Esselunga Group Consolidated Financial Statements
Financial Year 2019

Parent Company

Esselunga S.p.A.

Registered office Milan, via Vittor Pisani 20
Share Capital €100,000,000 fully paid up
Tax Code and Milan Register of Companies no. 01255720169
Milan R.E.A. no. 1063

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Management Report

To the sole shareholder,

Esselunga S.p.A (hereinafter the "**Company**" or the "**Parent Company**") and, together with its subsidiaries the **Esselunga Group**, (hereinafter also the "**Group**" or "**Esselunga**") is mainly engaged in the food sector of Large-Scale Retailing in Italy through a sales network comprising, at 31 December 2019, 159 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio, and the first *laESSE* store in Corso Italia, Milan. In addition, the Group manages 95 Atlantic bars and 40 selected perfume shops under the EsserBella/eb brand and is also engaged in the real estate sector through the research, design and implementation of new projects that are instrumental to its business activity. In addition to Esselunga S.p.A., the Group comprises the following main companies: La Villata S.p.A. Immobiliare di Investimento e Sviluppo, Orofin S.p.A., which is in charge of the majority of the real estate development projects, Atlantic S.r.l., Fìdaty S.p.A. and EsserBella S.p.A.

In 2019 a new superstore format was opened in **Brescia Triumplina,** while in **Milan, Corso Italia, *laESSE*** was opened, a new experience under the Esselunga brand: a coffee house as well as a restaurant and a shop for daily shopping, where online purchases can be collected from lockers.

The Non-Financial Statement included in this report, which exceeds legal obligations, aims to demonstrate the Group's strong focus on relevant issues for the Company and its stakeholders such as innovation, quality of raw materials and product safety, protection of the environment, the working conditions of its employees and collaborators, and compliance with regulations. These elements reflect in practice the commitment, history and culture of Esselunga's people with regard to *Corporate Social Responsibility* issues.

Application of IFRS 16 Leases

On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16") which replaces IAS 17 "Leases" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases from the point of view of the lessee's financial statements; for all lease contracts with a duration of more than 12 months, the lessee is required to recognise an asset, representing the right to use, and a liability, representing the obligation to make the payments under the contract. From the point of view of the lessor's accounts, however, the distinction between operating and finance leases is maintained. Under IFRS 16 enhanced financial statements disclosures are required for both lessees and lessors.
The provisions of IFRS 16 are effective beginning on 1 January 2019.
The Group has chosen to apply the new IFRS 16 provisions beginning on 1 January 2019 using the full retrospective approach. This approach requires the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be accounted for as an adjustment to shareholders' equity as at 1 January 2018.
The new accounting standard IFRS 16 mainly affected the accounting of operating leases. For details and reclassifications, reference is made to paragraph 4 - Accounting standards,

amendments and interpretations adopted as of 1 January 2019 of the Group's consolidated financial statements.

Adjusted values

To facilitate an understanding of its financial and operating data, the Group uses common indicators, which are not however envisaged under EU IFRS.

More specifically, the following indicators / intermediate results are highlighted in the income statement contained in this Directors' Report: added value, EBITDA, operating profit. With respect to the statement of financial position, similar considerations apply to the net financial position, invested capital and working capital.

These amounts can be reconciled with the balances of the consolidated financial statements at 31 December 2019.
The indicators used by the Group are not defined in the accounting principles adopted; as such, the definitions used by the Group may not be consistent with those specified by other companies or groups, thus preventing their comparability.
This report also includes a summary of "adjusted" income statement figures (adjusted EBITDA, adjusted operating profit and adjusted net profit) in order to present the Group's operating and financial performance.

In particular, the adjusted EBITDA and the adjusted operating profit were adjusted to reflect the impact of:

- the fair value measurement of prize-giving promotions, as required by the international accounting standards;
- the application of IFRS 16 Leases.

For the sake of clarity, all amounts are rounded to millions of Euros; accordingly, in some statements, the total amounts may slightly differ from the sum of the amounts that make them up.

The table below summarises the impact:

(millions of Euros)	2019		2018	
	Amounts	**%**	**Amounts**	**%**
EBITDA	**716.9**	**8.8%**	**726.1**	**9.2%**
Difference cost/fair value prize-giving events	(10.0)		14.5	
IFRS 16 Leases	(31.4)		(30.4)	
EBITDA ADJUSTED	**675.5**	**8.3%**	**710.2**	**9.0%**
OPERATING PROFIT	**391.3**	**4.8%**	**417.7**	**5.3%**
Difference cost/fair value prize-giving events	(10.0)		14.5	
IFRS 16 Leases	(11.1)		(9.3)	
OPERATING PROFIT ADJUSTED	**370.2**	**4.5%**	**422.9**	**5.3%**

Macroeconomic scenario in 2019 and summary of operating performance

- **In 2019 GDP growth was 0.2%** (Source: ISTAT).
- **The inflation rate was 1%** (Source: ISTAT).
- **Sales grew by 2.9% to €8,142 million.**
- **Shelf prices** recorded a 0.1% deflation.
- **The inflation effect from suppliers** was +1.7%. Therefore, the increases in price lists were fully absorbed and were not transferred to customers.
- **Discounts given to customers exceeded €1,500 million**, up by around €80 million compared to 2018.
- **The relative attractiveness** in selling prices **was maintained** with 3 percentage points below the market average (Source NRPS Nielsen, Trading Area).
- In 2019 a new superstore format was opened in **Brescia Triumplina,** while in **Milan, Corso Italia, *laESSE*** was opened, a new experience under the Esselunga brand: a coffee house as well as a restaurant and a shop for daily shopping or where online purchases can be collected from lockers.
- **Adjusted Capex**, excluding the impact of IFRS 16 Leases, amounted to €301 million.
- **The average workforce** was 23,905 people, an increase of 345 compared to 2018.
- **The Adjusted Net Financial Position** was a negative €150 million, improving by €286 million excluding the impact of IFRS 16 Leases as detailed in the following table:

(millions of Euros)	**31/12/2019**	**31/12/2018**
ND adjusted without IFRS 16 (A)	**(149.7)**	**(435.7)**
IFRS 16 Leases (B)	(360.0)	(336.4)
ND from Financial Statements (A+B)	**(509.7)**	**(772.1)**

With regard to developments relating to the exercise by the Majority Shareholders of the right to purchase 30% of the shares of Supermarkets Italiani S.p.A. on 11 January 2019, reference is made to paragraph “Outlook and significant events after the end of the financial year" in the "Acquisition by the majority shareholders of 30% of Supermarkets Italiani and determination of the acquisition price” section.

Following developments relating to the exercise by the Majority Shareholders of the right to purchase 30% of the shares of Esselunga S.p.A on 11 January 2019, Moody's revised Esselunga's rating from Baa2 to Ba1 on 25 March 2020 and Standard & Poor's revised it from BBB- to BB+ on 27 March 2020. For both agencies the outlook is stable.

Adjusted income statement results

For a more homogeneous and representative comparison of operating performance in the two years, an Adjusted Income Statement is shown below which includes some appropriate adjustments to reflect the fair value measurement of prize giving promotions and the application of the new accounting standard IFRS 16 Leases.

The Adjusted Income Statement is shown below:

(millions of Euros)	2019		2018	
	Amounts	**%**	**Amounts**	**%**
TOTAL SALES	**8,141.6**	**+2.9%**	**7,913.9**	
Sales Adjustments	(152.6)		(170.8)	
NET REVENUE	**7,989.0**		**7,743.1**	
Costs for goods and raw materials	(5,502.1)		(5,355.6)	
Other operating costs, other revenues and promotional activities	(796.1)		(705.2)	
ADDED VALUE	**1,690.8**	**20.8%**	**1,682.3**	**21.3%**
Personnel costs	(1,015.3)	-12.5%	(972.1)	-12.3%
EBITDA	**675.5**	**8.3%**	**710.2**	**9.0%**
Amortisation and depreciation	(279.9)		(265.9)	
Provisions and write-downs	(21.9)		(21.1)	
Capital gains/losses on non current assets	(3.5)		(0.3)	
OPERATING PROFIT	**370.2**	**4.5%**	**422.9**	**5.3%**
Net financial income (expense)	(29.2)		(31.7)	
PROFIT BEFORE TAXES	**341.0**	**4.2%**	**391.2**	**4.9%**
Income taxes	(90.2)		(104.6)	
GROUP NET PROFIT	**250.8**	**3.1%**	**286.6**	**3.6%**
Net profit for the year attributable to owners of the parent	237.9		273.8	
Net profit for the year attributable to non-controlling interests	12.9		12.8	

Group **sales** grew by 2.9% in 2019. Growth was achieved with a 0.1% deflation of shelf prices and benefited from the full contribution of the new stores opened in 2018 and the aforementioned openings in 2019, the one-off effect of Meal Vouchers being accepted as payment in all the stores, starting from February 2019, and E-Commerce growth.

Therefore Esselunga:

1. Maintained the relative attractiveness in selling prices with 3 percentage points below the market average (Source NRPS Nielsen, Trading Area).
2. Continued to invest in promotional activities, which resulted in discounts being given to customers for over €1,500 million with an increase of around €80 million compared to 2018. The average discount impact has now reached 16.4% of total sales, up 0.4% on 2018.

The large-scale distribution sector in 2019 increased by 1.5% driven, as in recent years, by the Discount, Self-Service and Drugstore segments, which confirmed the recent trend of new opened stores. In this regard, over 92 stores were opened in the past year in the areas where Esselunga operates, most of them being Discount stores as well as Local stores and Drugstores.
In light of this highly complex competitive environment, the Group's sales, also in view of the actions undertaken, were remarkable if compared with growth recorded by traditional competitors, with overall sales in the "Iper + Super" stores only increasing by 0.6% (Source IRI). We reiterate, however, that this comparison is less and less representative precisely due the evolution of other types of shops compared to the situation of just a few years ago.

Adjusted EBITDA was €675.5 million (8.3%) down compared to €710.2 million (9.0%) in 2018. The 0.7% decrease in EBITDA is in line with budget forecasts as it is the result of our commercial and marketing policy designed to ensure maximum price affordability for customers, through:

- 0.1% deflation in shelf prices despite increases in suppliers' price lists;
- 16.4% average discount to customers as a result of an intense promotional activity, referred to above, which together with the above mentioned deflation led to a 3% differential with respect to competitor prices;
- high service levels in shops, resulting in higher labour costs, also affected by the new collective labour agreement signed at the end of 2018;
- introduction of Meal Vouchers as a payment method in all stores, with high commissions;
- higher costs related to the strong development of the e-commerce, with a view to ensuring an ever greater satisfaction of customer needs.

Adjusted Operating profit was €370.2 million (4.5%) down compared to €422.9 million (5.3%) in 2018. In addition to the previous comments on Adjusted EBITDA, this metric was mainly affected by higher depreciation charges relating to the new stores opened in the second half of 2018.

Adjusted net finance expense was €29.2 million (€31.7 million in 2018). The change of €2.5 million compared to last year is mainly attributable to finance income (€1.7 million) relating to the collection of a tax credit.

The impact of **Adjusted Income Taxes** was 26.5% (26.7% in 2018); in 2019, following the agreement signed on 26 September 2019, a Patent Box benefit was recognized in relation to FY2015.

Lastly, ***Adjusted Net Profit*** was €250.8 million (3.1%) compared to €286.6 million (3.6%) in 2018.

Non-adjusted income statement results

The Income Statement is shown below in the usual format, with indication of intermediate results:

(millions of Euros)	2019		2018	
	Amounts	**%**	**Amounts**	**%**
TOTAL SALES	**8,141.6**	**+2.9%**	**7,913.9**	
Sales Adjustments	(142.6)		(185.3)	
NET REVENUE	**7,999.0**		**7,728.6**	
Costs for goods and raw materials	(5,502.1)		(5,355.6)	
Other operating costs, other revenues and promotional activities	(764.7)		(674.8)	
ADDED VALUE	**1,732.2**	**21.3%**	**1,698.2**	**21.5%**
Personnel costs	(1,015.3)	-12.5%	(972.1)	-12.3%
EBITDA	**716.9**	**8.8%**	**726.1**	**9.2%**
Amortisation and depreciation	(302.6)		(287.0)	
Provisions and write-downs	(21.9)		(21.1)	
Capital gains/losses on non current assets	(1.1)		(0.3)	
OPERATING PROFIT	**391.3**	**4.8%**	**417.7**	**5.3%**
Net financial income (expense)	(39.5)		(42.3)	
PROFIT BEFORE TAXES	**351.8**	**4.3%**	**375.4**	**4.7%**
Income taxes	(93.2)		(100.1)	
GROUP NET PROFIT	**258.6**	**3.2%**	**275.3**	**3.5%**
Net profit for the year attributable to owners of the parent	**245.7**		**262.5**	
Net profit for the year attributable to non-controlling interests	12.9		12.8	

Statement of financial position and cash flow information

The Group's statement of financial position and cash flow information is provided below:

(millions of Euros)	**31/12/2019**	**31/12/2018**	**Change**
Property, plant and equipment	4,584.4	4,575.6	8.8
of which ROU for IFRS 16 Leases	*341.1*	*317.3*	*23.8*
Intangible assets	170.9	166.4	4.5
Goodwill	6.6	6.6	-
Other non-current assets and liabilities	114.4	145.0	(30.6)
Net working capital	(914.3)	(905.7)	(8.6)
Provision for employee severance indemnity (T.F.R.) and provisions for risks and charges	(134.0)	(133.2)	(0.8)
NET INVESTED CAPITAL	**3,828.0**	**3,854.7**	**(26.7)**
Shareholders' equity	3,318.3	3,082.6	235.7
Net debt	509.7	772.1	(262.4)
of which payable for IFRS 16 Leases	*360.0*	*336.4*	*23.6*
TOTAL SOURCES OF FUNDS	**3,828.0**	**3,854.7**	**(26.7)**

The ROU under IFRS 16 Leases item and the IFRS 16 Lease payables item refer to operating leases only, as a result of the application of the new accounting standard IFRS 16 Leases.

Capex reached €300.9 million in 2019, of which €269.7 million in property, plant and equipment, €29.9 million in software and commercial licenses, €1.1 million for other real estate investments, and €0.2 million for assets held for sale.

The increases in the rights of use in application of the new accounting standard IFRS 16 Leases (with movements included in Property, plant and equipment) were €91.1 million in 2019.

<u>Property, plant and equipment</u>

The change of €8.8 million refers to:

- acquisitions of Property, plant and equipment of €269.7 million;
- increases resulting from the application of the new accounting standard IFRS 16 Leases for €91.1 million;
- decreases resulting from the application of the new accounting standard IFRS 16 Leases for €44.6 million;
- disposals of €7.4 million;
- depreciation for the year of €274.3 million (of which €22.7 million as a result of the application of the new IFRS 16 Leases);
- the remainder was due to reclassifications mainly in the investment property category.

The acquisitions of Property, plant and equipment of €269.7 million include:

- €28.2 million for the set up of the new stores opened in 2019: Brescia Triumplina and Milan Corso Italia;
- €36.1 million for investments in the logistics network;
- €45.6 million for the purchase, modernisation and maintenance of the logistic hubs and the headquarters;

- €77.6 million for the modernisation and maintenance of existing stores;
- €82.2 million for the purchase and development of areas dedicated to the opening of new stores.

Intangible assets

The change in the item refers to additions for €29.9 million, amortisation for the year for €25.6 million and reclassifications for the difference. Additions essentially refer to the purchase of software for the improvement of the Group's IT infrastructure.

Other non-current assets and liabilities

The main elements in this item are shown in the table below:

(millions of Euros)	**31/12/2019**	**31/12/2018**	**Change**
Investment property	157.4	169.1	(11.7)
Equity investments	0.1	0.1	-
Net deferred tax assets and liabilities	(32.0)	(36.7)	4.7
Non-current deferred revenue for prize-giving promotions	(59.7)	(61.4)	1.8
Other non-current assets (liabilities)	48.6	74.8	(26.2)
TOTAL	**114.4**	**145.9**	**(31.5)**

The item investment property refers to land or buildings that are not intended for use in the Group's ordinary activities. The change compared to the previous year was caused €1.1 million by depreciation and €23.3 million by write-downs. In addition the item decreased by €1.2 million for disposals and increased by €14.4 million due to reclassifications.

The item "equity investments" essentially refers to the carrying amount of investments in associates.

The item net deferred tax assets, includes the effects of deferred taxation calculated on the temporary differences arising primarily from risk provisions, non-deductible write-downs and the different tax deductibility rules for depreciation/amortisation compared to depreciation/amortisation recognized in the income statement.

The item "deferred revenue for prize-giving promotions (non-current portion)" refers to the fair value of prizes that are estimated to be redeemed by customers after 12 months from the reporting date.

The item "other non-current assets (liabilities)" as at 31 December 2019 mainly refers to tax receivables (VAT) for €41.3 million.

The change compared to the previous year refers to the assignment without recourse of a receivable of €25.3 million on 2 May 2019 to a major bank; the receivable concerned an application for IRES refund submitted by the parent company Supermarkets Italiani S.p.A.

Net Working Capital
The main elements in this item are shown in the table below:

(millions of Euros)	**31/12/2019**	**31/12/2018**	**Change**
Trade receivables	469.7	418.7	51.0
Inventories	401.0	423.7	(22.7)
Other receivables	56.8	21.1	35.7
Tax receivables	31.1	11.9	19.2
Assets held for sale	16.8	-	16.8
Trade payables	(1,496.5)	(1,340.7)	(155.8)
Deferred revenue for current prize-giving promotions	(126.8)	(129.4)	2.6
Payables to employees	(85.5)	(81.4)	(4.1)
Current tax payables	(71.7)	(105.5)	33.8
Payables to social security institutions <12	(61.8)	(60.0)	(1.8)
Other current liabilities	(46.5)	(38.6)	(7.9)
Tax payables	(0.9)	(26.4)	25.5
TOTAL	**(914.3)**	**(906.6)**	**(7.7)**

The increase in inventories compared to December 2018 (€22.7 million) is attributable to the Group's ability to manage and optimise the logistics for re-ordering.

The other receivables mainly refer to a loan of €35 million to the parent company for a VAT advance paid by the same within the VAT consolidation on behalf of the Group, to prepaid expenses for use of third party assets, insurance, advertising, utilities, repair and maintenance that are not related to the current financial year (€14.2 million).

The assets held for sale in 2019 refer to an area located in Milan which was reclassified from investment property following the signing of a preliminary sales contract.

Deferred revenue for prize-giving promotions (current portion) refers to the fair value of prizes that are estimated to be redeemed within 12 months from the reporting date, mainly relating to the "Bergamo" catalogue launched in May 2016.

Current tax payables mainly refer to payables to the tax authorities for VAT (€46 million) and for IRPEF (personal income taxes) (€19.5 million).

The other current liabilities refer mainly to debts for prepaid cards.

Shareholders' Equity
The change of €235.7 million in shareholders' equity is due to:

- the increase of €258.6 million in profit for the year;
- the decrease of €3.6 million for the direct recognition in equity of actuarial losses on employees' pension plans (TFR) net of the related tax effect;
- the increase of €1 million for reclassification of the negative cash flow hedge reserve to losses for the period;
- the decrease of €20.3 million for the distribution of dividends.

Provision for employee severance indemnity (T.F.R.) and provisions for risks and charges
The provisions for employee severance indemnity decreased by €6.2 million for payments made in the year and increased by €6.4 million in application of IAS 19.
Provisions for risks and charges increased by €22.4 million for allocations in the period, and decreased by €21.7 million for uses and reclassifications.

Net debt
The net debt was €509.7 million, an improvement of €262.4 million compared to 31 December 2018.
In order to ensure better comparability of data, especially those regarding financing activities, a summary of the changes in the net debt is provided below (amounts in millions of euros):

(millions of Euros)	**2019**	**2018**
Cash flow from operating activities	834.7	773.3
Cash flow used in investing activities	(330.2)	(309.3)
Cash flow used in financing activities	(35.5)	(53.3)
Dividends distributed *	(16.0)	(4.0)
Taxation	(190.6)	(2.4)
Total net cash flow for the year	**262.4**	**404.3**
Initial net debt before IFRS 16 Leases	(435.7)	(847.5)
Application of IFRS 16 Leases (Debt + Accrual of interest)	(336.4)	(328.9)
Net debt at beginning of period after IFRS 16 Leases	**(772.1)**	**(1,176.4)**
Total net cash flow for the year	262.4	404.3
Net debt at end of period after IFRS 16 Leases	**(509.7)**	**(772.1)**
Cash and cash equivalents	1,139.0	882.3
Receivables from Fìdaty Oro payment card users	60.6	61.5
Corporate bond	(985.8)	(982.9)
Current and non-current financial payables (leases)	(363.5)	(396.6)
Net debt at end of period before IFRS 16 Leases	**(149.7)**	**(435.7)**
Payable IFRS 16 Leases	(360.0)	(336.4)
Net debt at end of period after IFRS 16 Leases	**(509.7)**	**(772.1)**

*Dividends distributed are shown net of the related withholdings

The cash flow used in investing activities also includes the rights of use (ROU) on new leases previously classified as operating leases in application of the new international accounting standard IFRS 16 Leases
The following table shows the due dates of financial payables:

(thousands of Euros)	**31/12/2019**				
	Up to 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Corporate bond	-	-	(493,420)	(492,417)	**(985,837)**
Current and non-current financial payables (leases)	(34,715)	(30,134)	(79,272)	(219,385)	**(363,506)**
Payable IFRS 16 Leases	(24,351)	(20,077)	(56,468)	(259,144)	**(360,040)**
Total	**(59,066)**	**(50,211)**	**(629,160)**	**(970,946)**	**(1,709,383)**

The item IFRS 16 Lease payables refer to operating leases only, as a result of the application of the new accounting standard IFRS 16 Leases.

Financial ratios

The Return on Investments (ROI) ratio is shown in the table below:

(millions of Euros)	**2019**	**2018**
Operating profit	391.3	417.7
Invested capital (average)	6,979.5	6,463.3
ROI	**5.6%**	**6.5%**

The ROI ratio compares the operating result with the (average) invested capital to represent profitability and the economic efficiency of ordinary operations. The ratio shows that operations are highly efficient.

The leverage and coverage ratios are shown in the table below:

(millions of Euros)	**2019**	**2018**
Net debt	509.7	772.1
EBITDA	716.9	726.1
Leverage	**0.7**	**1.1**
EBITDA	716.9	726.1
Net financial expense	39.5	42.3
Coverage	**18.1**	**17.2**

The leverage ratio compares net debt to EBITDA to represent the company's ability to repay its debts.

The coverage ratio compares the EBITDA with net financial expense to represent the liquidity surplus after remunerating debt capital.

Financial risk management

Coordination and monitoring of the main financial risks are centralised in the Treasury department of Esselunga SpA, which issues instructions for managing the various types of risk and the use of financial instruments.
Compared to 31 December 2018, no significant changes have occurred in the Group's risk profile or in the procedures adopted by Group management to manage the risks to which it is exposed.
The main risk categories are described below.

Credit risk

Credit risk represents the Company's exposure to potential losses arising from business and financial counterparties failing to meet their obligations.

The Group's maximum exposure to credit risk at 31 December 2019 is the carrying amount of the financial assets reported in the financial statements, as shown in the table below:

(millions of Euros)	**31/12/2019**	**31/12/2018**	**Change**
Other receivables and other non-current financial assets	53.0	75.6	(22.6)
Trade receivables	530.6	482.8	47.8
Current tax receivables	23.3	1.6	21.7
Other receivables and other current financial assets	67.2	37.1	30.1
Total gross amount	**674.1**	**597.1**	**77.0**
Provision for doubtful receivables	(3.4)	(8.8)	5.4
Total net amount	**670.7**	**588.3**	**82.4**

Other receivables and other non-current financial assets mainly include receivables from third parties for security deposits given in relation to leases and utilities and building plots, tax receivables, mainly related to VAT receivables, which, overall, constitute a low level of credit risk.

With regard to trade receivables, there is no appreciable concentration of credit risk.

Current tax receivables refer to IRES receivable from the parent company Supermarkets Italiani S.p.A. and IRAP receivable from the tax authority.

Other receivables and current assets mainly include tax receivables from the tax authority, mainly related to VAT receivables, which, overall, have a low level of credit risk.

The following table provides the breakdown of receivables at 31 December 2019 by category and by number of days past due:

	At 31 December 2019					
(millions of Euros)	**Not yet due**	**Days past due**				
		0 - 30	**31 - 60**	**61 - 90**	**> 90**	**Total**
Other receivables and other non-current assets	52.5	-	-	-	0.5	53.0
Trade receivables	383.2	4.7	107.3	16.3	19.1	530.6
Current tax receivables	23.3	-	-	-	-	23.3
Other receivables and other current assets	64.7	-	-	-	2.5	67.2
Total gross amount	**523.6**	**4.7**	**107.3**	**16.4**	**22.2**	**674.1**
Provision for doubtful receivables	(0.1)	(0.1)	-	-	(3.2)	(3.4)
Total net amount	**523.5**	**4.6**	**107.3**	**16.4**	**19.0**	**670.7**

As shown in the table above, receivables overdue at 31 December 2019 amounted to €150.6 million, while the allowance for doubtful receivables was estimated at €3.4 million.

Liquidity risk

Liquidity risk is associated with the ability to meet commitments arising from financial liabilities. Prudent management of liquidity risk requires that an adequate level of cash and cash equivalents and short-term securities be maintained as well as the availability of funds that can be obtained through adequate credit lines.

Liquidity risk is centrally managed by the Group, which conducts periodic monitoring of the financial position through appropriate forecast and actual cash flow reporting.
Through its centralised Treasury, the Parent Company manages the liquidity of its subsidiaries to optimise cash flows. There are no cash pooling agreements in place.
Moreover, on 3 August 2017, Esselunga S.p.A. entered into three agreements with three Italian banks for three non revocable credit lines for a total amount of €300 million, expiring after 5 years. At 31 December 2019 the above credit lines were undrawn.

The following table provides a breakdown of liabilities by maturity at 31 December 2019. The maturity ranges are determined based on the period between the reporting date and the contractual maturity of the obligations including accrued interest at 31 December. Interest was calculated based on the contractual terms of the loans.

(thousands of Euros)	31/12/2019				
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Corporate bond	13,788	13,750	536,901	528,125	1,092,564
Finance lease payables (current and non-current)	46,346	40,659	104,170	253,277	444,452
Payable IFRS 16 Leases	34,385	29,551	81,718	335,331	480,985
Other payables and other non-current liabilities	-	-	-	3,813	3,813
Trade payables	1,496,452	-	-	-	1,496,452
Current tax payables	869	-	-	-	869
Other payables and other current liabilities	265,670	-	-	-	265,670
Total	**1,857,510**	**83,960**	**722,789**	**1,120,546**	**3,784,805**

Market risk

In carrying out its activities, the Group is potentially exposed to the following market risks, which are managed centrally by the Parent:

- Risk of price fluctuations

  Given the industry in which the Group is engaged, the predominant price risk is related to fluctuations in the purchase price of goods for resale. Managing these risks is an integral part of commercial policies aimed at, inter alia, limiting the impact of purchase price fluctuations on end customers.

- Risk of exchange rate fluctuations

  Sales revenues and purchase costs for goods and products are mostly denominated in Euros. In addition, financial assets and liabilities are all denominated in Euros. Accordingly, the Group is not exposed to significant currency risks.

- Risk of interest rate fluctuations

  The risk of interest rate fluctuations to which the Group is exposed arises from financial payables and receivables. The Group's fixed rate debt exposes it to a risk associated with changes in the fair value of the debt driven by market fluctuations of the reference rates.

The Group's floating rate debt exposes it to a cash flow risk stemming from interest rate volatility.
The Group's financial debt consists of bonds and finance lease payables. Financial payables at floating interest rates accounted for 6.1% of total debt at 31 December 2019.

The Group had no derivative instruments.

Capital risk
The Group's objective in managing capital risk is to maintain an optimal capital structure in order to reduce the cost of debt.

The Group monitors its capital based on the ratio of its net debt to net invested capital (gearing ratio). Net debt is calculated as total debt including current and non-current loans and net borrowings from banks. Net invested capital is calculated as the sum of shareholders' equity and the net financial position.

The gearing ratio as at 31 December 2019 and 31 December 2018 is shown in the following table:

(thousands of Euros)	**31/12/2019**	**31/12/2018**
Cash and cash equivalents	1,139,066	882,278
Receivables from Fidaty Oro payment card users	60,602	61,521
Current and non-current financial payables	(1,709,384)	(1,715,881)
Net debt	(509,716)	(772,082)
Shareholders' Equity	**3,318,278**	**3,082,645**
Net invested capital	**3,827,994**	**3,854,727**
Gearing ratio	**13.3%**	**20.0%**

The gearing ratio compares the net debt and the net invested capital to represent the company's financial strength and its use of third party funds. The Esselunga Group's ratio for 2019 shows that net invested capital is 86.7% financed by own funds, much better than 2018. This indicates the Group's strong capital structure and high solvency level.

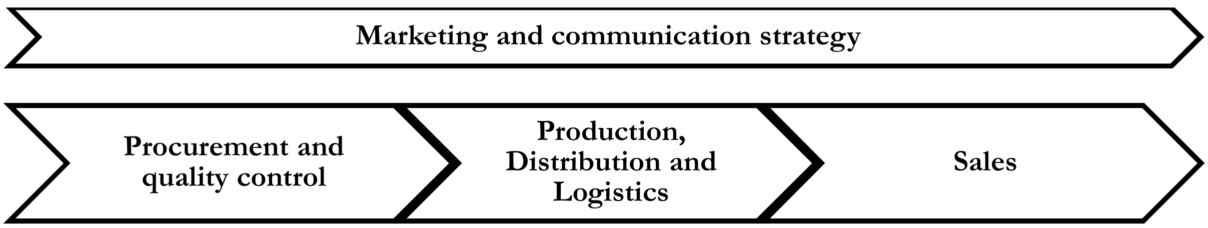
Management of business risks

Regulatory risk
Regulatory risk consists of bureaucratic delays in obtaining permits for the opening of new stores or the expansion of existing ones. This essentially translates into lack of sales revenue while capital expenditures have already been made.

Risk for product quality
As regards product quality, the Quality Management Department follows a rigorous control and qualification programme regarding suppliers and (internal and external) production processes, both in the launching stages of a new product and at later stages when the product is already on the shelf.

Esselunga Group Business model

The Group's business model is characterised by careful planning of its commercial strategy, marketing and communication methods that are developed according to: (i) **market trends** linked to customers' purchasing power, (ii) **customer preferences**, (iii) consumer **purchasing methods**, (iv) demand for **specific services**, and (v) own **market position**. The Group manages its business through long-term strategies, brand awareness initiatives, new business channels development strategies, marketing strategies and loyalty programs. The model and the steps involved can be depicted as follows:



Marketing and communication strategy - The Group's strategy is based on the strength of its distribution network, through which Esselunga is able to offer multi-channel purchasing experiences (physical and on-line). Over time, the Group has set up and improved its sales points (i) by developing a **store layout** that takes into account customer preferences; (ii) by allowing customers to **compare**, and where possible, **test** the different products;(iii) by improving the **information provided** to customers regarding the Group's products; and (iv) by **training sales personnel.**

From a strategic standpoint, the Group:

- **plans assortments** by analysing customer preferences to identify and select product categories based on profitability, customer needs and market availability;
- **prepares sales projections** by channel to enable the development of differentiated and increasingly customer-oriented product lines;
- **plans sales** by analysing sales data, demand data and the demand and requests for products and constantly involving direct and indirect sales personnel;
- **periodically monitors the Group's performance indicators** (e.g. margins and inventory turnover in relation to sales) and reviews the projections in order to respond in a timely manner to changes in the market or in the competitive environment.

Procurement and quality control - The Group carefully selects its suppliers of both raw materials and finished products. Specifically, the Group defines the range of potential, core business suppliers based on its multichannel distribution strategies, and then implements an accurate selection process. The organisational units of the Group's commercial and quality management departments are strongly focused on the supply chain, as the Group is highly aware that properly identified, selected and coordinated suppliers are a key competitive advantage in the large-scale retail trade sector. To this end, inspections are carried out according to precise criteria and timelines at the production facilities of suppliers who are integrated into the production and distribution process of Esselunga branded products. These inspections are also carried out at farms supplying fruit and vegetables, at slaughterhouses, at livestock and fish farms and at production factories. For additional information see “Social Aspects - the Supply Chain” paragraph in the Consolidated Non-financial Report as at 31 December 2019.

Production, distribution and logistics - The Group's network includes two production centres, including one in Limito di Pioltello for delicatessens and fresh pastries and one in Parma for the production of fresh pasta and bakery products, as well as three distribution centres, located in Limito di Pioltello, Biandrate and Florence. In addition, the Group is currently planning the opening of a new distribution centre in Ospitaletto. The Group is also engaged in the e-commerce business through its home delivery service. Procurement for stores is managed by the logistic department in charge of organising and optimising road transport, currently almost entirely outsourced.

Sales - Group sales are supported by the loyalty programme, which attracts and retains customers through specific programmes and additional services such as:

- the **Fìdaty** card, which gives customers a number of benefits, including points to be accumulated that can be used to take advantage of discounts or to buy items from the catalogue; the **Fìdaty Oro**, which offers the same benefits as the Fìdaty card but can also be used as credit card with a spending limit in Esselunga, Atlantic and EsserBella; and the **Fìdaty Plus** card, a full-fledged Co-branded credit card.
- special offers reserved for Fìdaty card holders: the Group offers products at favourable prices to its loyal customers both directly in its stores and through its Internet platform.

Research and development and private label

The Esselunga Group is engaged in the research and development of private label new fresh products to expand its range of high quality products. These include baking, ready-made meals, cakes, dry pastries and fresh pasta.

At the Parma production facilities, fresh pasta, including stuffed pasta, semolina pasta, pastry and bakery products are produced daily. One of the Company’s key strengths is its private label; for this reason, it chose to use an ad hoc trademark for the opening of the new production site in 2013 (Made in Parma - Food Valley) that identifies all the products made in the heart of the Italian Food Valley, inspired by a constant search for excellence, careful selection of raw materials and the location of the production site.
The Esselunga Top line combines superior quality products that use top quality raw materials with traditional and artisanal processing methods. The Esselunga Equilibrio line is dedicated to nutritional and health balance through a wide range of products.
To provide our customers with a product that is unique for its fragrance and freshness, but at the same time with uniform quality standards across all geographic areas, in 2016 we launched the centralised production of fresh pastries. To this end, a special department was set up at the Limito di Pioltello (MI) facility, supported by the advice of a well-known group

with specific expertise in this field. To date, 79 stores offer this kind of pastries (78 Esselunga stores and 1 *laESSE* store).

Offices and sales network

Registered and administrative office, warehouses and production facilities
The registered office of Esselunga S.p.A. is in Milan, via Vittor Pisani 20. The Company has the following secondary and administrative offices, excluding stores:

Administrative Offices Limito di Pioltello (MI), via Giambologna 1
Sesto Fiorentino (FI), via Tevere 3

Logistic hubs and production facilities Limito di Pioltello (MI), via Giambologna 1
Biandrate (NO), Strada provinciale per Recetto 580
Sesto Fiorentino (FI), via Tevere 3
Campi di Bisenzio (FI), via delle Cicogne 7
Parma, via della Cooperazione 25/A

Sales network
The Group's sales network consists of 159 Esselunga stores, one la ESSE store, 40 EsserBella/eb perfume shops and 95 Atlantic bars.
The geographical distribution of the Group's sales network is provided in the following table:

Sales network	Geographic area	Number
Esselunga Stores	Lombardy	96
	Tuscany	28
	Piedmont	17
	Emilia Romagna	12
	Veneto	3
	Lazio	2
	Liguria	1
Total		**159**
EsserBella/eb perfume ships	Lombardy	26
	Tuscany	7
	Emilia Romagna	4
	Piedmont	3
Total		**40**
laESSE	Lombardy	1
Total		**1**
Bar Atlantic	Lombardy	57
	Piedmont	14
	Tuscany	11
	Emilia Romagna	8
	Lazio	2
	Veneto	2
	Liguria	1
Total		**95**

Lastly, the Group is engaged in the E-Commerce sector through its home delivery service in a number of different Italian provinces.

Treasury shares and shares of parent companies

In relation to Article 40, paragraph 2, d) of Legislative Decree no. 127/91, we confirm that the Parent Company and its subsidiaries:
a) do not hold treasury shares or shares of parent companies, including through trust companies or nominees;
b) did not purchase treasury shares or shares of parent companies in 2019, including through trust companies or nominees.

Transactions with subsidiaries and related parties that affect the statement of financial position and the income statement

Transactions with Group companies and related parties in the years ended 31 December 2019 and 2018 took place on an arm's length basis and mainly concerned:
- business relations mainly concerning administrative services and leases;
- financial transactions;
- relations regarding the management of the IRES tax consolidation and Group VAT.

The Parent Company is not subject to management and coordination.

Derivative financial instruments

Pursuant to Article 2428, paragraph 2, 6 bis) of the Italian Civil Code, it is here stated that the Esselunga Group had no derivative financial instruments in place.

Organisational, Management and Control Model pursuant to Legislative Decree 231/2001

Esselunga S.p.A has adopted its own Organisation, Management and Control Model pursuant to Legislative Decree 231/2001, including a set of rules, tools and practices that are designed to establish within the Company an effective organisational and management system to identify and prevent the offences envisaged by the Decree.
The Code of Ethics is an integral part of the Model and sets out the general principles and the specific rules that must be complied with by all those who act in the name and on behalf of the Company.
The Esselunga Model establishes control measures that are implemented in the relevant corporate procedures.

By resolution of 11 September 2018 Esselunga updated its Organization, Management and Control Model, with respect to both the General Part - following the introduction into the Decree of the "Provisions for the protection of whistleblowers reporting offences or

irregularities of which they became aware as part of a public or private employment relationship" (whistleblowing) and the Special Parts - following changes in the organizational structure and activities of the company.
The Model therefore is made up of the following special parts: Offences against the Public Administration, offences relating to Health and Safety at work, offences against industry and commerce and counterfeiting, offences of forgery of money, public debt cards and stamps, offence of infringement of copyright, computer crimes and illegal data processing, corporate crimes, offences of receiving, laundering and using money, goods or benefits of unlawful provenance, as well as the offence of self-laundering, organised crime, transnational crimes, inducing someone not to make statements or to make false statements to the judicial authorities, offences against the individual, use of illegally staying third-country nationals, environmental crimes and market abuse offences.

The monitoring on the effectiveness, compliance with and updating of the Model is under the responsibility of the Supervisory Board appointed upon first adoption of the Organisational, Management and Control Model in 2010. By resolution of 21 March 2019, the Board of Directors of Esselunga renewed the Supervisory Board consisting of two external professionals and the Head of Legal and Corporate Affairs who will remain in office until the date of the shareholders' meeting called to approve the financial statements for the year ended 31 December 2021.
The companies EsserBella S.p.A. and Atlantic S.r.l. updated their own Organisation, Management and Control Models on 6 September 2018, while La Villata Immobiliare on 28 June 2018.
Finally, the company Orofin S.p.A adopted its Organisation, Management and Control Model on 11 June 2019, comprising the following Special Parts: offences against the Public Administration; offences relating to Health and Safety at work; computer crimes and illegal data processing; corporate crimes; offences of receiving, laundering and using money, goods or benefits of unlawful provenance, as well as the offence of self-laundering; organized crime offences; transnational crimes and inducing someone not to make statements or to make false statements to the judicial authorities; use of illegally staying third-country nationals and environmental crimes.
An extract of the Models and the Code of Ethics of the Companies is published on the Esselunga institutional website, in the Company - Organisational Model section.

Internal control and Risk Factor Management system

In 2019, the primary task of the Internal Audit function was to assess the Internal Control and Risk Factor Management System. The audits carried out led to assessments and recommendations regarding the functioning and the overall system of controls, highlighting potential areas for improvement.

At 31 December 2019, the Internal Audit function had a workforce of 5.

The Internal Audit function also carries out supervisory activities on behalf of the Supervisory Boards appointed by Esselunga and by the other Group companies under Legislative Decree 231/2001.

During the year, audits were carried out in the operational and process area, in the compliance area as well as integrated audits (audits combining the previous types).

At the outcome of the audit activities, no circumstances were identified that would make the Internal Control and Risk Management System inadequate as a whole at the date of this report, also in light of ongoing initiatives.

Other information

Nordiconad

By ruling of 22 March 2016, the court of Bologna dismissed the applications lodged by Margherita S.p.A. and Nordiconad Soc. Coop. and GD S.r.l. against Esselunga S.p.A. to ascertain alleged unfair competition practices consisting in the unjustified request for extension of commercial authorisations to carry out sales activity at the Esselunga store in Bologna, via Guelfa.

By appeal lodged on 12 May 2016, the appellants challenged the aforementioned judgment before the Court of Appeal of Bologna and reiterated their claim for damages of €96 million.

After the hearing for clarification of the conclusions on 20 January 2020, the Court granted the parties the statutory period for filing the final submissions and the reply statements. According to the legal advisers assisting the Company in these proceedings and also considering the judgment of the first instance, no provision for potential liabilities was deemed necessary by the Company.

2019 Consolidated non-financial report

Contents

1. Methodological note[1]

1.1 Standards applied

This chapter contains all the necessary information, and the references to this Management Report, to be used in the preparation and disclosure to the market of the Esselunga Group Consolidated Non-Financial Report (henceforth also "NFR"). The NFR has been drafted pursuant to Italian Legislative Decree 254/2016. The reporting standard used for this NFR is the "GRI Sustainability Reporting Standards[2]" published by the Global Reporting Initiative (hereinafter also "GRI") in 2016 and taking into account subsequent updates, according to the "In accordance – Core" option[3]. In the appendix to the document you can consult the GRI Content Index, where the GRI indicators associated with each material topic[4] are reported.

The performance indicators used are those provided for in the reporting standard adopted and are representative of the different areas, as well as consistent with the activity carried out and its impact. Specifically, these indicators were selected on the basis of a materiality analysis, updated in 2019, which made it possible to identify the most relevant sustainability issues for the Group and its stakeholders, a description of which is provided in Chapter 2.

1.2 Boundary

As required by Legislative Decree 254/2016, art. 4, this NFR includes information on the parent company (Esselunga S.p.A.) and its subsidiaries, where it falls within the scope of the Decree.[5] Specifically, in this report the terms "Group" and "Esselunga" refer to the group of companies composed of the Parent Company (Esselunga S.p.A.) and subsidiaries consolidated on a line-by-line basis in the financial statements.[6] The main economic, social and environmental results achieved by the Group and described in this document are from 2019 (from 1 January to 31 December). Any further exceptions to the reporting boundary are appropriately explained in the text of this Consolidated Non-Financial Report.

1.3 Reporting process

The preparation of Esselunga Group's NFR for 2019 is based on a reporting process involving all company departments responsible for the areas addressed in it, coordinated by the organisational structure in charge of managing CSR topics. The data and information included in the report are taken from a non-financial data collection and reporting process to meet the requirements of Italian Legislative Decree 254/2016 and the GRI Standards. The data have been processed by means of precise calculations and, where specifically indicated, by means of estimates based on the best available methodologies and properly reported. In addition, any previously published comparative data are clearly indicated in the text.

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[1] GRI Standard 102-46 Defining report content and topic boundaries; GRI Standard 102-50 Reporting period; GRI Standard 102-51 Date of most recent report; GRI Standard 102-52 Reporting cycle.

[2] References to the Standards used in the report are specified in the GRI Content Index at page 38; in additiona, references to the Standards are highlighted in the text with the [GRI STANDARD] symbol.

[3] GRI STANDARD 102-54, "In accordance" GRI option.

[4] That is to say, the topic that can significantly influence stakeholders' decisions and opinions and have a significant impact on the Group's performance.

[5] Specifically, the social and environmental data and data on personnel cover Esselunga S.p.A., EsserBella S.p.A. and Atlantic S.r.l., but not companies judged insignificant due to their number of employees and type of activity.

[6] GRI Standard 102-46 Defining report content and topic boundaries. This NFR constitutes the third year of reporting pursuant to Legislative Decree 254/2016.

The designated person authorised to carry out the statutory audit of this NFR is PricewaterhouseCoopers S.p.A., which in a separate report attests to the conformity of the information provided with article 3, paragraph 10, of Legislative Decree 254/2016. The audit was carried out according to the procedures detailed in the chapter of this document "Letter from the Independent Auditors".

2. Introduction

2.1 The Esselunga Group: innovation and creation of sustainable value over time

Since its establishment in 1957 by Bernardo Caprotti and Nelson Rockefeller - the Esselunga Group has always looked at innovation as one of its main drivers of development and creation of value, which, having been shared over time with our main stakeholders includes both economic and social value. Over time Esselunga has innovated in every aspect: **product, assortment, store architecture, purchasing methods, production and distribution channels, logistics and communication**.

2.2 Stakeholders: identification and engagement[7]

For Esselunga **innovation means improving the daily life of customers by offering top quality services and products at competitive prices through a superior shopping experience.** To meet this aim every day Esselunga works using a Business Model which has allowed it over time to adapt to major changes in the regulatory, production, technological and customer spending changes, precisely thanks to its ability to listen and continuous contact with the social, environmental and economic context where the Group is located. Continuous dialogue and discussion with all stakeholders (stakeholder engagement) is exemplified in the table below that summarises the involvement procedures implemented by Esselunga.

Stakeholder categories[8]	Listening and engagement approach[9]
Customers	• Structured and widespread customer relationship management (CRM) systems, from individual sales points to on-line platforms and customer service. • Market surveys on the topics of food design, general customer satisfaction with physical and online sales channels and specific brand and industrial products, brand perception and customer satisfaction with some projects (e.g. the "Amici di Scuola" project).
Suppliers	• Collaborations and cooperation with the Commercial Department (which also deals with product development) and the Quality Assurance Department (new product and concept development, food safety audits, qualification processes). • One-to-one meetings and start-up of life cycle assessments with Esselunga brand suppliers.
Bondholders	Management of requests through the Investor Relations function.
Personnel	• Discussion and dedicated meetings with specific functions in the areas of Human Resources and HSE and Relations with Trade Unions.

[7] GRI Standard 102-42 Process of identification and selection of stakeholders to involve.
[8] GRI Standard 102-40 List of stakeholder groups.
[9] GRI Standard 102-43 Approach to stakeholder engagement, specifying frequency by type of activity and stakeholder group.

Stakeholder categories[8]	Listening and engagement approach[9]
Trade unions and trade associations	• Employee engagement surveys. Specifically, a survey was carried out in late 2018 and early 2019 to measure the level of satisfaction among employees and collect their suggestions for possible improvements to the Group's management system for them. • Introduction of a whistle-blowing system. • Introduction of a special e-mail inbox for welfare issues and a dedicated telephone number which the company's Welfare Office answers directly. • In 2019 a Joint Welfare Committee was set up with trade unions to discuss and propose solutions in the field of welfare.
Public Administration	Specific procedures and control measures defined by the Group organizational, management and control model (MOGC) pursuant to Legislative Decree 231/01, involving, based on the PA specific requests, both the company's top management and management according to their various specialisations and skills.
Society and future generations	• Support for social initiatives • Collaborations with non-profit organisations • Relations and active collaboration with schools and universities in the area

Esselunga knows that discussion with all stakeholders is essential to finding out their perception of the Group and its strategies in terms of CSR. That is why it was committed to starting or continuing initiatives of listening and dialogue in 2019.[10]

2.3 Materiality assessment

In order to define strategic priorities and its own guidelines for sustainability, in 2019, Esselunga developed a materiality assessment process aimed at identifying the areas in which the Group's activities can have the greatest impact on environmental protection, as well as on the well-being of communities, consumers and people, on all the Group's main stakeholders. In applying the reporting standard, the material topics related to sustainability were assessed by company management and top management (through a series of 17 interviews conducted by the organisational structure dedicated to CSR issues and under the supervision of a specialist external company) with respect to their ability to significantly influence stakeholders' decisions and opinions, as well as the Group's performance. This led to the definition of a materiality matrix. The issues identified as material are reported in detail in the Sustainability Report and the Non-Financial Report, with a level of detail corresponding to their relevance to the Group and its stakeholders.

[10] GRI Standard 102-44 Key topics and critical issues from stakeholder engagement.

Table linking topics in the Decree and material topics	
Scope of Legislative Decree 254/2016	**Material topics[11]**
Fight against corruption	-
Human rights	Diversity and inclusion
	Responsible supply chain management
HR management	Health and safety
	Corporate welfare
	Employer branding and talent retention
	Employee training, development and involvement
	Diversity and inclusion
	Work-life balance
Social aspects: Customers	Quality, traceability and safety of products
	Nutrition and dietary education
	Product innovation
	Sustainable products
	Labelling, transparency and communication
Social aspects: supply chain	Animal welfare
	Responsible supply chain management
	Support and collaboration with local suppliers
Social aspects - communities	Support for the development of local communities
	Support for scientific research and campaigns on health issues
	Promotion of education
Environment	Sustainable packaging (plastic)
	Climate change
	Food surplus and waste

Aspects like effective governance, economic value creation and anti-corruption have not been evaluated among the potentially relevant issues as they are considered prerequisites for proper business performance and, for this reason, are adequately reported in the document.[12]

2.4 Corporate Social Responsibility (CSR) policies and objectives

2.4.1 CSR policies[13]

The internal formalisation process for the **Sustainability Policy** was completed in 2018 and notified to personnel including through the company intranet and made available to anyone who requested it. This policy, divided into 4 main areas, is also addressed to all subjects that establish direct and indirect relations with Esselunga.
The figure below summarises the main contents and various control measures:

[11] GRI Standard 102-47 Material topics identified.
[12] For the above aspects, refer to the Management Report and chapter 3, "Fighting corruption".
[13] GRI Standard 102-12 Economic, environmental and social codes of conduct, principles and initiatives, including voluntary ones, to which the company refers or is signed up.

Esselunga Group Sustainability Policy

Corruption & Community	Human rights	Supply chain	Environment
Ethics and responsibility: Fight against corruption and aid to communities	**Human rights, diversity, inclusion and equal opportunities**	**Responsible management of the supply chain**	**Environment**
- No tolerance towards actions linked directly or indirectly to active or passive corruption. - Adoption of a Organisation, Management and Control Model in line with the provisions in Legislative Decree 231/2001 on managing company activities. - Development of a self-assessment and authorisation system for receiving and giving gifts. - Development of control and monitoring systems in the supplier qualification process. - Support to local communities through an increasing purchasing of Made in Italy products, promotion of small local firms and regional companies, sponsorships and fair trade initiatives.	- Commitment of everyone in complying with, protecting and promoting rights. - Prevention of all forms of forced and child labour and exploitation of workers in need or suffering from mental or physical disabilities. - Protection of the health and safety of everyone in workplaces. - Development of a positive work environment, where wages and benefits, working hours, freedom of association and standards of ethics are ensured. - Rejection of discrimination of any kind. - Promotion of diversity, considered an enriching factor for the company and a strong point of human capital.	- Promotion of all forms of collaboration, on the principles of fairness, correctness and transparency. - Development of a careful and thorough purchasing policy, aimed at creating value for customers and suppliers. - Ban on Dutch auctions and guarantee of equal payment terms. - Adoption of specific animal welfare policies both in the seafood and meat chains. - High-quality, safe, traceable, transparent products for customers.	- Respect for the environment, the fight against climate change and sustainable development as strategic factors to maintain. - Effective management of energy and resources. - Direct commitment, right from the planning and implementation phases of activities, towards the prevention and reduction of environmental impacts. - Improvement of environmental performance by defining measurable objectives and related KPIs. - Encouragement of active participation by all personnel in the system improvement process.

2.4.2 CSR objectives

The process of materiality analysis was the first milestone on Esselunga's strategic road. From the issues that emerged, the Company defined the five pillars of its sustainability strategy and divided the 20 material topics[14] among them.

The Sustainability Plan, the first important step on the path undertaken by Esselunga in 2019, is the Company's expression of its commitment to an increasingly sustainable and responsible development. The plan is based on the five pillars of strategy and includes challenging and ambitious targets for 2025, which the Company is committed to monitor and update annually in order to report on their progress and set new targets with a view to continuous improvement.

[14] The approval of the relevant topics by the Board of Directors took place concurrently with the approval of this NFR.

2.5 Management and control systems and key risks[15]

The following table shows how the management model and relative control measures, contribute to the prevention and mitigation of the main risks associated with the areas the Decree::

Fight against corruption

Potential risks:
- Active corruption with respect to the Public Administration in real estate development processes, authorization requests, management of points of sale, management of inspections/audits.
- Active and passive corruption of individuals in procurement activities.

Main control measures:
- Presence of a Code of Ethics and Conduct and a Sustainability Policy that establish the fight against corruption principles and policies.
- Adoption of MOGC 231/01 at corporate level which defines the control standards in the area of active and passive corruption.
- Supplier selection activities and establishment of contractual restrictions and monitoring of the activities of the same.
- Monitoring relations with representatives of government bodies.
- Transparency and traceability of transactions.
- Regulation of processes for distributing/receiving free items and gifts.
- Regulation of processes for hiring and developing personnel.
- Internal communication and training activity in this area.

Human rights

Potential risks:
- Direct and indirect employment by cooperatives, suppliers and sub - suppliers of irregular labour which results in limited protection for workers.

Main control measures:
- Presence of a Code of Ethics and Conduct and a Sustainability Policy that establishes the principles and policies on the topic and an MOGC 231/01 at corporate level where control standards are defined in terms of protecting fundamental rights.
- Level II audit plan for OHS aspects of the main logistics contractors operating at company sites.
- Adoption of an ISO 45001/OHSAS 2018 management system and start of a level II audit on companies under contract for logistics.
  Assessment of non-EU suppliers/producers for DRO-GEM departments, to check compliance with the principles of SA8000 (scouting and self-assessment questionnaires). Based on the results of the audits, level II audits are begun.

Personnel

Potential risks:
- Workers' health and safety (injuries and occupational diseases).
- Developments in the legislative framework and management of turnover.

Main control measures:
- Presence of a Code of Ethics and Conduct and a Sustainability Policy that establishes the principles and policies on the topic and an MOGC 231/01 at corporate level where control standards are defined in the health and safety field.
- Adoption of an ISO 45001/OHSAS management system and integrated organisational control measures (HSE and Human Resources Department) dedicated to managing and monitoring issues related to personnel.
- Periodic updating of Group company DVR (risk assessment documents) and constant adoption of specific PPE.
- Adoption of work layouts aimed at reducing or eliminating risks in the field of OHS and development of specific ergonomic projects aimed at optimal management of loads.
- Periodic assessment and monitoring of legal compliance with new introductions related to health and safety and employment law.
- Adoption of structured and formalised working methods within operating manuals
- Adoption of personnel management policies
- Adoption of personnel remuneration and development policies

Social aspects - Customers

Potential risks:
- Inadequate complaint handling with repercussions on the Group's reputation and decline in market appeal
- False information and news in traditional media and on social networks.
- Socio-economic changes in customers.

Main control measures:
- Setting up a specific organisational function and a process to promptly and properly handle all complaints, based on a multi-channel approach (website, app, call centre, social networks, etc.).
- Listening to the stakeholders through different platforms.
- Consolidation of the Privacy Management Model in compliance with GDPR 679/16 and establishment of a crisis and business continuity committee.
- FSSC 22000 certification in the health and food safety.

[15] GRI Standard 102-11 Adoption and application of the precautionary principle.

▪ Implementation of information, training and education activities for personnel ▪ Adoption of specific development paths and ad hoc performance evaluation processes ▪ Establishment of the Joint Welfare Committee with the trade unions ▪ Top Employers Certification.	
Social aspects – supply chain	**Environment**
Potential risks: ▪ Inadequacy of suppliers from a technical - professional and ethical standpoint (e.g. adulterated food). **Main control measures:** ▪ Adoption of OMCM 231/01 at corporate level, defining standards for audits to prevent sales fraud. ▪ Defining a qualification process that attests the ability for responsible management and the adequacy of the standards adopted by the supplier. ▪ Inspection activities by the Quality Assurance Department and by external bodies according to specific procedures and timelines (based on own-brand products and raw materials at production sites). ▪ FSSC 22000, BRC and IFS (recognised GFSI) (Health and Food Safety) certifications. ▪ Presence of control measures aimed at identifying and assessing fraud risks (adulteration of raw ingredients for food) and implementation of any anti-fraud plans (measurement instruments and methods and prevention and mitigation initiatives). ▪ Setting up an assessment process to check non-EU suppliers/producers of things other than food for DRO-GEM comply with the principles of SA8000 (scouting, self-assessment questionnaires and level II audits).	**Potential risks:** ▪ Compliance risk related to the violation of applicable legislation on environmental crimes or associated with the management of environmental aspects and related to regulatory changes. ▪ Risk of environmental damage. ▪ Risk of interruption of business continuity due to lack of control over the correct maintenance of plants and services. ▪ Risk to the Group's reputation due to use of suppliers who do not meet the requirements of environmental regulations. ▪ Commercial risk, related to external perception of environmental sustainability policies. **Main control measures:** ▪ Performing specific risk assessments and constant monitoring. ▪ Responsible design combined with continuous monitoring and measurement of environmental impacts. ▪ Verification activities carried out by certifying bodies and relevant authorities. ▪ Implementation in progress of UNI EN ISO 22301:2019 certification. ▪ Monitoring the application of the Environmental Management System certified under UNI EN ISO 14001:2015, carrying out internal and external audits and third-party audits on the management system.

3. Fight against corruption

3.1 Policy implemented by the organisation

The Esselunga Group is aware that corruption has significant negative impacts in the economic, social and environmental field, the reason for which the organisation does not tolerate any actions linked directly or indirectly to corruption, whether active or passive. As set out in the Group's **Code of Ethics and Conduct**, **Sustainability Policy** and **Organisation, Management and Control Models** under **Italian Legislative Decree 231, adopted by each individual company**,[16] all employees and external contractors are required to act according to the values of fairness, transparency, correctness and loyalty as well as in complete compliance with all laws and regulations applicable to anti-corruption.[17]
The consolidation of compliance models and organisational control measures, as well as the updating and issue of control procedures and protocols aligned with industry best practices

[16] Esselunga S.p.A. and subsidiaries: Atlantic S.r.l., EsserBella S.p.A., La Villata S.p.A. Immobiliare di Investimento e Sviluppo (hereinafter "La Villata S.p.A."), Orofin S.p.A.
[17] GRI Standard 102-16 Group's values, principles and standards.

are all initiatives aimed at reinforcing a single corporate culture based on the highest principles of business ethics, i.e.: "acting fairly and in awareness of risks and non-conformities".[18]

With the adoption in 2010 of the OMCM pursuant to Legislative Decree 231 and subsequent updates, including the most recent in 2018, the Group intends to:

1. Ensure that the employees and all those working in the name or on behalf of any of the Group companies, are **aware** that if they violate the stated policies by committing unlawful deeds they may be committing an offence, for which criminal penalties can be imposed on them and administrative sanctions can be applied to the company, under criminal law.

2. **Reiterate** that any conduct in conflict with the law and with the ethical principles adopted by Esselunga in its Code of Ethics and Conduct are strongly condemned by the Group.

3. **Monitor** the activities at risk to prevent and combat offences.

3.2 Main risks and opportunities[19]

The risk assessment activities carried out in the various Group companies in revealed that there is a potential risk of commission of:

- **active corruption** with respect to the Public Administration when carrying out real estate development activities, during inspections and in terms of requests for authorisations and permits;
- **passive and active corruption** in dealings with private parties when carrying out procurement activities and in industrial relations.

The risks of corruption can have various economic and reputational impacts, not just on the individual companies, but especially at Group level. The risk assessments done on five companies in the Group[20] this report concerns revealed **111 sensitive operations**, of which 55 (about 50%) were possibly at risk of alleged corruption offences.[21]
When the Organisation, Management and Control Model was adopted by Orofin S.p.A., the "Guidelines on the subject of Legislative Decree 231/01" were defined and approved by its Board of Directors. They contain principles of organisation and conduct with which companies carrying out property operations on behalf of Orofin S.p.A. are required to comply. In order to improve and consolidate the control mechanisms and thereby activities to prevent and combat corruption, in compliance with the provisions of the amendment to article 6 of Legislative Decree no. 231/01[22], the Group has adopted a new procedure of **whistle-blowing** which regulates the process activities, roles and responsibilities of the main actors involved (Whistleblowing Manager, Legal and Corporate Affairs Manager, Supervisory Body).

3.3 Management approach and KPIs

The Code of Ethics and Conduct, the OMCM as per Italian Legislative Decree 231/01 along with the Sustainability Policy are the main pillars of the management model on the "fight against corruption" issue. The Supervisory Body (SB), the Human Resources and Organisation Department and the Internal Audit Department remain its main organisational controls for 2019 as well. In detail, the **SB** supervises the effectiveness and observance of the Model, assesses its adequacy and efficacy and carries out analyses on the continued

[18] GRI Standard 102-12 Economic, environmental and social codes of conduct, principles and initiatives, including voluntary ones, to which the company refers or is signed up.
[19] GRI Standard 102-15 Risks related to anti-corruption.
[20] Esselunga S.p.A. and subsidiaries: Atlantic S.r.l., EsserBella S.r.l., La Villata S.p.A., Orofin S.p.A.
[21] GRI Standard 205-1 Operations assessed for risks related to corruption.
[22] Change introduced in December 2017 by Law no. 179/2017.

satisfaction of requirements over time, also ensuring their update. For an effective performance of its functions, the SB possesses a series or powers and prerogatives, for information on these see the institutional site.
The **Human Resources and Organisation Department**, supervised by the SB, ensures, through specific initiatives, communication and training on the Model contents and principles. Communication and training activities are diversified according to the recipients, and are **inspired by the principles of completeness, clarity, accessibility and continuity.** In particular for the topic of communication and training the following is significant: i) all members of the BoD, since they are involved in the related approval processes, had an active and participating role in issuing the Sustainability Policy and updating the OMCM 231/01[23] in 2018; ii) upon hiring, **all new employees** are informed that the Company has adopted the Model and the Code of Ethics and Conduct; iii) training is provided to **all employees** both through classroom courses and e-learning. Attendance at training courses is mandatory and checked through a monitoring system.[24] The content of training activities is updated to reflect changes in regulations of the Model.
Finally, **Internal Audit**, as third-level control, performs regular audits to verify that procedures and rules pursuant to Legislative Decree 231/01, are being applied. In terms of external contractors and consultants, they are assessed, for the purposes of qualification, based on ethical, honorableness and transparency principles and, after being awarded contracts and tenders, must comply with the Code and Model, by including specific contractual clauses. **No corruption cases occurred** and no legal proceedings for corruption were brought in the two-year period 2017–19, confirming the good work of OMCM 231.[25]

4. Respect for human rights

4.1 Policy implemented by the organisation

As ratified by the Group's **Sustainability Policy**,[26] Esselunga's people are aware that respect, protection and promotion of human rights in and outside its value chain is an essential factor in creating and maintaining long-term social well-being. Esselunga's commitment to Human Rights issues is reflected in all categories of people who dialogue directly or indirectly with the Group (employees, suppliers and customers). Specifically, Esselunga requires that the various operators it collaborates with meet the fundamental principles that inspire its Code of Ethics and Conduct, i.e.:

- prevention of all forms of child exploitation or workers' situations of need, of physical or mental inferiority, of forced labour or work performed under slavery or servitude.
- protection health and safety in the workplace.

Moreover, the Group is committed to and believes in:

- development of a positive work environment, where wages and benefits, working hours, freedom of association and ethics standards are ensured;
- rejection of all types of discrimination;

[23] GRI Standard 205-2 Communication and training about policies and procedures designed to prevent and combat potential corruption-related activities.
[24] For further details, see the Training Activities paragraph in the Chapter "The Esselunga Group's people".
[25] GRI Standard 205-3 Confirmed incidents of corruption and improvement actions taken.
[26] And in particular see the chapter "Human Rights, diversity, inclusion and equal opportunities".

- maintaining acceptable working conditions;

and not tolerate any discrimination, psychological and/or sexual abuse or other violation of the respect for other types of diversity.

4.2 Main risks and opportunities[27]

The risks to which the Group Companies are exposed mainly arise from the use **of suppliers, and specifically of sub-suppliers**, which could directly or indirectly employ irregular labour or which may be unable to ensure adequate workers' protection. For this reason during the phases of:

- qualification: aspects of ethical reliability and OHS are assessed;
- contract finalisation: all suppliers and employees, upon hiring or signing of the contract, are required to read the Code of Ethics, to "*conform their conduct to the fundamental ethical principles that guide all company's activities*",[28] and to undertake to "*respect the fundamental human rights and dignity of each person.*"

The Group has also identified potential areas exposed to a risk of forced labour in some parts of its supply chain, specifically those regulated by **logistic and production contracts**[29]. Therefore, to prevent any possible infringements of these rights, the Company has implemented:

- contractual restrictions for contractors;
- organisational control measures;
- initiatives aimed at gradually raising the level of responsibility and management by the contracted companies (e.g. for logistics and production companies one of the qualifying requirements is the implementation of OHS management systems and for each contract, the supplier is required to disclose its ethical code);
- giving company departments involved in the qualification process responsibilities of checking and monitoring all contracted activities;
- level II audit on companies under contract for logistics.

4.3 Management approach and KPIs

The human rights management model therefore comprises the Code of Ethics and Conduct and the Sustainability Policy, which require all staff to fully endorse and take responsibility for the management and monitoring of these issues.

In the three-year period 2017–2019 **no incidents of discrimination**[30] **or child labour**[31] were reported, and the Group maintains that the **right to freedom of association cannot be violated** in its operations.[32]

During 2019, 55% of **shop security staff** received training on human rights policies and procedures. Complete training is ensured for all security guards and lost prevention employees, both internally, by the relevant training plan provided by Esselunga, and

[27] GRI Standard 102-15 Risks related to human rights
[28] *"Diligence, honesty, transparency, competence, compliance with the law, good faith, utmost fairness and integrity".*
[29] GRI Standard 409-1 Group companies/branches/offices/production sites/warehouses considered to be at high risk of incidents of forced labour.
[30] GRI Standard 406-1 Incidents of discrimination reported in the year.
[31] GRI Standard 408-1 Companies, operating offices or shops that may be at risk of child labour.
[32] GRI Standard 407-1 Companies, operating offices or shops that may be at risk of infringement of freedom of association.

externally, by the same private security firms subject to a specific relevant regulation and must be in possession of specific prefectural authorisation.[33]

5. The Esselunga Group's people

5.1 Policies implemented by the organisation

In 2019 more than 24,000 people contributed their abilities, skills, experience and expertise to make Esselunga's human capital even more distinctive. Human capital is that unique and fundamental organisation factor that enables the Group to meet its goals in the short, medium and, more importantly, long term. It is Esselunga's firm belief that company performance is largely dependent on human resources management policies that ensure the well-being of people, by valuing individuals and helping them grow professionally, and encouraging healthy, safe and non-discriminatory work environments that let everyone express their potential. Furthermore, in terms of health and safety management, Esselunga has set out a Health, Safety and Environment Policy and a specific internal audit programme.

5.2 Main risks and opportunities[34]

The potential risks generated by the company's operations may concern failure to fully comply with international regulations and standards on the health and safety in the workplace, with potential impact its own and third-party personnel in terms of **accidents** and **work-related illnesses**. To minimise the probability or severity of incidents related to this risk, Esselunga has always invested in continous updating of its management systems[35] and organisational control measures, specialist skills and related certifications, plant renovation, production and operating *lay-out* re-engineering, regular medical checks and ad hoc visits, training and education of its personnel, the supply of personal protection equipment and materials, the provision of operating and work procedure manuals, and other initiatives to ensure that workers can carry out their job in total safety. One of the main peculiar risks refers to the **manual handling of loads**. This risk is constantly monitored and managed including through specific research focused on the introduction of additional automatic equipment to make load lifting and handling activities increasingly easy and not as stressing. For this purpose, collaboration continued in 2019 with Milan Polytechnic and the University of Brescia on the **"Ergonomics" project**.[36]

The potential risks generated by the labour market are linked to **changes in the relevant legislation and management of staff turn-over**. For both risks, the Company pays extreme attention to the entire human resource management process, from selection up to remuneration and development policies. The mitigation of these risks relies on our people's strong attitude and compliance in managing working relationships and the various related obligations, as well as on the implementation of remuneration and retention policies and the development of welfare according to international benchmarks, through information and training of people, specific development paths and ad hoc performance assessment processes.

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[33] GRI Standard 410-1 Security personnel trained on human rights policies or procedures (whether direct or indirect) relevant to organisational work.
[34] GRI Standard 102-15 Risks related to personnel.
[35] Updating the Management Systems from the BS OHSAS 18001:2007 standard to the more modern UNI ISO 45001:2018.
[36] GRI Standard 102-15 Risks related to health and safety.

Particular focus is placed on management of working relationships in cases of maternity, illness, accidents or other absences protected by law, while multi-disciplinary approaches are adopted to manage occupational health and safety.

5.3 Management approach and KPIs

The corporate model for human resources management is primarily governed by the Group Human Resources and Organisation Department, part of the Group's broader HSE function. The department is responsible for the implementation of monitoring management processes and systems based on the principles of the Code of Ethics and Conduct, the Sustainability Policy, current laws, OMCM 231/01 and the OHS Management System (UNI ISO 45001:2018). Esselunga boasts, through its top management, an approach of constant discussion and dialogue with trade union representatives, which is why all employees of Esselunga S.p.A. have adopted an Integrative Company Agreement that is better than the national collective bargaining agreement[37]. The Esselunga Group's entire human resources management model was certified for 2019 by the international body the Top Employers Institute.

5.3.1 Staff composition

The Esselunga Group employs **24,332 people** (up 3% compared to 2018), **44% of whom are women**. **93%** of people are employed on **permanent contracts**. Moreover, **27%** have a part-time contract, **75%** of which are for female employees[38].

Employees (head count)	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Permanent contract	12,454	10,126	22,580	12,140	10,090	22,230	11,756	9,878	21,634
Fixed-term contract	1,241	511	1,752	999	357	1,356	1,223	529	1,752
Full-time	12,064	5,666	17,730	11,540	5,524	17,064	11,428	5,491	16,919
Part-time	1,631	4,971	6,602	1,599	4,923	6,522	1,551	4,916	6,467
Total	13,695	10,637	24,332	13,139	10,447	23,586	12,979	10,407	23,386

5.3.2 Employer branding and talent retention

Esselunga believes that the ability to attract and retain the best talent is crucial to ensure long-term value creation. The main point of contact to attract and engage promising resources is the website Career Esselungajob, which is supported by other channels such as job search portals, social networks, communication tools (posters, leaflets) present in Esselunga shops, offline and online advertising campaigns, media relations done through the Esselunga Press Office, and collaborations with important personnel selection companies and with various universities and high schools throughout Italy.

Among the various levers of talent attraction, Esselunga knows that a progressive, balanced and incentive-based remuneration policy can be one of the main criteria for motivating

[37] GRI Standard 102-12 Economic, environmental and social codes of conduct, principles and initiatives, including voluntary ones, to which the company refers or is signed up.

[38] GRI Standard 102-8 Employees by type of contract and gender. Temporary workers, employed mainly in the shops and in production departments, dropped from 233 to 213 (-9% compared to 2018).

people, as well as an important lever of talent retention, which is indispensable for the functioning and integration of an organisation. For this reason, the remuneration policies of the Esselunga Group aim to maintain a **strong link between remuneration, meritocracy and performance sustainability**. This is achieved by developing effective remuneration methodologies that are in line with industry best practices and that enable employees to pursue continuous improvement in their professional performance and of the entire entity, while maintaining high levels of motivation and engagement[39].

In 2019, taking into account fixed-term contracts, the **turnover rate** was about 8%, in line with the previous year (7.58%)[40].

Turnover rate	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Total	**9.85%**	**5.73%**	**8.05%**	**9.69%**	**4.93%**	**7.58%**	**9.70%**	**4.87%**	**7.55%**
aged less than 30	*22.83%*	*19.20%*	*21.77%*	*23.84%*	*17.17%*	*21.80%*	*22.39%*	*16.01%*	*20.38%*
between 30 and 50 years old	*5.61%*	*3.47%*	*4.61%*	*5.57%*	*3.17%*	*4.43%*	*5.31%*	*2.82%*	*4.11%*
older than 50	*6.96%*	*5.07%*	*6.05%*	*5.01%*	*2.99%*	*4.06%*	*7.75%*	*4.62%*	*6.34%*

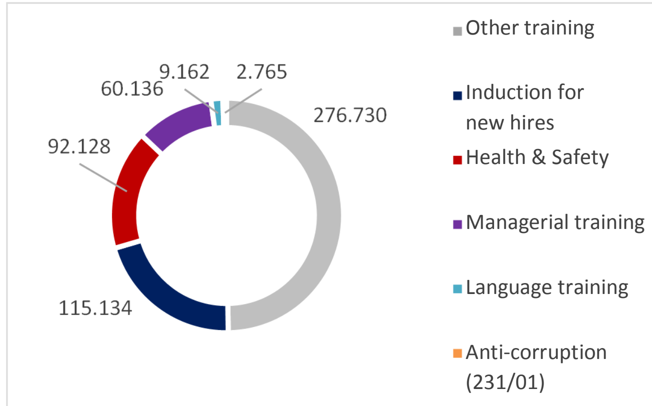
5.3.3 Training and development of people

Esselunga considers training and updating skills to be fundamental resources for the success and competitiveness of the Company. For this reason, it designs professional paths that value commitment, seriousness and passion for one's work. For a long time the Company has had a genuine in-house training school, the Esselunga Learning Center, to guide people in developing skills and capabilities with theoretical and practical training. One of the pillars of training at the Learning Center is the Trade School, where the staff employed in our shops, bars and perfumeries can get training to develop and update the technical skills they need.
In 2019, **556,054 hours of training**[41] were provided, for an average total of about **23 hours per capita**, a clear increase since 2018.

Average hours of training by gender and level	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	38	46	39	41	52	42	28	38	29
Middle managers	40	46	40	30	41	31	22	30	23
White-collars	34	9	21	28	7	17	25	6	15
Blue-collars	29	16	25	29	14	24	30	20	27
Total	**32**	**11**	**23**	**28**	**9**	**20**	**27**	**10**	**19**

[39]GRI Standard 102-36 Process for determining remuneration.
[40]GRI Standard 401-1 Total numbers and rates of new hires and turnover.
[41] GRI Standard 404-1 Average hours of training by type of employee and gender. Increase in training hours compared to 2018: + 20%

The increase is mainly due to the exponential growth in training dedicated to languages (+77%), combined with growth in managerial training (+16%) and health and safety training (+28%),[42] while specific training on OMCM 231/01, provided on a one-off basis to new employees and/or in the case of specific updates to the Model, relevant legislation and/or protocols, remained in line with previous years, cumulating 2,765 hours compared to 2,881 in 2018[43]; finally, induction of new employees[44] has also considerably increased (+25%).



Two topics were emphasised over the year: sustainability and digitisation. Numerous initiatives (e.g. a digital café) and ad hoc training courses were set up on the latter topic, aimed at creating a strong awareness of digital identity and showing the potential of the tools. These activities directly involved 1,300 employees. In addition, a digital section (digital stories) within the e-learning area was made available to all employees. Each employee was stimulated towards innovation and engagement, so that they could contribute to the review of processes in their area and become aware of perceptual bias.
As of 2017, training on environmental issues has been provided to Sales Department employees and external collaborators to increase their awareness in those fields. In particular, in 2019, this training was preparatory to the implementation of a project aimed at developing a company "Web Tool Packaging", to involve suppliers in designing more sustainable packaging and monitoring the consumption of packaging materials.
The Learning Centre is also responsible for the annual evaluation of the performance and potential of Esselunga's people, supporting employees and their managers in defining individual development plans and analysing career paths. Through a structured process of people review, each year the personalised training to be done is planned and the most talented figures on which to build accelerated pathways are chosen.
On this front, in 2019, 5,453 people were involved in performance evaluation processes.

Personnel involved in performance review activities[45]	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	57%	82%	61%	69%	88%	71%	66%	71%	67%
Middle managers	99%	95%	98%	76%	89%	77%	99%	92%	99%
White-collars	59%	8%	32%	59%	7%	31%	60%	7%	31%
Total	**61%**	**9%**	**34%**	**60%**	**8%**	**33%**	**62%**	**7%**	**33%**

[42] GRI Standard 403-5 Worker training on occupational health and safety
[43] 231 training is not provided annually to all employees, unless there has been a significant update of the Model. In 2017 training was also provided to all shop employees, while from 2018 it will only involve new hires and people not previously involved.
[44] GRI Standard 205-2 Personnel trained in anti-corruption and training processes in the field.
[45] GRI Standard 404-3 Personnel involved in performance review activities. The performance evaluation process to date does not include the professional category of manual workers.

5.3.4 Corporate welfare and work-life balance

Legislation aside, the welfare system at Esselunga is based on listening to employees' needs. This topic was at the heart of the employee survey carried out in 2019, with the aim of getting employees' opinions on active welfare services, but also to monitor the degree of knowledge of the services offered and collect ideas and suggestions. The answers have been carefully analysed and have allowed Esselunga to articulate its new Welfare Plan to meet the needs that have emerged.
Specifically, to confirm the importance attributed to welfare, in June 2019 the company and trade unions set up, on an experimental basis, a Joint Welfare Committee, a body for the equal involvement of workers, to identify welfare and work-life balance solutions.
In terms of specific benefits and facilitations, valid for all employees regardless of the type of contract, the main ones include the non-professional policy, commercial agreements, a supplementary health care fund and a supplementary pension fund provided for in the national collective bargaining agreement, cars for mixed use, a shuttle bus to transport staff to offices, study-abroad and training courses for employees' children and the chance to convert variable wages into a range of benefits.[46] As part of its broader welfare programme, Esselunga also runs specific medical assistance initiatives for its employees, by organising regular specific medical check-ups, as required by legislation, but also through specific agreements for easy access to: medical and health services, assistance for people with disabilities or in emergencies and specific initiatives of preventive medicine.[47] In addition to these initiatives is, for example, the introduction of greater flexibility for employees in entering and leaving their offices, which makes it easier to combine personal and professional needs, and new lockers in the Company's car parks for picking up shopping ordered online.
In addition to its welfare system, Esselunga has embarked on a path of wide-ranging cultural change, paying more and more attention to the balance between work and private life, a critical element for a highly work-intensive sector like large-scale retailing. In 2019 a Smart Working pilot project was launched involving 52 employees from nine different departments between Esselunga and EsserBella, selected partly on the basis of home-work distance. The employees involved were able to take advantage of working from home up to three days a month and the positive results of the project are encouraging the Company to develop a more structured plan that will involve more and more people.

Also in 2019, 2,144 employees took parental leave, 46% of the eligible female population and 16% of the male respectively. The percentage of employees who returned to work at the end of their leave remains very high, at 97%. Similarly, 97% of those who returned to work in 2018 are still employed by the company[48].

5.3.5 Diversity and inclusion

Esselunga makes inclusion one of its core values, promoting diversity as an opportunity for every talent to express themselves, adopting specific programmes and policies, and developing listening systems that foster dialogue and collaboration. As part of its actions and

[46] GRI Standard 401-2 Benefits provided to full-time employees that are not provided to part-time employees.
[47] GRI Standard 403-3 Occupational health services
[48] GRI Standard 401-3 Return to work and re-entry rate after parental leave

strategies for inclusion and protecting diversity, Esselunga is committed to ensuring equality at work for all employees, guaranteeing them equal opportunities for professional development and growth.

In particular, the Company is committed to constantly monitoring the presence of women in key positions, and this commitment is also reflected in the Sustainability Plan's aim of significantly increasing the presence of women in key roles in the coming years. On that note, in 2019 Esselunga developed a leadership programme dedicated to women in roles of key responsibility, which in the coming years will cover an ever broader number of employees. The course includes interactive classroom training aimed at supporting resources to better understand themselves and their potential, with a view to empowering women and strengthening a different managerial style.

Employees by type of employment	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	68	11	**79**	64	8	**72**	59	7	**66**
aged less than 30	-	-	-	-	-	-	-	-	-
between 30 and 50 years old	*31*	*6*	*37*	*29*	*5*	*34*	*26*	*6*	*32*
older than 50	*37*	*5*	*42*	*35*	*3*	*38*	*33*	*1*	*34*
Middle managers	399	40	**439**	397	35	**432**	391	36	**427**
aged less than 30	*2*		*2*	*2*	*1*	*3*	*1*	-	*1*
between 30 and 50 years old	*265*	*27*	*292*	*267*	*24*	*291*	*268*	*26*	*294*
older than 50	*132*	*13*	*145*	*128*	*10*	*138*	*122*	*10*	*132*
White-collars	7,350	8,182	**15,532**	6,950	8,068	**15,018**	6,759	8,051	**14,810**
aged less than 30	*1,497*	*786*	*2,283*	*1,364*	*800*	*2,164*	*1,341*	*881*	*2,222*
between 30 and 50 years old	*4,839*	*5,776*	*10,615*	*4,657*	*5,841*	*10,498*	*4,571*	*5,917*	*10,488*
older than 50	*1,014*	*1,620*	*2,634*	*929*	*1,427*	*2,356*	*847*	*1,253*	*2,100*
Blue-collars	5,878	2,404	**8,282**	5,728	2,336	**8,064**	5,770	2,313	**8,083**
aged less than 30	*1,707*	*542*	*2,249*	*1,658*	*533*	*2,191*	*1,735*	*537*	*2,272*
between 30 and 50 years old	*3,257*	*1,547*	*4,804*	*3,204*	*1,535*	*4,739*	*3,217*	*1,546*	*4,763*
older than 50	*914*	*315*	*1,229*	*866*	*268*	*1,134*	*818*	*230*	*1,048*
Total	**13,695**	**10,637**	**24,332**	**13,139**	**10,447**	**23,586**	**12,979**	**10,407**	**23,386**

In line with current legislation, the Group employed a **total of 1,410 people falling within the protected categories**[49], an increase of 88 compared to 2018.

5.3.6 Health and safety at work

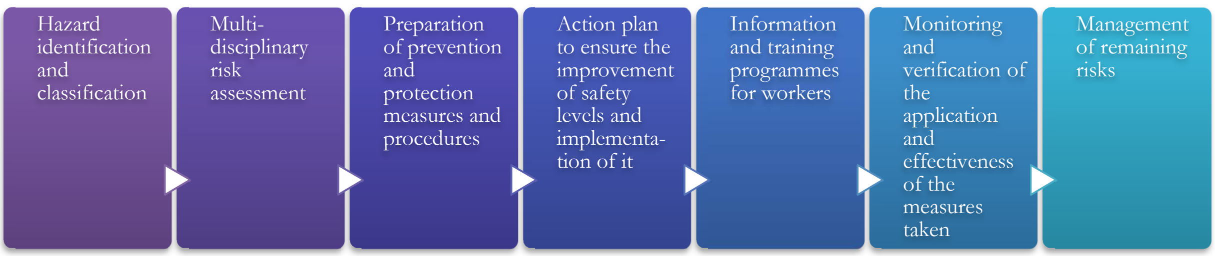
Protecting health and safety at work is a mandatory value for the Group, as well as a factor of competitiveness and growth. For this reason Esselunga believes that an active commitment to defining and implementing technical and organisational initiatives to effectively prevent and manage all professional risks linked to company operations is a priority.

In compliance with EU directives, local laws, standards and agreements signed with Group companies, Esselunga has adopted and successfully implemented, on a voluntary basis, an Integrated Management System for Health and Safety at Work, based on a well-defined risk management system and the new UNI ISO 45001:2018 standard. In the process of defining its Management System, Esselunga has defined specific responsibilities, procedures, processes and resources for the application of the company policy to protect employees.[50] In

[49] GRI Standard 405-1 Employees by type of contract, gender, age and membership to protected categories.
[50] GRI Standard 403-1 Occupational health and safety management system

2019, through the regular audit by an accredited third party, the UNI ISO 45001:2018 certification was confirmed and extended to all Group companies, guaranteeing a homogeneous and systematic approach to process management, covering all Esselunga employees and non-employees working in the Company.[51]

The Group is always committed to identifying hazards and regularly assessing risks associated with the safety of personnel, suppliers and other parties involved in the Company's activities, as well as the risks relating to the Company's assets, and to defining and formalising, within operating manuals, working methods that take these aspects into account. Esselunga guarantees proper assessment of the risks caused by interference between the activities contracted out to suppliers operating on the Group's facilities or construction sites. Specifically, the health and safety risk management process includes the following steps:[52]



To complete its Management System, Esselunga has come up with a specific organisational structure and various communication channels to facilitate the sending of reports and/or incidents. Specifically, as in previous years the units in the HSE function dedicated to health and safety handle the OHS management model, supported by the **Health and Safety Service** ("SPP") and the **Central and Area Health and Safety Managers** ("RSPP"). In support of corporate prevention and protection activities, such as surveillance and inspection in the field, approximately **58 health and safety officers** ("ASPP") and 92 workers' representatives for health and safety ("RLS")[53] have been appointed, almost one for each organisational unit. The organisational structure is completed by various **trained doctors**, who perform regular health monitoring. The Area Health and Safety Officers are considered the main points of reference for health and safety issues, verify the proper management of reports and are the first promoters of the dissemination of information on the management system.[54]

As in previous years, all OHS initiatives include[55]:	
	constant **training, information and awareness** activities in order to reinforce the **company culture** on the issue
	improvement of performance monitoring systems, in order to promote responsible actions and consistent with defined policies and goals
	greater focus on and integration of OHS and environmental issues, starting from the **design phase for new shops** and purchases of new machinery

[51] GRI Standard 403-8 Workers covered by an occupational health and safety management system
[52] GRI Standard 403-2 Hazard identification, risk assessment, and incident investigation; GRI Standard 403-4 Worker participation, consultation, and communication on occupational health and safety
[53] There were three more workers' safety representatives than in 2017.
[54] GRI Standard 403-7 Mitigation of significant occupational health and safety impacts
[55] GRI Standard 403-6 Promotion of worker health.

As in previous years, all OHS initiatives include[55]:	
	consolidation of the **"Workplace Health Promotion" ("WHP") programme**[56]

Furthermore, all Group companies are committed to defining **specific and measurable targets** for improvement, including through a detailed and in-depth collection of information from detailed **inspections** and **constant updating of the Risk Assessment Documents**.

These goals led to implementation of initiatives that made it possible to:	
	– **reduce the incidence of work-related illnesses** (from five events in 2018 to four in 2019[57]); – **reduce the incidence of occupational accidents** (from 1,124 events in 2018 to 1,099 in 2019, bringing the rate of professional accidents from 28.8 to 27.2);
	– to implement new monitoring, protection and prevention tools and measures to **reduce risks**; – to develop new **training programmes** that meet personnel needs; – to increase the **level of involvement and awareness** among personnel.

In 2019 there were no accidents with serious consequences recorded, apart from a death while commuting to work. The main types of work-related illnesses were related to repetitive movements, bad posture and handling loads by hand.

	2019			2018			2017		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Recordable cases of work-related accidents[58]	725	375	**1,100**	715	409	**1,124**	769	354	**1,123**
workplace	590	266	**856**	590	291	**881**	627	280	**907**
ongoing	135	109	**244**	125	118	**243**	142	74	**216**
Deaths from accidents at work	-	1	**1**	1	-	**1**	1	-	**1**
workplace	-	-	**-**	-	-	**-**	-	-	**-**
ongoing	-	1	**1**	1	-	**1**	1	-	**1**
Recognised work-related illnesses[59]	4	-	**4**	3	2	**5**	2	3	**5**
Rate of recordable work-related accidents	29.1	24.4	**27.3**	29.6	27.5	**28.8**	31.9	23.8	**28.8**
Rate of fatalities as a result of work-related injury	0.00	0.07	**0.02**	0.04	0.00	**0.03**	0.04	0.00	**0.03**

Rate of recordable work-related accidents: (no. of accidents at work that can be recorded / no. of hours worked) x 1,000,000
Rate of fatalities as a result of work-related injury: (no. of deaths as a result of work-related accidents / no. of hours worked) x 1,000,000

Esselunga is even more focused on protecting people's health and safety during serious emergencies. During the emergency related to the spread of the COVID-19 coronavirus, Esselunga showed its support for the community through donations to hospitals, special agreements with suppliers, initiatives for the most vulnerable, and by continuing to offer an efficient service. In addition, Esselunga took all necessary measures to safeguard the health and safety of its employees, both in offices and in stores, as they provided this crucial service for the country.

[56] Annual implementation of at least two "best practices", starting from the fight against tobacco smoking and the promotion of proper nutrition up to the subjects of "Alcohol and addictions" and "Wellness".

[57] Please note that the calculation refers only to work-related illnesses recognised by INAIL.

[58] GRI Standard 403-9 Work-related injuries. Data for 2017 and 2018 were restated following an improvement in data collection and analysis systems. A new business intelligence system began operating in 2018, which daily updates and integrates the data related to HSE, personnel and INAIL matters. As stated above, based on the acceptance of accidents by INAIL, the number of accidents shown was changed when the statistics were updated. In cases where accidents are not recognised by INAIL, they were transformed into illness. The information on 15 employees from the company La Villata S.p.A. was consolidated in the total figures for 2017. The company entered the general calculations of the Group following the transaction of 21 September 2017.

[59] GRI Standard 403-10 Work-related ill health. The number of occupational diseases for 2018 has changed as cases of occupational diseases may change as a result of further investigations, and therefore the figure for 2018 has changed since its previous publication.

5.3.7 Industrial relations and operational changes

Since the early seventies, Esselunga has developed an intense collective bargaining process that is the result of a structured relationship with the trade unions that are signatories to the national collective bargaining agreement for the sector. Supplementary collective bargaining, which covers 100%[60] of employees at Esselunga S.p.A., has intervened over time in numerous issues of a regulatory nature (such as reduced weekly working hours, additional study leave, leave for medical check-ups, work organisation and shifts, trade union and information rights, etc.) and in pay levels, which to date are – in relation to fixed and variable components – among the highest in today's organised distribution sector. In addition, as of 2016, a number of important collective bargaining renewal agreements have been signed with the trade unions, which have regulated work on Sundays and public holidays in more generously than the national collective bargaining agreement and have introduced a comprehensive welfare system, including a special joint committee, which allows employees to convert their annual result bonuses into services, with economic and fiscal advantages.

In terms of possible collective events, such as **operating changes concerning Esselunga S.p.A.**, these are communicated to the employees concerned and trade union representatives with notice of (i) usually, three to six months in the event of temporary closure of a shop/factory and in the event of transfer of the entire staff employed in a shop/factory, (ii) approx. 15–30 days when the timetable changes for an entire shop/factory. Additional operating changes are managed for Esselunga S.p.A. and for the other Group companies based on trade union agreements and in compliance with the provisions of current legislation.[61]

6. Social aspects: customer care

Every day Esselunga people are committed to satisfying consumer requests by offering them: neat and functional shops, carefully selected and controlled quality products, advantageous pricing policies and a high level of service. To pursue these targets in a consistent way, Esselunga has put in place processes for gathering and analysing needs, for the procurement and processing of raw materials and for checking and transporting the products.

6.1 Policy implemented by the organisation

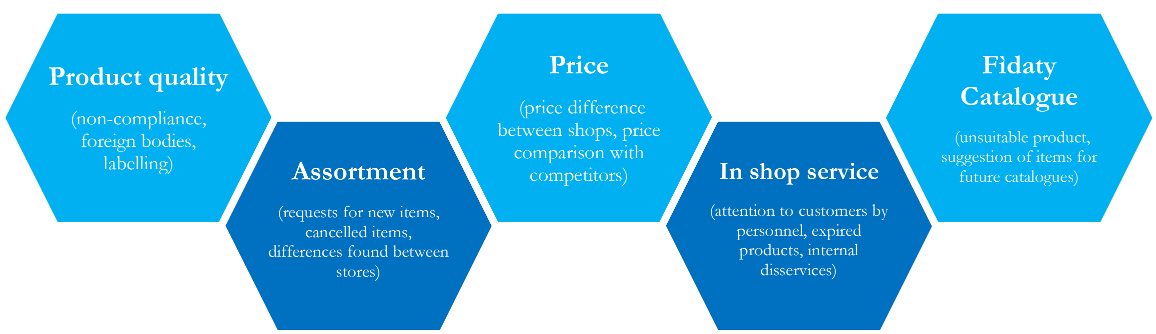
In 2019 more than **5 million customers** activated and/or used Esselunga loyalty cards, which means that each of them, following one or more shopping experiences at the Group's shops or E-Commerce platform, decided to repeat their customer experience. Constantly satisfying customers with their products and services, and holding their interest in buying again, are just two of the main goals of every retailer, especially in a dynamic and constantly changing context like a major chain. New products and new promotions, new technologies and digital transformations, new regulations and new environmental-friendly buying trends are just a few of the drivers that push the market to continuously evolve and re-focus on the

[60] GRI Standard 102-41 Percentage of personnel covered by collective bargaining agreements.
[61] GRI Standard 402-1 Minimum notice periods regarding operational changes.

satisfaction levels perceived by customers. It is based on these assumptions that Esselunga has always focused on customers and their feedback, aware of the fact that listening and processing their needs and expectations will lead to a high level of satisfaction and repeated business in the long term. The Company's focus on customers does not end at the individual point of contact (shop or E-Commerce platform); it extends to all company processes and departments (from the Customer Service and Quality Department all the way up to, if necessary, the Sales Department and its suppliers).

[62]

This indispensable stakeholder engagement activity is led by Customer Service, which consists of about 120 people supported by an advanced Customer Relationship Management (CRM) model and, in peak periods, also by external call centres[63]. Customer Service uses a multi-channel approach (website, app, call centre and e-mail) to **manage every single report**, whether positive or negative, regardless of the customer's loyalty or the type of business relationship with the reporter,[64] because Esselunga believes that every single input can inspire innovative actions of correction and improvement.
Based on these policies, Esselunga assigns higher priority to reports relating to:



6.2 Main risks and opportunities[65]

Inadequate customer management and inadequate handling of customer reports and expectations can have reputational impacts on the Group.
Untimely and disorganised management of false or excessively negative information from traditional media, social networks or blogs, as well as failure to capture customer socio-

[62] The data relating to suppliers refers to suppliers of goods with an Italian VAT number.
[63] In March 2019, an external call centre was set up to support shop staff working in customer care and in November 2019 another one was set up to handle first-level calls from customers using online shopping.
In December 2019, in conjunction with its Christmas competition, Customer Service started relying on an External Call Centre, for more effective and quicker management of each report and complaint in the field.
[64] E.g. customer, employee, supplier, consultant, associations, lawyers, etc.
[65] GRI Standard 102-15 Risks related to customers.

economic changes (such as changes in purchasing habits based on age and ethnicity) represent potential risks and they are dealt with by the Customer Service; Quality Assurance and Commercial Departments on a daily basis.

Finally, the protection of customer privacy and personal data is one of the central risk areas for the Group. Several initiatives on privacy management and related risks have been implemented over the three-year period 2017–2019, for example to complete and consolidate the Privacy Management Model in compliance with GDPR 679/2016. This approach has enabled the Group to avoid significant events during the three-year period 2017–2019 relating to violations of privacy and personal data management regulations.[66] Moreover, in 2019, data security risks and related mitigation activities were supervised by the Business Continuity and Crisis Committee, the Data Protection Committee and the internal cyber security team[67].

6.3 Management approach and KPIs

6.3.1 Product quality and safety[68]

Esselunga bases its sales policies on a long-standing and unwavering commitment to guaranteeing the quality and safety of food, which are constantly and carefully monitored at all stages of the supply chain. Precisely in order to guarantee constant monitoring of these issues, Esselunga, since the early 1980s, has decided to equip itself with an ad hoc internal function, the Quality Assurance Department, which specialises in managing all aspects relating to the quality and health and safety of products, in particular fresh products, qualifies all incoming suppliers, and does inspections and analyses at internal production plants, suppliers of brand products, crop and livestock farms and feed manufacturers. As evidence of Esselunga's commitment, in 2018 it achieved the **FSSC 22000** (Food Safety System Certification), which it repeated in 2019, and completed the process of all Esselunga's production sites for the production of organic food.
Numerous inspections were also done on the Group in 2019, conducted by authorities[69] responsible for checking compliance with regulations on: i) food and production, storage or sales sites; ii) promotional sales (e.g. "Sottocosto; iii) environmental best practices (e.g. waste disposal and monitoring of air emissions)[70]. Specifically, in 2019 a total of about 1,348 inspection and control visits were recorded (10% less than in 2018) and about 700 product samples were taken (8% less than in 2018). These analyses generated a limited number of prescriptions (under 30 in 2019, less than the 35 in 2018) that were managed in compliance with applicable company rules and procedures. This supervisory activity resulted in an equally limited number of administrative disputes that is not considered significant[71].

[66] GRI Standard 418-1 Breaches of privacy and losses of data.
[67] On 21, 22 and 23 May 2019 an inspection was carried out at the headquarters of Esselunga S.p.A. by the competent authority for the protection of personal data, the results of which are not yet known. The inspection focused on the privacy model and data management of loyalty cardholders with particular regard to profiling and direct marketing activities.
[68] GRI Standard 416-1 Percentage of product and service categories for which health and safety impacts are assessed.
[69] For example, the local health authorities check facilities and products, as well as their food purity and hygiene unit, the port authorities, the agencies and territorial offices of the Ministry of Agricultural, Food and Forestry Policies, protection consortia, the municipal police and other police forces.
[70] GRI Standard 102-9 Description of the supply chain.
[71] GRI Standard 419-1 Non-compliance with laws and regulations in the social and economic area.

For Esselunga, guaranteeing the quality and safety of its products also means managing customer reports and complaints in a timely manner. In 2019 **94.9% of complaints received were processed**, an increase of 42% compared to last year.[72]

Complaints received and managed	2019			2018		
	Received and managed	% dealt with out of total	% Grounded out of total	Received and managed	% dealt with out of total	% Grounded out of total
Total Complaints on products	44,832 (or 34%)	32.5%	14.7%	33,215 (or 33%)	29.7%	14.8%
Total Complaints on services	88,760 (or 66%)	62.4%	30.3%	68,842 (or 67%)	58.0%	23.9%
Total Complaints	**133,592**	**94.9%**	**45.0%**	**102,057**	**87.7%**	**38.7%**

Esselunga's care for its customers is also evident in its commitment to monitoring the level of satisfaction with its products and services. In 2019, in collaboration with the institute Claes Fornell International (CFI), the annual customer satisfaction survey was once again carried out, and revealed a level of satisfaction similar to that in 2018 and no particular issues.

6.3.2 Labelling, transparency and communication

This commitment to guarantee the quality and safety of products also involves transparent communication to customers of all relevant information, so they can make informed purchasing decisions. Esselunga is fully aware of the influence that its communication strategies can have on customers' food choices and, for this reason, promotes responsible and transparent communication that provides consumers with comprehensive, accurate information to guide and educate them in their buying and consumption choices. As evidence of this continuous commitment, Esselunga has not recorded any cases of violation and/or non-compliance with regulations or voluntary codes relating to marketing activities, such as advertising, promotion and sponsorship.[73]

6.3.3 Dietary education

Esselunga is very attentive to dietary education and the principles of healthy and balanced nutrition. The promotion of a healthy lifestyle takes place mainly through the development of specific sales lines such as Esselunga Equilibrio, Esselunga CheJoy and Esselunga BIO.
In addition to the promotion of these and other products designed to help consumers adopt a more balanced lifestyle, Esselunga has also actively used the media, promotions, shop displays and organised various events and activities for dietary education.

6.3.4 Innovation and sustainable products

Product innovation is the ability to predict the evolution of situations and social context, to decide how to reposition oneself within them, to satisfy the unexpressed needs of the customer and always remain competitive in the market. In a context of evident growing

[72] The system used to classify complaints as "grounded" or "not grounded" has been active since 1 July 2018. Therefore, the Group does not have the relevant figure for 2017. In addition, the breakdown of the data for the first half of 2018 is based on estimates.
[73] GRI Standard 417-2 and 417-3 Total number of incidents of non-compliance with regulations or voluntary codes on marketing, including advertising, promotion and sponsorship.

attention to and demand for more "sustainable" products on the part of customers, both from the point of view of the production process and the intrinsic characteristics of the products, product innovation is one of the tools the Company can use to meet these trends.
Esselunga is constantly engaged in revisiting the recipes for its own-brand products in order to improve and balance their nutritional characteristics. Specifically, some projects are already under development for the review of several Esselunga brand products, including some snacks and bars, working on individual ingredients, suggesting alternatives to and/or variations on what is currently produced and reducing as much as possible the number of ingredients present within each product.
At the same time Esselunga has developed several innovation projects aimed at extending its range of own-brand products to meet all emerging consumer demands. Notable examples of this commitment include:

- Support for customers with specific dietary demands, with a gluten-free line, which went from 21 products in 2018 to 23 in 2019, all certified by the Spiga Barrata brand of the Italian Coeliac Society, which indicates products that are completely safe and suitable to be eaten by people with gluten intolerance or coeliac disease.
- Creation of "lowest price" products in order to offer customers a vast assortment in terms of price proposal on more than 350 items.
- Commitment towards "little ones", for whom a line of 46 Disney brand products has been developed focused on nutritional values, with low fat and sugar content.
- Introduction of a new line of foreign products called "Ricette dal mondo" ("Recipes from the world"), divided into four macro-categories: Middle Eastern, Mexican, Asian and European.

7. Social aspects: the supply chain

7.1 Policy implemented by the organisation

In order to guarantee, on a daily and consistent basis, the quality of its products and services within the various **physical** and **online** sales channels, the Group has implemented and maintained over time a rigorous and responsible management policy for its supply chain. This policy inspired on principles of **integrity, fairness and transparency**, governs and promotes all forms of collaboration and cooperation, aimed and created and redistributing the created economic and social value. Esselunga is aware that responsible management of the supply chain in a strict and responsible manner is: (i) a **strategic advantage** and a **management tool** to timely prevent or mitigate situations that could undermine the Group's reputation; ii) a tool that makes it possible to strengthen **virtuous and loyal collaboration** relationships in the long-term between the various involved players.
In order to increase the awareness and accountability of its approx. **3000 suppliers**[74], in relation to its company policies and decisions and in particular on the critical nature of issues regarding the management of the supply chain, such as: i) **product safety**; ii) **respect for human rights** and **working conditions**; iii) **respect for the environment**; (iv) **transparency towards entities and the community**, Esselunga requires its suppliers to read the OMCM pursuant to Italian Legislative Decree 231/01 and the Code of Ethics and

[74] Please note that the data refers exclusively to suppliers of goods with Italian VAT numbers

Conduct at the time of qualification or renewal. In addition, when awarding contracts and sharing commercial documents, the Group companies require their suppliers to **guarantee that all activities are carried out according to fairness and lawfulness principles and in compliance** with the legislation in force and the provisions set forth in the Model and in the Code of Ethics.
All those who work in the name and on behalf of the Company are therefore required to act with integrity and in a fair and transparent manner to prevent any crime and avoid jeopardising the Company's image and reputation[75].

7.2 Main risks and opportunities[76]

The main risks arising from the supply chain are directly related to the **use of suppliers that are unsuitable in terms of technical, professional and ethical qualifications and of integrity and transparency**, and capable of directly affecting the quality and safety of distributed products, supply continuity and the Group's reputation. The same supplier qualification process represents a risk prevention system. Esselunga assesses the ability of potential suppliers to meet the standards required by the Group in terms of economic and financial strength and capabilities, ethical reliability, compliance with food safety and OHS requirements, and technical and organisational skills.
In 2019, **100% of the suppliers read** the contents of the **Code of Ethics and Conduct and Organisational, Management and Control Model 231/01** at the time they signed the contract. Each framework agreement includes specific clauses on compliance with ethics.[77]
Lastly, at the end of the qualification and contract stipulation process, the Quality Assurance Department performs spot checks and inspections on the supplier, on its own-brand products and the raw materials at its production sites, relying on its own technicians and the support of external bodies.
With a view to continuous improvement, the Sales Department is evaluating possible integration of the procurement process, aimed at the progressive introduction of criteria for the evaluation and monitoring of its suppliers on environmental, social and governance (ESG) factors, such as **environmental sustainability and/or animal welfare, workers' health and safety**, **anti-corruption and ethics** and **security and protection of computer data**[78]. Over the year, all buyers were made aware in specific workshops of environmental sustainability issues so that they could make use of analysis criteria and consequently choose suppliers/products that also take these aspects into account. Given the peculiarity of the operating sector, evaluation criteria linked to social aspects have already been integrated in the selection processes of logistics suppliers (36% of new logistics suppliers have been evaluated according to these criteria).
Moreover, in relation to the supplier's ethics, raw materials and own-brand products, Esselunga also focuses on the issue of combating and preventing fraud. For this reason the Quality Assurance Department has implemented organisational control measures and procedures in order to identify and assess fraud risks, especially food adulteration of raw materials. The continuous improvement of measurement tools and criteria against food counterfeiting, the launch of a project with public authorities for the joint development of

[75] GRI Standard 102-9 Description of the organisation of the supply chain
[76] GRI Standard 102-15 Risks related to the supply chain.
[77] GRI Standard 412-3 Contracts that include human rights clauses.
[78] GRI Standard 414-1 New assessed on social performance

strategies against food fraud in the fish sector and prevention plans against the misappropriation of raw materials used in Esselunga production sites.

7.3 Management approach and KPIs

7.3.1 Responsible supply chain management

The Quality Assurance Department – composed of more than 50 experts including agronomists, vets, technicians and microbiologists – in order to pursue maintenance of the highest quality standards uses three internal laboratories and sets, in addition to constant compliance objectives, aimed at ensuring food safety, and annual goals of a management nature. Moreover, the Department plays an active role in:

- guaranteeing compliance with the **organic production** regulations created at its own sites or externally through tests on product and the supply chain;
- support its suppliers with respect to **labelling** compliance issues;
- promote not only compliance with the stringent requirements on the safety of branded products through **inspection visits** to manufacturers and/or systematic analytical assessments of the product, raw materials and production environment, but also compliance with the quality standards for sensory characteristics. This activity involves the management of hundreds of thousands of analyses.
- carefully perform **product, chemical, microbiological** and labelling **checks** on branded products in the assortment;
- supporting the Sales and Customer Service Departments in managing products in the assortment which, following a compliant or report, turn out to be critical;
- Collaborate with the facilities linked to the **Food Bank** on testing the food safety requirements and principles through audits at their facilities.

In order to pursue continual improvement goals of its supply chain Esselunga promotes:	
	fruitful and long-term collaborations with suppliers through procurement policies that prohibit Dutch auctions.
	the principles of the **short supply chain**, undertaking to reduce the number of companies and steps "from field to table"
	local economy growth by (i) increasingly sourcing Made in Italy products, also supporting the smallest local undertakings, (ii) promoting regional products and production processes
	the **fight against the illegal employment system**, by endorsing the Code of Ethics in the purchase of agricultural and agri-food products as envisaged in the agreement between Federdistribuzione and the Ministry of Agricultural, Food and Forestry Policies and promoting the registration of its suppliers in the Network of Quality Agricultural Work, by setting up an internal work group to implement assessments on the ethics and reputation of agricultural suppliers. The work of the working group focused on analysing and evaluating 270 companies in the fruit and vegetable, tomato by-product and oil sectors in 2019, with the aim of extending controls to the wine sector as well in 2020.
	greater **traceability and transparency** of product information, by obtaining from the Ministry of Agricultural, Food and Forestry Policies **authorisation for the voluntary meat labelling regulation**, the information on which is checked during audits by a certification body.

7.3.2 Support and collaboration with local suppliers

Esselunga has always paid particular attention to promoting traditional local products and choosing local suppliers that guarantee greater freshness and better prices thanks to increasingly shorter supply chains. This care for local areas is also evidenced by Esselunga's approach to producing its own-brand products; in 2019, 80% of them were produced entirely in Italy.

The company is committed in various ways to promoting local products at its sales points. First off the bat, the company increases every year the amount of PDO, PGI and DOCG products on its shelves, in the knowledge that they not only strengthen bonds with local areas but are synonymous with quality, safety and production excellence. In 2019 more than 2,000 products certified excellent under DOP, IGP, DOCG, DOC and IGT went on sale in Esselunga's shops.

Moreover, in 2019 the initiative was repeated in collaboration with the inter-professional organisation Ortofrutta Italia, with the sponsorship of the Ministry of Agricultural, Food and Forestry Policies, to promote Italian fruit and vegetables (quality and seasonality). The project aims to highlight the most important seasonal products (clementines, radicchio, grapes, peaches, nectarines, melons, cherries, tomatoes, kiwis and oranges) through ad hoc signs and special promotions in shops. Also in 2019, in the gastronomy department, intense collaborations were established with various consortia, with the aim of increasing the culture and knowledge of local products of excellence in shops and on the online channel.

7.3.3 Animal welfare

Esselunga is committed to consolidating and developing, together with its suppliers, an innovative approach to farm management, based on respect for animal welfare, in order to meet consumers' needs both in terms of ethics and quality and safety of products on sale. For example, as far as branded products are concerned, Esselunga has specified in the technical specifications that it requires its suppliers to sign that they are obliged to keep all breeding sites in optimal conditions of cleanliness and maintenance, so as to ensure production hygiene and animal welfare. The same suppliers are called on to carry out inspections at the slaughterhouses involved in the production process, to check full compliance with existing regulations and ensure the ideal level of production hygiene (health treatments, animal welfare, etc.).

But Esselunga's commitment goes beyond that, and takes the form of specific initiatives in each sector:

Meat	▪ Adoption by the Group of the standard of the Italian National Animal Welfare Reference Centre (CReNBA) regarding Naturama beef from calves, bullocks and heifers bred in Italy. ▪ Removal of fresh eggs from caged hens from the range and exclusive use of Italian barn eggs, without use of antibiotics, for all products prepared in Esselunga's own factories: fresh pastas, bakery products and pastries, delicatessens; ▪ Antibiotics are not used when breeding Naturama chicken; ▪ Introduction in 2018 of the Naturama pork line, bred under strict rules of animal welfare and using antibiotics responsibly. ▪ Removal of foie gras produced by force-feeding geese.
Fish	▪ For Esselunga Naturama brand rainbow trout and brook trout supplied by ASTRO (Associazione Troticoltori Trentini), a collaboration has been going on for many years to monitor the quality of water coming in and out of the fish farm to check the low environmental impact of rearing them. ▪ For tuna, any fish from vessels reported for illegal fishing is banned. Transhipments at sea are allowed only if accepted and authorised by the RFMO (Regional Fisheries Management Organisations). It is also certified by Friends of the Sea, an NGO that certifies the product following inspections to check the raw material sustainability under all respects; ▪ The sustainable fish brand was introduced in order to bring consumers' attention to the seafood product line (fresh and preserved, fished and farmed) that adopts the strictest eco-sustainable rules.

8. Social aspects: commitment to the community

Esselunga has always supported the communities in the areas it works in, through **cash donations** (direct contributions), **fund-raising** and education for its customers (indirect contributions), and **food donations** thanks in part to the charitable work of its suppliers (contribution of goods)[79]. The many activities Esselunga does for the community allow it to strengthen its bond with local areas and restore the trust customers place in it.
In 2019, the main charitable initiatives focused on three macro-objectives:

1. Generating a positive contribution on the ground, redistributing food surpluses and promoting inclusion and support for the most vulnerable groups in society.
2. Promoting the culture and education of the younger generations.
3. Supporting scientific research and charitable projects.

As far as indirect contributions are concerned, on the other hand, over the year Esselunga organised numerous fundraising activities, promoting, with the help of its customers, various initiatives in the above three areas of intervention.

A key example of Esselunga's work: collaboration with Banco Alimentare

Esselunga has been collaborating with the Food Bank since 2005 to donate surplus food from the supermarkets to those in need. Products close to their expiration date, but still perfectly suitable for eating are donated to people and families in need through charity associations and organisations in Italy who have an agreement with the Food Bank.

In 2019 Esselunga and its suppliers donated goods for meals (more than 1,500 tonnes) worth more than €3 million.

[79] GRI Standard 413-1 Operations with local community engagement.

9. Environment

9.1 Policy implemented by the organisation

Esselunga is a complex organisation that integrates production and distribution of goods. Like any other production company, it identifies the environmental impact of its activities. In awareness of this, the Company wants to be a part of the solution to the environmental problems affecting the world, investing resources in improving its performance, always keeping the customer and the quality of the products it distributes at the centre of everything. In order to define effective action strategies, Esselunga has defined three main pillars of intervention that form the basis of its environmental policy: climate, waste and plastic or, more generally, packaging.
For its Integrated Management System "**Occupational Health and Safety and the Environment**"[80], and in line with its Sustainability Policy, Esselunga regularly updates its environmental policy, which commits the Group to:

- Reducing waste, both food and non-food, and the environmental impact of business activities both locally and globally.
- Measuring the impact of products and services throughout their entire life cycle to improve material recovery and recycling by promoting eco-design and the circular economy.
- Promoting the use of sustainable technologies to reduce the risks associated with climate change, improving the energy efficiency of installations and using renewable energy.
- Adopting the best standards of sustainability and building recovery logic when designing, constructing and managing shops, factories, distribution centres and offices.

Our commitment to environmental issues is reflected in the **centralised strategic guidelines** we have adopted **for efficiency and energy saving** at production and logistics centres and in shops. These strategic guidelines regulate the work of the technical departments in the following areas: (i) design, installation, use and management of the technological systems in shops and distribution centres; (ii) management of contracts for the supply of electricity, natural gas, district heating and water for buildings.

9.2 Main risks and opportunities[81]

The main risks arising from business operations are potentially of two types: first, the **compliance risk** linked to the evolution and/or complexity of the legislation, including local laws and regulations; second, the **risk of pollution** essentially linked to external events and causes (e.g. catastrophic events), which could **compromise in a very limited way some environmental areas** such as air, soil and water. Both risks, although modest, may have sanctioning and reputational effects that should not be underestimated. Its entire business management model and legal obligations lead the Group to ensure: periodic risk assessments; constant monitoring of the regulatory environment; the design and preparation of measurement, protection and collection systems in accordance with the law; verification and control activities that are carried out by internal bodies, certifying entities and competent authorities, both periodic and one-off; the implementation of planned and multi-year

[80] UNI EN 14001:2015 certification for all Esselunga sites, with no exceptions.
[81] GRI Standard 102 -15 Risks related to the environment

maintenance plans. In terms of environmental opportunities, it is important to point out that for about twenty years Esselunga has been engaged in the acquisition of abandoned areas and in the design and implementation of remediation, recovery and redevelopment projects to turn those areas into **production plants, shops and green area**s.

9.3 Management approach and KPIs

Careful and constant monitoring of environmental issues is guaranteed by an ad hoc management model that includes:

- The **HSE office** which, based on an integrated approach, is responsible for the definition and maintenance of the Environmental Management System (EMS) of Group companies and for the management and control of waste, discharges and emissions;
- The **Technical Department** which, through its two functions in the construction and plant engineering sectors and on the basis of Group and corporate environmental policies, centrally defines strategic guidelines, initiatives and operating methods in the following areas: (i) energy efficiency and management of renewable sources; (ii) reduction in consumption; (iv) plant engineering initiatives.

9.3.1 Climate change

Over time, Esselunga has developed technical skills in control and direct management of environmental aspects and related impact. In this ambit, in 2016 Esselunga S.p.A. obtained EMS certification in accordance with UNI EN ISO 14001:2015, which it extended to all the companies of the group the following year, and which encouraged the development of synergistic improvement policies; the Company is currently implementing an Energy Management System in compliance with UNI CEI EN ISO 50001:2018.
Alongside this purely technical process management, for some years now Esselunga has been systematically analysing the environmental impact of brand products by considering their entire production cycle, from raw materials to the shop (and in some cases to use and storage at home). This second level of analysis has made it possible to get an all-round view of the Group's impacts, which is a prerequisite for defining medium-term improvement strategies.
Against this backdrop of improvement, monitoring energy consumption is a key part of the management system. It enables the Group to reach goals for reducing its impact and consequently increasing the energy efficiency of its shops and logistics centres. Total energy consumption[82] from renewable and non-renewable sources in 2019 was about 3.3 million GJ, an increase of 21,000 GJ compared to the previous year, due to new openings.[83]

[82] GRI Standard 302-1 and GRI Standard 302-2 Direct and indirect energy consumption. Following a refinement of the data collection processes, data on direct energy consumption from non-renewable sources in 2017 and 2018 were restated. For previously published historical data, please refer to the NFR for 2018.
[83] Two shops were opened in December 2018, which had a greater energy impact in 2019 and two shops were opened in 2019.

Total energy consumption in GJ	2019[84]		2018[85]		2017	
	Direct[86]	Indirect[87]	Direct	Indirect	Direct	Indirect
From renewable sources	16,795.98	-	15,764.62	-	14,824.57	165,377.52
From non-renewable sources	871,807.32	2,412,888.43	888,740.99	2,375,565.68	876,363.05	2,178,601.55
Total energy consumption	**3,301,491.73**		**3,280,071.28**		**3,235,166.69**	

In keeping with previous years, the initiatives adopted in shops aimed at reducing energy consumption are:

Shops involved	Sites involved in 2019		Sites involved in 2018[88]		Sites involved in 2017
	Total sites	New sites	Total sites	New sites	Total sites
Automatic lighting	116 shops	3	113 stores	3	110 stores
Dimming of lights	69 shops	3	66 shops	1	65 stores
LED relighting	62 shops	5	57 shops	6	35 stores
Photovoltaic systems	35 stores	4	31 shops	-	31 shops
Closing fresh vertical counters	4 shops	4			
Car park extractor check[89]	42 shops	7			

Structural initiatives and provisions led in 2019 alone to energy savings of **32,233 MWh**[90], equalling **savings of 13,501 tCO_{2e}/year.**[91]

The Group's **energy consumption and activities** involve direct and indirect atmospheric CO_{2e} which in the two year period 2017–2019 were:

Atmospheric emissions 92	2019	2018	2017
Direct CO_{2e} emissions (Scope 1)	48,786.95 tCO2e	46,174.13 tCO2e	45,215.00 tCO2e
Indirect CO_{2e} emissions (Scope 2)	211,758.60 tCO2e	211,562.04 tCO2e	200,534.65 tCO2e

Esselunga is also aware of the environmental impact linked to the **distribution chain** (indirect emissions scope 3), especially that originating from polluting emissions, induced traffic and road congestion related to the transport of goods. For this reason Esselunga's logistics pursues a strategy of: i) **optimisation of loading compartment** and **vehicle routes**; (ii) use of a fleet composed of 38% Euro 5 vehicles, 48% Euro 6 vehicles and 14% LNG vehicles (in 2018 LNG vehicles were 8% of the fleet) and the introduction of a hybrid vehicle, in the test phase, for delivery services in the centre of Milan[93]; iii) rationalisation of the **waste collection system**, that helps avoid approx. 300 return journeys a day **from stores to distribution centres** with savings of around 32,000 litres of diesel fuel and 84,000 kilometres

[84] The values are partly estimated as at the date of publication of this NFR as not all bills/invoices for the year 2019 are available yet.
[85] The energy consumption values differ from what was stated in the previous NFR, where they were partly estimated. The values shown are the actual consumption in 2018.
[86] From the direct consumption of fuels (e.g. natural gas, diesel oil, owned vehicles).
[87] Derived from the consumption of electricity and, where present, district heating supplied by third parties.
[88] Following a refinement of the data collection processes and a broadening of the reporting boundary, the data relating to sites involved in initiatives to reduce consumption in 2018 were restated. For previously published historical data, please refer to the NFR for 2018.
[89] Car park extractors ventilate and extract petrol and carbon dioxide fumes.
[90] GRI Standard 302-4 Reduction of energy consumption resulting from specific activities and initiatives at the offices and sites. These nine initiatives alone contributed 3,034 MWh.
[91] GRI Standard 305-5 Reduction of emissions as a direct consequence of specific activities and initiatives. This also includes figures for photovoltaic, solar thermal and cogeneration plants. These 9 initiatives alone contributed for 963 tCO2e/year.
[92] GRI Standard 305-1 Direct GHG emissions (Scope 1); GRI Standard 305-2 Energy indirect GHG emissions (Scope 2). Following a refinement of data collection processes and reporting methods, data on direct and indirect atmospheric emissions were restated. For previously published historical data, please refer to the NFR for 2018.
[93] The fleet includes both Esselunga vehicles and vehicles used by all of the Group's direct contracts.

a year, or approximately **85 tCO_{2e} saved.** In addition, for home delivery via the online channel, the means used are all Euro 6, and in 2019 two hybrid means were introduced.
The Group also implemented a reporting flow aimed at improvement and collection of data related to emissions from journeys made to transport goods. Specifically, the estimate of emissions from on-road journeys of vehicles (refrigerated and not) totalled about 23,162 **tCO2e**

9.3.2 Packaging and material consumption

By marketing large quantities of products on a daily basis, Esselunga moves (and partly uses) many different types and materials of packaging. In this context, the Group has also activated a number of operational tools that will best guide its designers and buyers and integrate the search for increasingly sustainable packaging into its approach to managing environmental impacts.
In 2019 the Group consumed **33,996.37 tonnes of materials**[94] in order to package and advertise its products, about **1,200 tonnes more than in 2018.** This result is due to an increase in paper, cardboard and bioplastic materials and a decrease in plastic materials:

- **reduction in plastic material**: 1% (88.6 t) less than in 2018;
- **increase in paper/cardboard material:** +2% (+57 t) more than in 2018;
- increase in bioplastics: 6% (+22 t) more than in 2018;

Packaging Materials[95]	2019			2018			2017		
	Recyclable	Not recyclable	Compostible	Recyclable	Not recyclable	Compostible	Recyclable	Not recyclable	Compostible
Plastic	3,039.00	5,703.43	-	3,282.00	5,549.00	-	5,709.93	3,593.30	-
Paper and cardboard	3,637.39	-	-	3,580.00	-	-	2,654.31	-	-
Laminated paper	145.00	211.00	-	-	277.47	-	-	398.73	-
Aluminium	164.00	-	-	167.27	-	-	157	-	-
Bioplastics	-	-	348.40	-	-	326.00	-	-	342.75
Adhesive thermal labels	-	830.00	27.15	-	663.17	37.00	-	447.92	13.98
Total	**6,985.39**	**6,744.43**	**375.55**	**7,029.27**	**6,489.64**	**363.00**	**8,521.24**	**4,439.95**	**356.73**

In 2018, in order to increase the percentage of recyclable material to 100% by reducing to a minimum mixed material that is hard to dispose of and reuse, Esselunga started a series of analyses and studies aimed at implementing in 2019:

- types of packaging materials for organic fruit and vegetables which are at the same time more environmental friendly and also comparable to conventional ones in the production and sales phases;
- transformation of packaging for take-away food from virgin plastic to 50% recycled plastic.

Already this year Esselunga has reached the following goals for this purpose:

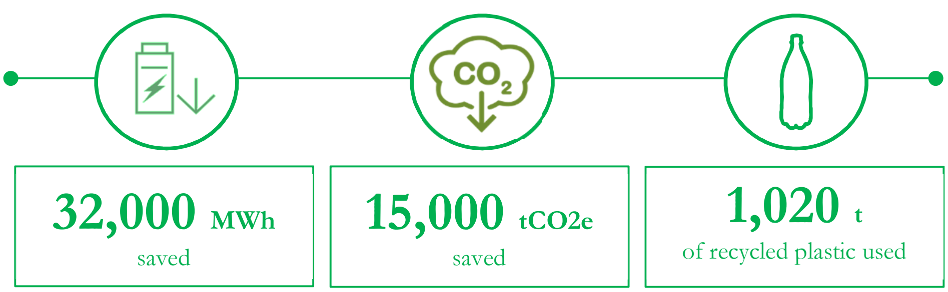
[94] GRI Standard 301-1 Materials used/consumed to produce and package the Company's main products, by weight or volume.
[95] The values refer only to the quantity of packaging used to store brand products as that is the only packaging the Group is able to monitor. The recyclability has been defined according to the criteria used by CONAI for the reference years, so, over time, some materials may change from non-recyclable to recyclable.

- **reduction of non-recyclable plastic material:** 32% (66.5 t) less than in 2018;
- **introduction of ATICELCA-certified recyclable laminated paper:** (+145 t) compared to 2018;
- **introduction of rPET recycled plastic material:** +1,020 t more than in 2018.

The consumption of paper used for publishing leaflets and catalogues is currently 100% PEFC. New promotional initiatives or new activities using paper as material will alway employ PEFC- or FSC-certified materials.[96]

Graphic materials	2019		2018		2017	
	Recyclable	Not recyclable	Recyclable	Not recyclable	Recyclable	Not recyclable
Plastic	5.00	53.00	13.07	0.14	-	-
Paper and cardboard	19,805.00	11.00	6,469.93	61.02	23,569.16[97]	-
Recycled Paper	-	-	12,379.45	-	-	-
Adhesive labels	-	17.00	-	2.70	-	-
Total	**19,810.00**	**81.00**	**18,862.45**	**63.86**	**23,569.16**	**-**

Esselunga pursues its strategy of **reusing pallets** in the logistics sector with the "**CHEP pooling**" system and also activated "LPR pooling" in 2019. This solution is fully sustainable as, in addition to reusing the product, the pallets are made of wood from controlled forests and is both FSC and PEFC certified. On average, approximately 1.2 million CHEP pallets are used every year, which, compared to the use of traditional pallets, involves a reduction of approx.: i) 50% of CO_{2e} emissions; ii) 80% of waste production. The initiative in 2019 therefore brought **savings** of 2,144 m^3 of wood and **1,676 tCO2e**, and eliminated 231 tonnes of waste[98].



9.3.3 Waste and waste management

Esselunga, in its dual role as producer and distributor, has decided to make waste reduction one of its strategic priorities. When acting as a producer, its attention is focused on careful planning of industrial processes, as well as the maximum exploitation of all ingredients and raw materials used in food preparation. When operating in its role as a warehouse and distributor, its main action is to reduce unsold goods as much as possible by adequately planning orders, including through an automatic reordering system, and donating surpluses

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[96] Programme for the Endorsement of Forest Certification (PEFC) scheme and Forest Stewardship Council (FSC).
[97] Following a change in the data collection process the quantity of material used for graphic material in 2017 was grouped under a single item.
[98] GRI Standard 302-2 Indirect energy consumption.

to the less well-off in time to prevent them from expiring and ensure they comply with the strict regulations governing these activities.

The production of waste and the use of water for the Group's activities are topics of great importance and as such they are monitored, and, where possible, contained within specific limits. The Group's estimated water consumption in 2019 was **7,459,986.89 m^3** (+5% more than in 2018). 40% was drawn from **public water services** and 60% from **groundwater** (wells[99].

To treat waste Esselunga uses specific, authorised plants that manage recovery or disposal. The following table shows the **quantities of waste produced and delivered to these plants** broken down by type[100]:

Hazardous waste - tonnes (shops, distribution centres, offices)	Recycled/ Disposed	2019[101]	2018[102]	2017
Electronic equipment	R13	34.38	24.44	98.60
Non-edible oils	R13	6.72	14.01	10.75
Detergents	D15, R13	8.05	19.97	17.52
Other (batteries, lamps and neon, packaging, antifreeze liquid, insulating materials, etc.)		60.25	39.05	31.25
Total hazardous waste		**109.40**	**97.47**	**158.12**
Non-hazardous waste - Tonnes (shops, distribution centres, offices)				
Paper and cardboard including packaging	R13, R3	67,350.89	64,498.99	62,966.59
Wood	R2, R3, R12. R13, D13	17,240.93	15,863.30	15,683.54
Packaging	R13, D13	117.15	110.08	9,480.86
Plastic	R13, R3	4,420.90	3,976.69	4,042.12
Other (including glass, polystyrene, sludge, edible oils, toner, etc.)		15,772.22	14,103.81	6,985.22
Total non-hazardous waste		**104,902.09**	**98,552.87**	**99,158.33**

[99] GRI Standard 303-1 Water used at offices and sites.
[100] GRI Standard 306-2 Waste produced internally, by type and method of disposal. The type of disposal or recycling is communicated by Esselunga to the relative suppliers based on codes defined in Italian Legislative Decree 152/06. In particular, R2: *regeneration/recovery of solvents*; R3: *Recycling/recovery of organic substances not used as solvents. R12: waste exchange for subsequent treatment according to the operations indicated in R1 to R11. R13: waste storage for subsequent treatment according to the operations indicated in R1 to R12 (excluding temporary storage, before collection, at the place it was produced). D13: Preliminary grouping before one of the operations indicated in D1 to D12.*
[101] The quantities given are subject to changes, as they will be updated after the fourth copy of the forms is returned, and made official following the MUD2020 Declaration in April 2020.
[102] The values differ from those in the previous Non-Financial Report in that they are in line with the official values of the MUD2019 Declaration.

GRI content index[103]

GRI Standard	Description	Reference in the text	Disclosure
	General Standards		
102	**General Disclosures**		
	Organisational Profile		
102-1	Name of the organisation	MANAGEMENT REPORT	
102-2	Major brands, products or services (programmes for compliance with laws and voluntary codes related to marketing activities)	MANAGEMENT REPORT	
102-3	Location of headquarters	MANAGEMENT REPORT	
102-4	Location of operating headquarters	-	Italy
102-5	Ownership and legal form	-	The Esselunga Group is 100% controlled by Supermarkets Italiani; the Parent Company is not subject to management and coordination.
102-6	Markets served	MANAGEMENT REPORT	
102-7	Scale of the organisation	MANAGEMENT REPORT	
102-8	Employees by type of contract, gender, geographical area, classification	5.3.1 Staff composition	
102-9	Description of the organisation's supply chain	7.1 Policy implemented by the organisation	
102-10	Significant changes to the organisation and its supply chain	MANAGEMENT REPORT	
102-11	Methods of application of the precautionary principle or approach	2.5 Management and Control Systems and key risks	
102-12	Adoption of external codes and principles in the economic, social and environmental fields	2.4.1 CSR policies 3.2 Main risks and opportunities	
102-13	Membership of associations	-	Unlike other Italian retail groups, Esselunga has no central purchasing units. The Group holds governance positions only in FederDistribuzione. Esselunga is a member of EuroCommerce, Assocarni and the Consumer Good Forum.
	Strategy		
102-14	Statement by the Chairman	MANAGEMENT REPORT	
102-15	Key impacts, risks, and opportunities	2.5 Management and Control Systems and key risks 3.2 Main risks and opportunities 4.2 Main risks and opportunities 5.2 Main risks and opportunities 6.2 Main risks and opportunities 7.2 Main risks and opportunities 9.2 Main risks and opportunities	
	Ethics and integrity		

[103] GRI Standard 102-46 GRI Content Index

GRI Standard	Description	Reference in the text	Disclosure
102-16	Values, principles, standards and rules of conduct	3.1 Policy implemented by the organization	
	Governance		
102-18	Governance structure	MANAGEMENT REPORT	
	Stakeholder engagement		
102-40	List of stakeholders involved	2.2 Stakeholders: identification and involvement	
102-41	Employees covered by collective bargaining agreements	5.3.6 Industrial relations and operational changes	
102-42	Process of identifying and selecting stakeholders to be involved	2.2 Stakeholders: identification and involvement	
102-43	Approach to stakeholder engagement	2.2 Stakeholders: identification and involvement	
102-44	Key aspects and critical issues arising from stakeholder involvement and related actions	2.3 Materiality assessment	
	Reporting practice		
102-45	List of entities included in the consolidated financial statements and entities not included in the Sustainability Report	MANAGEMENT REPORT	
102-46	Process of defining content	1. Methodological note	
102-47	Material topics identified	2.3 Materiality assessment	
102-48	Explanation of the effects of changes in information included in previous financial statements and the reasons for them	-	No significant changes have been reported compared to the financial statements published in 2018.
102-49	Significant changes from the previous financial statements	-	
102-50	Reporting period	1. Methodological note	
102-51	Date of publication of previous report	1. Methodological note	
102-52	Reporting cycle	1. Methodological note	
102-53	Contacts and addresses for budget information	-	Esselunga S.p.A. Via Giambologna, 1 - 20096 Limito di Pioltello (Milan) Tel. 02.92931 - Fax 02.9267202
102-54	GRI content index and choice of "In accordance" option	1. Methodological note	
102-55	GRI content index	GRI content index	
102-56	External certification	LETTER FROM THE INDEPENDENT AUDITORS	
200	**Economic**		
201	**2016 Economic Performance**		
103	Management approach	MANAGEMENT REPORT	
201-1	Direct economic value generated and distributed	MANAGEMENT REPORT	
204	**2016 Procurement Practices**		
103	Management approach	7. Social aspects: the supply chain	
204-1	Proportion of spending on local suppliers	7.3.2. “Support of and collaboration with local suppliers”	
205	**2016 Anti-corruption**		
103	Management approach	3. Fight against corruption	
205-1	Operations assessed for risks related to corruption	3.1 Policy implemented by the organization	
205-2	Employees trained on the Group's anti-corruption policies and procedures (e.g. Organisational Model 231; Code of Ethics, etc.)	3.3 Management procedures and KPI	
205-3	Actions taken in response to cases of corruption	3.3 Management procedures and KPI	

GRI Standard	Description	Reference in the text	Disclosure
206	**2016 Anti-competitive behaviour**		
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices		Esselunga operates in accordance with the highest ethical principles of transparency, fairness and loyalty, in full compliance with applicable laws and centring its efforts on forging a relationship of trust with its customers. In this regard, it should be noted that the Company is involved in a dispute concerning unfair competition, which is still pending on appeal as a result of the appeal against a ruling by the AGCM against Esselunga (and other companies in the large-scale retail trade) concerning the illegality of the contractual clause requiring suppliers of fresh bread to take back and dispose of the unsold product at their own expense (the so-called return obligation). It is worth pointing out that the above litigation, as far as the type of violations and number of violations are concerned, is not relevant.
300	**Environment**		
301	**2016 Materials**		
103	Management approach	9. Environment	
301-1	Raw materials used by weight or volume	9.3.2 Material packaging and consumption	
302	**2016 Energy**		
103	Management approach	9. Environment	
302-1	Energy consumption within the organisation	9.3.1 Climate change	
302-2	Energy consumption outside of the organisation	9.3.1 Climate change	
302-4	Reduction of energy consumption resulting from specific activities and initiatives at offices and sites	9.3.1 Climate change	
303	**2016 Water**		
103	Management approach	9. Environment	
303-1	Source-based water withdrawals	9.3.3 Waste and waste management	
305	**2016 Emissions**		
103	Management approach	9. Environment	
305-1	Scope 1 emissions	9.3.1 Climate change	
305-2	Scope 2 emissions	9.3.1 Climate change	
305-5	Reduction of emissions as a direct consequence of specific activities and initiatives	9.3.1 Climate change	
305-6	Emission of ozone-depleting substances (ODSs)	9.3.1 Climate change	
305-7	Nitrogen oxide (NOx), sulphur oxide (SOx) and other significant emissions into the atmosphere	9.3.1 Climate change	
306	**2016 Effluents and Waste**		
103	Management approach	9. Environment	
306-2	Waste by type and disposal method	9.3.3 Waste and waste management	
307	**2016 Environmental Compliance**		
103	Management approach	9. Environment	
307-1	Penalties for non-compliance with environmental laws and regulations	-	In 2019 Esselunga received no significant environmental sanctions
400	**Social Performance**		
401	**2016 Employment**		
103	Management approach	5. The Esselunga Group's people	

GRI Standard	Description	Reference in the text	Disclosure
401-1	Total number and percentage of new employee hires and employee turnover, by age, gender and region	5.3.2 Employer branding and talent retention	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by main activities	5.3.4 Corporate welfare and work-life balance	
401-3	Parental leave	5.3.4 Corporate welfare and work-life balance	
402	**2016 Labour Relations Management**		
103	Management approach	5. The Esselunga Group's people	
402-1	Minimum notice period regarding operational changes (organisational changes) indicating whether or not these conditions are included in the collective bargaining agreement	5.3.6 Industrial relations and operational changes	
403	**2018 Health and Safety at Work**		
103	Management approach	5. The Esselunga Group's people	
403-1	Occupational health and safety management system	5.3.7 Health and Safety at Work	
403-2	Hazard identification, risk assessment and incident investigation	5.3.7 Health and Safety at Work	
403-3	Occupational health services	5.3.4 Corporate welfare and work-life balance	
403-4	Worker participation, consultation, and communication on occupational health and safety	5.3.7 Health and Safety at Work	
403-5	Worker training on occupational health and safety	5.3.3 Training and development of people	
403-6	Promotion of worker health	5.3.7 Health and Safety at Work	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	5.3.7 Health and Safety at Work	
403-8	Workers covered by an occupational health and safety management system	5.3.7 Health and Safety at Work	
403-9	Work-related injuries	5.3.7 Health and Safety at Work	
403-10	Work-related illnesses	5.3.7 Health and Safety at Work	
404	**2016 Training and Education**		
103	Management approach	5. The Esselunga Group's people	
404-1	Average annual training hours per employee	5.3.3 Training and development of people	
404-3	Percentage of employees receiving regular reports on performance and career development, by gender and employee category	5.3.3 Training and development of people	
405	**2016 Diversity and Equal Opportunity**		
103	Management approach	5. The Esselunga Group's people	
405-1	Composition of governance bodies and breakdown of staff by employee categories, gender, age, membership of protected categories and other diversity indicators	5.3.5 Diversity and inclusion	
406	**2016 Non-discrimination**		
103	Management approach	4. Respect for human rights	
406-1	Incidents of discrimination and actions taken	4.3 Management procedures and KPI	
407	**2016 Freedom of Association and Collective Bargaining**		
103	Management approach	4. Respect for human rights	

GRI Standard	Description	Reference in the text	Disclosure
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	4.3 Management procedures and KPI	
408	**2016 Child Labour**		
103	Management approach	4. Respect for human rights	
408-1	Operations and suppliers that could pose a risk for incidents of child labour accidents	4.3 Management procedures and KPI	
409	**2016 Forced or Compulsory Labour**		
103	Management approach	4. Respect for human rights	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	4.2 Main risks and opportunities	
410	**2016 Safety Practices**		
103	Management approach	4. Respect for human rights	
410-1	Security personnel trained in human rights policies or procedures	4.3 Management procedures and KPI	
412	**2016 Human Rights**		
103	Management approach	4. Respect for human rights	
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	7.2 Main risks and opportunities	
413	**2016 Local Communities**		
103	Management approach	8. Social aspects: commitment to the community	
413-1	Operations with local community engagement	8. Social aspects: commitment to the community	
414	**2016 Supplier Social Assessment**		
103	Management approach	4. Respect for human rights 7. Social aspects: the supply chain	
414-1	New suppliers that were screened using social criteria	7.2 Main risks and opportunities	
415	**2016 Public Policies**		
415-1	Political contributions	-	The Group did not make any political contribution in the reporting year.
416	**2016 Consumer Health and Safety**		
103	Management approach	6. Social aspects: customer care	
416-1	Percentage of product and service categories for which health and safety impacts are assessed	6.3.1 Product quality and safety	
417	**2016 Product and Service Labelling**		
103	Management approach	6. Social aspects: customer care	
417-2	Incidents of non-compliance concerning product and service information in labelling	6.3.2 Labelling, transparency and communication	
417-3	Incidents of non-compliance concerning product and service information in marketing communications	6.3.2 Labelling, transparency and communication	
418	**2016 Consumer Privacy**		
103	Management approach	6. Social aspects: customer care	
418-1	Complaints concerning breaches of customer privacy and losses of customer data	6.2 Main risks and opportunities	
419	**2016 Socio-economic Compliance**		
103	Management approach	6. Social aspects: customer care	

GRI Standard	Description	Reference in the text	Disclosure
419-1	Significant monetary and non-monetary sanctions for non-compliance with laws and regulations in the social and economic area	6.3.1 Product quality and safety	

Independent auditors' letter

pwc

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

To the Board of Directors of Esselunga SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Esselunga SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2019 prepared in accordance with article 4 of the Decree, presented in the specific section of the report on operations and approved by the Board of Directors on 22 May 2020 (hereafter the "NFS").

Responsibility of Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 (hereafter the "GRI Standards") identified by them as the reporting standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

Moreover, the Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Finally, the Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20145 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in *the Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with "*International Standard on Assurance Engagements ISAE 3000* (Revised) – *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised ("*reasonable assurance engagement*") and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. understanding of the following matters:
   - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
   - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
   - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

   With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;
4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of Esselunga SpA and we performed limited analysis of documentary evidence, to gather information about the processes and procedures

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Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in *the Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

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The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. understanding of the following matters:
   - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
   - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
   - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

   With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;
4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of Esselunga SpA and we performed limited analysis of documentary evidence, to gather information about the processes and procedures

for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at holding level,
  a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the following companies, Esselunga SpA, Atlantic Srl, EsserBella SpA, which were selected on the basis of their activities and their contribution to the performance indicators at a consolidated level, we carried out visits during which we met management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Esselunga Group as of 31 December 2019 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Milano, 11 June 2020

PricewaterhouseCoopers SpA

Signed by	*Signed by*
Andrea Rizzardi (Partner)	Paolo Bersani (Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the NFS 2019 translation.

Outlook and significant events after the end of the financial year

Acquisition of six business units from Margherita Distribuzione

In December 2019, Esselunga S.p.A signed a binding agreement with Margherita Distribuzione for the transfer of six business units, taking over as many points of sale in Lombardy and Emilia Romagna. The closing of the transaction, which is part of Esselunga development strategy, was completed in 2020.

Covid-19

At the reporting date a factor of macroeconomic instability emerged related to the spread of Covid-19, which in the early weeks of 2020 initially affected economic activity in China and subsequently spread to other countries, including Italy from the end of February 2020.

This situation could also have a significant impact on global prospects for future growth, as it affects the general macroeconomic scenario as well as the financial and real estate markets, also in the light of the decisions taken by government authorities to contain the spread of the epidemic.

In Italy, Prime Ministerial Decrees imposed restrictions and measures aimed at containing the Covid-19 epidemic and further steps have been identified to more effectively combat the spread of the virus, mainly through restrictions on people's mobility and social lives.

During the period in which these restrictions were in place, management decided to allocate – on a voluntary basis – the staff of the subsidiaries Atlantic S.r.l. and EsserBella S.p.A. to supporting the parent company Esselunga S.p.A. in carrying out its daily business of selling basic necessities.

At the reporting date, trade-union procedures have been activated with regard to staff of the subsidiary Atlantic S.r.l. that will lead to applications for social support to help deal with the Covid-19 emergency. The Company also intends to apply for social support in relation to the staff of the subsidiary EsserBella S.p.A. to cope with the emergency.

The Company has taken protective measures and readied itself to take additional steps, both to align with the restrictions and to take further precautions to protect its people.

It has also drawn up a plan of special initiatives to contribute to the emergency that the whole country is facing.

Specifically:

- We have set aside donations of €2.5 million for hospitals and other organisations engaged in front-line care of patients and scientific research.
- Aware of the impact that the situation is having on Italy's businesses, to help our suppliers we have strengthened our arrangement with UniCredit to facilitate

payments and therefore alleviate their financial difficulties. UniCredit Factoring will be making €530 million of credit lines available to Esselunga suppliers for advance payment of trade receivables.

- From 7 March and until further notice, Esselunga is waiving delivery fees for all over-65s for both the "Esselunga a Casa" online service and for deliveries from stores to people's homes.
- For the 5.5 million Fìdaty Card holders, a special initiative has been launched to give members of our loyalty programme the chance to help the above-mentioned health and research organisations (and others TBC in the coming weeks), whereby Esselunga will donate €5 for every 500 Fìdaty points used.
- A special welfare payment of €150 per person has set aside for all Esselunga store employees for their exceptional work serving customers in recent weeks, both in shops and in the preparation of online shopping. A deserved bonus for those who have enabled the Group to service its customer community, especially in the worst-hit zones, with dedication, professionalism and sensitivity.
- All office staff have been enabled to work remotely at all times.

These measures were taken to demonstrate our support for the community, ensuring continuity of service for our customers and safeguarding the health and safety of our employees.

At present, management believes that the situation caused by the epidemic does not impact assessments made on the Group's ability to continue as a going concern, considering its financial position and cash flows.

With regard to the impact on costs and expected cash flows, the Company is currently not in a position to reliably determine any repercussions on 2020 results or any implications for subsequent years. Likewise, it is currently not possible to assess the possible effects on growth initiatives and on suppliers or customers resulting from the slowdown in business and the macroeconomic situation due to the international spread of the epidemic.

It should be noted that Esselunga S.p.A.'s Business Continuity Committee has provided the Group's sales outlets and the rest of the organisation with instructions to manage the current emergency, based on the authorities' guidelines.

Acquisition by the Majority Shareholders of 30% of Supermarkets Italiani and determination of the acquisition price

On 11 January 2019, the Majority Shareholders announced that they had exercised the right to purchase the Minority Shareholding.
Over the past year, the Majority Shareholders and the minority shareholders were involved in arbitration proceedings in order to determine the price of the Minority Shareholding.
The Company was informed that on 20 March 2020 the arbitration panel determined - by majority vote - that the overall purchase price of the Minority Shareholding amounted to €1,830 million (the "**Acquisition Price**").
The closing of the Acquisition transaction took place on 23 April 2020.

The Majority Shareholders have announced that a company called "Superit Finco S.p.A." has been formed for the purchase of 30% of Supermarkets Italiani from the minority shareholders.
In addition, the Majority Shareholders have announced that the Acquisition Price will be paid through a combination of (i) capital contribution by the Majority Shareholders for an amount of €535 million and (ii) borrowings from banks through credit lines made available by a group of major Italian and international banks for an amount of €1,325 million.

Specifically,

- the capital contribution by the Majority Shareholders will comprise:
  (i) €100 million in cash to be contributed by the Majority Shareholders, which will also cover the financial costs;
  (ii) €435 million in cash from the sale to a financial investor of a 32.5% stake in the capital of La Villata S.p.A. (respectively, the "**La Villata Shares**" and "**La Villata**"), held by the Majority Shareholders (the remaining 67.5% of La Villata is held directly by Esselunga); and

borrowings from banks will arise from the use of credit lines as follows:
  (i) use of the seven-year maturity *Acquisition facility* for an amount of €775 million (the "**Acquisition Facility**");
  (ii) use of the "bridge" facility with maturity of up to 15 months, for an amount of €550 million (the "**Bridge Facility**" and, together with the Acquisition Facility, the "**Loans**").

The Majority Shareholders have informed Esselunga that, through a reverse merger transaction under the legislation in force (the "Merger"), Esselunga will merge with its parent companies and, consequently, will take on the obligations under the Loans. Esselunga will refund:

- the bridge facility after the Merger (which is expected to take place within 12 months of the Acquisition closing).
- €300 million of debt held by the absorbed entities.

With regard to the sale of La Villata Shares, the shares purchased by the financial investor will be entitled to a cumulative annual preferential dividend and to some governance rights which are usually granted to financial investors. As of the fifth anniversary of the Acquisition date and until 31 December 2027, Esselunga will be able to exercise a call option for the purchase of La Villata Shares.

The Chairman
of the Board of Directors

(Vincenzo Mariconda)

Consolidated statement of financial position[104][105]

(thousands of Euros)	Notes	31/12/2019	31/12/2018 restated
Property, plant and equipment	12.1	4,584,362	4,575,644
Investment property	12.2	157,369	169,087
Goodwill	12.3	6,586	6,586
Intangible assets	12.4	170,918	166,356
Equity investments	12.5	130	130
Other receivables and other non-current financial assets	12.6	52,401	75,165
Non-current assets		**4,971,766**	**4,992,968**
Inventories	12.7	400,984	423,674
Trade receivables	12.8	530,298	480,228
Current tax receivables	12.9	23,334	1,932
Other receivables and other current financial assets	12.10	64,653	32,000
Cash and cash equivalents	12.11	1,139,066	882,278
Current assets		**2,158,335**	**1,820,112**
Assets held for sale	12.12	**16,798**	**-**
ASSETS		**7,146,899**	**6,813,080**
Share capital		100,000	100,000
Share premium reserve		164,510	164,510
Other reserves		35,468	35,468
Retained earnings (accumulated losses)		2,676,627	2,448,606
Equity attributable to owners of the parent	**12.13**	**2,987,574**	**2,748,584**
Non-controlling interests	12.13	330,704	334,061
Total shareholders' Equity	**12.13**	**3,318,278**	**3,082,645**
Non-current financial payables	12.14	1,650,316	1,666,571
Employee severance indemnities (TFR) and other staff-related provisions	12.15	95,609	95,431
Deferred tax liabilities	12.16	31,977	37,658
Provisions for risks and charges	12.17	38,404	37,736
Non-current deferred revenue for prize-giving promotions	12.18	59,667	61,418
Other payables and other non-current liabilities	12.19	3,813	236
Non-current liabilities		**1,879,786**	**1,899,050**
Current financial payables	12.14	59,068	49,310
Trade payables	12.20	1,496,452	1,340,738
Current deferred revenue for prize-giving promotions	12.18	126,776	129,414
Current tax payables	12.21	869	26,425
Other payables and other current liabilities	12.22	265,670	285,498
Current liabilities		**1,948,835**	**1,831,385**
SHAREHOLDERS' EQUITY AND LIABILITIES		**7,146,899**	**6,813,080**

[104] the notes to the individual items are an integral part of these consolidated financial statements.

[105105]the Group applied the IFRS 16 *Leases* beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be recognized in equity. For more details, see Note 4 Accounting standards, amendments and interpretations adopted as of 1 January 2019

Consolidated income statement[106][107]

(thousands of Euros)	Notes	2019	2018 restated
Total sales	13.1	8,141,610	7,913,925
Sales Adjustments		(142,615)	(185,360)
Net revenue		**7,998,995**	**7,728,565**
Net costs for goods and raw materials	13.2	(5,502,107)	(5,355,631)
Other revenue and income	13.3	45,545	44,356
Costs for services	13.4	(755,635)	(678,081)
Personnel costs	13.5	(1,015,273)	(972,127)
Amortisation and depreciation	13.6	(302,600)	(286,959)
Provisions and net property write-downs	13.7	(29,675)	(22,796)
Net write-downs of financial assets	13.8	(556)	7,241
Other operating costs	13.9	(47,476)	(46,911)
Operating profit		**391,218**	**417,657**
Finance income	13.10	2,756	830
Financial expense	13.11	(42,228)	(43,099)
Net financial income (expense)		**(39,472)**	**(42,269)**
Profit (loss) before taxes		**351,746**	**375,388**
Taxes	13.12	(93,210)	(100,121)
Net profit (loss) for the year		**258,536**	**275,267**
Net profit (loss) for the year attributable to owners of the parent		245,643	262,434
Net profit (loss) for the year attributable to non-controlling interests		12,893	12,833

[106]the notes to the individual items are an integral part of these consolidated financial statements.
[107]the Group applied the IFRS 16 *Leases* beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be recognized in equity. For more details, see Note 4 Accounting standards, amendments and interpretations adopted as of 1 January 2019

Statement of comprehensive income[108][109]

(thousands of Euros)	**2019**	**2018 restated**
Net profit (loss) for the year	**258,536**	**275,267**
Components that will subsequently be reclassified to profit or loss		
Cash flow hedge	**994**	**994**
Components that will not subsequently be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit pension plans, net of tax effect	(3,647)	315
Other comprehensive income	**(2,653)**	**1,309**
Net comprehensive income (expense) for the year	**255,883**	**276,576**
Net comprehensive income (expense) for the year attributable to owners of the parent	242,990	263,743
Net comprehensive income (expense) for the year attributable to non-controlling interests	12,893	12,833

[108]the notes to the individual items are an integral part of these consolidated financial statements.
[109]the Group applied the IFRS 16 *Leases* beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be recognized in equity. For more details, see Note 4 Accounting standards, amendments and interpretations adopted as of 1 January 2019

Consolidated cash flow statement[110] [111]

The following consolidated cash flow statement has been prepared in accordance with the provisions of the International Accounting Standard IAS 7 - Cash Flow Statement

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Collections from customers (net of Restaurant tickets and Fidaty Oro receivables)	8,110,142	7,915,931
Other receipts	42,543	49,671
Payments to suppliers (net of collection for promotional activities)	(6,236,604)	(6,175,415)
Payments to employees	(1,016,876)	(960,205)
Rent and rental expenses	(17,875)	(7,571)
Other payments	(45,683)	(47,101)
Cash flow of ordinary operations	**835,647**	**775,310**
Income tax paid	(190,637)	(2,395)
A) CASH FLOW FROM OPERATING ACTIVITIES	**645,010**	**772,915**
Capex on tangible and intangible assets	(289,848)	(307,158)
Disposals of tangible and intangible assets	4,453	19,288
Interest collected	2,471	469
Other	3	(3)
B) CASH FLOW FROM INVESTING ACTIVITIES	**(282,921)**	**(287,404)**
Loans repaid (leases and others)	(53,642)	(52,879)
Payment of interest (leases and others)	(35,634)	(47,150)
Distribution of dividends	(16,025)	(4,000)
C) CASH FLOW FROM FINANCING ACTIVITIES	**(105,301)**	**(104,029)**
NET CASH FLOW OF THE PERIOD (A + B + C)	**256,788**	**381,482**
Cash and cash equivalents at the beginning of the period and current account overdrafts	**882,278**	**500,796**
Cash and cash equivalents at the end of the period and current account overdrafts	**1,139,066**	**882,278**

[110] the notes to the individual items are an integral part of these consolidated financial statements.

[111] the Group applied the IFRS 16 *Leases* beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be recognized in equity. For more details, see Note 4 Accounting standards, amendments and interpretations adopted as of 1 January 2019

Consolidated statement of changes in shareholders' equity[112] [113]

(thousands of Euros)	Share capital	Share premium reserve	Revaluation reserve	Other reserves	Retained earnings (accumulated losses)	**Shareholders' equity attributable to owners of the parent**	Non-controlling interests	**Total shareholders' Equity**
At 31/12/2017	**100,000**	**164,510**	**25,975**	**23,294**	**2,184,808**	**2,498,587**	**321,228**	**2,819,815**
FTA Reserve - IFRS 16 Leases	-			(13,801)	-	**(13,801)**	-	**(13,801)**
At 31/12/2017 restated	**100,000**	**164,510**	**25,975**	**9,493**	**2,184,808**	**2,484,786**	**321,228**	**2,806,014**
Other movements:								
Actuarial loss on defined benefit pension plans	-	-		-	315	**315**	-	**315**
Recognition of the result for the year restated*	-	-		-	262,434	**262,434**	12,833	**275,267**
FTA Reserve - IFRS 15 Revenue	-	-		-	4,055	**4,055**	-	**4,055**
Dividends	-	-		-	(4,000)	**(4,000)**	-	**(4,000)**
Cash flow hedge reserve	-	-		-	994	**994**	-	**994**
At 31/12/2018 restated	**100,000**	**164,510**	**25,975**	**9,493**	**2,448,606**	**2,748,584**	**334,061**	**3,082,645**

(thousands of Euros)	Share capital	Share premium reserve	Revaluation reserve	Other reserves	Retained earnings (accumulated losses)	**Shareholders' equity attributable to owners of the parent**	Non-controlling interests	**Total shareholders' Equity**
At 31/12/2018 restated	**100,000**	**164,510**	**25,975**	**9,493**	**2,448,606**	**2,748,584**	**334,061**	**3,082,645**
Other movements:								
Actuarial loss on defined benefit pension plans	-	-	-	-	(3,647)	**(3,647)**	-	**(3,647)**
Allocation of profit for the year	-	-	-	-	245,643	**245,643**	12,893	**258,536**
FTA Reserve - IFRS 15 Revenue	-	-	-	-	-	**-**	-	**-**
Dividends	-	-	-	-	(4,000)	**(4,000)**	(16,250)	**(20,250)**
Cash flow hedge reserve	-	-	-	-	994	**994**	-	**994**
At 31/12/2019	**100,000**	**164,510**	**25,975**	**9,493**	**2,687,596**	**2,987,574**	**330,704**	**3,318,278**

* The profit for the year restated includes €-898 thousand due to the impact of IFRS 16 Leases

[112] the notes to the individual items are an integral part of these consolidated financial statements.

[113] the Group applied the IFRS 16 *Leases* beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be recognized in equity. For more details, see Note 4 Accounting standards, amendments and interpretations adopted as of 1 January 2019

Notes to the consolidated financial statements as at 31 December 2019

1. General information

Esselunga S.p.A (hereinafter the "**Company**" or the "**Parent Company**") and, together with its subsidiaries the **Esselunga Group**, (hereinafter also the "**Group**" or "**Esselunga**") is mainly engaged in the food sector of Large-Scale Retailing in Italy through a sales network comprising, at 31 December 2019, 159 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio, and the first *laESSE* store in Corso Italia, Milan. In addition, in the main shops the Esselunga Group manages 95 Atlantic bars and 40 selected perfume shops under the EsserBella brand and is also engaged in the real estate sector through the research, design and implementation of new projects that are instrumental to its business activity. In addition to Esselunga S.p.A., the Group comprises the following main companies: La Villata S.p.A. Immobiliare di Investimento e Sviluppo, Orofin S.p.A., which is in charge of the majority of the real estate development projects, Atlantic S.r.l., Fìdaty S.p.A. and EsserBella S.p.A.

2. Summary of adopted accounting policies

The main accounting principles adopted in the preparation and drafting of the group's consolidated financial statements are presented below.

2.1 Basis of preparation

European Regulation (EU) no. 1606/2002 of 19 July 2002 introduced the obligation, from the year 2005, to apply International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and adopted by the European Union ("EU IFRS") for the preparation of the consolidated financial statements of companies listed on regulated European markets. Following the above-mentioned European Regulation, Legislative Decree No. 38 was enacted on 28 February 2005 which governs, inter alia, the option to apply IFRS for the preparation of the consolidated financial statements of non-listed companies.
Esselunga S.p.A decided to apply this option for the preparation of the consolidated financial statements for the year ended 31 December 2009. As a result the transition date to IFRS was identified as 1 January 2008.
These consolidated financial statements were prepared in accordance with the EU IFRS in force at the date of approval of the financial statements. EU IFRS include all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), all the interpretations of the "International Financial Reporting Interpretations Committee" (IFRIC), previously referred to as "Standing Interpretations Committee" (SIC), as approved and adopted by the European Union.
Furthermore, EU IFRS were applied in a consistent manner to all of the periods presented in this document. The financial statements were prepared on the basis of the best available information on EU IFRS and taking account of best practice. Any future guidelines and

interpretative updates will be reflected in subsequent years, in accordance with the applicable accounting standards.
These consolidated financial statements were prepared in accordance with the historical cost convention, except for the measurement of financial assets and liabilities, including derivative instruments, where application of the fair value is required (consideration at which an asset can be traded, or a liability extinguished, between knowledgeable and willing parties, in a transaction between independent third parties).
At 31 December 2019 there were no derivative instruments outstanding.
These consolidated financial statements have been prepared on a going concern basis.

For the sake of clarity, all amounts are rounded to thousands of Euros; accordingly, in some statements, the total amounts may slightly differ from the sum of the amounts that make them up.

2.2 Format and content of the financial statements

The Group made the following choices regarding the format and content of the consolidated financial statements:

- The consolidated statement of financial position shows both the current and non-current assets and the current and non-current liabilities separately;
- The consolidated income statement and consolidated statement of comprehensive show a classification of costs and revenues by nature;
- The consolidated cash flow statement is represented using the direct method.

The Group has opted for presenting a comprehensive income statement that includes, in addition to the profit (loss) for the period, also the changes in equity attributable to profit and loss items which, as required by the international accounting standards, are recognised as equity components.
As outlined above, the financial statements used are those that best represent the performance of the Company.
These consolidated financial statements are expressed in Euros, which is the Group's functional currency.
The amounts shown in the consolidated financial statements and in the detail tables included in the Notes are expressed in thousands of Euros.
These financial statements are subject to statutory audit by the independent auditors PricewaterhouseCoopers S.p.A..

2.3 Scope of consolidation and related changes

These consolidated financial statements include the draft financial statements for the financial year ended 31 December 2019 of the Parent Company Esselunga S.p.A. prepared by the Board of Directors and the draft financial statements for the year ended 31 December 2019 of the subsidiaries prepared by their respective Board of Directors or Sole Directors or, if available, the financial statements approved by their respective Shareholders' Meetings. These financial statements have been appropriately adjusted where necessary, to bring them into line with EU IFRS.

The list of companies included in the scope of consolidation at 31 December 2019 and the changes in the scope of consolidation compared to 31 December 2018 are listed below.

Company name	Registered Office	Share capital (thousands of Euros)	% holding	Line-by-line consolidation At 31 December 2019	Line-by-line consolidation As of 31 December 2018	Notes
Esselunga S.p.A.	Milan	100,000	100	Yes	Yes	
Albria S.r.l.	Milan	16	100	Yes	Yes	
Atlantic S.r.l.	Milan	90	100	Yes	Yes	
Fidaty S.p.A.	Milan	600	100	Yes	Yes	
EsserBella S.p.A.	Milan	500	100	Yes	Yes	
Orofin S.p.A.	Milan	100,000	100	Yes	Yes	
La Villata S.p.A. Immobiliare di Inves	Milan	45,000	67.5	Yes	Yes	
Magenta Due S.r.l.	Milan	10	100	Yes	Yes	
Lanterna S.r.l.	Milan	10	100	Yes	Yes	
Goethe S.r.l.	Milan	10	100	Yes	Yes	
Giava S.r.l.	Milan	10	100	Yes	Yes	
Immobiliare Torino 2018 S.r.l.	Milan	100	100	Yes	Yes	acquired in 2018
I.A.M. Immobiliare Alba Mediterrane	Rome	10	100	n/a	Yes	Merged in 2019
Immobiliare di Levante S.r.l.	Genoa	10	100	n/a	Yes	Merged in 2019
Ganesa S.r.l.	Genoa	10	100	n/a	Yes	Merged in 2019
Commerciale Ducale S.r.l.	Modena	10	100	n/a	Yes	Merged in 2019
Commerciale Ostiense S.r.l.	Rome	10	100	n/a	Yes	Merged in 2019
Commerciale Dora S.r.l.	Vercelli	10	100	n/a	Yes	Merged in 2019
Immobiliare Colombo 2015 S.r.l.	Rome	10	100	n/a	Yes	Merged in 2019
Immobiliare Sella S.r.l.	Milan	10	100	n/a	Yes	Merged in 2019
Nocellara S.r.l.	Milan	10	100	n/a	Yes	Merged in 2019
Other (*)				Yes	Yes	

(*) Investments referred to as “Other" refer to investments made through intermediaries to ensure the confidentiality of the subsidiaries’ real estate projects.

2.4 Consolidation policies and methods

Subsidiaries

The Group's consolidated financial statements include the financial statements of Esselunga S.p.A. (Parent company) and of the companies over which it directly or indirectly has control, as of the date on which it gains control and until the date such control ceases.

Subsidiaries are consolidated on a line-by-line basis as of the date on which control is effectively transferred to the Group and are deconsolidated from the date on which control is transferred to third parties. The criteria for line-by-line consolidation are as follows:

- The assets and liabilities, expenses and income are consolidated on a line-by-line basis, and, where applicable, non-controlling interests are attributed the share of equity and net profit for the period that they are entitled to. The shares of equity and profit attributed to non-controlling interests are shown separately in the consolidated statement of shareholders' equity and consolidated income statement;
- business combinations, by which control over a company is acquired, are accounted for using the purchase method. The acquisition cost is the fair value at the acquisition date of the assets sold, liabilities assumed, equity instruments issued and of any other directly attributable cost. Acquired assets, liabilities and contingent liabilities assumed are recorded at their fair value at the acquisition date. The difference between the acquisition cost and the fair value of the assets and liabilities acquired, if positive, is recognised in intangible assets as goodwill or, if negative, after having verified the

correct measurement of the fair values of acquired assets and liabilities and the acquisition cost, is directly recognised in the income statement as income;
- Any significant gains and losses, and the related tax effects, arising from transactions between companies consolidated on line-by-line basis and not yet realised in respect of third parties are eliminated, except for the losses arising from a transaction that shows an impairment of the transferred asset. If material, intercompany payables and receivables, costs and revenues, as well as finance income and expense are also eliminated;
- The gains or losses arising from the sale of shares in consolidated companies are recorded in the income statement for the amount corresponding to the difference between the selling price and the corresponding portion of the consolidated shareholders' equity sold;
- Income statement items are included in the consolidated financial statements from the date of acquisition of control and until the date of loss of control;
- the financial year end of the subsidiaries is aligned with that of the Parent Company; if this is not the case, the subsidiaries prepare ad hoc statements of financial position for the Parent Company.

Associates

Associates are companies in which the Group exercises a significant influence on administrative and management decisions, although it does not have or control or joint control over them. Generally, significant influence is presumed when the Group directly or indirectly holds between 20% and 50% of voting rights.

Investments in associates are measured using the equity method. The following paragraphs describe how the equity method is implemented:

- The carrying amount of the investments is aligned with the subsidiary’s equity, adjusted where necessary to reflect the application of accounting standards that are consistent with those applied by the Company and, where applicable, includes any goodwill identified upon acquisition;
- profits or losses attributable to the Group are recognised in the consolidated income statement as of the date the significant influence began and until the date the significant influence ceases. If, due to losses, the company reports negative equity, the carrying amount of the investment is cancelled and any excess attributable to the Group is recognised in a specific provision if the Group has a commitment to meet legal or constructive obligations of the investee or in any case to cover its losses. Any changes in the investees’ equity that are not determined by profit or loss are recognised directly in the Group's equity reserves;
- any unrealised gains arising on transactions between the Company and the investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are eliminated, except where they reflect an impairment;
- Where an associated company recognises an adjustment directly in equity, the Group recognises its share of interest and, where applicable, discloses it in the statement of changes in shareholders' equity.

2.5 Measurement criteria

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairment loss. The cost includes any charges directly incurred for bringing the asset ready for use, as well as dismantling and removal charges that will be incurred as a result of contractual obligations, which require the asset to be returned to its original condition.

Interest expenses incurred in respect of loans obtained for the acquisition or construction of tangible assets increase the carrying amount of those assets only if the assets meet the requirements for being accounted for as such or a significant period is required to make the asset ready for use or sellable.

The costs incurred for ordinary and/or recurring maintenance and repairs are directly charged to the income statement as incurred. The costs for expansion, modernisation or improvement of structural elements owned or used by third parties are capitalised to the extent they meet the requirements for being separately classified as assets or part of an asset.

Depreciation is charged on a straight-line basis through rates that enable the assets to be depreciated over their estimated useful life. In application of the component approach, when the asset to be depreciated is composed of separately identifiable elements with a useful life that differs significantly from that of the other parts of the asset, the depreciation is calculated separately for each of those parts.

Land appurtenant or underlying business and investment properties are not depreciated.

The useful lives estimated by the Group for the various categories of property, plant and equipment are as follows:

	Years
Buildings	30 – 40
Plant and machinery	3.3 - 13.3
Industrial and commercial equipment	2 2.5 – 8
Other assets	4 4 – 10

The useful lives of property, plant and equipment and their residual value are reviewed and updated, if necessary, when preparing the financial statements.

Leased assets

Assets held through finance leases are accounted for in accordance with the provisions of the new accounting standard IFRS 16 Leases and are initially recorded at fair value or, if lower, at the present value of minimum lease payments, including any sum due for exercising the purchase option. The asset is recognized in a sub-item of Property, plant and equipment. The corresponding liability to the lessor is recognised in financial liabilities.

The lease payments are broken down into the interest component (recognized in the income statement) and the principal component (accounted for as a reduction of the liability). This breakdown is determined in such a way as to achieve a constant interest rate on the residual balance of the liability.

The ROUs are depreciated based on the lower of the lease term and the useful life of the leased asset.

For the criteria adopted by the Company regarding the application of the accounting standard IFRS 16 Leases starting from 1 January 2019, reference is made to note 4. Accounting standards, amendments and interpretations adopted as of 1 January 2019.

Investment property

Investment property includes land or buildings that are not intended for use in the Group's ordinary operations but is held to receive lease payments or for subsequent sale. Investment property is measured at purchase or production cost, plus any incidental costs, net of accumulated depreciation and any impairment losses.

Goodwill

Pursuant to IFRS 3 (Business Combinations), goodwill is recognized in the financial statements at the date of acquisition (including through merger or contribution) of companies or business units and is determined as the difference between the amount paid (which is generally determined based on fair value at the acquisition date in accordance with IFRS 3) and the fair value at the acquisition date of the identifiable assets acquired net of the identifiable liabilities assumed.

Goodwill, if recognised, is initially accounted for at cost, as described above, and subsequently tested for impairment at least annually (impairment test). This test is carried out with reference to the CGUs to which the goodwill has been allocated. Any impairment of goodwill is recognised when the recoverable amount of goodwill is lower than its carrying amount. The recoverable amount is the higher of fair value of the CGU, net of selling costs, and its value in use. The value of goodwill cannot be reinstated if it has been previously written down due to impairment losses.

Intangible assets

Intangible assets consist of non-monetary items that are identifiable and have no physical substance, which are controllable and capable of generating future economic benefits. Intangible assets are recognised at purchase and/or production cost, including the costs directly incurred to make the asset ready for its use, net of accumulated amortisation and any impairment losses.

Interest expenses incurred in respect of loans obtained for the acquisition or development of intangible assets increase the carrying amount of those assets only if the assets meet the requirements for being accounted for as such or a significant period is required to make the asset ready for use or sellable.

Amortisation begins when the asset is available for use and is systematically allocated in relation to the residual possibility of use, i.e. on the basis of its estimated useful life.

The useful life estimated by the Group for the various categories of intangible assets is as follows:

	Years
Trademarks	40
Administrative permissions (Licenses)	40
Software	2-5

There are no intangible assets with an indefinite useful life.

Impairment of property, plant and equipment, investment property and intangible assets

At the reporting date, tests are performed to verify whether there is evidence of impairment of property, plant and equipment, investment property and intangible assets not fully depreciated or amortised.

If there is evidence of impairment, the recoverable amount of these assets is estimated, and any write-down with respect to the carrying amount is recorded in the income statement. The recoverable value of an asset is the higher of the fair value less selling costs and its value in use, where this latter is the fair value of the estimated future cash flows for that asset.
For an asset that does not generate sufficient independent cash flows, the realisable value is determined in relation to the cash-generating unit to which the asset belongs. In determining the value in use, the expected future cash flows are discounted at a discount rate that reflects the current market assessment of the cost of money, relative to the investment period and the specific risks of the asset.
An impairment loss is recognised in the income statement when the carrying amount of the asset is higher than the recoverable amount. If the reasons for a previously recognised write-down no longer apply, the carrying amount of the asset is restored through the income statement in an amount that shall not exceed the net carrying amount the asset would have had if the write-down had not been recognised and depreciation or amortisation had been recorded.

Equity investments in other companies, other current and non-current financial assets, trade receivables and other receivables

Equity investments in other companies

Investments in other companies (other than subsidiaries), recorded under non-current assets and classified as assets available for sale, are measured at fair value, if this can be determined. Changes in the value of these investments are recognized in an equity reserve through allocation to other comprehensive income (Reserve for fair value adjustment of financial assets available for sale), which is transferred to profit or loss at the time of disposal or in the event of impairment that is deemed to be permanent.

When the investments are not listed and their fair value cannot be reliably determined, they are measured at cost adjusted for impairment to be recognized in the income statement, in accordance with the provisions of IFRS 9.

Impairment losses recognized in the income statement of equity investments in other companies classified under "financial assets available for sale" cannot be subsequently reinstated.

In compliance with the adoption of IFRS 9, in 2018 the "Investments in other companies" were reclassified from the item "Investments" to the item "Other receivables and other non-current financial assets".

Financial assets (other receivables and other non-current assets, trade receivables and other receivables and other current assets)

1) Classification and measurement

On initial recognition, financial assets are measured at fair value and subsequently classified in one of the following categories:

a) financial assets at amortised cost;
b) financial assets measured at fair value with recognition of the effects in equity and therefore in other comprehensive income (hereinafter also "OCI");
c) financial assets at fair value with changes through profit and loss

a) Financial assets at amortised cost

Financial assets are measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to own financial assets in order to collect contractual cash flows (business model hold to collect);
- the contractual terms of the financial asset give rise on specified dates to financial flows represented solely by payments of capital and interest on the outstanding capital amount to be repaid.

Amortised cost is calculated using the effective interest rate method, taking into account any discounts or premiums at the time of purchase, which are spread over the entire period until maturity, less any impairment losses.

b) financial assets measured at fair value with recognition of the effects in other comprehensive income

Financial assets measured at fair value with recognition of the effects in other comprehensive income if both the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (*hold to collect and sell business model*);
- the contractual terms of the financial asset give rise on specified dates to financial flows represented solely by payments of capital and interest on the outstanding capital amount to be repaid.

This category includes equity interests that do not qualify as subsidiaries, associates or jointly controlled entities, which are not held for trading, for which the company has exercised the fair value option with changes through other comprehensive income.

Upon initial recognition, the assets are accounted for at fair value, including transaction costs or income directly attributable to the instrument. After initial recognition, equity interests other than subsidiaries, associates or jointly controlled entities are measured at fair value; any changes in the value of these investments are recognized in an equity reserve through allocation to other comprehensive income (Reserve for fair value changes of financial assets). The amounts recognized in equity (Statement of comprehensive income) must not subsequently be transferred to profit or loss, including if the asset is disposed of. Dividends associated with these equity instruments are the only component to be recognized in profit or loss.
For equity instruments included in this category that are not quoted in an active market, fair value is estimated based on cost on a residual basis only and limited to a few circumstances. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

c) Financial assets at fair value with changes through profit and loss

Financial assets that are not measured at amortised cost or at fair value with changes through other comprehensive income, on the basis of the above criteria, are measured at fair value with recognition of the effects through profit or loss.

2) Presentation

Financial assets are included in current assets, except for those with a contractual maturity of more than twelve months with respect to the balance sheet date which are classified in non-current assets.
Purchases and sales of financial assets are recognised at the date of settlement.
Financial assets are derecognised when the right to receive cash flows from the instrument has expired and the Company has substantially transferred all the risks and benefits of, and control over the instrument.

3) Impairment

Financial assets measured at amortised cost are measured based on the impairment model established in IFRS 9. It foresees recognition of losses on receivables based on an expected credit loss logic. The amount of the loss is recognised in the income statement under "provisions and write-downs". The value of receivables is presented net of a provision for doubtful accounts.

Assets held for sale

Non-current assets whose carrying amount will be recovered through a sale rather than through their continuing use in the business are shown separately in the statement of financial position as "assets held for sale". An asset is reclassified to this item when the following conditions are met:

- the asset is available for immediate sale in its current condition, subject only to normal sales terms for similar assets;
- the sale is highly probable;
- management has taken action to identify a buyer and is committed to a plan to sell the asset;
- the sale is expected to be completed within twelve months.

These assets are measured at the lower of carrying amount and fair value less estimated costs to sell.

Inventories

Inventories are measured at the lower of purchase or production cost and net realisable value which is the amount the Group expects to obtain from their sale in the normal course of business. The cost of inventories is calculated using the weighted average cost per movement method and is reduced by any discounts granted by the Company's suppliers.

Cash and cash equivalents

Cash and cash equivalents include cash, deposits with banks and other lending institutions, post office current accounts and other equivalent instruments and investments with maturity within three months from the end of the reporting period. The elements included in cash and cash equivalents are measured at amortised cost, with changes recognised in the income statement.

Shareholders' Equity

Share capital
This item reflects the nominal value of contributions made by shareholders for such purpose.

Share premium reserve
Sums received by the Group for shares issued at a price higher than their nominal value.

Other reserves
This item includes the most commonly used reserves, which may have a generic or specific purpose. They are usually not formed from prior years profits.

Retained earnings (accumulated losses)
This item includes the net profits of previous years, which have not been distributed or allocated to other reserves, or losses that have not been covered.

Financial liabilities

Financial liabilities include financial debts, trade payables and other payables.

Financial liabilities are initially recognised at fair value, net of transaction costs that are directly attributable to the acquisition or issue of the financial liabilities. Financial liabilities (except derivatives) are subsequently measured at amortised cost using the effective interest rate method. If there is a change in expected cash flows and they can be reliably estimated, the liabilities are remeasured to reflect the change, based on the present value of the expected new cash flows and the effective internal rate initially determined.
Financial liabilities are classified as current liabilities, unless the Group has an unconditional right to postpone their payment for at least twelve months after the reporting date.
Financial liabilities are initially recognized in the statement of financial position when the Group becomes a party to the contractual clauses of the instrument. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is performed or cancelled or expired.

Deferred revenue for prize-giving promotions

Deferred revenue for prize-giving promotions refers to loyalty plans that the Group grants to its customers. These plans allocate bonus points to final customers that are calculated based on purchases and which can be redeemed against prizes or to obtain discounts on future purchases.

The "Fìdaty" gift with purchase promotion is the Group's institutional promotion through which customers who shop in Esselunga, Atlantic, *laEsse* and EsserBella/eb stores earn "Fìdaty Points" on their loyalty cards that can be redeemed against prizes from the catalogue (including by paying any balance in cash) or against shopping vouchers; customers of selected business partners can also participate in this promotion.

In accordance with IFRS 15, deferred revenue for prize-giving promotions, as part of loyalty plans granted by the Group to its customers (Fìdaty gift with purchase promotion) are recognized on the basis of the fair value of the consideration received from the initial sale proportionally allocated to the bonus points and to the finished goods and products sold according to their respective fair values (fair value method).

Deferred revenue for prize-giving promotions is classified under current liabilities unless the Group plans to discharge its obligations after 12 months from the reporting date. The compensation value assigned to the bonus points (i.e. the deferred revenue) is subsequently recognised as revenue in the period the customer redeems the points and the Company fulfils its obligation to give the prizes.

Employee severance indemnities (TFR) and other staff-related provisions

Employee benefits disbursed upon or after termination of employment mainly consist of the severance indemnity (TFR), governed by Italian law under art. 2120 of the Italian Civil Code.

Starting from 1 January 2007, the "Italian Budget Law" and its implementing decrees introduced significant changes to TFR rules, including workers' discretion as to the allocation of the TFR accruing to their benefit. In particular, the TFR accrued after that date may be allocated by workers to selected pension schemes or kept within the company. If allocated to external pension schemes, the Company's sole obligation is to pay a defined contribution to the chosen fund; as of that date the newly accrued TFR amounts are considered as defined contribution plans in accordance with IAS 19.

The liability relating to past employee severance indemnities (TFR) is considered, under IAS 19, to be a defined benefit plan, i.e. a formalised scheme for the payment of benefits after termination of the employment; it is a future obligation for which the Group assumes the relevant actuarial and investment risks. As required by IAS 19, the Group uses the Projected Unit Credit Method to determine the present value of its benefit obligations and the related cost for current services. This calculation requires the use of objective and consistent actuarial assumptions on demographic variables (mortality rate, staff turnover rate) and financial variables (discount rate, future pay rises).

Any profits or losses deriving from changes in the actuarial assumptions are recorded in the equity reserve "Actuarial valuation of employee severance indemnities". Interest expense associated with the "time value" component in actuarial calculations is recorded in the income statement as "Financial expense".

Provisions for risks and charges

Provisions for risks and charges are recognised for losses and charges the nature of which is certain or probable, but the timing and/or amount of which are uncertain at the statement of financial position date.

They are recognised only if there is a current (legal or constructive) obligation to make payments as a result of past events and it is likely that the payment will be necessary to settle the obligation. This amount is the best estimate of the expenditure required to settle the obligation.

Possible risks that may result in a liability are disclosed in the notes under the section on commitments and risks, and no provision is made for them.

Transactions in currencies other than the functional currency

Revenues and costs relating to transactions in currencies other than the functional currency are recorded at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than the functional currency are converted in Euros at the balance sheet exchange rate and any adjustments are recognised in the income statement.

Non-monetary assets and liabilities in currencies other than the functional currency measured at cost are recognised at the initial recognition exchange rate. When these assets are measured at fair value or at their recoverable or realisable value, the exchange rate prevailing at the date of determination of that value is applied.

Interest-free loans from the parent company

Interest-free loans from the parent company fall within the scope covered by OPI 9 "Accounting for intercompany loans and guarantees in separate financial statements". In such cases, the difference between thefair value of the loan and its nominal value is recognised in equity, as it essentially represents a contribution made by the payor, in its capacity as shareholder, in favour of the recipient (deemed contribution).

Revenue recognition

Revenues from the sale of goods and finished products are recognised in the income statement when the company performs its obligation by transferring the promised good or finished product to the purchaser; the asset is transferred when the customer obtains control over it, which normally coincides with delivery or shipment of the goods and finished products to the customer.

Revenues from the provision of services are recognised when the service is provided to the customer, with reference to completion of the service provided and in relation to the overall services still to be rendered.

Revenues are recognised at the fair value of the consideration received. Revenues are recognised net of value added tax, expected returns, rebates and discounts.
Revenues from promotional activities are recognised in the income statement in accordance with the accrual principle and on the basis of contractual arrangements with counterparties. Revenues from promotional activities are recorded as a reduction in the item “Net costs for goods and raw materials".

Revenues from the sale of newspapers, magazines and prepaid cards are shown net of the related costs as the Company acts as an agent in accordance with IFRS 15.

Public grants

Operating grants are entirely recorded in the income statement when the conditions for recognition are met.

Recognition of costs

Costs are recognised when referring to goods and services purchased or consumed in the financial year or when no future benefit from the cost can be identified.

Dividends received

Dividends received are recognized in the income statement on an accruals basis, i.e. in the financial year the right to the dividend arises as a result of the investee companies' resolution to distribute dividends.

Dividends distributed

A liability is recognised in the consolidated financial statements for the year in which the distribution is approved by the shareholders of the Group company.

Taxes

Current taxes are calculated based on the assessable income for the year, by applying the tax rates in force at the statement of financial position date.
Deferred taxes are calculated on all differences arising between the tax base of an asset or liability and the corresponding book value. Deferred tax assets, including those arising from previous tax losses, for the portion not offset by deferred tax liabilities, are recognised to the extent that it is probable that future taxable income will be available for such assets to be recovered. Deferred taxes are calculated using the tax rates that are expected to apply in the years in which the differences will be realised or settled, based on the tax rates in force or substantially enacted at the reporting date.
Current and deferred taxes are recognised in the income statement, except for items that are directly charged or credited to equity, in which case the related tax effect is also directly recognised in equity. Taxes are offset when income taxes are applied by the same tax authority and the entity has a legal right to settle on a net basis.

3. Recently issued accounting standards

Accounting standards not yet applicable, as not endorsed by the European Union

At the date of approval of these financial statements, the relevant bodies of the European Union had not yet completed the approval process for adoption of the following accounting standards and amendments:

Accounting standard	***Endorsed by the EU***	***Effective date***
Amendment to IFRS 3 Business Combinations	No	Periods beginning on 1 January 2020
IFRS 17 Insurance Contracts	No	Periods beginning on 1 January 2021

Accounting standards, amendments and interpretations not yet adopted by the Group

At the date of approval of these financial statements, the relevant bodies of the European Union had approved the adoption of the following accounting standards and amendments, not yet adopted by the Group:

Accounting standard	Description
Amendments to References to the Conceptual Framework in IFRS Standards	In March 2018, the IASB issued the amendment to references to the conceptual framework in IFRS standards. The changes are effective beginning on 1 January 2020. The changes in question focus on the update of certain definitions and certain references contained in the various principles and the related interpretations. It is believed that the entry into force of this standard will have no financial impact on the Company.
Amendments to IAS 1 and IAS 8: Definition of Material	On 31 October 2018, the IASB issued the amendment to IAS 1 and IAS 8 to clarify the definition of materiality in a single and consistent manner for all accounting standards, and incorporating the guidelines included in IAS 1 on immaterial information. The changes are effective beginning on 1 January 2020. It is believed that the entry into force of this standard will have no financial impact on the Company.
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform	On 26 September 2019, the IASB published the Interest Rate Benchmark Reform document which amends the hedge accounting provisions of IFRS 9 and IAS 39 to provide relief from potential effects of the uncertainty caused by the reform. In addition, these changes require companies to make additional disclosures to investors about their hedging relationships which are directly affected by these uncertainties. The changes are effective beginning on 1 January 2020. It is believed that the entry into force of this standard will have no financial impact on the Company.

4. Accounting standards, amendments and interpretations adopted as of 1 January 2019

IFRS 16 - Leases

On 13 January 2016, the IASB published the new IFRS 16 "Leases" (hereinafter, "IFRS 16") which replaces IAS 17. This document was adopted by the European Union by publication on 9 November 2017. IFRS 16 applies to financial statements for periods beginning on or after 1 January 2019. The new standard effectively eliminates the different accounting treatment between operating and finance leases from the point of view of the lessee's financial statements; for all lease contracts the lessee is required to recognise an asset, representing the right of use, and a financial liability, representing the obligation to make the payments under the contract. In particular, to determine whether a contract is a lease, IFRS 16 requires checking whether the lessee has the right to fully enjoy and dispose of a specific asset for a specific period of time.

The Group has chosen to apply the new IFRS 16 beginning on 1 January 2019 using the full retrospective approach. This approach required the comparative information for FY2018 to be restated and the cumulative effect from application of the new standard to be accounted for as an adjustment to shareholders' equity as at 1 January 2018.

In adopting the IFRS 16, the Esselunga Group has decided to take advantage of the exemption granted by the standard in relation to short-term leases (contracts with a term of less than 12 months) for all asset classes.

The Group also made use of the exemption granted by the standard with regard to lease contracts for which the underlying asset is a low-value asset, i.e. lease contracts for which the unit value of the underlying assets is less than approximately €5 thousand when new. The contracts for which the exemption has been applied mainly fall within the following categories:

- computers, phones and tablets;
- office and multifunction equipment;
- other electronic devices.

For contracts falling under the aforementioned exemptions, the introduction of IFRS 16 did not entail the recognition of the financial liability of the lease and of the related right of use; conversely, the lease payments were recognized in the income statement on a straight line basis for the duration of the respective contracts.
Furthermore, no leases on intangible assets were recognized that fell within the scope of application of the principle.

The transition to IFRS 16 introduces some elements of professional judgment and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The key ones are summarized below:

- in determining the term of the contract, the contract renewal clauses are considered, i.e. when the Group has the option to exercise them with no need for consent by the other party and their exercise is deemed reasonably certain. When a clause provides for multiple renewals that can be exercised unilaterally by the Company, only the first extension period was considered;

- in determining the term of the contract, automatic renewal clauses in which both parties are entitled to terminate the contract are not considered, as the ability to extend the term of the contract is not under the Group's unilateral control;

- early termination clauses: in determining the term of the contract these clauses are not considered if they can only be exercised by the lessor. If they can be exercised unilaterally by the Group, specific assessments are made on a contract by contract basis to determine whether or not to consider them. If the clauses can be exercised by both parties, the decision to consider or exclude them depends on whether the penalties applicable to the parties are significant or otherwise;

- incremental borrowing rate: the Group has decided to use the incremental borrowing rate as discount rate for discounting the lease payments. This rate was calculated as the sum of market risk (IRS) and credit risk of the parent company Esselunga (Credit spread) taking into account the term of the contract. The information sources used to determine credit risk were identified on the basis of the following hierarchy:

    - credit spreads implied in the quoted market prices of bonds of the parent company Esselunga;

- spreads obtained from the loans taken out by Esselunga;
- average credit spreads for the industry.

With regard to the lessee's financial statements:

- in the balance sheet, the assets representing the right of use and the liability are presented respectively under the items "Property, plant and equipment" and "Current/non-current financial payables" with separate disclosure in the explanatory notes;
- in the income statement, the depreciation of the rights of use is recognized in opertaing costs and the interest expense accrued on the lease liability is recognized under the finance income and expense section, in place of the operating lease instalments previously recognized under operating costs pursuant to IAS 17. In addition, the income statement includes: (i) the lease payments for short-term and low-value leases; and (ii) variable lease payments, not included in the lease liability (e.g. variable component of the lease payments based on sales made inside properties used for retail purposes);
- in the cash flow statement, repayments of the principal portion of the lease liability and interest expense are recognized in net cash flow from financing activities. Consequently, compared to the provisions of the previous applicable standard IAS 17, the application of IFRS 16 to operating leases entails a significant impact on the cash flow statement resulting in: (a) an improvement in the net cash flow from operating activities, as lease payments are no longer recorded and (b) a worsening of the net cash flow from financing activities which includes the payments for the reimbursement of the principal portion of the lease liability and interest expense.

The disclosure on the effects from application of the IFRS 16 is presented below:

(thousands of Euros)	**01/01/2018**	**IFRS 16 adjustments**	**01/01/2018 restated**
Property, plant and equipment	4,226,685	316,881	4,543,566
of which leases	*478,839*	*(478,839)*	-
of which Rou application of standard	-	*795,720*	*795,720*
Investment property	161,692	-	161,692
Goodwill	6,586	-	6,586
Intangible assets	165,023	-	165,023
Equity investments	196	-	196
Other receivables and other non-current financial assets	96,282	(4,355)	91,927
Non-current assets	**4,656,464**	**312,526**	**4,968,990**
Inventories	409,182	-	409,182
Trade receivables	447,087	-	447,087
Current tax receivables	65,188	-	65,188
Other receivables and other current financial assets	37,588	-	37,588
Cash and cash equivalents	500,796	-	500,796
Current assets	**1,459,841**	**-**	**1,459,841**
Assets held for sale	**6,628**	**-**	**6,628**
ASSETS	**6,122,933**	**312,526**	**6,435,459**
Share capital	100,000	-	100,000
Share premium reserve	164,510	-	164,510
Other reserves	49,269	(13,801)	35,468
Retained earnings (accumulated losses)	2,184,808	-	2,184,808
Equity attributable to owners of the parent	**2,498,587**	**(13,801)**	**2,484,786**
Non-controlling interests	321,228	-	321,228
Total shareholders' Equity	**2,819,815**	**(13,801)**	**2,806,014**
Non-current financial payables	1,378,198	311,601	1,689,799
of which corporate bond	*979,975*	-	*979,975*
of which leases	*398,223*	*311,601*	*709,824*
Employee severance indemnities (TFR) and other staff-related provisions	100,276	-	100,276
Deferred tax liabilities	49,579	(4,663)	44,916
Provisions for risks and charges	28,828	(4,355)	24,473
Non-current deferred revenue for prize-giving promotions	46,847	-	46,847
Other payables and other non-current liabilities	186	-	186
Non-current liabilities	**1,603,914**	**302,583**	**1,906,497**
Current financial payables	33,677	17,254	50,931
of which leases	*33,677*	*17,254*	*50,931*
Trade payables	1,286,194	6,490	1,292,684
Current deferred revenue for prize-giving promotions	94,063	-	94,063
Current tax payables	130	-	130
Other payables and other current liabilities	285,140	-	285,140
Current liabilities	**1,699,204**	**23,744**	**1,722,948**
SHAREHOLDERS' EQUITY AND LIABILITIES	**6,122,933**	**312,526**	**6,435,459**

(thousands of Euros)	31/12/2018	IFRS 16 adjustments	31/12/2018 restated
Property, plant and equipment	4,258,392	317,252	4,575,644
of which leases	*459,607*	*(459,607)*	-
of which Rou application of standard	-	*776,859*	*776,859*
Investment property	169,087	-	169,087
Goodwill	6,586	-	6,586
Intangible assets	166,356	-	166,356
Equity investments	130	-	130
Other receivables and other non-current financial assets	75,165	-	75,165
Non-current assets	**4,675,716**	**317,252**	**4,992,968**
Inventories	423,674	-	423,674
Trade receivables	480,228	-	480,228
Current tax receivables	1,582	(2)	1,580
Other receivables and other current financial assets	37,080	(5,664)	31,416
Cash and cash equivalents	882,278	-	882,278
Current assets	**1,824,842**	**(5,666)**	**1,819,176**
Assets held for sale	**-**	**-**	**-**
ASSETS	**6,500,558**	**311,586**	**6,812,144**
Share capital	100,000	-	100,000
Share premium reserve	164,510	-	164,510
Other reserves	49,269	(13,801)	35,468
Retained earnings (accumulated losses)	2,449,504	(898)	2,448,606
Equity attributable to owners of the parent	**2,763,283**	**(14,699)**	**2,748,584**
Non-controlling interests	334,061	-	334,061
Total shareholders' Equity	**3,097,344**	**(14,699)**	**3,082,645**
Non-current financial payables	1,345,731	320,840	1,666,571
of which corporate bond	*982,884*	-	*982,884*
of which leases	*362,847*	*320,840*	*683,687*
Employee severance indemnities (TFR) and other staff-related provisions	95,431	-	95,431
Deferred tax liabilities	42,321	(5,598)	36,722
Provisions for risks and charges	41,355	(3,619)	37,736
Non-current deferred revenue for prize-giving promotions	61,418	-	61,418
Other payables and other non-current liabilities	236	-	236
Non-current liabilities	**1,586,492**	**311,623**	**1,898,114**
Current financial payables	33,729	15,581	49,310
of which leases	*33,755*	*15,581*	*49,336*
other	*(26)*	-	*(26)*
Trade payables	1,341,656	(918)	1,340,738
Current deferred revenue for prize-giving promotions	129,414	-	129,414
Current tax payables	26,425	-	26,425
Other payables and other current liabilities	285,498	-	285,498
Current liabilities	**1,816,722**	**14,663**	**1,831,385**
SHAREHOLDERS' EQUITY AND LIABILITIES	**6,500,558**	**311,586**	**6,812,144**

(thousands of Euros)	2018	IFRS 16 adjustments	2018 restated
Total sales	7,913,925	-	7,913,925
Sales Adjustments	(185,360)	-	(185,360)
Net revenue	**7,728,565**	**-**	**7,728,565**
Net costs for goods and raw materials	(5,355,631)	-	(5,355,631)
Other revenue and income	44,356	-	44,356
Costs for services	(708,517)	30,436	(678,081)
Personnel costs	(972,127)	-	(972,127)
Amortisation and depreciation	(265,886)	(21,073)	(286,959)
Provisions and net property write-downs	(22,796)	-	(22,796)
Net write-downs of financial assets	7,241	-	7,241
Other operating costs	(46,912)	-	(46,911)
Operating profit	**408,293**	**9,363**	**417,657**
Finance income	830	-	830
Financial expense	(32,488)	(10,611)	(43,099)
Net financial income (expense)	**(31,658)**	**(10,611)**	**(42,269)**
Profit (loss) before taxes	**376,635**	**(1,248)**	**375,388**
Taxes	(100,470)	349	(100,121)
Net profit (loss) for the year	**276,165**	**(898)**	**275,267**

(thousands of Euros)	2018	IFRS 16 adjustments	2018 restated
Collections from customers (net of Restaurant tickets and Fidaty Oro receivables)	7,915,931	-	7,915,931
Other receipts	49,671	-	49,671
Payments to suppliers (net of collection for promotional activities)	(6,175,415)	-	(6,175,415)
Payments to employees	(960,205)	-	(960,205)
Rent and rental expenses	(45,317)	37,746	(7,571)
Other payments	(47,101)	-	(47,101)
Cash flow of ordinary operations	**737,564**	**37,746**	**775,310**
Income tax paid	(2,395)	-	(2,395)
A) CASH FLOW FROM OPERATING ACTIVITIES	**735,169**	**37,746**	**772,915**
Capex on tangible and intangible assets	(307,158)	-	(307,158)
Disposals of tangible and intangible assets	19,288	-	19,288
Interest collected	469	-	469
Other	(3)	-	(3)
B) CASH FLOW FROM INVESTING ACTIVITIES	**(287,404)**	**-**	**(287,404)**
Reimbursed financing (leasing)	(34,842)	(18,037)	(52,879)
Payment of interest	(27,441)	(19,709)	(47,150)
Distribution of dividends	(4,000)	-	(4,000)
C) CASH FLOW FROM FINANCING ACTIVITIES	**(66,283)**	**(37,746)**	**(104,029)**
NET CASH FLOW OF THE PERIOD (A + B + C)	**381,482**	**-**	**381,482**
Cash and cash equivalents at the beginning of the period and current account overdrafts	**500,796**	**-**	**500,796**
Cash and cash equivalents at the end of the period and current account overdrafts	**882,278**	**-**	**882,278**

Other accounting policies

The Company had no impact from the adoption of the other accounting standards and amendments which came into force on 1 January 2019, listed below:

- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017);
- *Amendments to IAS 19:* Plan Amendment, Curtailment or Settlement (issued on 7 February 2019);
- *Amendments to IAS 28:* Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017);
- *Amendments to IFRS 9:* Prepayment Features with Negative Compensation (issued on 12 October 2017).

5. Estimates and assumptions

The preparation of financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations and estimates based on historical experience and assumptions which are from time to time considered reasonable and realistic in the circumstances. The application of these estimates and assumptions has an impact on the amounts reported in the statements of financial position, the income statement and the cash flow statement and the related disclosures. The actual results of financial statement items for which the above estimates and assumptions have been used may differ from those reported in the financial statements that recognise the effects of estimated events, due to the uncertainty characterising the assumptions and conditions on which the estimates are based.
The accounting principles that, with respect to the Group, require greater subjective judgement by the Directors in the preparation of estimates and for which a change in the underlying conditions or assumptions may have a significant impact on the financial statements are briefly described below.

a) Impairment of assets
Tangible and intangible assets with a definite useful life are tested for impairment, to be recognised by writing down the asset to the extent that there is evidence that the net book value of the asset may be difficult to recover. To verify whether there is evidence of an impairment, the Directors are required to make valuations using a high level of professional judgment on the information available within the Group, from the market and on historical experience.
In addition, when it is established that there may be a potential impairment, the Group calculates such impairment using the valuation techniques that are deemed most appropriate. Correctly identifying any evidence of potential impairment and the estimates to calculate impairment depend on factors that may vary over time affecting the valuations and estimates made by the Directors.

b) Evaluation of investment property
Real estate development initiatives are mainly intended for the construction of retail stores. Investment property includes the portion of land exceeding the portion used for the construction of retail stores and land and buildings no longer considered strategic or not intended for use in the Company's business that are held to obtain rental fees or for subsequent sale.

The lengthy bureaucracy for obtaining the authorisations to carry out the projects and the progressive contraction of the real estate market led to higher uncertainty on how the initiatives are implemented and to greater price volatility with simultaneous reduction in the number of comparable transactions to be used for evaluation purposes. To ascertain whether an impairment has occurred, to be recognised through a write-down, which takes place when the net book value of the individual development project or the individual plot of land or property is higher than its recoverable value, the directors measure, at least annually, the fair value of development initiatives and real estate investments on the basis of appraisals drawn up by an independent third party.

The methods used include some estimates, most significantly discount and capitalisation rates and the growth rates of rents and property sale prices. In relation to real estate development initiatives, other assumptions that play a significant role in valuations include development costs, risk premiums and specific situations of the areas being assessed, including from a regulatory standpoint.

c) Measurement of goodwill
Goodwill is tested annually for impairment (impairment test), to be recognised through a write-down, which occurs when the net carrying amount of the cash-generating unit to which goodwill has been allocated exceeds its recoverable amount (defined as the higher of the value in use and the fair value of the CGU). To verify the above values, the Directors are required to make subjective valuations based on the information available within the Group, from the market and on historical experience.

In addition, when it is established that there may be a potential impairment, the Group calculates such impairment using the valuation techniques that are deemed most appropriate. The same value assessments and valuation techniques are applied to intangible and tangible assets with a defined useful life when there is evidence that the net book value of the asset may be difficult to recover through use. Correctly identifying any evidence of potential impairment and the estimates to calculate impairment depend on factors that may vary over time affecting the valuations and estimates made by the Directors.

d) Provisions for risks and charges
Determining whether a current (legal or constructive) obligation exists is not easy in some circumstances. The Directors make case-by-case assessments and estimate the amount of financial resources required to discharge the obligation. When the directors consider that the occurrence of a liability is only possible, the risks are disclosed in the notes under the commitments and risks section and no provision is recognised.

e) Depreciation, amortisation and write-downs

Depreciation and amortisation are calculated on the basis of the useful life of the asset. The useful life is determined upon initial recognition of the asset. Useful life estimates are based on historical experience, market conditions, and expectations of future events that could affect the useful life, including technological changes. As a result, the actual useful life may differ from the estimated useful life.

f) Calculation of the liability for customer loyalty plans

The identification of the fair value of the points attributed to customer loyalty plans, the percentages with which they will be redeemed by the Group's customers and when they will be used is based on the Directors' estimates and assumptions, mainly based on historical experience and market conditions. These factors may vary over time thereby influencing the assessments and estimates made by the directors and, therefore, changing the calculation of the associated liability.

g) Fair value of financial assets

The fair value of unlisted financial assets, such as financial assets available for sale and derivative financial instruments, is calculated through commonly used valuation techniques that require basic assumptions and estimates. These assumptions may not materialise with the expected timing and in the expected manner. Therefore, the estimates made by the Group may differ from the actual figures.

h) Transition to new accounting standard IFRS 16 Leases

The transition to IFRS 16 Leases introduces some elements of professional judgment entailing the definition of a number of accounting policies and the use of assumptions and estimates in relation to the lease term and the incremental borrowing rate. For more details, reference is made to the "IFRS 16 Leases" section of paragraph "4. Accounting standards, amendments and interpretations adopted as of 1 January 2019".

6. Group taxation

In 2019, the Company and some of its subsidiaries renewed their participation, as consolidated entities, in the group taxation scheme governed by articles 117 to 129 of the Italian Consolidated Income Tax Code (TUIR), in which the parent company Supermarkets Italiani S.p.A. is the consolidating entity.

The company and the consolidating entity agreed on the following internal rules:

- the tax losses arisen as of the first consolidated tax period and transferred to the consolidating entity are definitively recognised by the latter at the IRES rate in force;
- the tax effects arising from the transfer of the losses or of the taxable profits are settled at the time the overall IRES tax due by the consolidating entity is paid;
- the company agrees to make available its surplus of non-deductible interest expense or its gross operating income to the Supermarkets Italiani Group so that the consolidating entity can adjust the Group's taxable income in accordance with the provisions of Art. 96, paragraph 7 of the TUIR. On the other hand, the consolidating entity agrees to pay,

on an exclusive basis, to the company transferring the non-deductible interest expense surplus used to adjust the consolidated income, an amount equal to the product of the then current IRES rate and the amount of the above surpluses in the manner described in the paragraph above;

- The company also undertakes to transfer any unused ACE surplus directly to Supermarkets Italiani SpA Group in exchange for an amount to be paid by the Consolidating Company on the basis of the current IRES rate (24%);
- the effects of deferred taxation are individually determined and accounted for by the company in its financial statements.

Payables and receivables vis à vis Supermarkets Italiani S.p.A. in relation to the tax consolidation are recorded as current tax payables or receivables.

7. Financial risk management

Coordination and monitoring of the main financial risks are centralised in the Treasury department of Esselunga S.p.A., which issues instructions for managing the various types of risk and the use of financial instruments.

Compared to 31 December 2018, no significant changes have occurred in the Group's risk profile or in the procedures adopted by Group management to manage the risks to which the Group is exposed.

The risk management policy adopted by the Group comprises the following main steps:

- centrally defined guidelines that provide direction for the operating management of market, liquidity and cash flow risks;
- monitoring of the results achieved;
- diversification of its commitments/obligations and of the product portfolio.

7.1 Credit risk

Credit risk represents the Company's exposure to potential losses arising from business and financial counterparties failing to meet their obligations.
The Group’s maximum exposure to credit risk at 31 December 2019 and 2018 is the carrying amount of the financial assets reported in the financial statements, as shown in the table below:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**	**Change**
Other receivables and other non-current financial assets	52,967	75,593	-22,626
Trade receivables	530,590	482,827	47,763
Current tax receivables	23,334	1,580	21,754
Other receivables and other current financial assets	67,215	37,121	30,094
Total gross amount	**674,106**	**597,121**	**76,985**
Provision for doubtful receivables	(3,354)	(8,804)	5,450
Total net amount	**670,752**	**588,317**	**82,435**

Credit risk is mainly circumscribed to relations with trade suppliers arising from the provision of promotional services to said suppliers. The Group has adequate policies in place for the selection of its suppliers designed to assess not only typically commercial aspects (quality, purchase prices and delivery terms), but also their capital and financial solidity. Therefore, the Group is not considered exposed to any appreciable credit risks.

These items are accounted for net of a provision for doubtful receivables, for a total of € 3,354 thousand at 31 December 2019 and €8,804 thousand at 31 December 2018, respectively. The write-down is calculated based on an analysis of individual debt positions.
With regard to trade receivables, there is no appreciable concentration of credit risk.

The following tables provide a breakdown of receivables at 31 December 2019 and 31 December 2018 by category and by number of days past due:

(thousands of Euros)	31/12/2019					
	Not yet due	**Days past due**				
		0 - 30	**31 - 60**	**61 - 90**	**> 90**	**Total**
Other receivables and other non-current assets	52,467	-	-	-	500	52,967
Trade receivables	383,154	4,660	107,291	16,384	19,101	530,590
Current tax receivables	23,334	-	-	-	-	23,334
Other receivables and other current assets	64,653	-	-	-	2,562	67,215
Total gross amount	**523,608**	**4,660**	**107,291**	**16,384**	**22,163**	**674,106**
Provision for doubtful receivables	(123)	-	-	-	(3,231)	**(3,354)**
Total net amount	**523,485**	**4,660**	**107,291**	**16,384**	**18,932**	**670,752**

(thousands of Euros)	31/12/2018 restated					
	Not yet due	**Days past due**				
		0 - 30	**31 - 60**	**61 - 90**	**> 90**	**Total**
Other receivables and other non-current assets	75,093	-	-	-	500	75,593
Trade receivables	400,200	1,911	46,179	21,006	13,531	482,827
Current tax receivables	1,580	-	-	-	-	1,580
Other receivables and other current assets	31,046	201	21	10	5,843	37,121
Total gross amount	**507,919**	**2,112**	**46,200**	**21,016**	**19,874**	**597,121**
Provision for doubtful receivables	(6)	(29)	(18)	(13)	(8,738)	**(8,804)**
Total net amount	**507,913**	**2,083**	**46,182**	**21,003**	**11,136**	**588,317**

As shown in the table above, receivables expired at 31 December 2019 amounted to € 150,498 thousand, while the allowance for doubtful receivables amounted to €3,354 thousand.
Past-due receivables that are not covered by the provision refer to situations that are inherent in the Group's activities.

7.2 Liquidity risk

Liquidity risk is associated with the ability to meet commitments arising from financial liabilities. Prudent management of liquidity risk requires that an adequate level of cash and cash equivalents and short-term securities be maintained as well as the availability of funds that can be obtained through adequate credit lines.
Liquidity risk is centrally managed by the Group, which conducts periodic monitoring of the financial position through appropriate forecast and actual cash inflow and outflow reporting. In this way, the Group seeks to ensure adequate coverage of needs, closely monitoring funding,

open credit lines and their use to optimise resources and manage any temporary liquidity surpluses.
The Group's objective is to create a financial structure that, consistent with business objectives, ensures an adequate level of liquidity, minimising its cost and maintaining a balance in terms of type of debt and maturities.
At present, the Group has sufficient sources of financing and credit lines to meet its commitments.

The following tables provide a breakdown of liabilities by maturity as at 31 December 2019 and 31 December 2018. The various maturity ranges are determined based on the period between the reporting date and the contractual maturity of the obligations including accrued interest at 31 December. Interest has been calculated according to the contractual terms of the loans.

(thousands of Euros)	31/12/2019				
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Corporate bond	13,788	13,750	536,901	528,125	1,092,564
Lease payables	80,731	70,210	185,888	588,608	925,437
Other payables and other non-current liabilities	-	-	-	3,813	3,813
Trade payables	1,496,452	-	-	-	1,496,452
Current tax payables	869	-	-	-	869
Other payables and other current liabilities	265,670	-	-	-	265,670
Total	**1,857,510**	**83,960**	**722,789**	**1,120,546**	**3,784,805**

(thousands of Euros)	31/12/2018 restated				
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Corporate bond	13,750	13,788	541,250	537,526	1,106,313
Lease payables	72,430	74,054	196,769	615,930	959,183
Other payables and other non-current liabilities	-	-	-	236	236
Trade payables	1,340,738	-	-	-	1,340,738
Current tax payables	26,425	-	-	-	26,425
Other payables and other current liabilities	285,498	-	-	-	285,498
Total	**1,738,841**	**87,842**	**738,019**	**1,153,692**	**3,718,393**

On 3 August 2017, Esselunga S.p.A. entered into three agreements with three Italian banks for three revolving non revocable credit lines for a total amount of €300 million, expiring after 5 years. At 31 December 2019 the above credit lines were undrawn.

7.3 Market Risk

In carrying out its activities, the Group is potentially exposed to the following market risks, which are managed centrally by the Parent:

- Risk of price fluctuations
  Given the industry in which the Group is engaged, the predominant price risk is related to fluctuations in the purchase price of goods for resale. Managing these risks is an integral part of commercial policies aimed at, inter alia, limiting the impact of purchase price fluctuations on end customers.

- Risk of exchange rate fluctuations
  Sales revenues and purchase costs for goods and products are mostly denominated in Euros. In addition, financial assets and liabilities are all denominated in Euros. Accordingly, the Group is not exposed to significant currency risks.

- Risk of interest rate fluctuations
  The risk of interest rate fluctuations to which the Group is exposed arises from financial payables and receivables. The Group's fixed rate debt exposes it to a risk associated with changes in the fair value of the debt driven by market fluctuations of the reference rates. The Group's floating rate debt exposes it to a cash flow risk stemming from interest rate volatility.
  The Group's financial debt consists of bonds and finance lease payables. Financial payables at floating interest rates accounted for 6.1% of total debt at 31 December 2019.

The Group had no derivative instruments.

The following table shows a sensitivity analysis with respect to interest rate risk. More specifically, the table below shows the impact on shareholders' equity and profit for the years ended 31 December 2019 and 2018 of a positive or negative 0.5% change in interest rates, all other variables being unchanged:

(thousands of euros)	**31/12/2019**		**31/12/2018**	
Interest rate change at year-end	+0.50%	-0.50%	+0.50%	-0.50%
After-tax effect (P&L and Shareholders' equity)	(330)	330	(373)	373

7.4 Capital Risk

The Group's objective in managing capital risk is to maintain an optimal capital structure in order to reduce the cost of debt.

The Group monitors its capital based on the ratio of its net debt to net invested capital (gearing ratio).

Net debt is calculated as total debt including current and non-current loans and net borrowings from banks.

Net invested capital is calculated as the sum of shareholders' equity and the net financial position.

The following table shows the calculation of the gearing ratio at 31 December 2019 and 2018:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Cash and cash equivalents	1,139,066	882,278
Receivables from Fìdaty Oro payment card users	60,602	61,521
Current and non-current financial payables	(1,709,384)	(1,715,881)
Net debt	**(509,716)**	**(772,082)**
Shareholders' Equity	**3,318,278**	**3,082,645**
Net invested capital	**3,827,994**	**3,854,727**
Gearing ratio	**13.3%**	**20.0%**

The gearing ratio compares the net debt and the net invested capital (defined as the sum of net debt and shareholders' equity) to represent the company's financial strength and its use of third party funds.

The Esselunga Group's ratio for 2019 shows that net invested capital is 86.7% financed by own funds, much better than 2018. This indicates the Group's strong capital structure and high solvency level.

8. Financial assets and liabilities by category

The following table provides a breakdown of financial assets and liabilities by category, with the corresponding fair value for the Group's consolidated financial statements as at 31 December 2019 and 31 December 2018:

	31 December 2019				
(thousands of Euros)	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at amortised cost	Total	*Fair value*
Equity investments in other companies	130	-	-	130	130
assets	-	-	52,401	52,401	52,401
Trade receivables	-	-	530,298	530,298	530,298
Other receivables and other current financial assets	-	-	64,653	64,653	64,653
Cash and cash equivalents	-	-	1,139,066	1,139,066	1,139,066
Total	**130**	**-**	**1,786,418**	**1,786,548**	**1,786,548**
Current and non-current financial payables exc. leases	-	-	985,838	985,838	1,021,020
Lease payables	-	-	723,546	723,546	795,123
Deferred revenue for prize-giving promotions current and non-current	186,443	-	-	186,443	186,443
Other payables and other non-current liabilities	-	-	3,813	3,813	3,813
Trade payables	-	-	1,496,452	1,496,452	1,496,452
Other payables and other current liabilities	-	-	265,670	265,670	265,670
Total	**186,443**	**-**	**3,475,319**	**3,661,762**	**3,768,521**

	31/12/2018 restated				
(thousands of Euros)	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at amortised cost	Total	*Fair value*
Equity investments in other companies	130	-	-	130	130
assets	-	-	75,165	75,165	75,165
Trade receivables	-	-	480,228	480,228	480,228
Other receivables and other current financial assets	-	-	31,416	31,416	31,416
Cash and cash equivalents	-	-	882,278	882,278	882,278
Total	**130**	**-**	**1,469,087**	**1,469,217**	**1,469,217**
Current and non-current financial payables exc. leases	-	-	982,883	982,883	971,770
Lease payables	-	-	732,998	732,998	780,434
Deferred revenue for prize-giving promotions current and non-current	190,832	-	-	190,832	190,832
Other payables and other non-current liabilities	-	-	236	236	236
Trade payables	-	-	1,340,738	1,340,738	1,340,738
Other payables and other current liabilities	-	-	285,498	285,498	285,498
Total	**190,832**	**-**	**4,075,351**	**4,266,183**	**4,349,942**

9. Information on fair value

In relation to the assets and liabilities recognised in the statement of financial position, IFRS 13 requires that these values be classified on the basis of a hierarchy that reflects the significance of the inputs used to determine the fair value.
The classification of the fair value of financial instruments on the basis of hierarchical levels is presented below:

Livello 1: fair value calculated on the basis of quoted prices (unadjusted) in active markets for identical financial instruments. Therefore, in Level 1 the emphasis is on determining the following elements:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
(b) the ability to carry out a transaction with the asset or liability at that market price at the measurement date.

Livello 2: fair value calculated using valuation techniques that make use of inputs that are observable on active markets. Inputs for this level include:
(a) quoted prices for similar assets or liabilities in active markets;
(b) quoted prices for identical or similar assets or liabilities in markets that are not active;
(c) inputs other than quoted prices that are observable for the asset or liability, for example:
   i. interest rates and yield curves observable at commonly quoted intervals;
   ii. implied volatilities;
   iii. credit spreads;
(d) market-corroborated inputs.

Livello 3: fair value calculated using valuation techniques that make use of unobservable market inputs.
Deferred revenue for prize-giving promotions and assets held for sale, which fall under level 3 of the hierarchy, are measured at fair value.

10. Operating Segments

An operating segment is an entity's component:
- that undertakes entrepreneurial activities generating revenues and costs (including revenues and costs relating to transactions with other components of the same entity);
- whose operating results are periodically reviewed by the highest operational decision-making level of the entity to decide on the resources to be allocated to the segment and to assess the results (for Esselunga S.p.A it is the Board of Directors);
- for which separate financial information is available.

The management information prepared and made available to the Board of Directors for the above mentioned purposes, considers the Group's business activities as an indistinct whole. Accordingly, no specific segment reporting is provided in the financial statements.

The Group currently carries out its activities exclusively in Italy, therefore no disclosure by geographical segment is provided.
Given the nature of the Group's business, there are no situations of revenue concentration on individual customers.

11. Seasonal events

Historically, the profit and loss results of the Group have not shown significant sensitivity to seasonal events.

12. Notes to the consolidated statement of financial position

12.1 Property, plant and equipment

In 2019 a new superstore format was opened in **Brescia Triumplina,** while in **Milan, Corso Italia,** ***laESSE*** was opened, a new experience under the Esselunga brand: a coffee house as well as a restaurant and a shop for daily shopping, where online purchases can be collected from lockers.

The details and movements of property, plant and equipment for the years ended 31 December 2018 and 2019 are shown in the following table:

(thousands of Euros)	**01/01/2018 restated**	**Effect of first-time adoption of IFRS 16**	**Change in the scope of consolidation**	**Increases**	**Decreases**	**Reclassifications and transfers**	**31/12/2018 restated**
Historical cost	4,622,354	(479,638)	-	114,237	(14,071)	217,515	4,460,397
Accumulated depreciation	(1,462,199)	58,762	-	(93,962)	192	26,486	(1,470,721)
Provision for impairment	(11,062)	-	-	-	-	8,843	(2,219)
Land and buildings	**3,149,093**	**(420,876)**	**-**	**20,275**	**(13,879)**	**252,844**	**2,987,457**
Historical cost	1,439,334	(94,488)	-	77,659	(6,210)	48,842	1,465,137
Accumulated depreciation	(943,035)	36,524	-	(91,024)	5,711	3,192	(988,631)
Provision for impairment	-	-	-	(147)	3	(1,600)	(1,744)
Plant and machinery	**496,299**	**(57,963)**	**-**	**(13,512)**	**(496)**	**50,434**	**474,762**
Historical cost	1,768	-	-	61	(7)	-	1,822
Accumulated depreciation	(1,684)	-	-	(34)	7	-	(1,711)
Industrial and commercial equipment	**84**	**-**	**-**	**27**	**-**	**-**	**111**
Historical cost	503,301	-	-	32,682	(7,966)	4,364	532,381
Accumulated depreciation	(373,527)	-	-	(35,974)	7,474	131	(401,896)
Provision for impairment	-	-	-	(569)	212	-	(357)
Other assets	**129,774**	**-**	**-**	**(3,861)**	**(280)**	**4,495**	**130,128**
Historical cost	451,437	-	12,978	65,765	(907)	(322,946)	206,327
Accumulated depreciation	(2)	-	-	-	-	2	-
Assets under construction and advances	**451,435**	**-**	**12,978**	**65,765**	**(907)**	**(322,944)**	**206,327**
Historical cost	-	974,055	-	21,444	-	-	995,499
Accumulated depreciation	-	(175,067)	-	(40,305)	-	-	(215,372)
Provision for impairment	-	(3,269)	-	-	-	-	(3,269)
ROU IFRS 16 Leases	**-**	**795,720**	**-**	**(18,861)**	**-**	**-**	**776,859**
Historical cost	7,018,194	399,930	12,978	311,848	(29,161)	(52,225)	7,661,563
Accumulated depreciation	(2,780,445)	(79,780)	-	(261,299)	13,384	29,809	(3,078,331)
Provision for impairment	(11,064)	(3,269)	-	(716)	215	7,245	(7,589)
Total	**4,226,685**	**316,881**	**12,978**	**49,833**	**(15,562)**	**(15,171)**	**4,575,644**

(thousands of Euros)	**31/12/2018 restated**	**Increases**	**Decreases**	**Reclassifications and transfers**	**31/12/2019**
Historical cost	4,460,397	55,307	(14,759)	26,533	4,527,478
Accumulated depreciation	(1,470,721)	(99,038)	11,570	(1,016)	(1,559,205)
Provision for impairment	(2,219)	-	-	-	(2,219)
Land and buildings	**2,987,457**	**(43,731)**	**(3,189)**	**25,517**	**2,966,054**
Historical cost	1,465,137	81,267	(7,733)	9,129	1,547,800
Accumulated depreciation	(988,631)	(96,122)	6,670	-	(1,078,083)
Provision for impairment	(1,744)	-	-	-	(1,744)
Plant and machinery	**474,762**	**(14,855)**	**(1,063)**	**9,129**	**467,973**
Historical cost	1,822	49	(6)	-	1,865
Accumulated depreciation	(1,711)	(49)	6	-	(1,754)
Industrial and commercial equipment	**111**	**-**	**-**	**-**	**111**
Historical cost	532,381	47,843	(9,630)	1,874	572,468
Accumulated depreciation	(401,896)	(37,267)	7,523	(1)	(431,641)
Provision for impairment	(357)	-	-	-	(357)
Other assets	**130,128**	**10,576**	**(2,107)**	**1,873**	**140,470**
Historical cost	206,327	85,277	(1,087)	(62,348)	228,169
Provision for impairment	-	-	-	-	-
Assets under construction and advances	**206,327**	**85,277**	**(1,087)**	**(62,348)**	**228,169**
Historical cost	994,025	91,102	(58,811)	-	1,026,317
Accumulated depreciation	(213,897)	(41,800)	14,234	-	(241,462)
Provision for impairment	(3,269)	-	-	-	(3,269)
ROU IFRS 16 Leases	**776,859**	**49,302**	**(44,576)**	**-**	**781,585**
Historical cost	7,660,089	360,845	(92,026)	(24,812)	7,904,097
Accumulated depreciation	(3,076,856)	(274,276)	40,003	(1,017)	(3,312,145)
Provision for impairment	(7,589)	-	-	-	(7,589)
Total	**4,575,644**	**86,569**	**(52,022)**	**(25,829)**	**4,584,362**

Land and buildings

The increases include:

- Capex of €9,727 thousand for the construction of new stores opened by the Esselunga Group in 2019: Brescia Triumplina, and laESSE in Milan, corso Italia;
- Capex of €10,205 thousand for investments in the logistics network;
- €3,494 thousand for the maintenance and development of the logistics hubs and the headquarters;
- €16,857 thousand for maintaining the existing sales network;
- Capex of €15,024 thousand for the Group's commercial development .

The decreases mainly refer to the demolition of buildings located in Livorno, Pioltello and Pistoia.

The reclassifications and transfers mainly include acquisitions of previous years in relation to new stores opened in the current year and the reclassification of some "excess volumes" to the investment property item.

<u>Plant and machinery</u>

<u>The increases</u> include:

- Capex of €9,842 thousand for the new stores;
- Capex of €21,363 thousand for investments in the logistics network;
- Capex of €33,384 for the maintenance of the sales network;
- €15,813 thousand for the logistic hubs, production facilities and headquarters;
- Capex of €15,024 thousand for the Group's commercial development .

The <u>decreases</u> refer to the normal replacement of the Group's tangible assets.

The <u>reclassifications and transfers</u> mainly include the reclassification of acquisitions of previous years in relation to new stores opened in the current year.

<u>Other assets</u>

<u>The increases</u> include:

- Capex of €5,260 thousand for the new stores;
- Capex of €3,159 thousand for investments in the logistics network;
- Capex of €20,730 thousand for logistic hubs and production facilities;
- Capex of €18,516 for the maintenance of the sales network;
- Capex of €180 thousand for the Group's commercial development

The <u>decreases</u> refer to the normal replacement of the Group's tangible assets. The reclassifications and transfers mainly include the reclassification of acquisitions of previous years in relation to new stores opened in the current year.

The breakdown of Other assets is shown below:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Office furniture and equipment	77,711	79,029
Electronic office equipment	42,868	34,220
Bar furniture and furnishings	13,483	9,519
Motor vehicles, cars and vehicles for internal use	4,557	6,050
Niche perfumery furniture and furnishings	1,851	1,310
Total	**140,470**	**130,128**

The increase in **assets under construction and advances** includes capital expenditures for the development and completion of the logistic hubs for €5,497 thousand and for commercial development of the Group for €79,780 thousand.
The reclassifications and transfers column for this item include the reclassification to the other tangible asset items, of expenditures made in previous years for the stores opened in 2019 and the reclassification to investment property of land and buildings not intended for use in the Group’s ordinary activities.

ROU Right of use

On 1 January 2019 the new international accounting standard IFRS 16 Leases entered into force, which eliminates the difference between operating and finance leases. For all leases with a duration of more than 12 months, the lessee is required to recognise an asset, representing the right of use (ROU), and a financial liability, representing the obligation to make the payments under the contract. The increases mainly refer to extensions or renegotiations of existing contracts. The breakdown of the item ROU IFRS 16 Leases is shown below:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Rou buildings and plants	777,296	772,289
Rou IT equipment	2,717	2,350
Rou cars	1,208	1,670
Rou service vehicles	365	550
Total	**781,585**	**776,859**

The total value of ROU includes the recognition of a right of use on leases previously classified as operating leases of €341,063 thousand at 31 December 2019 and of €317,252 thousand at 31 December 2018 (as shown in paragraph 4 above "Accounting standards, amendments and interpretations adopted as of 1 January 2019").

The following table details the monetary revaluations made on property, plant and equipment in accordance with statutory provisions:

(thousands of Euros)	**Revaluation pursuant to Law 72/83**	**Revaluation pursuant to Law 419/91**	**Total revaluations**
Land and buildings	3,093	17,009	20,102
Plant and machinery	161	-	161
Other assets	111	34	145
Total	**3,365**	**17,043**	**20,409**

At 31 December 2019, the amount of revaluations not yet depreciated was €56 thousand mainly pertaining to land and buildings.

Property, plant and equipment do not include assets given as collateral.

12.2 Investment property

Investment property includes land or buildings that are not intended for use in the Group's ordinary activities.

The movements in investment property for the year ended 31 December 2019 are shown in the following table:

(thousands of Euros)	31/12/2018 restated	Increases	Decreases	Reclassifications and transfers	31/12/2019
Historical cost	450,455	1,140	(4,020)	(7,891)	439,684
Accumulated depreciation	(44,029)	(2,724)	297	962	(45,494)
Provision for impairment	(237,339)	(26,883)	6,073	21,328	(236,821)
Total	**169,087**	**(28,467)**	**2,350**	**14,399**	**157,369**

The increase in historical cost refers to the development of areas not intended for use in the Group's ordinary activities.

The decreases mainly refer to the sale of an area no longer in use by the Group.

The reclassifications mainly refer to an investment reclassified under assets held for sale as it is reasonable to assume, based on the state of negotiations, that the sale will be completed by the end of 2020.

The breakdown by geographical location of investment property is shown in the following table:

(thousands of Euros)	Net Historical cost	Provision for impairment	Total
Emilia Romagna	34,853	(15,165)	19,688
Lombardy	235,598	(142,441)	93,157
Piedmont	59,350	(36,814)	22,536
Tuscany	36,076	(22,256)	13,820
Veneto	10,129	(5,640)	4,489
Liguria	20,523	(7,106)	13,417
Lazio	9,897	(7,917)	1,980
31/12/2018 restated	**406,426**	**(237,339)**	**169,087**
Emilia Romagna	32,958	(18,260)	14,698
Lombardy	210,336	(127,038)	83,298
Piedmont	69,981	(42,369)	27,612
Tuscany	40,843	(28,363)	12,480
Veneto	10,128	(6,128)	4,000
Liguria	20,047	(6,747)	13,300
Lazio	9,897	(7,917)	1,980
31/12/2019	**394,190**	**(236,821)**	**157,369**

As at 31 December 2019, the fair value of investment property was measured based on surveys by an independent expert. The carrying values have been aligned to the lower of the cost and the fair value resulting from the appraisals.
It should be noted that these appraisals were carried out before the start of the Covid-19 emergency.

The fair value expressed by the appraisals was defined according to models for determining the Level 3 fair value, as the inputs directly / indirectly not observable on the market, used in the valuation models, are preponderant with respect to the inputs observable on the market.

12.3. Goodwill

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Esselunga SpA Pisa store	6,020	6,020
EsserBella	566	566
Total	**6,586**	**6,586**

Impairment tests were carried out at the end of each financial year to ascertain whether the goodwill recorded has suffered an impairment.

The impairment test is performed by comparing the carrying amount of the goodwill and of the group of net assets that can generate independent cash flows (cash generating unit - CGU) to which goodwill can reasonably be allocated, with the value in use of the CGU. The CGU corresponds to Esselunga store in Pisa and EsserBella SpA.
The value in use was determined through the discounted cash flow (DCF) method, by discounting the unlevered free cash flows related to the CGU as per the strategic plans for the five years following the impairment test reference year. The discount factor used is the WACC for the industry in which the identified CGU carries out its operations.

The discount rate (WACC) used, which reflects the market assessment of the cost of money and the specific risks for the industry and the geographic area, was estimated at 7.5% in 2019 and 6.88% in 2018.
A sensitivity analysis was performed on the impairment test results to assess their variability to changes in the main assumptions underlying the estimate.
Two different scenarios were assumed for this purpose:

- scenario 1: discount rate = 8%, with an increase of 50 basis points over the baseline scenario;
- scenario 2: discount rate = 8.5%, with an increase of 100 basis points over the baseline scenario.

The sensitivity analysis showed a low sensitivity of the test to changes in the assumptions underlying the estimate. Specifically, none of the aforementioned scenarios would result in an impairment of the goodwill.

12.4 Intangible assets

The breakdown and movements of intangible assets for the year ended 31 December 2019 are shown in the table below:

(thousands of Euros)	31/12/2018 restated	Increases	Decreases	Reclassi-fications and transfers	Mergers	31/12/2019
Historical cost	233,903	18,261	(19)	5,810	-	257,955
Accumulated amortisation	(177,411)	(21,844)	-	-	-	(199,255)
Software	**56,492**	**(3,583)**	**(19)**	**5,810**	**-**	**58,700**
Historical cost	70,532	161	-	-	-	70,693
Accumulated amortisation	(18,798)	(1,799)	-	-	-	(20,597)
Trademarks, concessions and similar rights	**51,734**	**(1,638)**	**-**	**-**	**-**	**50,096**
Historical cost	74,693	-	(68)	-	-	74,625
Accumulated amortisation	(22,578)	(1,762)	68	-	-	(24,272)
Provision for impairment	(3,255)	-	-	-	-	(3,255)
Commercial licenses	**48,860**	**(1,762)**	**-**	**-**	**-**	**47,098**
Historical cost	9,063	11,474	-	(5,519)	-	15,018
Assets under construction and advances	**9,063**	**11,474**	**-**	**(5,519)**	**-**	**15,018**
Historical cost	3,429	-	-	-	-	3,429
Accumulated amortisation	(3,222)	(201)	-	-	-	(3,423)
Other intangible assets	**207**	**(201)**	**-**	**-**	**-**	**6**
Historical cost	391,619	29,896	(87)	291	-	421,719
Accumulated amortisation	(222,009)	(25,606)	68	-	-	(247,547)
Provision for impairment	(3,255)	-	-	-	-	(3,255)
Total	**166,356**	**4,290**	**(19)**	**291**	**-**	**170,918**

Additions in the year 2019 amounted to €29,896 thousand and mainly refer to the purchase of software for the improvement of the Group's IT infrastructure.

The increase in assets under construction and advances refers to the development of software not yet in use. The decrease shown in the reclassifications column mainly refers to additions made in prior years for software that have come into operation in the year under review and have therefore been reclassified in the appropriate item.

No revaluations were made to intangible assets pursuant to Article 2427, paragraph 3-bis of the Italian Civil Code; there were no intangible assets to be written down due to impairment losses.

12.5 Investments in other companies

The breakdown of this item is as follows:

(thousands of Euros)	31/12/2019	31/12/2018 restated
Investments in associated companies	130	130
Total	**130**	**130**

In compliance with the adoption of IFRS 9, in 2018 the "Investments in other companies" were reclassified from the item "Investments" to the item "Other receivables and other non-current financial assets".

12.6 Other receivables and other non-current financial assets

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Tax receivables	41,332	42,875
IRES tax receivable from parent companies	-	25,262
Security deposits	3,097	2,942
Financial investments	1,218	66
Other receivables	6,754	4,020
Total	**52,401**	**75,165**

Tax receivables mainly consist of VAT receivables for real estate purchases made by the Group, the collection of which is conditional upon completion of the underlying project and its transfer to the commercial companies of the Group.

IRES receivables from parent companies in 2018 referred to the refund requested pursuant to Legislative Decree no. 201/2011 for the deductibility for IRES tax purposes of non-deducted IRAP tax on staff costs for the years 2007 to 2011; on 2 May 2019 the receivable in question was sold without recourse to, and collected from a major bank.

Security deposits refer to contracts entered into for the supply of utilities.

The other receivables included a receivable of €4,000 thousand that was collected in the first months of 2020.

12.7 Inventories

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Finished products and goods	344,510	370,918
Raw materials, supplies and consumables	56,474	52,756
Total	**400,984**	**423,674**

Inventories of finished products and goods are shown net of the provision for inventory obsolescence.

The provision for inventory obsolescence is set aside to reflect the lower realizable value of some goods in stock compared to the cost incurred for their purchase and to account for their slow turnaround; here below are the movements of that fund.

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Balance at the beginning of the year	**16,508**	**17,320**
Allocations	13,777	16,508
Use	(16,508)	(17,320)
Balance at the end of the year	**13,777**	**16,508**

As at 31 December 2019, there were no inventories pledged as collateral on loans received by the Group.

12.8 Trade receivables

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Receivables from suppliers for promotional activities	470,196	421,353
Receivables from customers for use of Fìdaty Oro card	60,286	61,360
Receivables from cust. for use of Fidaty Oro card - non-performing	97	97
Receives from parent	11	17
Provision for doubtful receivables	(292)	(2,599)
Total	**530,298**	**480,228**

Receivables from suppliers for promotional activities refer to the remuneration accrued for the promotional activity carried out in favour of suppliers at Group's stores (advertising, preferential display, leaflet distribution etc.) and during openings of new stores, or expansion of existing ones.

Receivables from customers for use of the Fìdaty Oro card refer to receivables from the Esselunga, Atlantic and EsserBella/eb stores' customers who used the "Fìdaty Oro" payment cards in December 2019.

Trade receivables are shown gross of the related provision for doubtful accounts which amounted to €292 thousand at 31 December 2019 (€2,599 thousand at 31 December 2018). The decrease compared to 2018 refers to the use of the provision following the write-off of certain receivables that were deemed as no longer recoverable.

12.9 Current tax receivables

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
IRES tax receivable from parent companies	14,881	1,288
Receivables from tax authorities - IRES payments on account	6,397	119
Receivables from tax authorities - IRAP payments on account	2,056	160
Receivables from the tax authorities for tax refunds	-	13
Total	**23,334**	**1,580**

IRES receivable from parent companies refers to taxes receivable from the consolidating entity Supermarkets Italiani S.p.A. by the companies participating in the tax consolidation.

12.10 Other receivables and other current financial assets

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Receivables from parent companies (VAT)	35,000	408
Accrued income and prepaid expenses	14,224	12,627
Receivables from other debtors	10,183	13,806
Tax receivables (mainly VAT)	7,808	10,280
Provision for impairment of other receivables	(2,562)	(5,705)
Total	**64,653**	**31,416**

The item is indicated net of a provision for impairment and its movements are detailed below:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Balance at the beginning of the year	**(5,705)**	**(4,873)**
Allocations	(354)	(1,121)
Use	3,497	289
Balance at the end of the year	**(2,562)**	**(5,705)**

Accrued income and prepaid expenses mainly include prepaid expenses for use of third party assets, insurance, advertising, utilities, repair and maintenance that are not related to the current financial year.

Receivables from other debtors mainly include receivables from employees and social security institutions and receivables for the recovery of costs and other non-performing loans for which the provision for doubtful accounts has been allocated.

12.11 Cash and cash equivalents

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Deposits with banks and post-office	1,129,481	874,945
Cash and cash equivalents on hand	9,562	7,295
Cheques	23	38
Total	**1,139,066**	**882,278**

Please note that on 3 August 2017, the Company entered into three agreements with three major Italian banks for three non-revocable revolving credit lines, for a total of €300 million and with 5 year maturity. At 31 December 2019 the above credit lines were undrawn.

12.12 Assets held for sale

Non-current assets whose carrying amount will be recovered through a sale rather than through their use in the business are shown separately in the statement of financial position as "assets held for sale".
The breakdown of assets held for sale is shown in the following table:

(thousands of Euros)	**31/12/2018 restated**	**Increases**	**Decreases**	**Reclassifications and transfers**	**31/12/2019**
Historical cost	-	167	-	32,462	32,629
Accumulated depreciation/amortisation	-	-	-	-	-
Provision for impairment	-	-	5,496	(21,327)	(15,831)
Total	**-**	**167**	**5,496**	**11,135**	**16,798**

The item entirely refers to an area located in Milan which was reclassified from investment property based on the reasonable belief that the sale would take place by the end of 2020 given the state of negotiations and also in view of the signing of a preliminary sales contract.

Assets held for sale are classified in level 3 of the fair value hierarchy.

12.13 Shareholders' Equity

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Share capital	100,000	100,000
Share premium reserve	164,510	164,510
Retained earnings (accumulated losses)	2,676,627	2,448,606
Other reserves:		
Legal reserve	*20,000*	*20,000*
Revaluation reserve	*25,975*	*25,975*
Other	*(10,507)*	*(10,507)*
Equity attributable to owners of the parent	**2,987,574**	**2,748,584**
Non-controlling interests	**330,704**	**334,061**
Total shareholders' Equity	**3,318,278**	**3,082,645**

At the reporting dates, the share capital was fully subscribed and paid and consisted of 100,000,000 ordinary shares with a par value of €1 each.

The change of €235,633 thousand in shareholders' equity is due to:

- the increase of €258,536 thousand in profit for the year attributable to owners of the parent and minority interests;
- the decrease of €3,647 million for the direct recognition in equity of actuarial losses on employees' pension plans (TFR) net of the related tax effect;
- the increase of €994 thousand due to the reclassification of the negative cash flow hedge reserve to losses for the period;
- the decrease of €20,250 thousand for the distribution of dividends.

12.14 Current and non-current financial payables

The breakdown of this item is as follows:

(Thousands of euros)	**31/12/2019**		
	Current	**Non-current**	**Total**
Bonds payable	**-**	**985,838**	**985,838**
Lease payables – principal amount	54,611	664,478	719,089
Lease payables – interest	4,457	-	4,457
Lease payables	**59,068**	**664,478**	**723,546**
Total	**59,068**	**1,650,316**	**1,709,384**

(Thousands of euros)	**31/12/2018 restated**		
	Current	**Non-current**	**Total**
Bonds payable	**-**	**982,884**	**982,884**
Lease payables – principal amount	44,193	683,687	727,880
Lease payables – interest	5,117	-	5,117
Lease payables	**49,310**	**683,687**	**732,997**
Total	**49,310**	**1,666,571**	**1,715,881**

In 2019 the finance lease payments (principal) made by the Group amounted to €53,642 thousand.

Lease payables include a payable resulting from the application of the new IFRS 16 Leases to operating leases for €360,040 thousand in December 2019 and for €336,421 thousand in December 2018 (as shown in paragraph 4 above "Accounting standards, amendments and interpretations adopted as of 1 January 2019"); the breakdown by maturity of this payable is as follows:

(thousands of Euros)	**31/12/2019**		
	Current	**Non-current**	**Total**
Payables IFRS 16 Leases - principal	20,555	335,687	356,242
Payables IFRS 16 Leases - interest	3,798	-	3,798
Total	**24,353**	**335,687**	**360,040**

(thousands of Euros)	31/12/2018 riesposto		
	Current	**Non-current**	**Total**
Payables IFRS 16 Leases - principal	11,217	320,840	332,057
Payables IFRS 16 Leases - interest	4,364	-	4,364
Total	**15,581**	**320,840**	**336,421**

On 18 October 2017 Esselunga S.p.A. successfully placed two Eurobonds with a nominal value of €500 million each, with maturities of respectively 6 and 10 years.

The transaction details are provided below:

Tranche "A" 6 year maturity	**Tranche "B" 10 year maturity**
- Nominal value: €500 million	- Nominal value: €500 million
- Maturity: 25 October 2023	- Maturity: 25 October 2027
- Annual coupon: 0.875%	- Annual coupon: 1.875%
- Issue price: 99.281%	- Issue price: 99.289%
- Yield to maturity: 0.999%	- Yield to maturity: 1.954%
- Spread: 65 bps on the midswap rate	- Spread: 110 bps on the midswap rate

The principal of Tranche A and Tranche B will be repaid in full at maturity (respectively on 25 October 2023 and 25 October 2027).
The bonds are listed on the Luxembourg Stock Exchange.
There are no guarantees or covenants in place in relation to the bonds.

The total value of the debenture loans is recorded net of the issue discount and transaction costs incurred for the loan issue. Transaction costs mainly include legal expenses to finalize the bond issues, the fees paid to the banks involved in the transaction in their capacity as Joint Bookrunners, as well as the fees for the rating advisory activity.

Lease payables

In 2019, the weighted average rate of finance lease contracts was 3.21% compared to 3.19% in 2018. Floating-rate finance leases accounted for 22.5% of payables as at 31 December 2019. The following table shows the reconciliation of the finance lease payable with the outstanding lease payments as of 31 December 2019:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Lease payables (until contract maturity)	925,437	959,933
Lease payables (implied interest)	(201,891)	(226,936)
Total	**723,546**	**732,997**

The following table shows the amount attributable to leases previously classified as operating leases resulting from application of the new IFRS 16 standard:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Payables IFRS 16 Leases (until contract maturity)	480,985	469,705
Payables IFRS 16 Leases (Implied interest)	(120,945)	(133,284)
Total	**360,040**	**336,421**

12.15 Employee severance indemnities (TFR) and other staff-related provisions

The movements in employee severance indemnities (TFR) and other staff-related provisions for the years ended 31 December 2019 and 2018 are shown in the following table:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Balance at the beginning of the year	**95,431**	**100,276**
Interest cost	1,447	1,265
Payments and transfers	(6,180)	(5,710)
Actuarial gains / (losses)	5,069	(436)
Other movements	(158)	36
Balance at the end of the year	**95,609**	**95,431**

The main assumptions used to calculate the amount of the liability are shown below:

	31 December 2019	
	2019	**2018**
Financial Assumptions		
Inflation rate (annual)	1.2%	1.5%
Discount Rate (Annual)	0.8%	1.6%
TFR Annual rate of increase	2.4%	2.6%
Demographic Assumptions		
Expected mortality rate	Data from Table RG48 (State General Accounting Office)	
Expected disability rate	INPS tables separated by age and sex	
Time of retirement	100% on achieving AGO requirements	
Turnover Frequency	2.50%	
Frequency of Advances	2.00%	

12.16 Deferred tax assets and liabilities

This item includes the net balance of deferred tax assets and liabilities arising from temporary differences between the value attributed to an asset or liability in the statement of financial position and the value attributed to the same asset or liability for tax purposes.

The breakdown and movements of the items in question, gross of any offsetting based on the timing in the use of taxes, for the year ended 31 December 2019 are shown in the following table:

(thousands of Euros)	**31/12/2018 restated**	**Income statement effect**	**Statement of financial position effect**	**43,830**
Timing difference cost deductibility	723	(191)	-	532
Deferred revenue for prize-giving promotions	2,389	(1,063)	-	1,326
Costs for bond issue	(1,884)	281	-	(1,603)
Inventories and inventory write-downs	3,963	(656)	-	3,307
TFR IAS 19	1,562	47	1,423	3,032
Provision for risks with deferred deductibility	10,835	(881)	-	9,954
Property, plant and equipment (excluding leases)	48,959	2,277	-	51,236
Capital gain on lease-back	26	(12)	-	14
Leases	(92,525)	3,077	-	(89,448)
Intangible Assets	(8,842)	558	-	(8,284)
Capital gains subject to deferred taxes	(1,811)	153	-	(1,658)
Others	(117)	(268)	-	(385)
Total deferred tax assets and liabilities	**(36,722)**	**3,322**	**1,423**	**(31,977)**

Deferred tax assets relating to previous unrecognized tax losses amounted to €41 thousand at 31 December 2019.

Deferred tax assets and liabilities as of 31 December 2019 were recorded with reference to the period in which the temporary differences that generated them will be recovered and by applying the IRES (24.0%) and IRAP (4.05%) rates.

12.17 Provisions for risks and charges

Movements in the provisions for risks and charges for the years ended 31 December 2019 and 2018 are shown in the table below:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Balance at the beginning of the year	**37,736**	**28,828**
Allocations	22,351	15,607
Uses / Releases	(18,167)	(3,080)
Reclassifications	(3,516)	(3,619)
Balance at the end of the year	**38,404**	**37,736**

The provisions set aside refer to future charges and to the risks associated with various disputes pending at the end of the reporting year.

The item Uses/Releases in 2019 mainly refers to personnel costs for €18,024 thousand (€2,298 thousand in 2018) and to IMU (unified municipal property tax) litigation for €143 thousand.

In compliance with the adoption of IFRIC 23, in 2019 the "tax risk provisions" were reclassified from the balance sheet item "Provisions for risks and charges" to the balance sheet item "Other non-current payables and liabilities".

12.18 Deferred revenue for current and non-current prize-giving promotions

This item is the liability related to the points earned and not yet redeemed by customers at the reporting date.
The movements in the item for the year ended 31 December 2019 broken down by campaign:

(thousands of Euros)	Fidaty	Amici di scuola (school friends)	Christmas Competition	Magical Mug	Artusi 2.0	Total current amount	Fidaty	Total non-current amount
At 31/12/2018 restated	**114,062**	**10,943**	**4,409**	**-**	**-**	**129,414**	**61,418**	**61,418**
Bonus points earned	4,971	9,084	3,799	1,152	431	19,437	4,970	4,970
Use of bonus points	(6,722)	(10,943)	(4,409)	-	-	(22,074)	(6,722)	(6,722)
At 31/12/2019	**112,311**	**9,084**	**3,799**	**1,152**	**431**	**126,777**	**59,666**	**59,666**

The “Fìdaty" gift with purchase promotion is the Group's institutional promotion for customer loyalty. Customers who shop in Esselunga, Atlantic, *laESSE* and EsserBella/eb stores earn “Fìdaty Points" that can be redeemed against prizes from the Fidaty catalogue (including by paying any balance in cash) or against shopping vouchers.
The promotion is also open to customers of selected trading partners.

12.19 Other payables and other non-current liabilities

The breakdown of this item is as follows:

(thousands of Euros)	31/12/2019	31/12/2018 restated
Security deposits	297	236
Tax payables	3,516	-
Total	**3,813**	**236**

In both years the item in question exclusively refers to security deposits used by the Group in the ordinary course of business.

In compliance with the adoption of IFRIC 23, in 2019 the "tax risk provisions" were reclassified from the balance sheet item "Provisions for risks and charges" to the balance sheet item "Other non-current payables and liabilities".

12.20 Trade payables

At 31 December 2019 the item amounted to €1,496,452 thousand (€1,340,738 thousand at 31 December 2018) and mainly included payables for the purchase of products for resale.

12.21 Current tax payables

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
IRES tax payable to parent company	471	21,834
IRES tax payable to the tax authorities	209	188
IRAP tax payable to the tax authorities	189	4,403
Total	**869**	**26,425**

IRES payable to parent companies refers to taxes payable to the consolidating entity Supermarkets Italiani S.p.A. by the companies participating in the tax consolidation. The item IRES tax payable to the tax authorities refers to current taxes due by companies not participating in the tax consolidation.

12.22 Other payables and other current liabilities

The breakdown of this item is as follows:

(thousands of Euros)	**31/12/2019**	**31/12/2018 restated**
Payables to employees and other staff	85,476	81,374
Payables to social security institutions	61,839	60,028
VAT payable to the tax authorities	46,023	84,243
Other payables	44,433	36,341
IRPEF payable to the tax authorities	19,542	17,468
Other payables to the tax authorities:	6,169	3,785
Advances	1,310	-
Accrued expenses and deferred income	878	2,259
Total	**265,670**	**285,498**

The item “Advances” mainly includes a deposit received in relation to preliminary agreements for the sale of an area located in Piedmont.
Other payables include commissions payable to credit institutions for use of electronic collections for €2,306 thousand and amounts due for the sale of prepaid cards for €30,631 thousand.
The change in VAT payables to the tax authorities is due to the fact that at 31 December 2018 the item included the VAT payable for November and December 2018 monthly salaries while at 31 December 2019 it only included the amount due for December 2019.

13. Notes to the consolidated statement of comprehensive income

13.1 Net revenue

The breakdown of net sales and net revenues for the years 2019 and 2018 is as follows:

(thousands of Euros)	2019	2018 restated	Difference
Total sales	**8,141,610**	**7,913,925**	**227,685**
costs for the purchase of newspapers and phone cards and related services	(126,771)	(127,628)	857
Net (Deferral)/Recognition of fair value for prize-giving promotions	4,388	(54,059)	58,447
costs for the purchase of newspapers and phone cards and related services	(20,232)	(3,673)	(16,559)
Sales Adjustments	**(142,615)**	**(185,360)**	**42,745**
Total	**7,998,995**	**7,728,565**	**270,430**

Total sales for the year 2019 increased by €227,685 thousand compared to the previous year. The increase in percentage terms was 2.9%.

Total sales is reduced in both years by the costs for the purchase of newspapers and phone cards and the related services in order for net revenues to only reflect the sales margin in accordance with IFRS 15, which came into force on 1 January 2018.

The net deferral of revenues for prize-giving promotions of €4,388 thousand arises from recognition in the same year of €28,796 thousand as consideration for obligations to be considered settled when points are used (prizes or discount vouchers) and deferral of considerations of €24,408 thousand for future obligations. These considerations are measured based on the fair value of the prizes and discount vouchers, as received by the end customer.

Net revenues in 2019 increased by €270,430 thousand compared to those in 2018, up by 3.5%.

13.2 Costs for goods and raw materials

The net costs for goods and raw materials in 2019 amounted to €5,502,107 thousand compared to €5,355,631 thousand in 2018.

Costs for goods and raw materials are shown net of revenue from promotional activities. Revenue from promotional activities refers to promotional services provided by the Group to its suppliers, mainly consisting of preferential product display, organisation and implementation of promotional campaigns targeted to specific products and advertising flyers.

13.3 Other revenues and income

The breakdown of the item Other revenues and income for the years 2019 and 2018 is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Rent of supports for the transport of perishable products	12,683	12,659
Rental income and recovery of common charges	8,943	9,021
Other sales	7,108	7,366
Sale of customer profiling data	4,686	4,610
Insurance reimbursements and damages charged back	2,684	2,268
Points charged that do not represent goods ("Fragola" points)	1,336	1,465
Capital gains on disposal	916	1,307
Capital gains on disposal IFRS 16 "Leases"	2,442	0
Spreads and commissions	934	876
Recharge of costs for quality control analysis	821	719
Administrative, legal, tax and IT services to Superit Group companies	36	39
Other	2,956	4,026
Total	45,545	44,356

The other sales mainly include the sale to third parties of scrap, scrap paper, pallets and production waste.

The item points charged that do not represent goods includes the proceeds from the sale of Fìdaty Points to trading partners following the granting of points to their customers. In essence, the customers of our trading partners can participate in prize-giving promotions organised by Esselunga.

The item Capital gains on disposal mainly includes the sale of La Villata business unit, consisting of equipment, machinery and building materials, rental contracts, rights and obligations arising from all employment contracts including provisions for all contingent liabilities.

The item "Other" mainly refers to professional services provided to third parties.

13.4 Costs for services

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Transport, handling and parking	260,514	230,246
Utilities, consumption and data transmission expenses	120,592	108,144
Repairs and maintenance	98,642	89,773
Advertising and marketing	74,644	60,907
Cleaning	46,348	44,815
Consulting and professional services	32,053	27,050
Other services	26,266	25,881
Internal and external processing of goods and products	25,902	24,068
Bank collection fees	22,734	21,597
Security, surveillance and transportation of valuables	19,078	19,939
Insurance	9,662	11,219
Common charges	8,384	9,359
Fees on restaurant tickets	4,917	-
Rentals	3,760	2,675
Rent expense	2,139	2,408
Total	**755,635**	**678,081**

Costs for services accounted for 9.3% of total sales (8.6% in 2018).

The general increase in these costs relates to operations closely connected to the Group's sales and business development. In particular, the increase in the cost of transport is in line with the increase in volumes and turnover.

The item rent expense refers to the variable component of lease payments linked to sales under lease contracts on property used for retail purposes (the guaranteed minimum lease payments are accounted for according to the international standard IFRS 16 Leases).

Other services mainly includes costs related to personnel management, such as canteen, clothing, medical examinations and commissions paid to temporary employment agencies, insurance costs and costs for meat and fish processing, parking management costs at some shops and costs for the management of children's dedicated areas in shops.

13.5 Personnel costs

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Wages and Salaries	732,495	707,630
Social security charges	217,615	209,682
Employee severance indemnity	48,687	46,741
Cost for temporary employees	4,993	2,421
Corporate welfare	4,839	2,379
Gifts to employees	1,238	1,194
Other personnel costs	5,406	2,080
Total	**1,015,273**	**972,127**

Personnel costs at 31 December 2019 were up compared to the corresponding period in 2018, as a result of the impact of the new labour agreement, the increased use of personnel for customer services and the significant corporate 2019 in welfare programme through which employees were able to take advantage of benefits for themselves and their families.

The changes in the average workforce are shown in the table below:

Headcount	**2019**	**2018**
Managers	89	73
White-collars	15,791	15,475
Blue-collars	8,035	8,012
Total	**23,915**	**23,560**

13.6 Amortisation and depreciation

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**	**Difference**
Depreciation of property, plant and equipment	274,271	261,299	12,972
Depreciation of investment property	2,723	3,028	(305)
Amortisation of intangible assets	25,606	22,632	2,974
Total	**302,600**	**286,959**	**15,641**

The increase in depreciation of property, plant and equipment is mainly attributable to higher depreciation on the new stores opened in the second half of 2018.

The increase in amortisation of intangible assets is mainly attributable to the software that came into use in 2019 and 2018.

13.7 Provisions and net property write-downs

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Write-downs (reversals) of assets	21,857	21,109
Provisions (uses/releases) for risks and charges	7,818	1,687
Total	**29,675**	**22,796**

The write-downs (reversals) of assets mainly include property write-downs recorded to align the carrying amount of the assets with their estimated realizable value, as assessed through independent appraisals.
It should be noted that these appraisals were carried out before the start of the Covid-19 emergency.

This item is shown net of reversals up to the purchase cost when the reasons for the write-downs made in previous years no longer apply.

Provisions were made in relation to probable liabilities related to ongoing disputes.

13.8 Net write-downs of financial assets

The item amounted to €556 thousand (€-7,241 thousand in 2018).

In 2018 the item included the reversal of a write-down made in 2017 of a receivable of €10,700 thousand for an advance paid to purchase a building area. In 2018, the receivable was fully repaid and the provision for doubtful receivables was released.

13.9 Other operating costs

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Municipal Property Tax - IMU	21,373	22,049
Municipal solid waste disposal fee - TARSU	10,406	9,725
Capital losses on property, plant and equipment	4,479	1,605
Taxes related to prize-giving promotions	1,849	4,517
Rights, authorisations and concessions	1,566	1,514
Subscriptions, printing, etc.	599	578
Losses on receivables	74	274
Losses on ROU IFRS 16 Leases	7	-
Other taxes and duties	5,774	4,540
Other operating costs	1,349	2,109
Total	**47,476**	**46,911**

The item Capital losses on property, plant and machinery mainly includes the demolition of two areas located one each in Livorno and Pioltello (Milan), and the disposal of furniture and furnishings as part of the renovation of some Atlantic bars.

13.10 Finance income

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Bank interest income	995	746
Share of income from investments	4	3
Interest income for loans		-
Foreign exchange gains	13	8
Other financial income	1,744	73
Total	**2,756**	**830**

The other financial incomes in 2019 included interest for the sale to a primary bank of the IRES receivables on personnel IRAP 2007-2011 requested as a refund.

13.11 Finance expense

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**
Interest expense on lease contracts	22,332	23,642
Interest expense on bonds	17,698	17,652
Employee severance indemnity - discounting to PV	1,447	1,259
Other interest expense	599	372
Costs for committed credit lines	125	155
Foreign exchange losses	27	19
Total	**42,228**	**43,099**

Interest expense on lease contracts include respectively €10,273 thousand in December 2019 and for €10,611 thousand in December 2018 resulting from the application of IFRS 16 Leases on contracts previously classified as operating leases (as shown in paragraph 4 above "Accounting standards, amendments and interpretations adopted as of 1 January 2019”). Interest expense on bonds refers to the interest accrued in the year on the two Eurobonds placed on 18 October 2017 on the Luxembourg Stock Exchange.

13.12 Income tax expense

The breakdown of this item is as follows:

(thousands of Euros)	**2019**	**2018 restated**	**Difference**
Current income taxes	97,160	106,322	(8,684)
Income from tax consolidation	(620)	(791)	171
Net deferred tax income (expense)	(3,330)	(5,410)	1,602
Total	**93,210**	**100,121**	**-6,911**

The analysis of actual taxation as a percentage of the Group's profit before tax compared to the theoretical figure is detailed in the table below:

	2019	2018 restated
Applicable ordinary tax rate	28.05%	28.05%
Increases (decreases) compared to ordinary rate:		
- permanent differences	1.85%	2.31%
- different IRAP base	1.19%	0.74%
Iper/Super amortisation and depreciation	-1.87%	-1.42%
- effect of reduction in taxable A.C.E.	-1.81%	-1.74%
- income taxes of prior years	-0.62%	-0.99%
- IRAP deductibility for IRES purposes	-0.26%	-0.23%
- other changes	-0.03%	-0.05%
Actual tax rate	**26.50%**	**26.67%**

The effective tax charge for 2019 was 26.50% (26.67% in 2018) of the pre-tax profit, compared to the theoretical tax rate of 28.05%.
The difference between the theoretical tax rate and the effective tax rate is mainly due to:

- **permanent differences** that led to an increase in the tax burden of €6,502 thousand and €8,690 thousand respectively (1.85% change in 2019 and 2.31% change in 2018); they mainly refer to the non-deductible IMU tax (municipal property tax) (€3,633 thousand in 2019 and €4,897 thousand in 2018);
- **different IRAP tax bases**, that increased the tax expense for 2019 and 2018 respectively by €4,184 thousand and €2,834 thousand (1.19% change in 2019, 0.74% change in 2018);
- benefit of the **extra depreciation and amortisation (super + iper)** for €6,585 thousand (1.87% change) in 2019 and €5,347 thousand in 2018 (1.42% change);
- **benefit attributable to ACE (Aid to Economic Growth)** for €6,371 thousand (change of 1.81%) in 2019 and €6,542 thousand in 2018 (change of 1.74%).
- **taxes on previous years** that produced a tax benefit of €2,192 thousand in 2019 and €3,744 thousand in 2018 respectively (0.62% change in 2019 and 1% change in 2018); in 2019 they were mainly attributable to the Patent Box benefit for €7,237 thousand (2.06% change) mitigated by other taxes.

14. Transactions with related parties that affect the statement of financial position and the income statement

The transactions carried out by the Group with related parties do not qualify as either atypical or unusual, fall within the Group's ordinary activities and are entered into on an arm's length basis.

Transactions with related parties in the years ended 31 December 2019 and 2018 mainly concerned:

- business relations mainly concerning administrative services and leases;
- financial transactions;

- transactions regarding the management of the IRES tax consolidation and Group VAT;
- employment and collaboration contracts with executives with strategic responsibilities including the members of the Board of Directors (the "Senior Management");
- commercial transactions mainly concerning professional consultancy services carried out by related parties through members of the Senior Management.

The following tables show the balance sheet amounts arising from transactions with related parties during the years ended 31 December 2019 and 2018:

(thousands of Euros)	Supermarkets Italiani S.p.A.	Dom 2000 S.p.A.	Centomilacandele S.c.p.a.	Senior Management	Others	Total	Total item	As % of item
assets								
31/12/2019	-	-	-	-	-	-	52,401	**0.00%**
31/12/2018 restated	25,262	-	-	-	-	25,262	75,165	**33.61%**
Trade receivables								
31/12/2019	11	-	-	-	-	11	530,298	**0.00%**
31/12/2018 restated	15	-	-	-	-	15	480,228	**0.00%**
Current tax receivables								
31/12/2019	14,766	-	-	-	-	14,766	23,334	**63.28%**
31/12/2018 restated	412	-	-	-	-	412	1,580	**26.08%**
Other receivables and other current financial assets								
31/12/2019	35,000	-	-	-	-	35,000	64,653	**54.14%**
31/12/2018 restated	408	-	-	-	-	408	31,416	**1.30%**
Non-current financial payables								
31/12/2019	-	216,845	-	-	-	216,845	1,650,316	**13.14%**
31/12/2018 restated	-	224,011	-	-	-	224,011	1,666,571	**13.44%**
staff-related provisions								
31/12/2019	-	-	-	505	-	505	95,609	**0.53%**
31/12/2018 restated	-	-	-	309	-	309	95,431	**0.32%**
Current financial payables								
31/12/2019	-	10,127	-			10,127	59,068	**17.14%**
31/12/2018 restated	-	1,899	-			1,899	49,310	**3.85%**
Trade payables								
31/12/2019	-	2,063	4,408		(574)	5,897	1,496,452	**0.39%**
31/12/2018 restated	-	2,337	3,431		(980)	4,788	1,340,738	**0.36%**
Current tax payables								
31/12/2019	331	-	-	-	-	331	869	**38.05%**
31/12/2018 restated	3,570	-	-	-	-	3,570	26,425	**13.51%**
Other payables and other current liabilities								
31/12/2019	-	-	-	1,745	-	1,745	265,670	**0.66%**
31/12/2018 restated	-	-	-	798	-	798	285,498	**0.28%**

The following table shows the income statement amountsarising from transactions with related parties in the years 2019 and 2018:

(thousands of Euros)	Supermarkets Italiani S.p.A.	Dom 2000 S.p.A.	Centomilacandele S.c.p.a.	Senior Management	Others	Total	Total item	As % of item
Other revenue and income								
2019	36	-	-	-	-	**36**	**45,545**	**0.08%**
2018 restated	39	-	-	-	-	**39**	**44,356**	**0.09%**
Costs for services								
2019	-	2,063	41,805	-	1,147	**45,015**	**755,635**	**5.96%**
2018 restated	-	2,337	37,323	-	980	**40,640**	**678,081**	**5.99%**
Personnel costs								
2019	-	-	-	6,974	-	**6,974**	**1,015,273**	**0.69%**
2018 restated	-	-	-	4,591	-	**4,591**	**972,127**	**0.47%**
Other operating costs								
2019	-	-	-	-	-	**-**	**47,476**	**0.00%**
2018 restated	-	-	-	-	-	**-**	**46,911**	**0.00%**
Finance income								
2019	-	-	-	-	-	**-**	**2,756**	**0.00%**
2018 restated	-	-	-	-	-	**-**	**830**	**0.00%**
Financial expense								
2019	-	6,707	-	-	-	**6,707**	**42,228**	**15.88%**
2018 restated	-	7,145	-	-	-	**7,145**	**43,099**	**16.58%**

The other revenues and income refer to the provision of administrative services.

Costs for services to Dom 2000 S.p.A. refer to the variable component of rent expense.

The costs for services to other related parties refer to professional consultancy services carried out by the law and tax consulting firm Pirola, Pennuto Zei and Associati as a related party through members of the Senior Management.

Personnel costs refer to the emoluments and remuneration granted in any form and for any reason to the Senior Management, including members of the Parent Company's Board of Directors, and recorded in the financial statements in each of the two periods ended 31 December 2019 and 2018, including accruals and regardless of whether such costs have already been paid.

Finance expense to DOM 2000 S.p.A. refers to charges on finance leases arising from the application of the accounting standard IFRS 16 Leases.

The Parent Company is not subject to management and coordination.

15. Commitments, guarantees and contingent liabilities

15.1 Capex commitments

Commitments outstanding at 31 December 2019 for capex amounted to €98,962 thousand and were determined based on contracts and agreements entered into with the relevant local authorities net of capex already made at that date and liabilities already recorded in the financial statements.

15.2 Commitment for the purchase of goods

The Group did not enter into significant agreements for the future purchase of goods. Therefore, there are no commitments to this effect at 31 December 2019 and 31 December 2018.

15.3 Guarantees given

The guarantees given by the Esselunga Group amounted to €87,703 thousand at 31 December 2019, including bank guarantees of €82,427 thousand and insurance guarantees of €5,276 thousand.

15.4 Contingent liabilities and lawsuits

Nordiconad
By ruling of 22 March 2016, the court of Bologna dismissed the applications lodged by Margherita S.p.A. and Nordiconad Soc. Coop. and GD S.r.l. against Esselunga S.p.A. to ascertain alleged unfair competition practices consisting in the unjustified request for extension of commercial authorisations to carry out sales activity at the Esselunga store in Bologna, via Guelfa.
By appeal lodged on 12 May 2016, the appellants challenged the aforementioned judgment before the Court of Appeal of Bologna and reiterated their claim for damages of €96 million. After the hearing for clarification of the conclusions on 20 January 2020, the Court granted the parties the statutory period for filing the final submissions and the reply statements. According to the legal advisers assisting the Company in these proceedings and also considering the judgment of the first instance, no provision for potential liabilities was deemed necessary by the Company.

16. Positions or transactions arising from atypical and/or unusual transactions

During the year ended 31 December 2019, no atypical and/or unusual transactions were carried out which, due to their nature, size, or effect, may affect the Group's assets, liabilities, equity, net result or cash flows.

17. Summary of public grants pursuant to article 1 of law 124/2017

We inform you that the obligations set out in the annual Market and Competition Law 124/2017 do not apply to the Esselunga Group, as the subsidies, contributions or other financial aid received fall within the scope of its activity and in any case refer to incentive measures addressed to all companies in general.

18 Remuneration of the Board of Statutory Auditors

The fees paid to the Board of Statutory Auditors for the year ended 31 December 2019 amounted to €96 thousand (€94 thousand in 2018).

19. Independent auditors' fees

Pursuant to the applicable legislation, the total fees for the 2019 financial year for auditing and non-audit services provided by PricewaterhouseCoopers S.p.A. and entities belonging to its network are shown below:

(thousands of Euros)	**Service provider**	**Recipient**	**Total fees**
Audit services	PricewaterhouseCoopers S.p.A.	Esselunga SpA	803
		Subsidiaries	159
Non-audit services	PricewaterhouseCoopers S.p.A.	Esselunga SpA	77
		Subsidiaries	60
	PricewaterhouseCoopers network	Esselunga SpA	478
		Total	**1,577**

20. Significant events after the end of the financial year

Acquisition of six business units from Margherita Distribuzione

In December 2019, Esselunga S.p.A signed a binding agreement with Margherita Distribuzione for the transfer of six business units, taking over as many points of sale in Lombardy and Emilia Romagna. The closing of the transaction, which is part of Esselunga development strategy, was completed in 2020.

Covid-19

At the reporting date a factor of macroeconomic instability emerged related to the spread of Covid-19, which in the early weeks of 2020 initially affected economic activity in China and subsequently spread to other countries, including Italy from the end of February 2020.

This situation could also have a significant impact on global prospects for future growth, as it affects the general macroeconomic scenario as well as the financial and real estate markets, also in the light of the decisions taken by government authorities to contain the spread of the epidemic.

In Italy, Prime Ministerial Decrees imposed restrictions and measures aimed at containing the Covid-19 epidemic and further steps have been identified to more effectively combat the spread of the virus, mainly through restrictions on people's mobility and social lives.

During the period in which these restrictions were in place, management decided to allocate – on a voluntary basis – the staff of the subsidiaries Atlantic S.r.l. and EsserBella S.p.A. to supporting the parent company Esselunga S.p.A. in carrying out its daily business of selling basic necessities.

At the reporting date, trade-union procedures have been activated with regard to staff of the subsidiary Atlantic S.r.l. that will lead to applications for social support to help deal with the Covid-19 emergency. The Company also intends to apply for social support in relation to the staff of the subsidiary EsserBella S.p.A. to cope with the emergency.

The Company has taken protective measures and readied itself to take additional steps, both to align with the restrictions and to take further precautions to protect its people.

It has also drawn up a plan of special initiatives to contribute to the emergency that the whole country is facing.

Specifically:

- We have set aside donations of €2.5 million for hospitals and other organisations engaged in front-line care of patients and scientific research.
- Aware of the impact that the situation is having on Italy's businesses, to help our suppliers we have strengthened our arrangement with UniCredit to facilitate payments and therefore alleviate their financial difficulties. UniCredit Factoring will be making €530 million of credit lines available to Esselunga suppliers for advance payment of trade receivables.
- From 7 March and until further notice, Esselunga is waiving delivery fees for all over-65s for both the "Esselunga a Casa" online service and for deliveries from stores to people's homes.
- For the 5.5 million Fìdaty Card holders, a special initiative has been launched to give members of our loyalty programme the chance to help the above-mentioned health and research organisations (and others TBC in the coming weeks), whereby Esselunga will donate €5 for every 500 Fìdaty points used.
- A special welfare payment of €150 per person has set aside for all Esselunga store employees for their exceptional work serving customers in recent weeks, both in shops and in the preparation of online shopping. A deserved bonus for those who have enabled the Group to service its customer community, especially in the worst-hit zones, with dedication, professionalism and sensitivity.
- All office staff have been enabled to work remotely at all times.

These measures were taken to demonstrate our support for the community, ensuring continuity of service for our customers and safeguarding the health and safety of our employees.

At present, management believes that the situation caused by the epidemic does not impact assessments made on the Group's ability to continue as a going concern, considering its financial position and cash flows.

With regard to the impact on costs and expected cash flows, the Company is currently not in a position to reliably determine any repercussions on 2020 results or any implications for subsequent years. Likewise, it is currently not possible to assess the possible effects on growth initiatives and on suppliers or customers resulting from the slowdown in business and the macroeconomic situation due to the international spread of the epidemic.

It should be noted that Esselunga S.p.A.'s Business Continuity Committee has provided the Group's sales outlets and the rest of the organisation with instructions to manage the current emergency, based on the authorities' guidelines.

Acquisition by the Majority Shareholders of 30% of Supermarkets Italiani and determination of the acquisition price

On 11 January 2019, the Majority Shareholders announced that they had exercised the right to purchase the Minority Shareholding.

Over the past year, the Majority Shareholders and the minority shareholders were involved in arbitration proceedings in order to determine the price of the Minority Shareholding.
The Company was informed that on 20 March 2020 the arbitration panel determined - by majority vote - that the overall purchase price of the Minority Shareholding amounted to €1,830 million (the "**Acquisition Price**").
The closing of the Acquisition transaction took place on 23 April 2020. The Majority Shareholders have announced that a company called "Superit Finco S.p.A." has been formed for the purchase of 30% of Supermarkets Italiani from the minority shareholders.
They have also announced that the Acquisition Price will be paid through a combination of (i) capital contribution by the Majority Shareholders for an amount of €535 million and (ii) borrowings from banks through credit lines made available by a group of major Italian and international banks for an amount of €1,325 million.
Specifically,

- the capital contribution by the Majority Shareholders will comprise:
  (i) €100 million in cash to be contributed by the Majority Shareholders, which will also cover the financial costs;
  (ii) €435 million in cash from the sale to a financial investor of a 32.5% stake in the capital of La Villata S.p.A. (respectively, the "**La Villata Shares**" and "**La Villata**"), held by the Majority Shareholders (the remaining 67.5% of La Villata is held directly by Esselunga); and
- borrowings from banks will arise from the use of credit lines as follows:
  (i) use of the seven-year maturity *Acquisition facility* for an amount of €775 million (the "**Acquisition Facility**");
  (ii) use of the "bridge" facility with maturity of up to 15 months, for an amount of €550 million (the "**Bridge Facility**" and, together with the Acquisition Facility, the "**Loans**").

The Majority Shareholders have informed Esselunga that, through a merger transaction under the legislation in force (the "Merger"), Esselunga will merge with its parent companies and, consequently, will take on the obligations under the Loans. Esselunga will refund:

- the bridge facility after the Merger (which is expected to take place within 12 months of the Acquisition closing).
- €300 million of debt held by the absorbed entities.

With regard to the sale of La Villata Shares, the shares purchased by the financial investor will be entitled to a cumulative annual preferential dividend and to some governance rights which are usually granted to financial investors. As of the fifth anniversary of the Acquisition date and until 31 December 2027, Esselunga will be able to exercise a call option for the purchase of La Villata Shares.

The Chairman
of the Board of Directors

(Vincenzo Mariconda)

Report of the Board of Statutory Auditors

Esselunga S.p.A. (Sole Shareholder)

Registered office in Milan, via Vittor Pisani 20

Share Capital €100,000,000 fully paid up

Tax Code and Milan Register of Companies no. 01255720169

Milan R.E.A. no. 1063068

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31.12.2019

To the sole shareholder,

The Board of Statutory Auditors has fulfilled the supervisory duties prescribed by Article 2403 of the Italian Civil Code and has prepared this report pursuant to Article 2429 of the Italian Civil Code: statutory auditing is carried out by the Independent Auditors PricewaterhouseCoopers S.p.A.

During the year ended 31 December 2019, our activities were based on the provisions of the law and the Rules of Conduct for the Board of Statutory Auditors issued by the Italian National Council of Chartered Accountants and Accounting Experts. We carried out the self-assessment in accordance with these Rules for each member of the Board of Statutory Auditors, with positive results.

Supervisory activities pursuant to Article 2403 and following of the Italian Civil Code

During the year under review, we monitored compliance with the law and the articles of association, as well as compliance with the principles of good management.

Based on the information obtained from company managers and periodic meetings with the Auditors, we have evaluated and supervised the organisational adequacy of the administrative and accounting system and its reliability in correctly representing management events; in this regard we have no particular observations to report.

During 2019 we held 18 meetings, 6 of which were to issue opinions relating to assignments to be given to the Independent Auditors; we also attended all Shareholders' Meetings and Board of Directors' meetings, which were held in accordance with the provisions of the Articles of Association and the laws governing their operation; we received regular detailed information from the directors on business performance and outlook; the directors provided us with adequate information on the activities carried out and on the most significant transactions affecting the balance sheet, income statement and cash flow statement, including the main real estate initiatives approved during the year.

We obtained information through meetings with the financial reporting officers, as well as with the heads of the Internal Audit department and the Auditors, on compliance with the principles of good management.

Regular meetings were held with the Auditors PWC, as required by Legislative Decree 39/2010 and 135/2016, in order to monitor their independence and the performance of their activities, and to exchange information on the results of their supervisory and control activities.

As a result of the above activities, we were able to confirm the adequacy of the organisational structure and the administrative and accounting system.

We also carried out the periodic self-assessment of the independence of the members of the Board of Statutory Auditors.

The Board of Statutory Auditors can state that in the course of its activities during the year:

- the decisions taken by the Shareholders' Meeting and the Board of Directors were in compliance with the law and the Articles of Association and were not atypical, unusual, manifestly imprudent, risky, potentially involving a conflict of interest or otherwise compromising the integrity of the company's assets, also taking into account intercompany transactions.
- the management choices made by the Directors appeared to comply with general principles of economic rationality;
- to the best of our knowledge, the transactions carried out were also in compliance with the law and the Articles of Association and not in potential conflict with the resolutions passed by the Shareholders' Meeting or otherwise compromising the integrity of the company's assets.

The Board of Statutory Auditors received no complaints pursuant to Article 2408 of the Italian Civil Code during the year.

During the year, the Board of Statutory Auditors issued – where required – the opinions mandatory under law.

No significant findings worthy of specific mention in this report emerged during the Board's supervisory activities.

The Supervisory Body required under Italian Legislative Decree 231/2001 duly carried out the activities for which it is responsible, as per the regular reports submitted to the Board of Directors and the Board of Statutory Auditors, which showed no critical issues in terms of the Model 231 compliance programme that should be highlighted in this report.

Observations regarding the Esselunga Group Consolidated Financial Statements

In accordance with the provisions of Article 106 of Legislative Decree no. 18/2020, the Board of Directors resolved on 18 March 2020 to avail of the extended 180-day term for the approval of the financial statements for the year ended 31 December 2019 and, therefore, of the consolidated financial statements as at 31 December 2019.

- The consolidated financial statements of the Esselunga Group for the year ended 31 December 2019 show a consolidated net profit of €258,536 thousand; it consists of the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the statement of changes in consolidated shareholders' equity and the notes to the consolidated financial statements at 31 December 2019.
- The Board of Directors has also prepared the directors' report pursuant to article 2428 of the Italian Civil Code, including the Non-Financial Report prepared pursuant to Italian Legislative Decree 254/2016; pursuant to paragraph 2-bis of article 40 of Italian Legislative Decree 127/91, the Company has opted to present a single directors' report for the separate and consolidated financial statements, including the consolidated non-financial report.

These documents were delivered in good time to the Board of Statutory Auditors so that they could be deposited at the Company's registered office, together with this report, within the terms set by the Italian Civil Code.

In accordance with legal obligations, the Board of Statutory Auditors draws attention to the following information:

- on 11 June 2020, the Independent Auditors – responsible for the statutory audit – issued the report prepared pursuant to Italian Legislative Decree 39 of 27 January 2010, which certifies that the consolidated financial statements of the Esselunga Group for the year ended 31 December 2019 give a true and fair view of the company's financial position and results for the year; the Independent Auditors' report includes an opinion on the directors' report's consistency with the consolidated financial statements at 31 December 2019;
- on 11 June 2020, the Independent Auditors submitted the additional report required by Article 11 of EU Regulation 537/2014 to the Board of Statutory Auditors;
- the scope of consolidation, the consolidation criteria and methods of consolidation, as well as the measurement criteria adopted by the directors, described in the Notes to the Consolidated Financial Statements at 31 December 2019 comply with current legislation;
- subsidiaries are consolidated using the line-by-line consolidation method; investments in associates are measured using the equity method;
- the Board of Statutory Auditors has certified the general compliance of the consolidated financial statements with current laws on their formation and structure, based on direct checks and information obtained from the heads of the various functions.
- the Board of Statutory Auditors was able to verify that the financial statements correspond overall with the information gathered, the documentation examined, and the knowledge it gained during the periodic checks and interviews carried out;
- the Board of Statutory Auditors declares that the Directors' Report, including the Non-Financial Report, provides a truthful, balanced and comprehensive analysis of all aspects of the running of the business.

<u>Supervisory activities at the Parent Company pursuant to the "Consolidated Law</u>

on Auditing".

As Esselunga S.p.A. has obtained the status of "public-interest entity", the Board of Statutory Auditors – pursuant to art. 19 of Italian Legislative Decree 39/2010 – has also assumed the role of "Internal Control and Statutory Audit Committee" at the Parent Company, which has the following supervisory responsibilities:

- over the financial reporting process;
- over the internal control and risk management system;
- over the statutory audit of annual accounts and consolidated accounts;
- over the independence of the Independent Auditors, with particular reference to the provision of services other than statutory audit.

Supervision of the financial reporting process

The Board of Statutory Auditors verified the existence of adequate procedures to monitor the preparation and dissemination of financial disclosures. In particular, it received and examined the content of the procedures for the preparation of the company's financial statements.

It also received a declaration that, based on the activities carried out as part of the statutory audit, no deficiencies in the internal control system were found in relation to the financial reporting process.

In this regard, the Board of Statutory Auditors finds that the financial reporting process is adequate and that there are no issues to report to the Shareholders' Meeting.

Supervision of the internal control and risk management system

During 2019 and in the first part of 2020, the Board of Statutory Auditors held discussions and coordinated with the Head of Internal Audit in order to obtain information on the monitoring activities carried out, as well as the Audit Plan for the year 2020, approved by the Board of Directors on 22 May 2020.

Regarding the emergency caused by the Covid-19 pandemic, the Business Continuity & Crisis Committee met as early as 4 February 2020 and then became permanently active as of 24 February 2020, with over 60 meetings aimed at managing all phases of the crisis and approving anti-contagion protocols and business continuity procedures.

The Business Continuity & Crisis Committee has prepared a document for the Board of Statutory Auditors containing a summary of the measures taken to manage the crisis caused by Covid-19. Having read this document, the Committee believes that the measures taken to protect workers and customers have been timely and effective, highlighting a high level of organisational resilience; the Board of Statutory Auditors also received continuous updates from the heads of the key functions on the evolution of the situation.

Management currently believes that the situation caused by the epidemic does not impact assessments made on the Group's ability to continue as a going concern, considering its financial position and cash flows.

Supervision of the statutory audit of annual accounts

The Board of Statutory Auditors supervised the audit activities referred to in article 19 of Italian Legislative Decree 39/2010 through meetings held with the Independent Auditors, who explained the results of the controls carried out, the audit strategy and the main issues encountered in carrying out the activities. These meetings did not reveal any critical issues that would affect the Company's financial statements.

Supervision of the independence of the Independent Auditors, with particular reference to the provision of non-audit services

The Board of Statutory Auditors monitored the independence of the Independent Auditors PricewaterhouseCoopers S.p.A., which Esselunga S.p.A. appointed as independent auditors for the nine-year period 2017-2025 pursuant to Legislative Decree 39/2010; in this regard it should be noted that in 2019 the Board of Statutory Auditors – in its capacity as the Internal Control and Audit Committee – verified that the independence requirement was met and subsequently approved the award to PricewaterhouseCoopers S.p.A. of eight assignments (of which three relating to Group companies) for the provision of non-audit services.

The Board of Statutory Auditors received the Independent Auditors' annual confirmation of independence pursuant to article 6, paragraph 2, letter a) of EU Regulation 537/2014 and pursuant to paragraph 17 of ISA Italia 260.

In consideration of the foregoing and also in view of the report prepared by the Independent Auditors pursuant to article 14 of Italian Legislative Decree 39/2010, the Board of Statutory Auditors finds that the Group consolidated financial statements as at 31 December 2019 have been prepared in accordance with current regulations and correctly represent the company's financial position, cash flows and performance for the year.

Trento, 11 June 2020

Board of Statutory Auditors

Enzo Moggio

Marco Sabella

Stefano Angheben

Independent Auditors' Report

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Esselunga SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Esselunga Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows 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 of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Esselunga SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Measurement of real estate development projects and investment property *Note 12.1 "Property, plant and equipment" and note 12.2 "Investment property"* Real estate development projects primaly involve the construction of stores. Given the complexity of the applicable regulations and the timeframe needed to obtain approvals to build commercial properties, the completion of real estate development projects is a complex process that may last several years. Consequently, the Group may decide to dismiss certain ongoing development projects because it concludes they are too complex or too costly to complete, or it no longer considers them commercially strategic. In those circumstances, the components related to land and related development costs are reclassified in the line item 'Investment property' because they are held for rental income or for subsequent sale, and they are measured at cost. Also the area of land exceeding the portions occupied by the new stores is classified as 'Investment property'. On some of these areas the Group has built, or holds approvals to build, investment properties. The timeframe for obtaining construction approvals and the gradual contraction of the real estate market resulted in increased uncertainty about the ways of completion of projects and increased price volatility, with a consequent reduction of the number of comparable transactions that could be used for valuation purposes. This involves the need to make assumptions about the development of approval processes and future market developments, and the possibility that actual results may differ from estimates, which would entail adjustments, which could be significant, to the carrying amounts of financial statements line items. Investment property amounted to Euro 157 million as of 31 December 2019. Land held for real estate development projects	We examined and assessed the procedures adopted by the Group to measure real estate development projects and investment property; we understood and analysed the information flows between the Group and third party experts. We conducted our analysis also through detailed interviews of the personnel of the parent company Esselunga SpA involved in the measurement process. We carried out analysis to ascertain the independence, competence, skills and objectivity of third party experts engaged by the Group. We selected a sample of real estate development projects and investment properties and we analysed the appraisals prepared by the experts engaged by the Group. We met and discussed with both the personnel of the parent company Esselunga SpA and third party experts engaged by the Group, to understand the criteria and valuation methods applied, and we performed a critical analysis of the methods and assumptions applied. We obtained the information and sources used by third party experts engaged by the Group and performed on a sample basis cross-checks, also comparing the technical information reported in the appraisals with the Group's technical information. With the support of independent experts engaged by us, whose competence, skills and objectivity we assessed, we retraced the valuations performed by the experts engaged by the Group. Specifically, we performed a comparative analysis with previous valuations, where available, we considered the assumptions adopted in the appraisals based on available external market data and

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
where construction has not yet started amounted to Euro 139 million as of 31 December 2019 and is included in 'Property, plant and equipment'. A residual portion of this land could be used for construction of new investment properties. At least once a year, management of the parent company Esselunga SpA estimates the recoverable value, by determining the fair value less costs of disposal, of properties classified in 'Investment property' and of development projects that show indicators of risk, both for the purpose of impairment testing provided by IAS 36 "Impairment of assets" and to comply with the disclosure obligations of IAS 40 "Investment Property". The process of estimating the recoverable amount also includes the use of appraisals prepared by third party experts. Management's valuations include estimates, the most significant ones are applied rates to discount future cash flows, capitalisation rates, the rates of growth of rent and the selling prices of property. In relation to real estate development projects, other estimates involve development costs, risk premiums and the impact of specific circumstances, including regulatory matters, of the land being valued. Determining the recoverable amount of development projects and investment property was a key audit matter considering of the magnitude of the balances, the timeframe needed to obtain approvals to build, the gradual contraction of the real estate market and estimates by management, including the discount and capitalisation rates used in the related valuation models.	valuation best practice.
Trade agreements with suppliers *Note 13.2 "Net costs for goods and raw materials"* The Group has entered into trade agreements with suppliers under which it obtains volume rebates and allowances in exchange for promotional activities, such as for instance preferential product displays and distribution of	We understood and assessed the procedures adopted by the Group to manage and account for trade agreements with suppliers. We conducted detailed interviews of the personnel involved in the process and examined the controls implemented by the Group. We carried out procedures to verify the actual

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
advertising flyers in Group's stores. In accordance with IFRS, these allowances and rebates are recognised as a reduction of the purchase cost of the goods, included among 'Net costs for goods and raw materials' when the conditions for earning them, defined by the trade agreements with the individual suppliers, have been fulfilled at the reporting date or during the year if it is reasonably probable that they will be reached on annual basis. The conditions for earning the allowances and rebates are dependant upon the type of trade agreement: - Volume rebates are granted when contractually agreed sales volumes targets are met; - Allowances in exchange for promotional activities may be granted on different terms depending on the nature and timing of the service provided. The allowance is defined on the basis of generally written agreements with suppliers that specify the amount and timing of the service. In certain instances the allowance is fixed or variable based on sales volumes. As part of our audit of the consolidated financial statements as of 31 December 2019, the analysis of rebates and allowances was a key audit matter due to the significance of the balance and its materiality relative to the Group's operating profit, and in consideration of the number and complexity of agreements with suppliers and the number of "out-of contract" allowances/rebates, typical of the Group's business, agreed during the year.	existence and effectiveness of controls over the process that we considered relevant, also using the support of experts belonging to the PwC network, in order to verify: - The existence of trade agreements and/or written communications with suppliers and/or internal evidence and the correct inout of contractual terms in the software used by the Company to calculate the trade allowances earned at the reporting date; - Data in the software used to calculate the trade allowances earned at the reporting date matched those recorded in the general ledger; - The reconciliation of allowances and rebates calculated by the software to the data in the general ledger, and the periodical analysis and clearance of any reconciling items; - The existence of documentary evidence supporting the promotional, marketing and advertising activities performed in the reporting period; - The amount of goods purchased, used as the basis for the calculation of volume rebates and promotional allowances by the Company, by obtaining written confirmations from individual suppliers. This audit procedure was performed for the Company's main suppliers. Furthermore, we obtained the trade agreements for a sample of suppliers and performed the following auditing procedures: - We met the procurement managers to obtain an appropriate understanding of certain contractual provisions; - We verified that received allowances were accurate and recorded in the correct period, in accordance with the accrual basis of accounting, by checking volume rebates earned and the documentary evidence supporting allowances recognised for promotional campaigns and marketing and advertising activities performed by the Group. For a sample of credit notes from suppliers that were received after the reporting date, we

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	verified the existence and accuracy of the accruals posted by the Group in accordance with the accrual basis of accounting. For a sample of transactions included in invoices to be issued for services rendered by the Group we verified that the invoice had actually been issued for an amount corresponding to the related accrual and, if already collected, that the invoice had actually been collected or offset against the balance payable to the supplier.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated 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, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Esselunga SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We 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 obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 26 September 2017, the shareholders of Esselunga SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Esselunga SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Esselunga Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Esselunga Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Esselunga Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Esselunga SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 11 June 2020

PricewaterhouseCoopers SpA

Signed by

Andrea Rizzardi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Company information

Giuliana Albera Caprotti Honorary President

Board of Directors

Vincenzo Mariconda	Chairman
Marina Sylvia Caprotti	Vice Chairman
Sami Kahale	Chief Executive Officer and General Manager
Carlo Salza	Director
Carlo Gualdi	Director
Francesco Moncada	Director
Paolo Francesco Tronca	Director
Stefano Tronconi	Director
Gabriele Villa	Director

Board of Statutory Auditors

Enzo Moggio	Chairman
Stefano Angheben	Regular Auditor
Marco Sabella	Regular Auditor
Franco Chesani	Alternate Auditor
Claudio Clementel	Alternate Auditor

Independent auditors

PricewaterhouseCoopers S.p.A.

Supervisory Body

Alessandro Cortesi	Chairman
Alberto Gaudio	Member
PierMario Barzaghi	Member