery | 71,293 | 67,954 | (3,339) |
| Industrial equipment | 519 | 506 | (13) |
| Other assets | 1,368 | 1,505 | 137 |
| Buildings for civil use | 27 | 26 | (0) |
| Leased assets | 46 | 92 | 46 |
| Intangible assets with defined life | 488 | 498 | 10 |
| | **84,337** | **80,916** | **(3,421)** |

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

| Capital gains/losses on disposal of non-current assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Capital gains | 171 | 2,041 | 1,870 |
| Capital losses | (73) | (80) | (7) |
| | **98** | **1,961** | **1,863** |

The main capital gains seen during the year were associated with the disposal of systems from the Avezzano plant, including the MC1 and L2 calendars, with capital gains of € 970 and from Duino, with capital gains of € 1,020 thousand. Additionally, lower capital gains were realised from the disposals of small systems from other plants.

### 31) Writebacks/writedowns of non-current assets

| Writebacks/writedowns of assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Land and buildings | - | 87 | 87 |
| Plant and machinery | 16,000 | 12,663 | (3,337) |
| Goodwill and other assets with undefined life | - | 9,854 | 9,854 |
| Current assets | - | - | - |
| | **16,000** | **22,603** | **6,603** |

During the year writedowns on assets were carried out totalling € 12,750 thousand relative to the plants in Sarego (€ 9,730 thousand), Verzuolo (€ 800 thousand), Duino (€ 1,211 thousand) and other systems warehoused at the Toscolano plant (€ 1,009 thousand). Additionally, goodwill relative to the Sarego plant was reduced to zero.
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 2017 | 31 December 2018 | Change |
| Non-recurring income | (6,751) | - | 6,751 |
| Non-recurring charges | 460 | 427 | (33) |
| | **(6,291)** | **427** | **6,718** |

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). In the previous year these came to € 6,291 thousand as they included sales of white certificate. The writedown was classified in the extraordinary section.

## 33) Net restructuring expenses

**Net restructuring expenses** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Restructuring expenses | 2,341 | - | (2,341) |
| | **2,341** | **-** | **(2,341)** |

During the year, no net restructuring expenses were recognised (€ 2,341 thousand the previous year).

## 34) Financial expense

**Financial expenses** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Interest expense on payables due to banks | 15,733 | 14,225 | (1,508) |
| Discounting of severance indemnities (TFR) | 594 | 539 | (55) |
| Other financial expense | 15,210 | 15,451 | 241 |
| Exchange losses | 919 | 331 | (587) |
| Exchange losses on P&L elisions | 25 | 0 | (24) |
| | **32,479** | **30,546** | **(1,933)** |

Financial expense amounted to € 30,546 thousand, showing a € 1,933 thousand decrease with respect to the previous year (with a decrease of € 2,866 thousand). The main changes involved:

- financial expense from amounts due to banks decreasing by € 1,508 thousand, consisting of interest and charges payable on loans;
- lower exchange losses which amounted to € 331 thousand (€ 919 thousand the previous year).

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

## 35) Financial income

| **Financial income** | | | **€/000** |
|---|---|---|---|
| | **31 December 2017** | **31 December 2018** | **Change** |
| Dividends from other companies | 39 | 48 | 9 |
| | 39 | 48 | 9 |
| **Other financial income** | | | |
| Financial income from disposal of equity investments | 58 | - | (58) |
| Interest income from banks | 91 | 132 | 41 |
| Interest income from long-term receivables | 5,333 | 5,160 | (173) |
| Other financial income | 8,014 | 340 | (7,674) |
| Exchange gains | 1,120 | 1,601 | 480 |
| Exchange gains on P&L elisions | 5 | 4 | (0) |
| | 14,620 | 7,236 | (7,384) |
| | **14,659** | **7,284** | **(7,375)** |

Financial income amounted to € 7,284 thousand, compared to € 14,659 thousand the previous year and fell with respect to the previous year by € 7,375 thousand.
The decrease was due to the presence in 2017 of the proceeds deriving from the acquisition of 51% of Gever spa 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.
Exchange gains rose, going from € 1,120 thousand the previous year to € 1,601 thousand in 2018.

## 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 2017** | **31 December 2018** | **Change** |
| Current taxes - IRES | 644 | 1,299 | 655 |
| Current taxes - IRAP | 1,783 | 2,441 | 658 |
| Current taxes - foreign companies | 4,934 | 4,563 | (372) |
| Deferred tax assets/liabilities - IRES | 2,837 | 1,670 | (1,166) |
| Deferred tax assets/liabilities - IRAP | 224 | (714) | (938) |
| Deferred tax assets/liabilities - foreign companies | (1,647) | (7,804) | (6,157) |
| | **8,776** | **1,455** | **(7,321)** |

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

**Tax rates**

| | 2018 |
|---|---|
| Italy | 27.90% |
| Belgium | 29.58% |
| France | 33.33% |
| Spain | 28.00% |
| Great Britain | 20.00% |
| Germany | 32.97% |
| Poland | 19.00% |
| United States of America | 21.00% |

For Belgium, the corporate tax reforms associated with Belgian Law 25/12/2017 (MB 29/12/2017) involved a reduction in the ISOC rate from 33.99% to 29.58% for 2018 and 2019, and a further reduction to 25% as of 2020, effective as of 1/1/2018. The effect on the consolidated financial statements deriving from the rate change can be estimated at around € 6,600 thousand.

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**

| | 2018 | |
|---|---|---|
| Before tax results for the year | **11,364** | |
| Theoretical tax (IRES) - Italian tax rate in effect: 24.0% | | 2,727 |
| Current taxes (IRES) recognised in the financial statements | | 1,299 |
| Deferred taxes (IRES) recognised in the financial statements | | 1,670 |
| Current/deferred taxes, foreign companies | | (3,241) |
| Total taxes recognised in the financial statements | | **(272)** |
| Effective tax rate on before tax profit | | (2.4%) |
| Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect | | 2,441 |
| Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect | | (714) |
| Total (IRAP) taxes recognised in the financial statements | | 1,727 |
| Effective (IRAP) tax rate on before tax profit | | 15.2% |
| Effect of Belgian rate change | | (6,600) |
| Effect of change in effective rates on foreign companies | | 958 |
| Total taxes recognised in the financial statements | | 1,455 |
| Effective tax rate on before tax profit | | 12.8% |

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

The schedule presented on page 44 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 positive for € 768 thousand, which net of taxes (€ -214 thousand) is equal to € 554 thousand;
- adjustment of financial instruments to the market value at year end. At the end of the year, the parent company classified the Mediobanca shares held in its portfolio as FVOCI. During 2018, the change was negative for € 219 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 2018 profits of € 1,248 thousand were recognised which, net of tax effects of € -312 thousand, led to a positive change of € 936 thousand;
- the effects of translating the financial statements of foreign companies (€ 1 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 2018.

**Relations with related parties** €/000

| | Parent Company | | Other group companies | | Total | | Total financial statement items | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | % | 31 December 2018 | % |
| Financial receivables and other non-current financial asse | 3.768 | 3.600 | - | - | 3.768 | 3.600 | 8.147 | 46% | 7.982 | 45% |
| Trade receivables | 107.004 | 91.537 | - | - | 187.619 | 170.124 | 1.140.358 | 16% | 462.794 | 37% |
| Other receivables and current assets | 7.739 | 7.622 | - | - | 9.937 | 9.172 | 120.954 | 8% | 37.319 | 25% |
| Financial receivables and other current financial assets | 30.820 | 36.896 | - | - | 36.369 | 47.766 | 143.378 | 25% | 142.130 | 34% |
| Non-current financial liabilities | (800) | (800) | - | - | (3.600) | (3.600) | (1.488.080) | 0% | (546.529) | 1% |
| Current financial liabilities | (5.546) | (10.894) | - | - | (36.571) | (47.768) | (373.405) | 10% | (151.324) | 32% |
| Trade payables | (119.133) | (102.946) | - | - | (184.996) | (167.346) | (817.302) | 23% | (585.619) | 29% |
| Other payables and current liabilities | (3.214) | (2.566) | - | - | (10.643) | (10.236) | (130.698) | 8% | (61.605) | 17% |
| **Economic relationships** | | | | | | | | | | |
| Revenues | 347.891 | 393.429 | - | - | 619.417 | 649.276 | 4.374.333 | 14% | 2.461.533 | 26% |
| Other income | 10.702 | 21.446 | - | - | 10.756 | 25.395 | 604.553 | 2% | 95.830 | 26% |
| Costs for materials and external services | (382.929) | (385.924) | - | - | (626.292) | (670.980) | (3.480.291) | 18% | (2.217.197) | 30% |
| Personnel expenses | - | - | - | - | (827) | (813) | (492.618) | 0% | (200.901) | 0% |
| Other operating costs | (14) | (13) | - | - | (59) | (26) | (613.781) | 0% | (43.351) | 0% |
| Financial expenses | (739) | (965) | - | - | (1.821) | (1.945) | (76.965) | 2% | (32.514) | 6% |
| Financial income | 32.705 | 28.118 | - | - | 33.429 | 29.069 | 69.844 | 48% | 36.434 | 80% |
| Income taxes | - | 5.803 | - | - | - | - | (16.575) | 0% | (1.698) | 0% |

In addition the transactions reported above, at 31 December 2018 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 2018, loans with related parties amounted to a nominal € 263,842 thousand (€ 277,339 thousand at 31 December 2017).

## Significant events after year end

In terms of demand, the initial months of the year saw a continuation in the slowing of orders, which had begun in October 2018, confirmed at a general level also by the significant reduction in the price of gas and electricity.

With regards to our sector, the strong upward trend in the prices of fibrous raw materials seen over the past two years seems to have stopped, with the first reductions in cost needed to recover the margin between the sales prices and prices of raw materials, which deteriorated in 2018.

In 2019, the Group will be involved in investments which are already under way and are particularly sizeable, involving the conversion of a second graphic paper line to cardboard production, following that already completed at the Avezzano plant, and an improvement in the energy efficiency and production capacity relative to cellulose production.

The Group's financial commitments to carry out these investments are also supported by the new loans granted to Burgo Ardennes sa, as well as by the new short-term debt agreement with the credit institutions involved in the recovery plan, signed on 12 March 2019 and valid through 31 March 2022. Through it, Burgo Group spa will have € 200 million in short-term credit lines available.

## Other information

### Fees paid to executives with strategic responsibilities

Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2018 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

| | Patrimonio netto | | Risultato del periodo | |
|---|---|---|---|---|
| | **31/12/2017** | **31/12/2018** | **31/12/2017** | **31/12/2018** |
| **Parent Company Financial Statements** | **389,054** | **396,915** | **2,690** | **7,736** |
| Elision of consolidated equity investments | (88,237) | (88,581) | 38,304 | 29,044 |
| Elimination of dividends from consolidated companies | - | - | (31,608) | (27,125) |
| Adjustments for adaptation to Group accounting standards | (630) | (375) | (659) | 253 |
| **Consolidated Financial Statements** | **300,186** | **307,959** | **8,727** | **9,909** |

## Number of employees

**Number of employees**

| | Start of year | Year end | Average 2017 | Average 2018 |
|---|---|---|---|---|
| Executives | 50 | 46 | 50 | 48 |
| Office Workers | 919 | 891 | 916 | 904 |
| Manual Workers | 2,694 | 2,600 | 2,706 | 2,652 |
| | **3,663** | **3,537** | **3,672** | **3,604** |

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

| **Compensation for statutory auditing pursuant to article 2427, paragraph 1, no. 16 bis, Civil Code** | **€/000** |
|---|---|
| | **2018 Financial Statemen** |
| **Statutory auditing services for the annual accounts:** | |
| Parent Company | 144,450 |
| Italian subsidiaries | 94,820 |
| Foreign subsidiaries | 64,277 |
| | **303,547** |

## Disclosure for transparency in public subsidies, required by Italian Law 124/2017, article 1, paragraphs 125-129, as amended.

Italian Law 124 of 2017 (the annual market and competition law) introduced new disclosure requirements relative to transparency in public subsidies received and granted, in article 1, paragraphs 125-129.

The following schedule provides information about grants and other economic advantages received from Italian public administrations during 2018. For the purposes of the consolidated financial statements, only information with regards to Italian companies is provided.

**Subsidised rate loans**

| Granting entity | Purpose | Subsidised rate | Amount financed |
|---|---|---|---|
| FVG Region through Mediocredito | Investment initiative, Italian Law 908/1955 | Euribor 6M reduced by 20%, floor of 0.85% | The loan was disbursed on 26/5/2016 for € 1,767,000. The residual value to be repaid as of 31/12/2018 was € 1,442,000. |

The financing indicated above is relative to Mosaico srl. To that end, we note that during 2018 Burgo Group spa did not receive any grants from Italian public administrations.

Note that on the basis of the most authoritative interpretations of the stated law, any payments, general measures or tax subsidies which can be used by all companies or generally by companies

within specific sectors, such as the paper sector or sector of heavy energy user companies, were not considered.
While the Group holds that these stances are appropriate, it also decided to indicate the following incentives in these financial statements which can be enjoyed by all companies:

- energy efficiency certificates for € 26,654 thousand;
- hydroelectric energy production incentives for € 943 thousand.

The amounts indicated in the disclosure above are also shown in the financial statements of the relevant Group companies.

## 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 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 2017 | | 31 December 2018 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Financial assets available for sale | 994 | 994 | 774 | 774 |
| Trade receivables and other receivables | 510,169 | 510,169 | 421,722 | 421,722 |
| Cash and cash equivalents | 74,759 | 74,759 | 60,916 | 60,916 |
| Hedging derivatives: | | | | |
| Assets | 1,113 | 1,113 | 1,915 | 1,915 |
| Liabilities | (426) | (426) | (149) | (149) |
| Lending from banks | (211,936) | (230,504) | (200,157) | (218,742) |
| Financial leasing liabilities | (405) | (293) | (293) | (179) |
| Loans from associated companies | (277,339) | (306,747) | (263,845) | (292,383) |
| Bonds and converting loan | (103,750) | (118,753) | (102,500) | (117,472) |
| Trade payables and other payables | (504,093) | (504,093) | (485,164) | (485,164) |
| Payables due to banks | (126,564) | (126,564) | (79,127) | (79,127) |
| | **(637,478)** | **(700,345)** | **(645,907)** | **(707,888)** |

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 € 1.9 million (€ 1.1 million the previous year) and financial payables for € -0.2 million (€ 0.4 million the previous year).

### Investments in equity instruments

The fair value of equity instruments held to maturity and financial assets 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 2017 | 31 December 2018 |
| Loans and receivables | 6,862 | 8,028 |
| | **6,862** | **8,028** |

| Current financial assets | | €/000 |
| --- | --- | --- |
| | 31 December 2017 | 31 December 2018 |
| Loans and receivables | 503,307 | 413,695 |
| Cash and cash equivalents | 74,759 | 60,916 |
| Financial assets FVOCI | 994 | 774 |
| Current hedging derivatives | 1,113 | 1,915 |
| Non-current assets held for sale | - | - |
| | **580,173** | **477,300** |

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 at FVOCI 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 2019 | 31 December 2018 |
| Lending from banks | (201,726) | (189,568) |
| Loans from associated companies | (265,429) | (251,935) |
| Non-current bonds | (2,500) | (1,250) |
| Converting loan | (100,000) | (100,000) |
| Financial leasing liabilities | (293) | (179) |
| Other payables | (6,085) | (3,171) |
| | **(576,033)** | **(546,103)** |

**Current financial liabilities** €/000

| | 31 December 2017 | 31 December 2018 |
|---|---|---|
| Lending from banks | (10,211) | (10,589) |
| Loans from associated companies | (11,910) | (11,910) |
| Bonds | (1,250) | (1,250) |
| Hedging derivatives | (426) | (149) |
| Financial leasing liabilities | (112) | (114) |
| Payables due to banks | (126,564) | (79,127) |
| Trade payables and other payables | (498,654) | (482,520) |
| | **(649,127)** | **(585,659)** |

### 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 2017 | 31 December 2018 |
|---|---|---|
| Financial assets FVOCI | 994 | 774 |
| Trade receivables and other receivables | 510,169 | 421,722 |
| Cash and cash equivalents | 74,759 | 60,916 |
| | **585,922** | **483,413** |

### 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Balance at start of period | (64,229) | (55,558) | 8,671 |
| Uses | 14,516 | 3,314 | (11,203) |
| Provisions | (5,850) | (3,100) | 2,750 |
| Other changes | 5 | (4,384) | (4,389) |
| | **(55,558)** | **(59,729)** | **(4,170)** |

## 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 2017 | 31 December 2018 |
|---|---|---|
| End consumers | 243,574 | 195,053 |
| Retailers | 3,873 | 3,514 |
| Stock exchange | 12,974 | 6,218 |
| Wholesalers | 44,738 | 38,393 |
| Printers | 58,662 | 53,218 |
| Publishers | 5,591 | 5,074 |
| Other group companies | - | 0 |
| Credit institutions | 74,759 | 60,916 |
| Tax authorities | 14,244 | 8,793 |
| Others | 135,752 | 120,482 |
| | **594,167** | **491,661** |

## 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 2018 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 2017 | 31 December 2018 |
|---|---|---|
| Funds | 1 | - |
| Shares | 993 | 774 |
| | **994** | **774** |

### 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 € +0.01 million (€ +0.23 million in 2017) and of € -0.07 million (€ +0.04 million in 2017). All effects would be seen in shareholders' equity.
Exposure to risk relative to changes in stock market prices remained unchanged in 2018 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 2018 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, € -313 thousand (€ +293 thousand in 2017) and € +383 thousand (€ -359 thousand in 2017).

### 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 euro 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 2017 | 31 December 2018 |
|---|---|---|
| **Fixed rate financial instruments** | | |
| ***Financial assets*** | | |
| Non-current guarantee deposits | 2,354 | 3,538 |
| ***Financial liabilities*** | | |
| Fixed rate loans | (7,832) | (5,071) |
| | (5,478) | (1,533) |
| **Variable rate financial instruments** | | |
| ***Financial assets*** | | |
| Financial instruments with positive FV | 1,113 | 1,915 |
| ***Financial liabilities*** | | |
| Derivatives with negative FV | (426) | (149) |
| Variable rate loans | (585,598) | (561,721) |
| Current account advances | (127,211) | (79,655) |
| | **(712,122)** | **(639,610)** |
| | **(717,599)** | **(641,142)** |

### 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 2018 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 2017.

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, € -3.7 million and € +0.1 million (in 2017: € -5.2 million and € 0.4 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 projections over a multi-year period prepared on the basis of economic and financial budgets and cash flow projections, as well as 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 2018, 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 9.
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 € +677 thousand or € -677 thousand on shareholders' equity (€ 577 thousand and € -577 thousand respectively at 31/12/2017).

## 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 2018, 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 2017 and 31 December 2018.

| 31 dic 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 | 593,430 | 667,086 | 5,485 | 25,521 | 61,169 | 572,628 | 2,284 |
| Trade payables and other payables | 504,093 | 504,093 | 498,562 | - | 2,998 | 2,533 | - |
| **Derivative financial liabilities:** | | | | | | | |
| Hedging derivatives | (687) | (687) | (687) | - | - | - | - |
| Non-hedging derivatives | - | - | - | - | - | - | - |
| Currency futures contracts | - | - | - | - | - | - | - |
| | **1,096,835** | **1,170,492** | **503,359** | **25,521** | **64,167** | **575,161** | **2,284** |

| 31 dic 2018 | | | | | | | €/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 | 566,795 | 631,253 | 5,277 | 25,395 | 60,082 | 540,499 | - |
| Trade payables and other payables | 485,164 | 485,164 | 482,631 | - | 2,533 | - | - |
| **Derivative financial liabilities:** | | | | | | | |
| Hedging derivatives | (1,766) | (1,535) | (1,535) | - | - | - | - |
| Non-hedging derivatives | - | - | - | - | - | - | - |
| Currency futures contracts | - | - | - | - | - | - | - |
| | **1,050,193** | **1,114,881** | **486,372** | **25,395** | **62,615** | **540,499** | **-** |

## 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 were available totalling € 381 million (€ 390 million at the end of the previous year), used for current account payables and short-term financing for around 27% of the total. For long-term financial requirements, the Group has financing of around € 567 million (€ 594 million at the end of the previous year).

The Group also has a liquidity reserve, consisting of cash and highly liquid time deposits.
Following the changes which occurred on 12 March 2019, following the update made to the recovery plan, the Group has short-term credit lines available totalling € 222 million.

# REPORT OF THE INDEPENDENT AUDITING FIRM

## Burgo Group S.p.A.

**Consolidated financial statements as at December 31, 2018**

**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

# 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, 2018, 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, 2018, 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.

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## 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, 2018, 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, 2018 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, 2018 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 11, 2019

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.*

BURGO GROUP
paper power & passion

# INDIVIDUAL FINANCIAL STATEMENTS

# Balance Sheet

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

| | Note | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|---|
| **Non-current assets** | | **1,014,271,545** | **982,818,874** | **(31,452,670)** |
| **Property, plant and equipment** | | **500,391,573** | **478,734,645** | **(21,656,929)** |
| Property, plant and equipment | 1 | 499,987,343 | 478,344,601 | (21,642,742) |
| Property investments | 1 | 404,230 | 390,044 | (14,186) |
| **Intangible assets** | | **22,176,363** | **12,758,460** | **(9,417,904)** |
| Goodwill and other intangible assets with undefined life | 2 | 20,691,073 | 10,836,969 | (9,854,104) |
| Intangible assets with defined life | 2 | 1,485,290 | 1,921,491 | 436,201 |
| **Other non-current assets** | | **427,266,444** | **428,295,904** | **1,029,461** |
| Equity investments in subsidiaries | 3 | 412,442,684 | 412,442,684 | - |
| Equity investments in other companies | 3 | 9,661,533 | 9,661,533 | - |
| Financial receivables and other non-current financial assets | 3 | 2,968,194 | 2,800,000 | (168,194) |
| Other receivables and non-current assets | 3 | 2,194,033 | 3,391,688 | 1,197,655 |
| **Deferred tax assets** | | **64,437,165** | **63,029,866** | **(1,407,299)** |
| Deferred tax assets | 4 | 64,437,165 | 63,029,866 | (1,407,299) |
| **Current assets** | | **448,368,117** | **438,551,090** | **(9,817,027)** |
| Inventories | 5 | 104,099,309 | 134,412,757 | 30,313,448 |
| Trade receivables | 6 | 207,034,591 | 187,562,277 | (19,472,314) |
| Other receivables and current assets | 7 | 32,469,887 | 25,807,533 | (6,662,354) |
| Equity investments | 8 | 993,300 | 774,480 | (218,820) |
| Securities other than equity investments | 8 | 1,002 | - | (1,002) |
| Financial receivables and other current financial assets | 9 | 33,320,564 | 39,641,251 | 6,320,687 |
| Cash on hand and other cash equivalents | 10 | 70,449,464 | 50,352,792 | (20,096,672) |
| **Total assets** | | **1,462,639,662** | **1,421,369,964** | **(41,269,697)** |

**Statement of equity/financial position: Liabilities** €

| | Note | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|---|
| **Shareholders' equity** | | **389,053,856** | **396,915,090** | **7,861,233** |
| Share capital | 11 | 20,000,000 | 20,000,000 | - |
| Reserves | 11 | 349,635,117 | 350,914,893 | 1,279,776 |
| Accumulated profits (losses) | 11 | 16,728,633 | 18,264,139 | 1,535,506 |
| Profit (loss) for the year | 11 | 2,690,106 | 7,736,058 | 5,045,952 |
| Shareholders' equity attributable to non-controlling inter | 11 | - | - | - |
| **Non-current liabilities** | | **629,011,812** | **604,455,066** | **(24,556,747)** |
| Non-current financial liabilities | 12 | 563,748,836 | 539,872,055 | (23,876,781) |
| Severance indemnities and other provisions related to pe | 13 | 31,205,235 | 27,013,414 | (4,191,821) |
| Provisions for deferred tax liabilities | 14 | - | - | - |
| Provisions for risks and charges | 14 | 28,526,825 | 35,036,978 | 6,510,153 |
| Other payables and non-current liabilities | 15 | 5,530,916 | 2,532,618 | (2,998,297) |
| **Current liabilities** | | **444,573,993** | **419,999,809** | **(24,574,184)** |
| Current financial liabilities | 16 | 71,366,740 | 37,217,114 | (34,149,626) |
| Trade payables | 17 | 342,114,285 | 348,824,109 | 6,709,824 |
| Payables for current taxes | 18 | 3,980,361 | 4,796,498 | 816,138 |
| Other payables and current liabilities | 19 | 27,112,608 | 29,162,088 | 2,049,480 |
| **Total shareholders' equity and liabilities** | | **1,462,639,662** | **1,421,369,964** | **(41,269,697)** |

# Profit and Loss Statement for the Year

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

| | note | 31 December 2017 | 31 December 2018 | % change |
|---|---|---|---|---|
| Revenues | 21 | 1,201,049,761 | 1,211,963,093 | 0.9% |
| Other income | 22 | 50,490,977 | 43,662,056 | |
| **Total operating revenues and income** | | **1,251,540,738** | **1,255,625,149** | **0.3%** |
| Costs for materials and external services | 23 | (1,076,251,403) | (1,090,097,298) | |
| Personnel expenses | 24 | (99,968,953) | (97,715,205) | |
| Other operating costs | 25 | (13,920,017) | (20,113,434) | |
| Change in inventories | 26 | 773,401 | 30,313,448 | |
| Capitalised costs for internal work | 27 | 865,175 | 517,495 | |
| **Total operating costs** | | **(1,188,501,796)** | **(1,177,094,994)** | **-1.0%** |
| **EBITDA** | | **63,038,941** | **78,530,155** | **24.6%** |
| Depreciation and amortisation | 28 | (61,033,203) | (56,313,520) | |
| Capital gains/losses on disposal of non-current assets | 29 | 32,609 | 1,940,849 | |
| **EBIT before non-recurring expenses and income** | | **2,038,347** | **24,157,484** | |
| Writebacks/writedowns of non-current assets | 30 | (16,000,000) | (22,603,453) | |
| Income/expenses of a non-recurring nature | 31 | 6,291,003 | (427,064) | |
| Net restructuring expenses | 32 | (2,341,477) | - | |
| **Operating result** | | **(10,012,128)** | **1,126,966** | |
| Financial expenses | 33 | (26,311,509) | (24,738,427) | |
| Financial income | 34 | 33,744,440 | 29,137,563 | |
| **Profit/(loss) before tax** | | **(2,579,197)** | **5,526,102** | |
| Income taxes | 35 | 5,269,303 | 2,209,956 | |
| **Profit/(loss) for the period** | | **2,690,106** | **7,736,058** | **187.6%** |

## Schedule of other components of the comprehensive profit and loss statement

| Schedule of other components of the comprehensive profit and loss statement | | € |
|---|---|---|
| | 31 December 2017 | 31 December 2018 |
| **A - Profit (loss) for the period** | **2,690,106** | **7,736,058** |
| 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 financial assets FVOCI | 179,025 | (218,820) |
| | 179,025 | (218,820) |
| **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** | **179,025** | **(218,820)** |
| **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 | 133,789 | 610,606 |
| Income taxes | (32,109) | (146,530) |
| | 101,680 | 464,076 |
| **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** | **101,680** | **464,076** |
| **D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)** | **280,705** | **245,256** |
| **E - Total comprehensive profit (loss) net of taxes (D +A)** | **2,970,811** | **7,981,313** |

# 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** | **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 end of previous period (*)** | **20,000** | **13,149** | **138,797** | **(2,675)** | **200,000** | **125** | **238** | **16,729** | **2,690** | **389,054** |
| Destination of result - distribution of dividends | | | | - | | 1,155 | - | 1,536 | (2,690) | - |
| Net change profits (losses) directly recognised in shareholders' equity | | | | 245 | | | - | - | | 245 |
| Other changes in shareholders' equity | - | - | - | (120) | - | - | - | - | - | (120) |
| Exchange differences from translation of foreign financial statements | | | | - | | | - | - | | - |
| Profit/(loss) for the period | | | | - | | | - | - | 7,736 | 7,736 |
| **Balances at period end** | **20,000** | **13,149** | **138,797** | **(2,550)** | **200,000** | **1,280** | **238** | **18,264** | **7,736** | **396,915** |

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

# Cash Flow Statement

| Cash Flow Statement | | €/000 |
|---|---|---|
| | 31 December 2017 | 31 December 2018 |
| **A - Net initial monetary availability** | **2,942** | **51,648** |
| **B- Monetary flow from operating activities** | | |
| Net profit (loss) deriving from operating activities | 2,690 | 7,736 |
| Amortisation, depreciation, write-downs and writebacks | 77,033 | 78,917 |
| Writedowns and writebacks of financial assets | 630 | - |
| Capital (gains) losses on disposal of non-current assets | (33) | (1,941) |
| Capital (gains) losses on disposal of financial assets | (58) | - |
| Change in TFR and provisions for risks | 2,473 | 2,929 |
| Change in deferred tax assets and provision for deferred taxes | 2,937 | 1,261 |
| **Profit (loss) for the period before changes in working capital** | **85,673** | **88,902** |
| Change in inventories | (773) | (30,313) |
| Change in trade receivables | (3,351) | 19,472 |
| Change in trade payables | 24,059 | 6,710 |
| Change in other assets and liabilities | (9,663) | 5,332 |
| **Change in net working capital** | **10,272** | **1,201** |
| **Total B- Monetary flow from operating activities** | **95,945** | **90,103** |
| **C - Monetary flow from investing activities** | | |
| Investments in property, plant and equipment | (35,032) | (42,957) |
| Other increases in property, plant and equipment | (5,190) | (4,768) |
| Investments in intangible assets | (441) | (797) |
| Change in equity investments | (18,226) | - |
| Revenues from sales of fixed assets | 1,591 | 2,621 |
| **Total C - Monetary flow from investing activities** | **(57,299)** | **(45,901)** |
| **D - Monetary flow from financing activities** | | |
| Change in non-current securities and financial receivables | (168) | 168 |
| Change in financial receivables and other current financial assets | 14,662 | (269) |
| Change in current and non-current other non-financial liabilities | 536 | (432) |
| New loans | 4,463 | 4,435 |
| Repayment of loans | (9,433) | (28,312) |
| Changes in Shareholders' Equity | - | (120) |
| **Total D - Monetary flow from financing activities** | **10,060** | **(24,529)** |
| **E - Monetary flow for the period (B + C + D)** | **48,706** | **19,672** |
| **Net final monetary availability (A + E)** | **51,648** | **71,320** |
| **Additional information:** | | |
| Interest received during the period | 1,256 | 1,089 |
| Interest paid during the period | (25,416) | (24,224) |
| Taxes paid during the period | (4,912) | - |
| Dividends received during the period | 31,487 | 27,003 |

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 27 March 2019.

## Accounting standards

The individual financial statements for Burgo Group spa at 31 December 2018 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 Italian 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 Burgo 2020 Plan.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Italian 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 euro, 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;
- **Consolidated Profit and Loss and Income 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 2018 with profits of € 7.7 million (€ 9.9 million in consolidated profits), shareholders' equity of € 396.9 million (€ 308.0 million in consolidated shareholders' equity) and net financial debt of € 484.3 million (€ 486.9 million in consolidated net financial debt).
The consolidated financial situations were prepared using the general cost principle, with the exception of financial assets, measured in accordance with IFRS 9, and derivatives, 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 2018 were prepared in compliance with the IAS/IFRS accounting standards for preparing individual financial statements at 31 December 2017, taking into account the amendments and new standards which took effect as of 1 January 2018, listed below.

**Accounting standards and interpretations approved by the European Union in effect as of 1 January 2018**

**IFRS 15** **Amendments - Revenues from contracts with customers** - Regulation 2016/1905 took 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 replaced all the previous requirements found in the IFRSs regarding recognition of revenues. The replaced standards were IAS 18, IAS 11 and IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.
Revenues deriving from sales are recognised by the company when the asset is transferred to the customer, or at the time the customer acquires control over the asset. In terms of recognising revenues, application of IFRS 15 did not create significant changes from that which occurred when the previous standard was applied. Revenues are recognised net of discounts, rebates and returns. Provisions for future returns relative to sales already completed are recognised, in the same way as occurred when the previous standard was applied.
Analysis of contracts with customers did not give rise to any adjustments associated with the adoption of IFRS 15. The application of accounting standard IFRS 15, 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.

**IFRS 9** **Financial instruments** – Regulation 2016/2067 took 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:

a) With reference to classification and measurement, the company saw no significant impacts on its financial statements consequent to the application of the classification and measurement requirements established under IFRS 9. Other financial assets, as well as trade receivables, are held for the purpose of collecting sums at the contractual deadlines, and they are expected to generate cash flows represented solely by collection of principal and interest. Therefore, the company will continue to measure them in accordance with IFRS 9.
b) With reference to the impairment model for receivables, the new standard requires that estimated credit losses be done on the basis of expected losses (and not with the model of suffered losses), using reliable information, available without unreasonable cost or efforts and including historic, current and forward looking information. At 1 January 2018, the company reviewed and measured its trade receivables and recalculated credit risk using the expected loss model as of the date the individual receivables were initially recognised. On the basis of the analysis, in relation to the Group's type of business, historic experience in terms of actual losses and its customer segments, an addition to the provision for writedowns on receivables of € 4.4 million was recognised (which net of deferred taxes amounts to 3.3 million) against other Shareholders' Equity reserves. The company adopted a retrospective approach.
c) With reference to hedge accounting, the company holds that all existing hedging relationships currently designated as effective hedges will continue to qualify as hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not change the general principle based on which an entity recognises effective hedging relationships, the company saw no significant impacts due to application of the standard.

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

**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 2018, the company continued to determine the potential effects that could derive from application of IFRS 16 to its consolidated financial statements. The company decided not to apply IFRS 16 in advance and to comply with the new standard as of 1 January 2019.

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 instruments

A financial instrument is any contract that gives rise to a financial asset for an entity and a financial liability or an instrument representing capital for another entity.

### Financial assets

*Initial recognition and measurement*

At the time of initial recognition, financial assets are classified, based on the case, on the basis of subsequent measurement methods, that is at amortised cost, at fair value through other comprehensive income or at fair value through profit and loss.

Classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows associated with the financial assets and the business model used by the company to manage them. With the exception of trade receivables which do not contain a significant financing component or for which the it has applied the practical expedient, the company initially measures a financial asset at its fair value plus transaction costs, in the case of a financial recognised in the income statement not at fair value. Trade receivables which do not contain significant financing component or for which the company has applied the practical expedient are measured at the transaction price, determined according to IFRS 15.

For a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it must generate cash flows associated solely with payments of principal and interest (SPPI). Assessment of this aspect is known as the SPPI test and is performed at the individual instrument level.

The company's business model for managing financial assets refers to the manner in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows derive from collecting contractual cash flows, sales of financial assets or from both.

The purchase or sale of a financial asset which requires delivery with a period of times either through a standardised sale or through regular way trade is recognised on the negotiation date, that is the date on which the company undertook to purchase or sell the asset.

*Subsequent measurement*

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of cumulated profits and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reversal of cumulated profits and losses at the time of elimination (equity instruments);
- Financial assets at fair value through profit and loss.

Classification depends on the purpose for which the assets are acquired and held. The company determines classification of assets at initial recognition, verifying the category at each subsequent reporting date.

**Financial assets at amortised cost (debt instruments)**

The company measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held under a business model with the objective of holding financial assets to collect contractual cash flows;
- the contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

Financial assets at amortised cost are subsequently measured using the criteria of effective interest and are subject to impairment. Profits and losses are recognised in the income statement when the asset is eliminated, amended or remeasured.

**Financial assets at fair value through other comprehensive income (debt instruments)**

The company measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held under a business model which has the dual objectives of collecting contractual cash flows and sale of the financial assets;
- the contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

For assets involving debt instruments measured at fair value through other comprehensive income, interest receivable, variations due to exchange differences and impairment, together with writebacks, are recognised in the income statement and calculated in the same way as financial assets measured at amortised cost. Remaining changes in fair value are recognised in other comprehensive income. At the time of elimination, the cumulative change in fair value recognised in OCI is reclassified to the income statement.

***Investments in equity instruments***

At initial recognition, the company may irrevocably decide to classify its stock investments as equity instruments recognised at fair value through other comprehensive income when the satisfy the definition of equity instruments pursuant to IAS 32 "Financial instruments: Presentation" and are not held for trading. Classification is done for each individual instrument.

Profits and losses resulting from these financial assets are never reversed to the income statement. Dividends are recognised as other revenues in the income statement when the right to payment has been resolved, except when the company benefits from these amounts as recovery of part of the cost of the financial asset, in which case the profits are recognised under OCI. Equity instruments recognised at fair value through other comprehensive income are not subject to impairment testing.

**Financial assets at fair value through profit and loss**

This category includes assets held for trading, assets designated at initial recognition as financial assets at fair value with changes recognised in the income statement and financial assets necessarily measured at fair value. Assets held for trading are all assets acquired to be sold or repurchased over the short term. Derivatives, including separated ones, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows which do not pass the SPPI test are classified and measured at fair value through profit and loss, regardless of the business mode. Despite the criteria for debt instruments for classification at amortised cost or at fair value through other comprehensive income, as described above, debt instruments can be recognised at fair value through profit and loss at initial recognition if this involves the elimination or significant reduction of an accounting misalignment.

***Derecognition***

A financial asset (or, when applicable, part of a financial asset or part of a group of similar financial assets) is derecognised in the first place (e.g. removed from the statement of the company's equity/financial situation) when:

- the rights to receive financial flows from the asset no longer exist, or
- the company has transferred the right to receive cash flows from the asset to a third party or has taken on the contractual obligation to pay them fully and promptly and (a) has substantially transferred all risks and benefits of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control over the same.

In cases where the company has transferred the rights to receive cash flows from an asset or has signed an agreement based on which it maintains contractual rights to receive cash flows from the financial asset but has a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it determines if and to what extent it has retained the risks and benefits inherent to

ownership. If it has neither substantially transferred nor retained all the risks and benefits or has not lost control over the same, the asset continues to be recognised in the company's financial statements to the extent of its residual involvement with the asset in question. In this case, the company also recognises an associated liability. The asset transferred and the associated liability are measured so as to reflect the rights and obligations that continue to apply to the company.
When the entity's residual involvement is a guarantee for the transferred asset, involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of the fee received which the entity may have to repay.

***Impairment of financial assets***

The company recognises impairment due to expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit and loss. ECLs are based on the difference between contractual cash flows due in compliance with the contract and all the cash flows the company expects to receive, discounted by an approximation of the original effective interest rate. Expected cash flows include cash flows deriving from enforcement of collateral held or other credit guarantees which are an integral part of the contractual conditions.

Expected losses are recognised in two phases. Relative to credit exposures for which no significant increase in credit risk has been seen following initial recognition, it is necessary to recognise credit losses deriving from an estimate of default events likely to occur within the subsequent 12 months (12-month ECL). For credit exposures that have seen a significant increase in credit risk after initial recognition, expected losses relative to the full residual duration of the exposure must be recognised, regardless of when the default event is expected to occur ("lifetime ECL").

For trade receivables and assets deriving from contracts, the company applies a simplified approach to calculate expected losses. Therefore, the company does not monitor changes in credit risk but recognises the expected loss in full at each reference date. The company has established a matrix system based on historic information, revised to consider forward looking elements with reference to specific types of debtors and the economic environment, used as tool to determine expected losses.

For assets represented by debt instruments measured at fair value through other comprehensive income, the company applies the simplified approach allowed for low credit risk assets. At each reporting date, the company evaluates whether a debt instrument has low credit risk, using available information.

**Financial liabilities**

*Initial recognition and measurement*

At initial recognition, financial liabilities are classified among financial liabilities measured at fair value through profit and loss, among mortgages and loans or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value, to which is added in the cases of mortgages, loans and payables, the transaction costs directly attributable to the same.

The company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts, guarantees granted and derivatives.

*Subsequent measurement*

Measurement of financial liabilities depends on their classification, as described below:

**Financial liabilities at fair value through profit and loss**

Financial liabilities at fair value through profit and loss with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value with changes recognised in the income statement.

Liabilities held for trading are all those kept to be sold over the short term. This category also includes derivative financial instruments subscribed by the Group which are not designated as hedging instruments in a hedging relationship as defined under IFRS 9.

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

Financial liabilities are designated at fair value with changes recognised in the income statement as of the initial recognition date only if the criteria in IFRS 9 are satisfied. At initial recognition, the company has not designated financial liabilities at fair value with changes recognised in the income statement.

**Loans and receivables**

This is the most significant category for the company. After initial recognition, loans are measured using the amortised cost criteria, using the effective interest rate method. Profits and losses are recognised in the income statement when the liability is extinguished, as well as through the amortisation process.

The amortised cost is calculated by recognising the discount or premium on acquisition and fees or costs which are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the profit and loss statement.

**Financial guarantee liabilities**

Financial guarantee liabilities issued by the Group are contracts which require payment to reimburse the holder of a debt security against a loss suffered by them following the debtor not making payments at contractually established due dates. Financial guarantee contracts are initially recognised as liabilities at fair value, plus any transaction costs directly attributable to issuing of the guarantee. Subsequently, the liability is measured as the greater of the best estimate of the payment required to fulfil the guaranteed obligation as of the reporting date and the amount initially recognised, net of cumulative amortisation.

***Derecognition***

A financial liability is derecognised when the obligation underlying the liability is repaid, cancelled or fulfilled. When an existing financial liability is replaced by another of by the same lender, under substantially different conditions, or the conditions for an existing liability are substantially changed, this exchange or change is recognised as the accounting derecognition of the original liability, followed by recognition of a new liability, with any differences between the book values recognised in the profit and loss statement for the year.

***Offsetting of financial instruments***

An asset and a financial liability can be offset and the net balance recognised in the balance sheet if there is a current legal right to offset the amounts recognised for accounting purpose and there is an intention to extinguish the residual net amount or to realise the asset and simultaneously extinguish the liability.

## Derivatives

The company made use of the right to continue to make use of the provisions established in IAS 39 solely relative to hedge accounting.

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 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.

### 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.

### 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 on the basis of the payment the company believes it is entitled to receive for the sale of its products or services.
Revenues from sales of products are recognised, net of discounts, rebates or returns, when control over the assets or services is transferred to the customer. Transfer of control occurs when the following conditions are met:

- the company does not have the possibility to make use of the goods or services, as this has been transferred to the customer;
- 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);
- the value of the revenues is reliably determined;
- 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.
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 2017 | 31 December 2018 | Change |
| Property, plant and equipment | 499,987 | 478,345 | (21,642) |
| Property investments | 404 | 390 | (14) |
| | **500,392** | **478,735** | **(21,657)** |

### *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** | **479,564** | **2,047,879** | **7,138** | **36,145** | **40,207** | **2,610,933** |
| Increases during period | 1,600 | 17,586 | 132 | 986 | 27,422 | 47,725 |
| Disposals during period | (2) | (53,813) | (326) | (2,589) | - | (56,731) |
| Revaluations, impairment during period | (87) | (12,663) | - | - | - | (12,749) |
| Transfer | - | - | - | - | - | - |
| Other changes | 2,629 | 27,548 | 54 | (135) | (29,835) | 261 |
| **Historic cost at period end** | **483,704** | **2,026,537** | **6,997** | **34,406** | **37,794** | **2,589,439** |
| **Provision for amortisation/depreciation at start of period** | **309,892** | **1,759,790** | **6,936** | **34,327** | | **2,110,945** |
| Amortisation/depreciation during period | 7,620 | 47,325 | 132 | 861 | | 55,939 |
| Uses during period | (2) | (53,142) | (326) | (2,580) | | (56,051) |
| Transfer | - | - | - | - | | - |
| Other changes in the provision | - | 369 | - | (108) | | 261 |
| **Provision for amortisation/depreciation at period end** | **317,509** | **1,754,342** | **6,743** | **32,500** | | **2,111,094** |
| **Net book value at period end** | **166,195** | **272,196** | **255** | **1,906** | **37,794** | **478,345** |

The decrease in the net book value of property, plant and equipment, for € 21,643 thousand, originated mainly from the following components:

- increases of € 47,725 thousand (€ 40,222 thousand in 2017) relative to: investments of € 42,957 thousand during the year (the main investments were made in the Verzuolo, Avezzano and Duino plants, see the Report on Operations for more details); other increases for € 517 thousand relative to internal work; capitalisation of financial expense for € 253 thousand, calculated using a 2.03% rate, in implementation of IAS 23; advances on extraordinary maintenance projects for € 3,998 thousand.
- decreases for net sales and disposals for € 56,731 thousand (€ 68,431 thousand net of the reversal of the provision for writedowns for € 11,700 thousand), of which € 45,138 thousand relative to the sale of machine 1 from Avezzno and € 3,756 thousand relative to the disposal of the TG2 rotor 1 from Duino.

The provision for depreciation saw a net change of € 149 thousand (€ 58,336 thousand in 2017) which can be broken down as follows:

- increases for depreciation during the year of € 55,939 thousand;
- decreases following the disposal of systems for € 56,051 thousand, as listed above
- reclassifications for € 261 thousand.

Writedowns were recognised in the balance sheet totalling € 12,749 thousand relative to the residual values of systems in the Sarego, Verzuolo, Duino and Toscolano plants. For the Sarego plant, the writedown of € 9,732 thousand was determined on the basis of the impairment test and the consequent assessment of a lack of prospective ability to recover the value through normal usage of the systems. Additional writedowns of € 3,018 thousand were recognised relative to systems decommissioned or unused, 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 € 1,211,801 thousand.
Pursuant to article 10 of Italian Law 72 of 19 March 1983, relative to revaluations, below is a breakdown of revaluation balances at 31/12/2018, 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** | | 138 | 138 |
| Amortisation/depreciation during period | | 14 | 14 |
| Uses during period | | - | - |
| Other changes in the provision | | - | - |
| **Provision for amortisation/depreciation at period end** | | 152 | 152 |
| **Net book value at period end** | 69 | 321 | 390 |

## 2) Intangible assets

The balance is as follows:

**Intangible assets** €/000

| | 31 December 2017 | 31 December 2018 | Variazione |
|---|---|---|---|
| **Goodwill and other assets with undefined life** | | | |
| Goodwill | 20,691 | 10,837 | (9,854) |
| | 20,691 | 10,837 | (9,854) |
| **Intangible assets with defined life** | | | |
| Concessions, licenses, trademarks and similar rights | 1,236 | 1,336 | 101 |
| Fixed assets in progress and advances | 250 | 585 | 336 |
| | 1,485 | 1,921 | 436 |
| | 22,176 | 12,758 | (9,418) |

The goodwill item includes goodwill recognised for incorporation of the Villorba plant in Cartiere Marchi spa during 2006 (€ 10,837 thousand).
During the year, the carrying value of the goodwill allocated to the Sarego plant was decreased by € 9,854 thousand following the impairment test, reducing it to zero.
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 2.62% (2.07% in 2017), the market risk premium of 5.5% in line with that of the previous year (increased to 2.5% to incorporate other risks for certain CGUs), a variable growth rate between 1.00% and 2.50% based on the CGU, the cost of debt before taxes of 2.25% and the ratio between equity and debt, respectively equal to 78.72% and 21.28% (respectively 81.60% and 18.40% the previous year) derived as the average value of a panel of comparable listed companies in the same sector.
As stated above, the impairment test gave rise to the need to partially writedown assets relative to the Sarego plant.
Below is a breakdown of residual goodwill at the end of the year for each CGU:
Villorba € 10,837 thousand.
Additionally, the impairment test was carried out with reference to CGUs for which indicators of impairment were identified in previous years.
Increases, totalling € 797 thousand, refer to investments in software and usage licenses.
Amortisation during the year was equal to € 361 thousand.
The value of intangible assets fully amortised but still in use was € 3,803 thousand.

**Flow from intangible assets** €/000

| | Goodwill and other intangible assets with undefined life | Concessions, licenses, trademarks and similar rights | Fixed assets in progress and advances | Total |
|---|---|---|---|---|
| **Historic cost at start of period** | **20,691** | **9,018** | **250** | **29,958** |
| Increases during period | - | 461 | 336 | 797 |
| Disposals during period | - | - | - | - |
| Revaluations, impairment during period | (9,854) | - | - | (9,854) |
| Other changes | - | - | - | - |
| **Historic cost at period end** | **10,837** | **9,479** | **585** | **20,901** |
| **Provision for amortisation/depreciation at start of period** | | **7,782** | | **7,782** |
| Amortisation/depreciation during period | | 361 | | **361** |
| Uses during period | | - | | **-** |
| Other changes in the provision | | - | | **-** |
| **Provision for amortisation/depreciation at period end** | | **8,143** | | **8,143** |
| **Net book value at period end** | **10,837** | **1,336** | **585** | **12,758** |

## 3) Other non-current assets

### *Equity investments and securities*

These include the items indicated below:

**Equity investments and securities** €/000

| | 31 December 2017 | 31 December 2018 | Variazione |
|---|---|---|---|
| Gever S.p.A* | 17,882 | 17,882 | - |
| Burgo Ardennes S.a. | 292,701 | 292,701 | - |
| Burgo Benelux S.a.r.l. | 290 | 290 | - |
| Burgo France S.a.r.l. | 142 | 142 | - |
| 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** | **412,443** | **412,443** | **-** |
| **Equity investments in other companies** | **9,662** | **9,662** | **-** |
| | **422,104** | **422,104** | **-** |

**During 2017, 51% of Gever S.p.A. shares were purchased from the former controlling company Edison S.p.A., making it 100% controlled.*
***The subsidiary Burgo Deutschland GmbH took a new name during 2017.*

### *Equity investments in subsidiaries and in other companies*

During 2018 there were no changes in the structure of the Group's equity investments.

| 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 | 23,808 | (1,338) | 100.00 | | 17,882 |
| Burgo Ardennes S.a | Virton (Belgium) | EUR | 75,000 | 148,071 | 12,309 | 99.99 | ** | 292,701 |
| Burgo Benelux S.a.r.l. | Brussels (Belgium) | EUR | 248 | 344 | (24) | 100.00 | | 290 |
| Burgo France S.a.r.l. | Champeaux (France) | EUR | 600 | 125 | (17) | 100.00 | | 142 |
| Burgo UK L.t.d. | Milton Keynes (UK) | GBP | 250 | 501 | 6 | 100.00 | | 388 |
| Burgo Central Europe G.m.b.h. | Munich (Germany) | EUR | 256 | 910 | 242 | 100.00 | | 377 |
| Burgo North America L.t.d. | Stamford - Connecticut (USA) | USD | 100 | 618 | 251 | 100.00 | | 110 |
| Burgo Factor S.p.A. | Milan | EUR | 3,000 | 30,929 | 3,262 | 90.00 | | 4,105 |
| Burgo Distribuzione S.r.l. | Altavilla Vicentina (VI) | EUR | 9,060 | 13,908 | 2,225 | 100.00 | | 11,530 |
| S.E.F.E. S.a | Ecouviez (France) | EUR | 76 | 434 | 113 | 0.20 | | - |
| Burgo Energia S.r.l. | Altavilla Vicentina (VI) | EUR | 5,015 | 6,600 | 205 | 100.00 | | 15 |
| Mosaico S.r.l. | Altavilla Vicentina (VI) | EUR | 50,000 | 98,428 | 11,443 | 100.00 | | 84,903 |
| Burgo Polska Sp zoo | Warsaw (Poland) | PLN | 5 | 2,994 | 1,069 | 100.00 | | 1 |
| | | | | | | | | **412,443** |

(*) The figures for each investee were taken from the 2018 financial statements of 2018 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 € 200.1 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 2018, 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 € 148.1 million with a difference of € 144.6 million with respect to the carrying value in the parent company's financial statements, consisting of total and accumulated dividends distributed between financial years 2001 and 2018 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).

(**) 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 2017 | 31 December 2018 | Variazione |
| Non-current financial receivables due from subsidiaries | 2,968 | 2,800 | (168) |
| | **2,968** | **2,800** | **(168)** |

The balance shows a decrease of € 168 thousand, due to the elimination 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 2017 | 31 December 2018 | Variazione |
| Non-current sundry receivables due from others | 2 | 2 | - |
| Non-current guarantee deposits | 2,192 | 3,390 | 1,198 |
| | **2,194** | **3,392** | **1,198** |

Other receivables and non-current assets mainly consist of guarantee deposits for € 3,390 thousand. The increase of € 1,198 thousand is due to the increase in the Interconnector guarantee deposit, relative to portions paid during 2018 to guarantee completion of the interconnection power line between France and Italy.

### 4) Deferred tax assets

These amounted to € 63,030 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:

**Deferred tax assets** €/000

| | 31 December 2017 | | | 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Taxable | % rate | (Debit)/credit | Taxable | % rate | (Debit)/credit |
| **IRES** | | | | | | |
| Taxed provisions (allocated) | 78,502 | 24.0 | 18,840 | 82,203 | 24.0 | 19,729 |
| Discounting | (500) | 24.0 | (120) | (467) | 24.0 | (112) |
| IAS 19 discounting - actuarial G/L | 8,577 | 24.0 | 2,059 | 7,967 | 24.0 | 1,912 |
| Amortisation, depreciation and writedowns | (58,101) | 24.0 | (13,944) | (49,182) | 24.0 | (11,804) |
| 30% limit financial expense | 80,542 | 24.0 | 19,330 | 75,679 | 24.0 | 18,163 |
| IRES losses to be used in future financial years | 214,981 | 24.0 | 51,595 | 188,064 | 24.0 | 45,135 |
| Allocation of shortfall | (49,372) | 24.0 | (11,849) | (38,260) | 24.0 | (9,182) |
| Other items | (1,589) | 24.0 | (381) | (1,739) | 24.0 | (417) |
| | **273,040** | | **65,529** | **264,264** | | **63,423** |
| **IRAP** | | | | | | |
| Taxed provisions (allocated) | 32,023 | 3.9 | 1,249 | 38,798 | 3.9 | 1,513 |
| Discounting | (500) | 3.9 | (20) | (467) | 3.9 | (18) |
| Amortisation, depreciation and writedowns | (8,420) | 3.9 | (328) | (8,420) | 3.9 | (328) |
| Allocation of shortfall | (49,372) | 3.9 | (1,926) | (38,260) | 3.9 | (1,492) |
| Other items | (1,739) | 3.9 | (68) | (1,739) | 3.9 | (68) |
| | **(28,008)** | | **(1,092)** | **(10,089)** | | **(393)** |
| | | | **64,437** | | | **63,030** |

In 2018, 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 € 1,167 thousand;
- lower IRES tax liabilities for net changes in provisions for non-deductible impairment and amortisation/depreciation for € 2,140 thousand;
- lower IRES tax assets for losses to be used in future financial years for € 6,460 thousand. The provision for current taxes at 31 12 2017 made use of previous losses for € 15,642 thousand relative to group tax losses in 2008;
- lower IRES and IRAP tax liabilities for depreciation of assets relative to which was allocated the shortfall from the Burgo-Marchi merge for € 3,101 thousand;
- lower IRES tax assets for TFR discounting pursuant to IAS 19 (actuarial gains/losses) for € 147 thousand;
- greater IRES and IRAP tax assets on taxed provisions for € 1,153 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.

| Tax losses | | 2017 | | 2018 | |
|---|---|---|---|---|---|
| | **maturity** | **loss** | **tax** | **loss** | **tax** |
| 2001 | can be carried forward indefinitely | 16,860 | 4,046 | 5,585 | 1,340 |
| 2002 | can be carried forward indefinitely | 152,738 | 36,657 | 152,738 | 36,657 |
| 2007 | can be carried forward indefinitely | - | - | - | - |
| 2008 | can be carried forward indefinitely | 45,383 | 10,892 | 29,741 | 7,138 |
| | | **214,981** | **51,595** | **188,064** | **45,135** |

Note that 2001 and 2002 tax losses can only be used by Burgo Group spa.
As indicated above, tax losses arising in financial year 2008 were decreased by € 15,642 thousand following their use when determining the group IRES taxable amount of 2018.

# Current assets

## 5) Inventories

| Inventories | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| raw materials inventories | 32,665 | 33,164 | 499 |
| stock inventories | 27,149 | 27,554 | 405 |
| provision for impairment of stock | (10,073) | (7,405) | 2,668 |
| **Raw materials, subsidiary and consumable items** | **49,740** | **53,313** | **3,572** |
| Products in progress and semi-finished products | 14,923 | 17,174 | 2,251 |
| **Products in progress** | **14,923** | **17,174** | **2,251** |
| Finished products and goods | 40,582 | 65,015 | 24,433 |
| Provision for impairment of products | (1,146) | (1,089) | 57 |
| **Finished products** | **39,436** | **63,926** | **24,490** |
| | **104,099** | **134,413** | **30,313** |

The value of raw materials, consumables and finished products is shown net of the provision for obsolescence for € 8,494 thousand (€ 11,220 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 increase in the value of products in progress and finished products is due to both increased volumes and an increase in the average production cost associated with the increase in the cost of cellulose.

## 6) Trade receivables

| Trade receivables | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Relative to customers | 180,856 | 162,066 | (18,790) |
| minus: provision for doubtful accounts | (39,666) | (38,858) | 808 |
| | **141,190** | **123,208** | **(17,982)** |
| Relative to the Group companies | 65,845 | 64,354 | (1,491) |
| | **65,845** | **64,354** | **(1,491)** |
| | **207,035** | **187,562** | **(19,472)** |

Trade receivables due from third parties decreased by € 17,982 thousand following lower sales during the final quarter.
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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Italy | 48,996 | 51,629 | 2,633 |
| Europe E.U. | 72,569 | 59,493 | (13,077) |
| Other countries | 19,625 | 12,087 | (7,538) |
| | **141,190** | **123,208** | **(17,982)** |

## 7) Other receivables and current assets

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

| | 31 December 2017 | 31 December 2018 | Variazione |
|---|---|---|---|
| **Current tax receivables** | **9,933** | **3,812** | **(6,121)** |
| Current sundry receivables due from subsidiaries | 968 | 1,180 | 212 |
| Current tax consolidation receivables due from subsidiaries | 6,763 | 6,438 | (324) |
| **Sundry receivables due from group companies** | **7,731** | **7,618** | **(113)** |
| Current sundry receivables due from others | 14,152 | 13,948 | (204) |
| Current receivables due from social security entities | 222 | 42 | (180) |
| **Other sundry receivables** | **14,374** | **13,990** | **(384)** |
| **Other assets** | **432** | **388** | **(44)** |
| | **32,470** | **25,808** | **(6,662)** |

Other receivables and current assets decreased by € 6,662 thousand. The main changes are described in detail below:

- tax receivables: these went from € 9,933 the previous year to € 3,812 thousand. Among the most significant changes, note the decrease in the VAT receivable for € 4,068 thousand and in IRES and IRAP deferred tax assets for € 2,583 thousand;
- receivables relative to subsidiaries for tax consolidation: these were substantially in line with the figure recorded the previous year;
- other receivables due from others: also for this last category, no changes worthy of note occurred.

## 8) Equity investments

| Equity investments | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Variazione |
| Other equity investments | 993 | 774 | (219) |
| **Equity investments** | **993** | **774** | **(219)** |
| **Securities other than equity investments** | **1** | **-** | **(1)** |
| | **994** | **774** | **(220)** |

Securities in the portfolio at the end of financial year 2018 consisted of 105,000 Mediobanca shares (unchanged with respect to 31 December 2017).
Pursuant to accounting standard IFRS 9, the Mediobanca shares are classified as financial assets measured at fair value through other comprehensive income (FVOCI). Adjustment to market values is done on the basis of stock market listings as of the end of the year, specifically: Mediobanca € 7.376 (€ 9.46 at 31 December 2017).
The adjustment to market value involved reducing the value of the Mediobanca shares by € 219 thousand, passing through the specific fair value through other comprehensive income reserve.

## 9) Financial receivables and other current financial assets

| Financial receivables and other current financial assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Financial receivables due from subsidiaries | 30,820 | 36,871 | 6,051 |
| Financial receivables due from others | 2,453 | 2,453 | - |
| Derivative financial assets | - | 231 | 231 |
| Other financial assets | 48 | 87 | 39 |
| | **33,321** | **39,641** | **6,321** |

Among other things, the balance includes financial receivables due from subsidiaries represent pass-through items in the context of coordinated treasury management (€ 36,871 thousand).
Specifically, receivables due from subsidiaries consist of the following positions:

- Burgo Energia: € 11,920 thousand (€ 20,721 thousand at 31 December 2017);
- Burgo Distribuzione: € 20,282 thousand (€ 2,494 thousand at 31 December 2017);
- Burgo Factor: € 872 thousand (€ 7,580 thousand at 31 December 2017);
- Burgo Ardennes: € 3,797 thousand (€ 0 thousand at 31 December 2017);

## 10) Cash and other cash equivalents

**Cash on hand and other cash equivalents** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Bank and postal deposits | 70,438 | 50,332 | (20,106) |
| Cash and cash on hand | 12 | 21 | 10 |
| | **70,449** | **50,353** | **(20,097)** |

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 2017 | 31 December 2018 | Variazione |
|---|---|---|---|
| Cash on hand and other cash equivalents | 70,449 | 50,353 | (20,097) |
| shared current accounts receivable | 30,820 | 36,871 | 6,051 |
| shared current accounts payable | (5,546) | (10,870) | (5,324) |
| Current accounts and other loans | (44,076) | (5,035) | 39,041 |
| | **51,648** | **71,320** | **19,672** |

## Shareholders' equity

### 11) Shareholders' equity

Total shareholders' equity amounted to € 396,915 thousand (€ 389,054 thousand at 31 December 2017).
Share capital at 31 December 2018 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 2018 increased by € 7,861 thousand with respect to 31 December 2017, as a consequence of the following changes:

- profit for the year of € 7,736 thousand;
- fair value changes, net of taxes, on equity investments and other securities classified as FVOCI, which led to an decrease of € 219 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 € 464 thousand;

- the inclusion in the reserve, net of taxes, of the adjustment to the provision for impairment to the new standard IFRS 9, for € 120 thousand (negative change).

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 2017 | 31 December 2018 | 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 | 1,280 | 1,155 |
| Other reserves | 238 | 238 | - |
| IAS 19 reserve | (7,339) | (6,875) | 464 |
| Reserve for accounting standard change - FTA | 4,131 | 4,011 | (120) |
| Reserve for adjustment to FVOCI | 533 | 314 | (219) |
| | **349,635** | **350,915** | **1,280** |
| Profits (losses) carried forward reserve | 16,729 | 18,264 | 1,536 |
| | **16,729** | **18,264** | **1,536** |

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

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

| | 31 Dec 2017 | 31 Dec 2018 | Change |
|---|---|---|---|
| Actuarial losses | 2,059 | 1,912 | (147) |
| | **2,059** | **1,912** | **(147)** |

In addition to the changes outlined in the table, deferred tax assets were recognised directly to shareholders' equity for € 38,000 at 1/1/2018 as an effect of the adoption of IFRS 9.
To complete the information provided about shareholders' equity, below is the schedule pursuant to article 2427, no. 7 bis of the Italian 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 Italian 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 Italian 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 | (6,875) | | 0 | (3) (5) |
| Reserve for FV adjustment of AFS assets | 314 | | 0 | (4) |
| FTA reserve (Legislative Decree 38/2005 art.7 paragraph | 4,011 | B | 0 | |
| Merger surplus | 238 | A, B, C | 238 | |
| Exchange reserve | 1,280 | B | 0 | |
| | 165,471 | | 13,387 | |
| Profits (losses) carried forward reserve | 18,264 | A, B, C | 0 | (1) (5) |
| | 18,264 | | 0 | |
| | 183,736 | | 13,387 | |
| | **369,179** | | **13,387** | |

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 Italian 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 Italian 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 Italian 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 € 64 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Converting loan | 100,000 | 100,000 | - |
| Loan payables | 463,749 | 439,872 | (23,877) |
| **Non-current financial liabilities** | **563,749** | **539,872** | **(23,877)** |

Non-current financial liabilities include:

- convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- amounts due to shareholders for loans for € 251,932 thousand and MLT loans due to others for € 187,940 thousand.

In compliance with contractual provisions established with credit institutions, during 2018 advance repayments of loan debt were made, following sales of non-core assets (€ 2,789 thousand) and excess cash recorded at the end of financial year 2017 (€ 4,711 thousand). These repayments will be subtracted from the final payment in the amortisation plan for the loans.

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 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| from 4 - 5 years | - | 100,000 | 100,000 |
| | **-** | **100,000** | **100,000** |

**Loan payables - breakdown of maturity dates** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| from 2 - 3 years | 41,623 | 41,623 | - |
| from 4 - 5 years | 422,126 | 398,249 | (23,877) |
| | **463,749** | **439,872** | **(23,877)** |

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

**TFR (severance indemnity)** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Actuarial measurement of TFR at start of period | 32,860 | 31,205 | (1,655) |
| Provisions | - | - | - |
| Payments | (1,939) | (3,961) | (2,022) |
| TFR discounting - IAS 19 reserve | (134) | (611) | (477) |
| TFR discounting - financial expense (income) | 418 | 380 | (38) |
| | **31,205** | **27,013** | **(4,192)** |

For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2018, 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**

| | 2017 | 2018 |
|---|---|---|
| Annual theoretical discounting rate | 1.30% | 1.57% |
| 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Provision for industrial charges | 10,460 | 18,430 | 7,970 |
| Provision for disputes in course | 7,712 | 8,573 | 862 |
| Provision for supplementary customer allowance | 896 | 654 | (242) |
| Provision for restructuring charges | 9,460 | 7,380 | (2,080) |
| | **28,527** | **35,037** | **6,510** |

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 | 10,460 | - | 12,085 | (4,148) | 33 | 18,430 |
| Provision for disputes in course | 7,712 | - | 1,125 | (263) | - | 8,573 |
| Provision for supplementary customer allowance | 896 | - | - | (266) | 24 | 654 |
| Provision for restructuring charges | 9,460 | - | - | (2,080) | - | 7,380 |
| | **28,527** | **-** | **13,209** | **(6,756)** | **57** | **35,037** |

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 2018 totalled € 12,031 thousand, against uses of € 4,070 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 increase is due to the allocation made for risks.

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. This was used during the year for € 2,080 thousand.

### 15) Other payables and non-current liabilities

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Non-current payables due to suppliers | 5,531 | 2,533 | (2,998) |
| | **5,531** | **2,533** | **(2,998)** |

These payables are associated with invoices from suppliers for maintenance and multi-year investments to be paid in coming years for € 2,533 thousand.

## Current liabilities

### 16) Current financial liabilities

**Current financial liabilities** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Loan payables - current portion | 20,812 | 20,812 | - |
| Current accounts and other loans | 44,076 | 5,035 | (39,041) |
| Payables due to subsidiaries | 5,546 | 10,870 | 5,324 |
| Derivatives | 337 | - | (337) |
| Other financial liabilities | 597 | 501 | (95) |
| | **71,367** | **37,217** | **(34,150)** |

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 € 10,870 thousand include payables relative to the shared current accounts with Gever spa, for € 166 thousand, and with Mosaico srl for € 10,704 thousand.

Other financial liabilities, equal to € 501 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 € 273 million, utilised at 31 December 2018 almost exclusively for unsecured lines for a total of around € 29 million. Please refer to the section on significant events after the end of the year for information about developments in the availability of credit lines.

### 17) Trade payables

**Trade payables** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current payables due to suppliers | 264,077 | 272,857 | 8,780 |
| Current trade payables due to subsidiaries | 78,038 | 75,967 | (2,071) |
| | **342,114** | **348,824** | **6,710** |

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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Italy | 152,240 | 161,506 | 9,266 |
| Europe E.U. | 105,814 | 104,840 | (974) |
| Other countries | 6,023 | 6,511 | 488 |
| | **264,077** | **272,857** | **8,780** |

## 18) Current tax payables

**Payables for current taxes** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Tax payables, income tax | - | 783 | 783 |
| Tax payables, VAT | 287 | 288 | 0 |
| Payables for withholdings | 3,683 | 3,726 | 43 |
| Other tax payables | 10 | 0 | (10) |
| | **3,980** | **4,796** | **816** |

Current tax payables amount to € 4,796 thousand. This item mainly includes payables due to tax authorities for taxes to be paid in the form of replacement tax. The increase is due to the increase in payables due to tax authorities for direct taxes (IRES and IRAP).

## 19) Other payables and current liabilities

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

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current sundry payables due to others | 4,391 | 5,665 | 1,274 |
| Current sundry payables due to subsidiaries | 1,967 | 764 | (1,202) |
| Payables for commissions and premiums | 4,304 | 5,332 | 1,028 |
| Current tax consolidation payables due to subsidiaries | - | 644 | 644 |
| Payables due to personnel | 7,886 | 8,773 | 887 |
| Current payables due to social security entities | 5,210 | 5,373 | 163 |
| Deferred income from grants for plants | 1,359 | 1,066 | (293) |
| Other accrued expenses and deferred income | 1,996 | 1,545 | (451) |
| | **27,113** | **29,162** | **2,049** |

The increase of € 2,049 thousand, is due in particular to:

- an increase in other payables for € 1,274, mainly due to the allocation of accruals for general system charges for electricity taken from the grid;
- a decrease in other current payables due to subsidiaries for € 1,202 thousand, as an effect of the reduction in VAT payables;
- an increase in payables for commissions and premiums of € 1,028 thousand;
- an increase in payables for tax consolidation relative to subsidiaries for € 644 thousand;
- an increase in amounts due to personnel for € 887 thousand.

### 20) Commitments and potential liabilities

**Commitments and potential liabilities** — €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| **Personal guarantees provided in favour of:** | | | |
| subsidiaries | 55,927 | 42,543 | (13,385) |
| other subjects | 20,097 | 21,474 | 1,377 |
| | **76,025** | **64,017** | **(12,008)** |
| **Real guarantees provided in favour of:** | | | |
| | - | - | - |
| **Others:** | | | |
| third party securities in custody | 16,882 | 16,882 | - |
| third party assets | 2,152 | 829 | (1,323) |
| | **19,034** | **17,711** | **(1,323)** |
| | **95,058** | **81,727** | **(13,331)** |

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 profit and loss statement. 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 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Paper | 1,111,225 | 1,113,572 | 2,347 |
| Energy | 31,446 | 34,913 | 3,466 |
| Gas | 46,671 | 51,810 | 5,139 |
| Others | 11,707 | 11,668 | (39) |
| | **1,201,050** | **1,211,963** | **10,913** |

The increase in revenues was equal to € 10,913 thousand. Paper sales increased by € 2,347 thousand. Turnover associated with electricity also increased by € 3,466 thousand and gas sales increased by € 5,139 thousand, in particular due to greater reinvoicing of gas to Gever spa, due to higher gas costs. The increase in paper turnover was due to the increase in net sales prices, in part compensated for by lower volumes of paper sold, which fell from 1,739 thousand t the previous year to 1,665 thousand t in 2018.

Below is a breakdown of revenues by geographic area:

**Markets** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Italy | 416,457 | 486,897 | 70,440 |
| Europe E.U. | 641,577 | 589,957 | (51,620) |
| Other countries | 143,015 | 135,109 | (7,907) |
| | **1,201,050** | **1,211,963** | **10,913** |

## 22) Other income

**Other income** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Insurance settlements | 1,191 | 1,074 | (117) |
| Environmental certificates | 23,362 | 24,483 | 1,120 |
| Energy expense recovery and reimbursements | 18,297 | 12,703 | (5,594) |
| Sundry income and expense recovery | 7,005 | 4,899 | (2,106) |
| Grants for current expenses | 635 | 503 | (132) |
| | **50,491** | **43,662** | **(6,829)** |

Other income decreased by € 6,829 thousand. Lower payments relative to interruptibility services were only partially compensated for by proceeds from the sale of environmental certificates.
The item “grants for current expenses” includes:

- the portion accruing for 2018 (€ 293 thousand) of grants disbursed in previous years;
- the grant from Fondimpresa, a private association for personnel training (€ 210 thousand).

## 23) Purchases of materials and external services

**Purchases of materials and external services** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Purchases of raw materials, subsidiary and consumable items a | 757,002 | 749,898 | (7,104) |
| Transport and accessory expense on purchases | 11,328 | 10,970 | (358) |
| Transport and accessory expense on sales | 93,491 | 88,058 | (5,433) |
| Other industrial services | 12,595 | 17,859 | 5,264 |
| Industrial maintenance | 9,743 | 11,703 | 1,960 |
| Electricity and methane | 175,948 | 194,176 | 18,227 |
| Fees to independent auditing firm | 147 | 144 | (3) |
| Fees to statutory auditors | 105 | 105 | - |
| Other general and administrative services | 15,031 | 16,046 | 1,015 |
| Rentals and leases | 860 | 1,137 | 277 |
| | **1,076,251** | **1,090,097** | **13,846** |

Purchases of materials and external services increased by € 13,846 thousand. The most significant changes involved the decrease in raw materials, subsidiary and consumable items and goods (€ 7,104 thousand), in transport and accessory expenses for sales (€ 5,433 thousand), against the increase in other industrial services for € 5,264 thousand, due to greater costs associated with the disposal of waste through the Avezzano plant and for electricity and methane (€ 18,227 thousand), due to the increase in the price of gas.
Energy costs are shown net of payments the company has the right to as a heavy energy consumption business (the payments received in 2018 totalled € 299 thousand).

## 24) Personnel expenses

**Personnel expenses** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Wages and salaries | 69,541 | 67,686 | (1,855) |
| Social security contributions | 24,100 | 23,487 | (612) |
| Expenses for defined benefit programs | 5,155 | 5,067 | (88) |
| Others | 1,173 | 1,475 | 302 |
| | **99,969** | **97,715** | **(2,254)** |

Personnel expenses decreased by € 2,254 thousand with respect to the previous year, accounting for 7.8% of turnover (8.0% in 2017). 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 2017 | 31 December 2018 | Change |
| **Provisions** | | | |
| for impairment of receivables | 3,289 | 503 | (2,786) |
| for industrial charges | 3,326 | 12,312 | 8,986 |
| for disputes in course | 366 | 1,125 | 759 |
| Provision for supplementary customer allowance_Other char | (217) | (182) | 35 |
| | 6,763 | 13,758 | 6,994 |
| **Other costs** | | | |
| Corporate expenses, taxes and indirect taxes | 5,555 | 5,329 | (227) |
| Membership fees | 655 | 638 | (17) |
| Losses and other costs | 946 | 389 | (557) |
| | 7,157 | 6,356 | (801) |
| | **13,920** | **20,113** | **6,193** |

Other operating costs increased by € 5,921 thousand. For an analysis of provisions, please see note 14 "provisions for risks and charges" and note 6 "trade receivables. Relative to the decrease in other costs of € 801 thousand, we note lower corporate expenses for indirect taxes and duties (€ 227 thousand) and lower extraordinary items relative to previous years recognised as contingencies (€ 557 thousand).

## 26) Change in inventories

| Change in inventories | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Change in inventories | 773 | 30,313 | 29,540 |
| | **773** | **30,313** | **29,540** |

The change in warehouse inventories constitute revenues for the year of € 30,313 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 2017 | 31 December 2018 | Change |
| Capitalised costs | 865 | 517 | (348) |
| | **865** | **517** | **(348)** |

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 2018.

## 28) Depreciation and amortisation

| Depreciation and amortisation | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Buildings | 8,043 | 7,620 | (423) |
| Plant and machinery | 51,636 | 47,325 | (4,311) |
| Industrial equipment | 143 | 132 | (11) |
| Other assets | 847 | 861 | 14 |
| Buildings for civil use | 14 | 14 | - |
| Intangible assets with defined life | 350 | 361 | 11 |
| | **61,033** | **56,314** | **(4,720)** |

Depreciation and amortisation, equal to € 56,314 thousand, decreased by € 4,720 thousand.

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

| Capital gains/losses on disposal of non-current assets | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Capital gains | 44 | 2,017 | 1,973 |
| Capital losses | (12) | (76) | (65) |
| | **33** | **1,941** | **1,908** |

The main capital gains for the year relate to the sale of the TG2 rotor 1 from Duino (€ 1,020 thousand) and machine 1 from Avezzano (€ 949 thousand).

## 30) Writebacks/writedowns of assets

| Writebacks/writedowns of assets | 31 December 2017 | 31 December 2018 | Change €/000 |
|---|---|---|---|
| Land and buildings | - | 87 | 87 |
| Plant and machinery | 16,000 | 12,663 | (3,337) |
| Goodwill and other assets with undefined life | - | 9,854 | 9,854 |
| Current assets | - | - | - |
| | **16,000** | **22,603** | **6,603** |

During the year writedowns on fixed assets were carried out totalling € 22,603 thousand relative to the plants in Sarego (€ 9,732 thousand relative to assets, € 9,854 for goodwill), Verzuolo (€ 800 thousand), Duino (€ 1,208 thousand) and other systems warehoused at the Toscolano plant (€ 1,009 thousand). Additionally, goodwill relative to the Sarego plant was reduced to zero.

## 31) Net expenses/income of a non-recurring nature

Non-recurring expenses/income during the year totalled € 0.4 thousand in net expenses and relate to other industrial expenses for plants which are no longer operational (Chieti, Marzabotto and the San Mauro offices).

## 32) Net restructuring expenses

| Net restructuring expenses | 31 December 2017 | 31 December 2018 | Change €/000 |
|---|---|---|---|
| Restructuring expenses | 2,341 | - | (2,341) |
| | **2,341** | **-** | **(2,341)** |

No allocations were made for restructuring and reorganisation at production sites in which production has been stopped.

## 33) Financial expense

| Financial expenses | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| Interest expense on payables due to banks | 13,288 | 12,180 | (1,108) |
| Discounting of severance indemnities (TFR) | 418 | 380 | (38) |
| Interest expense on infragroup current account | 724 | 951 | 227 |
| Other financial expense | 11,251 | 11,227 | (24) |
| Write-downs of equity investments | 630 | - | (630) |
| | **26,312** | **24,738** | **(1,573)** |

Financial expense fell during the year by € 1,573 thousand, mainly due to lower interest expense resulting from the reduction in financial debt.
Other financial expense, other than the above, mainly includes financial discounts for short-term payments for customers.

## 34) Financial income

| Financial income | | | €/000 |
|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | Change |
| **Income from equity investments** | | | |
| Dividends from subsidiaries | 31,448 | 26,953 | (4,495) |
| Dividends from other companies | 39 | 49 | 11 |
| | 31,487 | 27,003 | (4,485) |
| **Other financial income** | | | |
| Financial income from disposal of equity investments | 58 | - | (58) |
| Interest income from banks | 90 | 107 | 17 |
| Interest income on infragroup current account | 1,081 | 981 | (101) |
| Other financial income | 84 | 1 | (83) |
| Exchange gains | 943 | 1,046 | 103 |
| | 2,257 | 2,135 | (122) |
| | **33,744** | **29,138** | **(4,607)** |

Financial income decreased by € 4,607 thousand with respect to the previous year. More specifically, the main components of this item were the following:

- dividends from subsidiaries:
  - Burgo Ardennes € 6,200 thousand (€ 1,700 thousand in 2017);
  - Burgo Deutschland € 240 thousand (€ 450 thousand in 2017);
  - Burgo UK € 134 thousand (€ 0 in 2017);
  - Burgo Distribuzione € 2,150 thousand (€ 4,000 thousand in 2017);
  - Mosaico € 16,950 thousand (€ 15,000 thousand in 2017);
  - Burgo Polska € 179 thousand (€ 298 thousand in 2017);

  - Gever € 1,100 thousand (€ 10,000 thousand in 2017);
- dividends from other companies for € 49,000 refer to listed shares held in the portfolio;
- interest income from infragroup current accounts relative to subsidiaries for € 981 thousand;
- exchange gains achieved through transactions in foreign currencies for € 1,046 thousand.

## 35) Income taxes

**Income taxes** €/000

| | 31 December 2017 | 31 December 2018 | Change |
|---|---|---|---|
| Current taxes - IRES | (8,237) | (4,643) | 3,595 |
| Current taxes - IRAP | - | 1,134 | 1,134 |
| Deferred tax assets/liabilities - IRES | 2,710 | 1,998 | (713) |
| Deferred tax assets/liabilities - IRAP | 258 | (699) | (957) |
| | **(5,269)** | **(2,210)** | **3,059** |

These include income for current IRES from tax consolidation for € 4,643 thousand (deriving from the use of Group tax losses in the amount of 80%), charges for current IRAP for € 1,134 thousand and net deferred tax liabilities for € 1,299 thousand.

Reconciliation of income taxes recognised in the statement of profit and loss 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 | | 2018 | |
|---|---|---|---|---|
| Before tax results for the year | **(2,579)** | | **5,526** | |
| Theoretical tax (IRES) - Italian tax rate in effect: 24% | | (619) | | 1,326 |
| increases (temporary and permanent) | 60,133 | | 65,105 | |
| decreases (temporary and permanent) | (71,006) | | (59,356) | |
| | **(13,452)** | | **11,275** | |
| Current taxes recognised in the financial statements | | 489 | | 1,161 |
| Charge (income) from tax consolidation | | (8,726) | | (5,803) |
| Deferred taxes (IRES) recognised in the financial statements | | 2,710 | | 1,998 |
| **Total (IRES) taxes recognised in the financial statements** | | **(5,527)** | | **(2,645)** |
| Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect | | 0 | | 1,134 |
| Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect | | 258 | | (699) |
| **Total (IRAP) taxes recognised in the financial statements** | | **258** | | **435** |
| **Total taxes recognised in the financial statements** | | **(5,269)** | | **(2,210)** |
| Effective tax rate (IRES and IRAP) on before tax result | | 0.0% | | 0.0% |

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 to the market value at year end. At the end of the year, the parent company classified the Mediobanca shares held in its portfolio as FVOCI. During 2018, the change was negative for € 219 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 2018.

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

| | Società controllate | | Società collegate | | Totale | | Total financial statement items | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | 31 December 2018 | 31 December 2017 | % | 31 December 2018 | % |
| Financial receivables and other non-current financial assets | 2,968 | 2,800 | - | - | 2,968 | 2,800 | 2,968 | 100% | 2,800 | 100% |
| Trade receivables | 65,845 | 64,354 | - | - | 65,845 | 64,354 | 207,035 | 32% | 187,562 | 34% |
| Other receivables and current assets | 7,731 | 7,618 | - | - | 7,731 | 7,618 | 32,470 | 24% | 25,808 | 30% |
| Financial receivables and other current financial assets | 30,820 | 36,871 | - | - | 30,820 | 36,871 | 33,321 | 92% | 39,641 | 93% |
| Current financial liabilities | (5,546) | (10,870) | - | - | (5,546) | (10,870) | (71,367) | 8% | (37,217) | 29% |
| Trade payables | (78,038) | (75,967) | - | - | (78,038) | (75,967) | (342,114) | 23% | (348,824) | 22% |
| Other payables and current liabilities | (3,158) | (2,507) | - | - | (3,158) | (2,507) | (27,113) | 12% | (29,162) | 9% |
| **Economic relationships** | | | | | | | | | | |
| Revenues | 236,387 | 272,010 | - | - | 236,387 | 272,010 | 1,201,050 | 20% | 1,211,963 | 22% |
| Other income | 7,795 | 12,950 | - | - | 7,795 | 12,950 | 50,491 | 15% | 43,662 | 30% |
| Costs for materials and external services | (268,825) | (256,396) | - | - | (268,825) | (256,396) | (1,076,251) | 25% | (1,090,097) | 24% |
| Financial expenses | (724) | (951) | - | - | (724) | (951) | (26,312) | 3% | (24,738) | 4% |
| Financial income | 32,530 | 27,934 | - | - | 32,530 | 27,934 | 33,744 | 96% | 29,138 | 96% |
| Income taxes | - | 5,803 | - | - | - | 5,803 | 5,269 | 0% | 2,210 | 263% |

In addition the transactions reported above, at 31 December 2018 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 2018, loans with related parties amounted to a nominal € 263,842 thousand (€ 277,339 thousand at 31 December 2017).

Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2018 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 , Mosaico srl and Burgo Factor spa. The first four subsidiaries also participate in group VAT liquidation pursuant to article 73 of Italian Presidential Decree 633/72 and the Italian Ministerial Decree of 13 December 1979.

# 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 referred to certain areas of interpretation regarding an extraordinary reorganisation operation carried out by 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.

With a judgment of 31 October 2018, filed on 6 December 2018, no. 31613, the Court of Cassation confirmed the previous judgements in favour of the company.

Additionally, the Court granted the company's cross-claim, relative to the first and second level rulings on the non-deductibility of costs sustained in 2003 relative to the foreign supplier referenced above.

The Court of Cassation then referred the case to the Veneto Regional Tax Commission for a new decisions which, for other years, had already accepted the company's rationale with regards to the deductibility of the costs in question.

The same Regional Commission will also express its opinion in the near future with regards to liquidation of court costs and the company can again take up the cause with a specific proceeding.

If the appeal to bring the case to the Regional Tax Commission is accepted, the company should be reimbursed in the amount of around € 200,000.

*Tax audit for financial years 2007, 2008 and 2009*

Recall that 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.

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.

In the end 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.

Hence, this proposal determined not only the definitive resolution of the issue in dispute, but also a reimbursement of € 69,000 to the company, which was received during 2018.

*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.

Limited to excise taxes of € 72,000 relative to the Sarego plant, a case had been pending with the Court of Cassation. With an Order sent in December 2018, the Supreme Court definitively resolved this dispute in the company's favour.

## Significant events after year end

In terms of demand, the initial months of the year saw a continuation in the slowing of orders, which had begun in October 2018, confirmed at a general level also by the significant reduction in the price of gas and electricity.

With regards to our sector, the strong upward trend in the prices of fibrous raw materials seen over the past two years seems to have stopped, with the first reductions in cost needed to recover the margin between the sales prices and prices of raw materials, deteriorated sharply in 2018.

In 2019, the Group will be involved in investments which are already under way and are particularly sizeable, involving the conversion of a second graphic paper line to cardboard production, following that already completed at the Avezzano plant, and an improvement in the energy efficiency and production capacity relative to cellulose production.

The Group's financial commitments to carry out these investments are also supported by the new loans granted to Burgo Ardennes sa, as well as by the new short term debt agreement with the credit institutions involved in the recovery plan, signed on 12 March 2019 and valid through 31 March 2022. Through it Burgo Group spa will have € 200 million in short term credit lines available.

## 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 € 7,736,057.80.
The Board of Directors submits to the Shareholders' Meeting the proposal to approve profits for the year be carried forward in the amount of € 7,736,057.80. The reserve for unrealised exchange gains is adjusted to the new value of potential exchange differences at the end of the year, falling by € 903,245.22.

## Other information

### Number of employees

**Number of employees**

| | Start of year | Year end | Average 2018 | Average 2017 |
|---|---|---|---|---|
| Executives | 25 | 26 | 26 | 25 |
| Office Workers | 455 | 439 | 444 | 454 |
| Manual Workers | 1,574 | 1,483 | 1,526 | 1,582 |
| | **2,054** | **1,948** | **1,996** | **2,061** |

Disclosure for transparency in public subsidies, required by Italian Law 124/2017, article 1, paragraphs 125-129, as amended.

Italian Law 124 of 2017 (the annual market and competition law) introduced new disclosure requirements relative to transparency in public subsidies received and granted, in article 1, paragraphs 125-129.
To that end, we note that during 2018 Burgo Group spa did not receive any grants or other economic advantages from Italian public administrations.
Note that on the basis of the most authoritative interpretations of the stated law, any payments, general measures or tax subsidies which can be used by all companies or generally by companies within specific sectors, such as the paper sector or sector of heavy energy user companies, were not considered.
While the company holds that these stances are appropriate, it also decided to indicate the following incentives in these financial statements which can be enjoyed by all companies:

- energy efficiency certificates for € 23,424 thousand;
- hydroelectric energy production incentives for € 943 thousand.

### 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** €/000

| | 31 December 2017 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Book value** | **Fair value** | **Book value** | **Fair value** |
| Financial assets available for sale | 994 | 994 | 774 | 774 |
| Trade receivables and other receivables | 247,119 | 247,119 | 222,014 | 222,014 |
| Cash and cash equivalents | 101,317 | 101,317 | 87,311 | 87,311 |
| Hedging derivatives: | | | | |
| Assets | - | - | 231 | 231 |
| Liabilities | (337) | (337) | - | - |
| Lending from banks | (207,221) | (225,613) | (196,841) | (215,358) |
| Loans from associated companies | (277,339) | (306,747) | (263,842) | (292,383) |
| Bonds | (100,000) | (114,707) | (100,000) | (114,835) |
| Trade payables and other payables | (378,738) | (378,738) | (385,315) | (385,315) |
| Current loans from associated companies | (5,546) | (5,546) | (10,870) | (10,870) |
| Payables due to banks | (44,076) | (44,076) | (5,035) | (5,035) |
| | **(663,826)** | **(726,333)** | **(651,573)** | **(713,465)** |

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 € 231 thousand (€ 0 in 2017) and financial liabilities for € 0 (€ 337 thousand in 2017).

### 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 2017** | **31 December 2018** |
| Loans and receivables | 5,162 | 6,192 |
| | **5,162** | **6,192** |

| **Current financial assets** | | **€/000** |
|---|---|---|
| | **31 December 2017** | **31 December 2018** |
| Loans and receivables | 272,777 | 252,694 |
| Cash and cash equivalents | 70,497 | 50,439 |
| Financial assets FVOCI | 994 | 774 |
| Current hedging derivatives | - | 231 |
| Non-current assets held for sale | - | - |
| | **344,269** | **304,138** |

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 at FVOCI 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 2017 | 31 December 2018 |
| Lending from banks | (198,320) | (187,940) |
| Loans from associated companies | (265,429) | (251,932) |
| Converting loan | (100,000) | (100,000) |
| Other payables | (5,531) | (2,533) |
| | **(569,280)** | **(542,405)** |

| Current financial liabilities | | €/000 |
|---|---|---|
| | 31 December 2017 | 31 December 2018 |
| Lending from banks | (8,902) | (8,902) |
| Loans from associated companies | (17,456) | (22,779) |
| Hedging derivatives | (337) | - |
| Payables due to banks | (44,076) | (5,035) |
| Trade payables and other payables | (373,804) | (383,284) |
| | **(444,574)** | **(420,000)** |

### 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 2017** | **31 December 2018** |
| Interest income from current account | 1,172 | 1,088 |
| Dividends from other companies | 39 | 49 |
| Income from customers | 7 | - |
| Exchange gains | 943 | 1,046 |
| Other income | 136 | 1 |
| | **2,296** | **2,184** |
| Interest expense from current account | (2,257) | (1,511) |
| Interest expense on mortgages | (11,756) | (11,620) |
| Charges due to suppliers | (1) | (1) |
| Factoring commissions | (188) | (395) |
| Other expense | (11,693) | (10,832) |
| | **(25,894)** | **(24,359)** |
| Dividends from subsidiaries and associated companies | 31,448 | 26,953 |
| Net income (expense) from discounting | (418) | (380) |
| | **7,433** | **4,399** |

| Financial income and expense recognised in shareholders' equity | | €/000 |
|---|---|---|
| | **31 December 2017** | **31 December 2018** |
| Change in cash flow hedge reserve | - | - |
| Change in FVOCI securities revaluation reserve | 179 | (219) |
| | **179** | **(219)** |
| recognised to: | | |
| fair value revaluation reserve | 179 | (219) |
| | **179** | **(219)** |

## 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 2017** | **31 December 2018** |
| Financial assets FVOCI | 994 | 774 |
| Trade receivables and other receivables | 277,940 | 258,885 |
| Cash and cash equivalents | 70,497 | 50,439 |
| | **349,431** | **310,099** |

### 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 dic 2017 | 31 dic 2018 | Change |
|---|---|---|---|
| Balance at start of period | (49,397) | (39,666) | 9,731 |
| Uses | 13,020 | 1,469 | (11,551) |
| Provisions | (3,289) | (503) | 2,786 |
| Other changes | - | (158) | (158) |
| | **(39,666)** | **(38,858)** | **808** |

### 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 2017 | 31 December 2018 |
|---|---|---|
| End consumers | 141,190 | 123,208 |
| Other group companies | 107,364 | 111,643 |
| Credit institutions | 70,497 | 50,439 |
| Tax authorities | 9,933 | 3,812 |
| Others | 20,447 | 20,996 |
| | **349,431** | **310,099** |

### 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 2018, 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 2018, 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 2017 | 31 December 2018 |
|---|---|---|
| Funds | 1 | - |
| Shares | 993 | 774 |
| | **994** | **774** |

### 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 € +0.10 million (€ +0.23 million in 2017) and of € -0.07 million (€ +0.04 million in 2017). 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 2018 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, -€ 1,390 thousand (-€ 1,576 thousand in 2017) and € 1,699 thousand (€ 1,926 thousand in 2017).

### 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 euro 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 2017 | 31 December 2018 |
|---|---|---|
| **Fixed rate financial instruments** | | |
| ***Financial assets*** | | |
| Non-current guarantee deposits | 2,192 | 3,390 |
| ***Financial liabilities*** | | |
| | 2,192 | 3,390 |
| **Variable rate financial instruments** | | |
| ***Financial assets*** | | |
| Financial instruments with positive FV | - | 231 |
| Loans to associated companies | 2,968 | 2,800 |
| ***Financial liabilities*** | | |
| Derivatives with negative FV | (337) | - |
| Variable rate loans | (584,560) | (560,684) |
| Current account advances | (44,673) | (5,536) |
| | **(626,602)** | **(563,189)** |
| | **(624,409)** | **(559,799)** |

## 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, € -3.8 million and € +0.1 million (in 2017: € -5.2 million and € 0.4 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 on the basis of projections over a multi-year period prepared on the basis of economic and financial budgets and cash flow projections, as well as 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 2018, 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 2018, 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 2018 and 31 December 2017.

31 dic 2017 €/000

| | Book value | Flussi finanziari contrattuali | 6 mesi o meno | 6-12 mesi | 1-2 anni | 2-5 anni | oltre 5 anni |
|---|---|---|---|---|---|---|---|
| **Passività finanziarie non derivate:** | | | | | | | |
| Finanziamenti | 584,560 | 655,444 | 3,998 | 24,055 | 56,228 | 571,163 | - |
| Debiti commerciali e altri debiti | 378,738 | 378,738 | 373,207 | - | 2,998 | 2,533 | - |
| **Passività finanziarie derivate:** | | | | | | | |
| Derivati di copertura | 337 | 337 | 337 | - | - | - | - |
| Derivati non di copertura | - | - | - | - | - | - | - |
| Contratti a termine su cambi | - | - | - | - | - | - | - |
| | **963,635** | **1,034,519** | **377,542** | **24,055** | **59,226** | **573,696** | **-** |

31 dic 2018 €/000

| | Book value | Flussi finanziari contrattuali | 6 mesi o meno | 6-12 mesi | 1-2 anni | 2-5 anni | oltre 5 anni |
|---|---|---|---|---|---|---|---|
| **Passività finanziarie non derivate:** | | | | | | | |
| Finanziamenti | 560,684 | 621,651 | 3,729 | 23,868 | 54,413 | 539,641 | - |
| Debiti commerciali e altri debiti | 385,315 | 385,315 | 382,783 | - | 2,533 | - | - |
| **Passività finanziarie derivate:** | | | | | | | |
| Derivati di copertura | (231) | - | - | - | - | - | - |
| Derivati non di copertura | - | - | - | - | - | - | - |
| Contratti a termine su cambi | - | - | - | - | - | - | - |
| | **945,768** | **1,006,966** | **386,512** | **23,868** | **56,945** | **539,641** | **-** |

## 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 € 273 million, utilised at 31 December 2018 almost exclusively for unsecured lines for a total of around € 29 million. Please refer to the section on significant events after the end of the year for information about developments in the availability of short-term credit lines. For long-term financial requirements, the Company has loans of around € 561 million at market rates.

# REPORT OF THE INDEPENDENT AUDITING FIRM

## Burgo Group S.p.A.

**Financial statements as at December 31, 2018**

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

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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, 2018 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, 2018, 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.

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

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### 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, 2018, 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, 2018 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, 2018 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 11, 2019

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 2018, approved on 27 March 2019:

- 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 object;
- its organisational structure and IT structures and equipment remained essentially unchanged;
- the human resources constituting its "workforce" decreased, from 2,054 units to 1,948 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 (2018) and the previous year (2017). 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 Italian 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 Italian Civil Code;
- any complaints received from the shareholders pursuant to Article 2408 of the Italian 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 Italian 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 Italian 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 regarding the Company's general performance and future outlook, as well as the transactions undertaken by the company which, by extent or characteristics, are considered highly significant has been obtained;
- the transactions undertaken were also compliant with the law and the Articles of Association and were not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to compromise the Company's financial integrity;
- 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 Italian Civil Code;
- no complaints were received pursuant to article 2408 of the Italian Civil Code;
- no complaints were made pursuant to article 2409, paragraph 7 of the Italian 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 Italian 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 2018 made available to us pursuant to the terms of article 2429 of the Italian 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 the Italian 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 € 7.7 million, compared to the profits of € 2.7 million seen the previous year. Shareholders' equity amounted to € 396.1 million against € 389.1 million at 31 December 2017.

**Consolidated Financial Statements**

We also examined the draft consolidated financial statements at 31 December 2018, made available to us pursuant to article 2429 of the Italian 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 Italian Legislative Decree 127 of 9 April 1991. The year ended with profits of € 9.6 million and shareholders' equity of € 307.9 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 Italian 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 associates, the shareholders’ 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 2018 on 11 April 2019. Both reports indicate compliance with the IFRS/IAS accounting standards, without any 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.

The Board of Auditors reiterates that, with the approval of the financial statements at 31 December 2018 by the Shareholders' Meeting, the Board of Auditors' term will expire.

We therefore invite you to make the consequent resolutions.

Altavilla Vicentina, 11 April 2019

The Board of Statutory Auditors

| | | |
|---|---|---|
| Fedele Gubitosi | - | Chairperson |
| Franco Corgnati | - | Regular Auditor |
| Gaetano Terrin | - | Regular Auditor |

BURGO GROUP
FINANCIAL STATEMENTS **2018**



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