Esselunga Group Financial Statements
Year ended 31 December 2016

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

Mr Bernardo Caprotti, our founder and leader, passed away in the evening of 30 September.

Through his daily presence over more than 50 years, Mr Caprotti laid the foundations for the growth of the business and its current model, which is regarded as a benchmark in Mass Retailing in Italy and worldwide.

Esselunga's growth in all these years is the result of Mr Caprotti's constant and persistent pursuit of his vision and his principles, which have been an inspiration to us all.

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Consolidated statement of financial position (thousands of Euro)

	Notes	As of 31 December 2016	As of 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	10.1	3,074,402	2,882,660
Investment property	10.2	182,900	158,787
Goodwill	10.3	6,586	6,586
Intangible assets	10.4	156,599	158,168
Equity investments in other companies	10.5	196	46,646
Deferred tax assets and liabilities	10.6	65,768	88,539
Other receivables and other non-current assets	10.7	76,839	74,783
Total non-current assets		**3,563,290**	**3,416,169**
Current assets			
Closing inventories	10.8	394,419	389,732
Trade receivables	10.9	429,558	435,012
Current tax receivables	10.10	19,253	14,914
Other receivables and other current assets	10.11	53,189	62,260
Cash and cash equivalents	10.12	305,470	284,672
Total current assets		**1,201,889**	**1,186,590**
Assets held for sale	10.13	**14,503**	**15,264**
TOTAL ASSETS		**4,779,682**	**4,618,023**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	10.14	100,000	100,000
Share premium reserve	10.14	164,510	164,510
Other reserves	10.14	49,269	49,269
Retained earnings	10.14	2,215,113	1,976,573
Equity attributable to owners of the parent	10.14	**2,528,892**	**2,290,352**
Equity attributable to non-controlling interests	10.14	-	-
Total Shareholders' equity	10.14	**2,528,892**	**2,290,352**
Non-current liabilities			
Non-current financial payables	10.15	396,514	425,173
Employee severance indemnities (TFR) and other staff-related provisions	10.16	106,751	103,568
Provisions for risks and charges	10.17	30,861	36,216
Deferred revenue for prize-giving promotions	10.18	60,043	-
Other payables and other non-current liabilities	10.19	107	91
Total non-current liabilities		**594,276**	**565,048**
Current liabilities			
Current financial payables	10.15	28,658	40,454
Trade payables	10.20	1,302,844	1,230,141
Deferred revenue for prize-giving promotions	10.18	32,333	180,772
Current tax payables	10.21	546	17,803
Other payables and other current liabilities	10.22	292,133	293,453
Total current liabilities		**1,656,514**	**1,762,623**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,779,682**	**4,618,023**

Consolidated statement of comprehensive income (thousands of Euro)

	Notes	Year ended 31 December	
		2016	2015
Total sales	11.1	7,540,009	7,312,263
Other sales adjustments		(32,270)	(122,562)
Net revenue		7,507,739	7,189,701
Other revenues and income and promotional activities	11.2	1,180,674	1,125,688
Costs for goods and raw materials	11.3	(6,277,094)	(6,038,375)
Costs for services	11.4	(756,607)	(716,116)
Personnel costs	11.5	(944,049)	(880,974)
Amortisation and depreciation	11.6	(198,622)	(185,728)
Provisions and write-downs	11.7	(56,412)	(4,626)
Other operating costs	11.8	(50,270)	(58,624)
Operating profit		**405,359**	**430,946**
Finance income	11.9	842	3,007
Finance expense	11.10	(16,640)	(15,112)
Profit before taxes		**389,561**	**418,841**
Income taxes	11.11	(127,298)	(128,274)
Net profit for the year		**262,263**	**290,567**
Net profit (loss) for the year attributable to owners of the parent		262,263	290,567
Net profit (loss) for the year attributable to non-controlling interests		-	-
Other comprehensive income			
Components that will not subsequently be reclassified to profit or loss			
Actuarial gain (loss) on defined benefit pension plans, net of tax effect		(3,723)	3,381
Total other comprehensive income / (loss)		**(3,723)**	**3,381**
Net comprehensive income for the year		**258,540**	**293,948**
Net comprehensive income for the year attributable to owners of the parent		258,540	293,948
Net comprehensive income for the year attributable to non-controlling interests		-	-

Consolidated cash flow statement (thousands of Euro)

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

Statement of Cash Flows	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Cash flow from operating activities		
Collections customers	7,540,009	7,312,263
Collections from promotional activities	1,158,692	1,061,726
Other receipts	41,907	40,212
Payments to suppliers	(7,012,436)	(6,715,177)
Payments to employees	(907,873)	(877,385)
Rent and rental expenses	(139,559)	(145,062)
Other payments	(57,562)	(50,040)
Cash flow of ordinary operations	**623,178**	**626,537**
Income tax paid	(118,308)	(134,722)
A) CASH FLOW FROM OPERATING ACTIVITIES	**504,870**	**491,815**
Cash Flow from investing activities		
Capex on tangible and intangible assets	(453,739)	(406,018)
Disposals of tangible and intangible assets	9,714	6,106
Disposal of equity investments	32,977	-
Interest collected	869	1,556
Dividends and interest on securities received	-	1,640
Other	(18)	(399)
B) CASH FLOW USED IN INVESTING ACTIVITIES	**(410,198)**	**(397,115)**
Cash flow from financing activities		
Loan proceeds, net of repayments	(40,198)	21,433
Payment of interest	(13,613)	(14,229)
Distribution of dividends	(20,000)	(112,000)
C) CASH FLOW USED IN FINANCING ACTIVITIES	**(73,811)**	**(104,796)**
NET CASH FLOW OF THE PERIOD (A + B + C)	**20,861**	**(10,096)**
Cash and cash equivalents at the beginning of the period and current account overdrafts	**284,609**	**294,705**
Cash and cash equivalents at the end of the period and current account overdrafts	**305,470**	**284,609**

Consolidated statement of changes in shareholders' equity (thousands of Euro)

	Share capital	Share premium reserve	Revaluation reserve	Other reserves	Retained earnings	**Shareholders' equity attributable to owners of the parent**	Non-controlling interest	**Total shareholders' equity**
As of 31 December 2015	**100,000**	**164,510**	**25,975**	**23,294**	**1,976,573**	**2,290,352**	**-**	**2,290,352**
Other movements:								
Actuarial loss on defined benefit pension plans	-	-	-	-	(3,723)	(3,723)	-	(3,723)
Profit for the period	-	-	-	-	262,263	262,263	-	262,263
Dividends	-	-	-	-	(20,000)	(20,000)	-	(20,000)
As of 31 December 2016	**100,000**	**164,510**	**25,975**	**23,294**	**2,215,113**	**2,528,892**	**-**	**2,528,892**

1. General information

The Esselunga Group (hereinafter also the "Group") is mainly engaged in the food sector of Large-Scale Retailing through a sales network comprising, at 31 December 2016, 153 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio. In addition, the Group manages 83 Atlantic bars and 38 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. The main companies that make up the Group, in addition to Esselunga SpA (the "Company" or the "Parent Company"), are: Orofin SpA, which is in charge of the majority of the real estate development projects, Atlantic Srl, EsserBella SpA and Fìdaty SpA.

Purchase of the Ospitaletto business unit

On 20 April 2016, the court-appointed liquidator of Stefana SpA (in arrangement with creditors) announced the acceptance by the bodies responsible for the arrangement procedure of the € 51.5 million offer submitted by Esselunga SpA for the purchase of the Ospitaletto (BS) business unit, consisting of the area, the steel mill, and about 200 employees. Esselunga's aim in doing so was to create its fourth logistics hub.

On 25 May 2016, the agreement for the purchase of the business unit was signed. Subsequently, the Parent Company launched negotiations for the sale and disposal of plant and machinery.

The area on which the new Esselunga logistics hub will be built has been purchased under the Stefana SpA arrangement with creditors procedure pursuant to art. 160 of the bankruptcy law (the "Procedure"). More specifically, Esselunga had initially submitted a joint, single and indivisible offer with GIP Srl for the purchase of three of Stefana's four business units and, specifically, for the Ospitaletto business unit, to be purchased by Esselunga (at the price of € 43.3 million), and the business units of Montirone and Nave (via Bologna), to be purchased by GIP Srl. The offer expressly stated that Esselunga, while acquiring the Ospitaletto business unit, was only interested in the land and that, therefore, "the interest in the purchase is conditional upon termination of the productive activity in the Ospitaletto site, and therefore, on the demolition of the constructions in the area and the removal of plant and machinery as well as of materials in inventory".

Following submission of the joint bid, the Bodies in charge of the Procedure launched an invitation to tender for the business units owned by Stefana SpA by issuing a Regulation which, in relation to the offers to be submitted, provided, inter alia, that:

- the offers should have been made "solely for individual business units", excluding any "en bloc" purchases of more than one business unit or the purchase of individual assets of the business units;
- for each business unit, the consideration should not be lower than the consideration resulting from the appriasal made by the experts appointed by the Court of First Instance and, therefore, for the Ospitaletto business unit, not less than € 51,494,150. This amount was given by the sum of the values attributed by

the experts to the area on which the Stefana facilities were located and to the plant, machinery and materials contained in the area.

Given the strategic relevance of the Ospitaletto area for the Company, a new offer for the acquisition of the Ospitaletto business unit was submitted, replacing the previous joint offer with GIP Srl, at a price of € 51,500,000 , i.e. in line with the amount requested by the bodies in charge of the Procedure. In any event, the new offer, subsequently accepted by the bodies in charge of the Procedure, clearly specified that Esselunga (i) did not intend to put the facilities back into operation and/or continue the steelworks activities previously carried out by Stefana in the Ospitaletto area, and (ii) after the purchase, it intended to demolish the buildings in the area and remove the plant, machinery and materials in the area in order to build a logistic hub.

The purchase price of € 54.4 million includes the land, buildings, facilities and ancillary costs, separately assessed as mentioned above. As the area was to be allocated to the construction of the logistic hub, the steel production facilities in the area were to be disposed of. Taking into account the price paid for the business unit and the data obtained from the court-ordered appraisal for each individual category of asset included in the purchase agreement, this entailed a write-down of € 39.4 million relating to the steel mill with roll mill to be dismantled and sold. The €/sqm values compared to the total amount of € 54.4 million, considering that the buildable volumes exceed 500,000 sqm (gfa), are definitely attractive from a financial standpoint. To date, the sale of the roll mill has been formalised in a contract while the demolition of the steel mill is underway.

The residual area, of approximately 1 million square meters and located at the intersection of important communication routes, is not only of strategic importance for the development of the commercial network in areas not yet covered, but is also intended to mitigate the saturation of the Limito di Pioltello Logistic hub, currently nearing its capacity limit.

The purchase of the Ospitaletto business unit from Stefana SpA involved the transfer of 187 workers upon signing of the agreement. Upon signing of the deed of purchase, an agreement with the trade unions was in place in which Esselunga SpA and the trade union organisations had agreed on the need to make use of the special redundancy fund (CIGS) to safeguard employment.

The pay and legal conditions for employees transferred to Esselunga SpA were aligned through a trade union agreement signed on 17.5.2016 (ratification of the draft agreement signed on 13.5.2016), pursuant to art. 2112 of the Italian Civil Code and art. 47, para. 4bis and 5 of Legislative Decree 428/1990. Esselunga SpA's intention to create a logistics hub at the service of its distribution chain was clearly pointed out in the aforementioned Trade Union Agreement.

Through the Trade Union Agreement signed on 31.5.2016 at the Regional Agency for Education, Training and Employment of the Lombardy Region, 180 workers were placed under the special redundancy fund procedure (CIGS) with effect from 1.7.2016

and for a period of 24 months (until 30.6.2018). Given this agreement and the application for accessing the special redundancy fund (CIGS), by decree no. 96879 of 5 August 2016, the Ministry of Labour authorised the 24-month special redundancy procedure.

2. Summary of 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 end 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, the EU IFRS were applied in a consistent manner to all the periods presented in this document. The financial statements were prepared on the basis of the best available information on the 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 2016 there were no derivative instruments outstanding.
These consolidated financial statements have been prepared on a going concern basis.

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 statement of comprehensive income shows 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

These consolidated financial statements include the draft financial statements for the financial year ended 31 December 2016 of the Parent Company Esselunga SpA prepared by the Board of Directors and the draft financial statements for the year ended 31 December 2016 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 2016 and the changes in the scope of consolidation compared to 31 December 2015 are listed in Appendix 1.

2.4 Consolidation policies and methods

Subsidiaries

The Group's consolidated financial statements include the financial statements of Esselunga SpA (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, they are entitled to. The shares of equity and profit attributed to non-controlling interests are shown separately in the consolidated 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 which is assumed to exist when holding a share of voting rights comprised between 20% and 50%.

Investments in associates and in jointly controlled entities are valued using the equity method and are initially recognised at cost. The equity method is described below:

- the carrying amount of these investments includes the higher values attributed to the assets, liabilities and contingent liabilities and any goodwill identified upon acquisition;
- the gains or losses attributable to the Group are recognised as of the date the significant influence began and until the date the significant influence ceases; if, due to losses, the company valued using this method reports negative equity, the carrying amount of the investment is cancelled and any excess is recognised in a 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 unrealised gains and losses arising on transactions between the Parent Company / subsidiaries and the investee valued using the equity method are eliminated to the extent of the Group's interest in the investee; losses are eliminated, except where they reflect an impairment.

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 asset to be depreciated over its 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 part of the asset.
The useful life estimated by the Group for the various categories of property, plant and equipment is as follows:

	Years
Buildings	30 – 40
Plant and machinery	3.3 - 13.3
Industrial and commercial equipment	2.5 – 8
Other assets	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.
Property, plant and equipment held under finance lease contracts, which substantially transfer the risks and rewards of ownership to the Group, are recognised as Group assets at their fair value or, if less, at the present value of minimum lease payments, including any amount to be paid to exercise the purchase option. The corresponding liability to the lessor is recognised as financial payable. Assets are depreciated based on the criterion and rates previously indicated for property, plant and equipment unless the term of the lease is shorter than the useful life corresponding to the said rates and there is no reasonable certainty that the leased asset will be acquired upon expiration of the lease; in this case the depreciation period will be the term of the lease. Any capital gains realised on the sale of assets under finance leases are recognised as liabilities and recognised in the income statement on the basis of the lease term.
Leases where the lessor substantially retains the risks and benefits associated with ownership of the assets, are classified as operating leases. Operating lease costs are recorded in the income statement on a systematic basis over the term of the lease.

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

Goodwill is the difference between the cost incurred to purchase an investment (or group of assets) and the fair value of the assets and liabilities acquired at the time of the transaction. Goodwill is not amortised but is tested for impairment on an annual basis (impairment test). This test is carried out with reference to the cash generating unit ("CGU") to which the goodwill is to be attributed. 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. If the impairment resulting from the test is greater than the value of the goodwill allocated to the CGU, the excess loss is allocated to the assets included in the CGU in proportion to their carrying amount. Gains and losses on the sale of an investment include the amount of the associated goodwill.

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 machinery, investment property and intangible assets

At the balance sheet 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 assets, trade receivables and other receivables

On initial recognition, financial assets are measured at fair value and classified in one of the following categories based on the nature and purpose of their purchase:

(a) investments held to maturity;
(b) loans and receivables;
(c) available for sale financial assets.

Purchases and sales of financial assets are recognised at the date of the transaction. Financial assets are derecognised when the right to receive cash flows from the instrument has expired and the Group has substantially transferred all the risks and benefits of, and control over the instrument.

a) Investments held to maturity
Assets held with the intention of keeping them until maturity are classified under current financial assets, if they expire in less than twelve months and as non-current assets if over twelve months, and after initial recognition they are measured at amortised cost. 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) Loans and receivables
Loans and receivables include non-derivative financial instruments, mainly consisting of trade receivables, with fixed or determinable payments, that are not quoted on an active market. Loans and receivables are classified as "Trade receivables" and "Other receivables" in the statement of financial position. "Other receivables" are included in current assets if their contractual maturity falls within less than 12 months, otherwise they are classified under non-current assets.

These assets are measured at amortised cost, using the effective interest rate, less any impairment losses. Loan losses are recognised when there is objective evidence that the Group will not be able to recover the amount due from the counterparty on the basis of contractual terms. Objective evidence that a financial asset or group of assets has suffered an impairment can be inferred from the following events:

- significant financial difficulties of the issuer or debtor;
- pending legal disputes with the debtor regarding receivables;
- it is likely that the beneficiary will declare bankruptcy or start other financial restructuring procedures.

The amount of impairment is measured as the difference between the carrying amount of the asset and the present value of future cash flows. The amount of the loss is recognised in the income statement under "provisions and impairments". The value of receivables is presented net of a provision for doubtful accounts.

c) Available for sale financial assets

Available-for-sale assets are non-derivative financial instruments, expressly designated for classification in this category or that cannot be classified in any of the above categories; they are included in non-current assets unless management intends to sell them within twelve months after the balance-sheet date. The Group classifies its investments in other companies in this category.

After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses on fair value measurement recognised in an equity reserve. They are recorded in the income statement under "Financial income" or "Financial expense" only when the financial asset is actually sold.

The fair value of quoted financial instruments is based on their listed price. If the market for a financial asset is not active (or refers to unlisted securities), the Group defines the fair value using valuation techniques that include: reference to advanced negotiations in progress, references to securities with the same characteristics, cash-flow based analyses, pricing models based on the use of market indicators and aligned to the assets to be assessed, to the extent possible.

When there is objective evidence of impairment of financial assets, the valuation model must be applied at the close of each financial year. As regards investments classified as financial assets available for sale, a prolonged or significant decline in the fair value of the investment below its initial cost is considered as evidence of impairment. In this case, the loss on financial assets available for sale - calculated as the difference between the acquisition cost and the fair value at the balance sheet date net of any impairment losses previously recognised in the income statement - is removed from equity and recognised in the income statement. These losses are final and, therefore, they cannot subsequently be reversed.

Investments in equity instruments that do not have a quoted market price and the fair value of which cannot be reliably measured are valued at cost.

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. Cost is calculated using the weighted average cost method.

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 purchase date. These financial assets are stated at their nominal value.

Shareholders' Equity

Share capital
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.

Trade, financial and other payables

Trade, financial and other payables are initially recognised at fair value, net of direct ancillary costs, and 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.
Payables to lenders 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.
Payables to lenders are recognised when the entity becomes a party to the relevant contract and are derecognised when they are discharged and when the Group has transferred all the risks and charges related to the instrument.

Deferred revenue for prize-giving promotions

Deferred revenue for prize-giving promotions refers to loyalty plans that Esselunga SpA 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. Deferred revenue for prize-giving promotions are measured based on the fair value of points accrued, less an amount that reflects the estimated number of bonus points that will likely not be redeemed by final customers.
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.

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. According to IAS 19, the employee severance indemnity (TFR) is 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).

The Group recognises any gains or losses arising from changes in actuarial assumptions in an equity reserve, which is the only permitted criterion as of 1 January 2015 following the issue of the revised IAS 19.

As a result of the pension reform, the severance indemnities accruing as of 1 January 2007 are allocated to pension funds, to the treasury fund set up at Inps, or, in companies with fewer than 50 employees, it can be kept with the company as it was the case prior to the reform. Employees were able to choose how to allocate their severance indemnities until 30 June 2007. In this regard, the allocation to pension funds or to INPS of the severance indemnities that will accrue implies that the amount that will accrue is classified as a defined contribution plan since the entity's only obligation is the payment of contributions to the pension fund or to INPS. The liability for employee severance indemnities prior to the reform continues to be considered as a defined benefit plan to be assessed under actuarial assumptions.

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 reporting 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, without any provision.

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 the fair 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 at the time the risks and benefits associated with the product are transferred to the customer, which normally coincides with delivery or shipment of the goods to the customer. Revenues from services are recognised in the accounting period in which the services are rendered, 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.

Promotional activities

Promotional activities are recognised in the income statement in accordance with the accrual principle and on the basis of contractual arrangements with counterparties.

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 are recognised at the date of the Shareholders' Meeting resolution approving the dividend distribution.

Dividends distributed

A liability is recognised in the consolidated financial statements in the period 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 balance sheet 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 balance sheet 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. Accounting standards, amendments and interpretations applicable after 31 December 2015 and not adopted in advance by the Group

The consolidation criteria, accounting principles, measurement criteria and valuation estimates adopted are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2015, except as set out in the standards and amendments set out below, applied with effect from 1 January 2016, since they became mandatory following completion of approval procedures by the relevant authorities.
The international accounting standards, interpretations and amendments to existing accounting standards and interpretations, or the specific provisions contained in IASB approved standards and interpretations that will be effective for financial periods beginning on or after 1 February 2015 are specified below.

Description	**Standard effective date**
Annual Improvements to IFRSs 2010–2012 Cycle	Periods beginning on 1 February 2015
Amendments to IAS 19 "Employee Benefits" with respect to defined benefit plans	Periods beginning on 1 February 2015
Amendments to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation	Periods beginning on 1 January 2016
Amendments to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" with respect to depreciation and amortisation	Periods beginning on 1 January 2016
Amendments to IAS 16, "Property, plant and equipment" and IAS 41, "Agriculture", concerning bearer plants	Periods beginning on 1 January 2016
Amendments to IAS 27, "Separate financial statements", regarding the equity method	Periods beginning on 1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	Periods beginning on 1 January 2016
Amendments to IFRS 10 "Consolidated Financial Statements" and to IAS 28 "Investments in Associates and Joint Ventures" on the application of the consolidation exemption and to IFRS 12	Periods beginning on 1 January 2016
Amendments to IAS 1 "Presentation of financial statements" regarding the disclosure initiative	Periods beginning on 1 January 2016

4. Accounting standards, amendments and interpretations not yet effective and not adopted in advance by the Group

The international accounting standards, interpretations and amendments to existing accounting standards and interpretations, or the specific provisions contained in IASB approved standards and interpretations that will be effective for financial periods beginning after 1 January 2016 are specified below.

Description	Standard effective date
Amendments to IAS 12 "Income taxes" on the recognition of deferred tax assets on tax losses	Periods beginning on 1 January 2017
Amendments to IAS 7, "Statement of Cash Flows"	Periods beginning on 1 January 2017
Amendments to IFRS 9, "Financial Instruments", regarding general hedge accounting	Periods beginning on 1 January 2018
Amendments to IFRS 2, "Classification and measurement of Share-based payment transactions"	Periods beginning on 1 January 2018
IFRS 15: "Revenue from contracts with customers"	Periods beginning on 1 January 2018
Annual Improvements to IFRS 2014-2016	Periods beginning on 1 January 2018
Amendments to IFRS 4: Implementation of IFRS 9 - Financial Instruments	Periods beginning on 1 January 2018
Amendments to IAS 40, "Investment Property"	Periods beginning on 1 January 2018
IFRIC 22, "Foreign currency transactions and advance consideration"	Periods beginning on 1 January 2018
Clarifications to IFRS 15, "Revenue from contracts with customers"	Periods beginning on 1 January 2018
IFRS 14 "Regulatory Deferral Accounts"	IFRS 14 became effective on 1 January 2016, but the European Commission has suspended the approval process pending the new "rate-regulated activities" standard
IFRS 16: Leases	Periods beginning on 1 January 2019

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 subjective valuations based on the information available within the Group and 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) 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 and 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.

c) 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.

d) 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.

e) Calculation of the liability for customer loyalty plans
The identification of the fair value of the points attributed to customer loyalty plans and the percentages with which they will be redeemed by the Group's customers, 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.

f) 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.

6. Group taxation

In 2016, 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 SpA 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 ACE (Aid to economic growth) and 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 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 SpA 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 SpA, which issues instructions for managing the various types of risk and the use of financial instruments.

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.

While the Group is not exposed to financial risks to any appreciable extent, the main categories of risk are nevertheless described below.

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 2016 and 2015 is the carrying amount of the financial assets reported in the financial statements, as shown in the table below (amounts in thousands of Euros):

Description	As of 31 December 2016	As of 31 December 2015	Change
Other receivables and other non-current assets	76,839	74,783	2,056
Trade receivables	429,737	435,262	(5,525)
Current tax receivables	19,253	14,914	4,339
Other receivables and other current assets	57,016	64,670	(7,654)
Total gross amount	582,845	589,629	(6,784)
Provision for doubtful receivables	(4,004)	(2,660)	(1,344)
Total net amount	**578,841**	**586,969**	**(8,128)**

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

Trade receivables mainly refer to receivables for promotional activities and amounts due from customers that use the "Fìdaty Oro" loyalty card as a means of payment; they are a residual amount with respect to total sales, as selling prices are generally paid by customers at the time of purchase. The level of risk associated with this item is limited.
These items are accounted for net of a provision for doubtful receivables, for a total of € 4,004 thousand at 31 December 2016 and € 2,660 thousand at 31 December 2015, respectively. The write-down is calculated based on an analysis of individual debt positions for which there are objective conditions of total or partial uncollectibility.
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 SpA 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 tables provide a breakdown of receivables at 31 December 2016 and 31 December 2015 by category and by number of days past due (amounts in thousands of euros).

Description	As of 31 December 2016					
	Not	Days past due				
	overdue	0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current assets	76,839	-	-	-	-	76,839
Trade receivables	385,786	1,924	33,675	5,253	3,099	429,737
Current tax receivables	19,253	-	-	-	-	19,253
Other receivables and other current assets	57,016	-	-	-	-	57,016
Total gross amount	538,894	1,924	33,675	5,253	3,099	582,845
Provision for doubtful accounts						(4,004)
Total net amount	**538,894**	**1,924**	**33,675**	**5,253**	**3,099**	**578,841**

Description	As of 31 December 2015					
	Not	Days past due				
	overdue	0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current assets	74,783	-	-	-	-	74,783
Trade receivables	394,957	1,013	27,979	6,192	5,121	435,262
Current tax receivables	14,914	-	-	-	-	14,914
Other receivables and other current assets	64,670	-	-	-	-	64,670
Total gross amount	549,324	1,013	27,979	6,192	5,121	589,629
Provision for doubtful accounts						(2,660)
Total net amount	**549,324**	**1,013**	**27,979**	**6,192**	**5,121**	**586,969**

As shown in the table above, receivables expired at 31 December 2016 amounted to € 43,951 thousand, while the allowance for doubtful receivables amounted to € 4,004 thousand.

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. More specifically, the Group has access to a credit line of € 67.5 million, expiring on 27 July 2018, that can alternatively be used by Esselunga SpA or by Supermarkets Italiani SpA.

The following tables provide a breakdown of liabilities by maturity as at 31 December 2016 and 31 December 2015 (amounts in thousands of euros). 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.

	As of 31 December 2016				
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Financial payables (current and non-current) excluding leases	-	-	-	-	-
Finance lease payables (current and non-current)	28,659	29,532	89,089	277,892	425,172
Other payables and other non-current liabilities	-	-	-	107	107
Trade payables	1,302,844	-	-	-	1,302,844
Current tax payables	546	-	-	-	546
Other payables and other current liabilities	292,133	-	-	-	292,133
Total	**1,624,182**	**29,532**	**89,089**	**277,999**	**2,020,802**

	As of 31 December 2015				
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
Financial payables (current and non-current) excluding leases	63	-	-	-	63
Finance lease payables (current and non-current)	40,391	28,658	91,334	305,181	465,564
Other payables and other non-current liabilities	-	-	-	91	91
Trade payables	1,230,141	-	-	-	1,230,141
Current tax payables	17,803	-	-	-	17,803
Other payables and other current liabilities	293,453	-	-	-	293,453
Total	**1,581,851**	**28,658**	**91,334**	**305,272**	**2,007,115**

7.3 Market Risk

In carrying out its activities, the Group is potentially exposed to the following market risks:

- Risk of price fluctuations;
- Risk of exchange rate fluctuations;
- Risk of interest rate fluctuations.

These risks are essentially managed centrally by the Parent Company.

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 payables and loans with lending institutions, current account payables with parent companies and finance lease payables. Financial payables at floating rates accounted for 27.2% of total debt both at 31 December 2016 and at 31 December 2015.

A positive or negative 0.5% change in interest rates, all other variables being unchanged, would have the following impacts on shareholders' equity and profit for the year at 31 December 2016 and 31 December 2015:

Description	**31 December 2016**		**31 December 2015**	
Interest rate change at year-end	+0.50%	-0.50%	+0.50%	-0.50%
after tax effect (in BS and P&L) in Euro / 000	(435)	435	(554)	554

In recent years, the Group has not implemented any specific interest rate risk hedging nor has it used derivative instruments.

However, this policy may be reviewed in the future and the Group may decide to hedge interest rate risk through hedging transactions.

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).

The net debt is calculated as total debt including current and non-current loans and net borrowings from banks and excluding accrued interest.

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

The gearing ratio at 31 December 2016 and 2015 is shown in the following table (amounts in thousands of euros):

Description	**As of 31 December 2016**	**As of 31 December 2015**
Cash and cash equivalents	305,470	284,672
Financial receivables (current and non-current)	817	1,125
Receivables from Fìdaty Oro payment card users	63,424	63,308
Financial payables (current and non-current)	(425,174)	(465,627)
Net debt	**(55,463)**	**(116,522)**
Shareholders' Equity	**2,528,892**	**2,290,352**
Net Invested Capital	**2,584,355**	**2,406,874**
Gearing ratio	**(2.1)%**	**(4.8)%**

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 2016 shows that net invested capital is 97.9% financed by own funds, third-party funds covering the remaining portion. 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 2016 and 31 December 2015 (amounts in thousands of euros):

	As of 31 December 2016						
	Financial assets and liabilities designated at fair value	Investments held-to-maturity	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Total	*Fair Value*
Equity investments in other companies	-	-	-	196	-	196	196
Other receivables and other non-current assets	-	-	76,839	-	-	76,839	76,839
Trade receivables	-	-	429,558	-	-	429,558	429,558
Other receivables and other current assets	-	-	53,189	-	-	53,189	53,189
Cash and cash equivalents	-	-	305,470	-	-	305,470	305,470
Total	**-**	**-**	**865,056**	**196**	**-**	**865,252**	**865,252**
Lease payables (current and non-current)	-	-	-	-	425,172	425,172	425,172
Deferred revenue for prize-giving promotions (Current and non-current)	92,376	-	-	-	-	92,376	92,376
Other payables and other non-current liabilities	-	-	-	-	107	107	107
Trade payables	-	-	-	-	1,302,844	1,302,844	1,302,844
Other payables and other current liabilities	-	-	-	-	292,133	292,133	292,133
Total	**92,376**	**-**	**-**	**-**	**2,020,256**	**2,112,632**	**2,112,632**

	As at 31 December 2015						
	Financial assets and liabilities designated at fair value	Investments held-to-maturity	Loans and receivables	Available for sale financial assets	Financial liabilities at amortized cost	Total	*Fair Value*
Equity investments in other companies	-	-	-	46,646	-	46,646	46,646
assets	-	-	74,783	-	-	74,783	74,783
Trade receivables	-	-	435,012	-	-	435,012	435,012
Other receivables and other current assets	-	-	62,260	-	-	62,260	62,260
Cash and cash equivalents	-	-	284,672	-	-	284,672	284,672
Total	**-**	**-**	**856,727**	**46,646**	**-**	**903,373**	**903,373**
Financial payables (current and non-current) excluding leases	-	-	-	-	63	63	63
Lease payables (current and non-current)	-	-	-	-	465,564	465,564	465,564
Deferred revenue for prize-giving promotions (Current and non-current)	180,772	-	-	-	-	180,772	180,772
Other payables and other non-current liabilities	-	-	-	-	91	91	91
Trade payables	-	-	-	-	1,230,141	1,230,141	1,230,141
Other payables and other current liabilities	-	-	-	-	293,453	293,453	293,453
Total	**180,772**	**-**	**-**	**-**	**1,989,312**	**2,170,084**	**2,170,084**

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:

Level 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.

Level 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.

Level 3: Fair value calculated using valuation techniques that make use of unobservable market inputs.

Only deferred revenue for prize-giving promotions is measured at fair value, which falls under level 3 of the hierarchy.

10. Notes to the Consolidated Statement of Financial Position

10.1 Property, plant and equipment

In 2016, the Group opened stores in Monza, viale Libertà, while at the same time closing the one in Monza, Via Lecco, in Como, Ca 'Merlata, in Cusano Milanino (MI) and in Prato Galilei (PO), while at the same time closing the adjacent one.
The store in Milan, viale Certosa, opened in 1968, was definitively closed on 16 April 2016.

Ospitaletto business unit
On 25 May 2016, the contract for the purchase of the Ospitaletto business unit from Stefana SpA was signed. Subsequently, the Company started negotiation for the sale of all plant and machinery and recorded a € 39.4 million write-down to adjust the carrying amount of these assets to their expected realisable value and reclassified the plant and machinery to non-current assets held for sale, as not intended for use in the Company's business.
Although the objective was manifestly to acquire only the area, the Ospitaletto business unit was accounted for, as required by the Italian OIC standards and the international IFRS, taking into account the price paid for the business unit, having also regard to the data obtained from the appraisal drawn up by the expert appointed by the Court of Brescia for the individual assets to be disposed of. This led to the recognition of capital losses in the 2016 financial statements, partly due to losses on disposal and partly to a write-down, as a direct consequence of the accounting principles applied to the acquisition and the effects of which were already known at the time of submitting the original purchase offer.
The table below summarises the transaction:

Description	Deed of Purchase 26.05.2016	Registration Taxes and Notary Fees	Demolition costs	Total cost	Disposal	Provision for write-down	Residual Net Value
Land and buildings	*16,900*	*1,964*	-	*18,864*	-	*(10,049)*	*8,815*
Property, plant and equipment	**16,900**	**1,964**	**-**	**18,864**	**-**	**(10,049)**	**8,815**
Plant and machinery	*29,605*	*860*	*3,200*	*33,665*	*(10)*	*(27,355)*	*6,300*
Equipment	*4,664*	*136*	-	*4,800*	*(1,303)*	*(2,014)*	*1,483*
Other Assets (Furnishings)	*331*	*10*	-	*341*	*(292)*	*(24)*	*25*
Assets held for sale	**34,600**	**1,006**	**3,200**	**38,806**	**(1,605)**	**(29,393)**	**7,808**
TOTAL	**51,500**	**2,970**	**3,200**	**57,670**	**(1,605)**	**(39,442)**	**16,623**

The details and movements of property, plant and equipment for the year ended 31 December 2016 are shown in the following table (amounts in thousands of euros):

Description	As of 31 December 2015	Increases	Decreases	Reclassifications and transfers	As of 31 December 2016
Land and buildings					
Historical cost	2,537,178	187,662	(2,798)	15,939	2,737,981
Accumulated depreciation	(504,205)	(66,328)	1,821	154	(568,558)
Provision for impairment	(6,362)	(9,412)	-	-	(15,774)
Net amount	**2,026,611**	**111,922**	**(977)**	**16,093**	**2,153,649**
Plant and machinery					
Historical cost	1,077,571	87,864	(8,922)	14,629	1,171,142
Accumulated depreciation	(680,240)	(77,399)	8,673	16	(748,950)
Provision for impairment	3,414	355	-	-	3,769
Net amount	**400,745**	**10,820**	**(249)**	**14,645**	**425,961**
Industrial and commercial equipment					
Historical cost	1,685	64	-	(11)	1,738
Accumulated depreciation	(1,659)	(13)	-	11	(1,661)
Net amount	**26**	**51**	**-**	**-**	**77**
Other assets					
Historical cost	443,088	40,161	(8,211)	6,867	481,905
Accumulated depreciation	(327,044)	(33,410)	7,358	-	(353,096)
Net amount	**116,044**	**6,751**	**(853)**	**6,867**	**128,809**
Assets under construction and advances					
Historical cost	352,542	108,890	(10,371)	(70,855)	380,206
Provision for impairment	(13,308)	(992)	-	-	(14,300)
Net amount	**339,234**	**107,898**	**(10,371)**	**(70,855)**	**365,906**
Total					
Historical cost	4,412,064	424,641	(30,302)	(33,431)	4,772,972
Accumulated depreciation	(1,513,148)	(177,150)	17,852	181	(1,672,265)
Provision for impairment	(16,256)	(10,049)	-	-	(26,305)
Total net amount	**2,882,660**	**237,442**	**(12,450)**	**(33,250)**	**3,074,402**

The increase in **land and buildings** includes € 54,011 thousand for the expansion, renovation and opening of new shops in 2016 in Monza viale Libertà, Como Ca' Merlata, Cusano Milanino (MI) and Prato Galilei. In addition, capital expenditures of € 36,176 thousand were made for the maintenance and development of the logistics hubs and the headquarters. Additional capital expenditures concerned the maintenance of the sales network for € 16,063 thousand and the Group's commercial development for € 81,412 thousand.
The decrease in land and buildings mainly refers to the closure of the store in Milan viale Certosa, which was opened in 1968 and was definitively closed on 16 April 2016.
The reclassifications and transfers columns mainly include the reclassification of capex of previous years in relation to new stores opened in the current year and the transfer of some excess volumes to the investment property item.

The increase in **plant and machinery** includes € 21,672 thousand for new stores and for the expansion and renovation of existing ones, and € 29,709 thousand for the logistic hubs, production facilities and headquarters. Finally, € 36,023 thousand concerned the maintenance of the sales network and € 460 thousand capital expenditures for the Group's commercial development.

The decrease in the item in question refers to the normal replacement of the Group's tangible assets.
The reclassifications and transfers columns mainly include the reclassification of capex of previous years in relation to new stores opened in the current year and the transfer of some excess volumes to the investment property item.

The increase in the item **"other assets"** includes € 7,459 thousand in relation to the construction of new stores and expansion and renovation works in 2016; € 12,813 thousand refer to capital expenditures for the logistic hubs, production facilities and headquarters. Finally, € 19,889 thousand refer to capital expenditures for the maintenance of the sales network.
The decrease in the item in question refers to the normal replacement of the Group's tangible assets.
The reclassifications and transfers column mainly refers to capital expenditures of previous years relating to new stores opened in current the year and to stores opened in previous years.

The increase in **assets under construction and advances** includes capital expenditures for the development and completion of the logistic hubs for € 23,831 thousand, for commercial development for € 83,623 thousand and for renovation of the head office, mainly in relation to the new Office buildings, for € 1,436 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 2016 and the reclassification to investment property of land and buildings not intended for use in the Group's ordinary activities.

The item "Other assets" includes (amounts in thousands of euros):

Description	**As of 31 December 2016**	**As of 31 December 2015**
Motor vehicles, cars and vehicles for internal use	13,410	14,249
Office furniture and equipment	76,341	66,379
Electronic office equipment	27,838	25,961
Niche perfumery furniture and furnishings	1,920	1,499
Bar furniture and furnishings	9,300	7,956
Total	**128,809**	**116,044**

The following table details the monetary revaluations made on property, plant and equipment in accordance with statutory provisions (amounts in thousands of euros):

Description	Revaluation pursuant to Law 72/83	Revaluation pursuant to Law 419/91	Total write-ups
Land and buildings	3,259	19,941	23,200
Plant and machinery	182	-	182
Other assets	125	53	178
Total	**3,566**	**19,994**	**23,560**

At 31 December 2016, the amount of revaluations not yet depreciated was € 60 thousand mainly pertaining to land and buildings.
Property, plant and equipment include buildings held under finance leases for a net carrying amount of € 472,252 thousand and € 535,250 thousand at 31 December 2016 and 31 December 2015, respectively.
Property, plant and equipment do not include assets given as collateral.

10.2 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 2016 are shown in the following table (amounts in thousands of euros):

Description	Historical cost	Accumulated depreciation	Provision for impairment	Total
Balances as of 1 January 2016	**359,050**	**(26,536)**	**(173,727)**	**158,787**
Increases	6,369	(1,904)	(17,338)	(12,873)
Decreases	(2,345)	-	676	(1,669)
Reclassifications	36,994	1,661	-	38,655
Balances as of 31 December 2016	**400,068**	**(26,779)**	**(190,389)**	**182,900**

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

The breakdown by geographical location of investment property is shown in the following table (amounts in thousands of euros):

Description	Historical cost Net	Provision impairment	Total
Emilia Romagna	22,967	(8,574)	14,393
Lombardy	199,477	(88,957)	110,520
Piedmont	71,675	(67,459)	4,216
Tuscany	28,311	(4,175)	24,136
Veneto	8,905	(4,562)	4,343
Lazio	1,179	-	1,179
Balances as of 31 December 2015	**332,514**	**(173,727)**	**158,787**
Emilia Romagna	35,426	(15,538)	19,888
Lombardy	211,290	(111,698)	99,592
Piedmont	71,869	(43,529)	28,340
Tuscany	35,915	(7,675)	28,240
Veneto	8,905	(5,045)	3,860
Lazio	9,884	(6,904)	2,980
Balances as of 31 December 2016	**373,289**	**(190,389)**	**182,900**

The fair value at 31 December 2016 is in line with the carrying amount shown in the table.

10.3. Goodwill

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
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 7.58% in 2015 and 7% in 2016.

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 = 7.50%, with an increase of 50 basis points over the baseline scenario;
- Scenario 2: Discount rate = 8%, 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.

10.4 Intangible assets

The breakdown and movements of intangible assets for the year ended 31 December 2016 are shown in the table below (amounts in thousands of euros):

Description	As of 31 December 2015	Increases	Decreases	Reclassifications and transfers	As of 31 December 2016
Software					
Historical cost	159,992	8,655	-	8,347	176,994
Accumulated amortisation	(126,065)	(16,094)	-	-	(142,159)
Net amount	**33,927**	**(7,439)**	**-**	**8,347**	**34,835**
Trademarks, concessions and similar rights					
Historical cost	66,414	39	-	10	66,463
Accumulated amortisation	(12,904)	(1,800)	-	-	(14,704)
Net amount	**53,510**	**(1,761)**	**-**	**10**	**51,759**
Commercial licenses					
Historical cost	76,870	706	(117)	266	77,725
Accumulated amortisation	(18,309)	(1,678)	117	-	(19,870)
Provision for impairment	(3,066)	-	-	-	(3,066)
Net amount	**55,495**	**(972)**	**-**	**266**	**54,789**
Intangibles in progress and advances					
Historical cost	15,236	10,784	-	(10,804)	15,216
Net amount	**15,236**	**10,784**	**-**	**(10,804)**	**15,216**
Others					
Historical cost	2,171	-	-	-	2,171
Accumulated amortisation	(2,171)	-	-	-	(2,171)
Net amount	**-**	**-**	**-**	**-**	**-**
Total					
Historical cost	320,683	20,184	(117)	(2,181)	338,569
Accumulated amortisation	(159,449)	(19,572)	117	-	(178,904)
Provision for impairment	(3,066)	-	-	-	(3,066)
Net amount	**158,168**	**612**	**-**	**(2,181)**	**156,599**

Additions in the year 2016 amounted to € 20,184 thousand and mainly refer to the purchase of software for the improvement of the Group's IT infrastructure.

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

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.

10.5 Equity investments in other companies

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Grandi Magazzini e Supermercati "Il Gigante" S.p.A.	-	46,350
Others	196	296
Total	**196**	**46,646**

On 27 May 2016, the Group sold its 25.04% stake in Grandi Magazzini and Supermercati Il Gigante SpA to the company Riva Azzurra SpA.

10.6 Deferred tax assets and liabilities

This item includes deferred tax assets and liabilities arising from temporary differences between the value attributed to an asset or liability in the balance sheet 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 made based on the timing in the use of taxes for the year ended 31 December 2016, are shown in the following table (amounts in thousands of euros):

Description	Balances as of 31 December 2015	Income statement effect	Shareholders' equity effect	Balances as of 31 December 2016
Deferred tax assets				
Timing difference cost deductibility	2,410	(457)	-	1,953
Provisions, impairments, depreciation and amortisation	93,243	15,509	-	108,752
Elimination of intercompany capital gains	1,241	(50)	-	1,191
Tax losses from prior years	81	(34)	-	47
Total	**96,975**	**14,968**	**-**	**111,943**
Deferred tax liabilities				
Adjustment to align to Group accounting standards	(19,630)	(10,328)	1,451	(28,507)
Capital gains subject to deferred taxes	(1,973)	688	-	(1,285)
Allocation of higher prices paid for acquisitions	(1,610)	50	-	(1,560)
Accelerated amortisation	13,804	(29,284)	-	(15,480)
Other	973	(316)	-	657
Total	**(8,436)**	**(39,190)**	**1,451**	**(46,175)**
Total net amount	**88,539**	**(24,222)**	**1,451**	**65,768**
Deferred tax assets not recognized				
Tax losses from prior years	1,716	(144)	-	1,572
Total deferred tax assets, not recognised	**1,716**	**(144)**	**-**	**1,572**

10.7 Other receivables and other non-current assets

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Tax receivables	49,299	47,138
IRES tax receivable from parent companies	25,262	25,262
Security deposits	2,278	2,383
Total	**76,839**	**74,783**

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 refer to the refund requested pursuant to Legislative Decree no. 201/2011 for deductibility for IRES tax purposes of non-deducted IRAP tax on staff costs for the years 2007 to 2011.

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

10.8 Inventories

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Raw materials, supplies and consumables	35,922	52,341
Finished products and goods	358,497	337,391
Total	**394,419**	**389,732**

Inventories of finished products and goods are shown net of the provision for inventory obsolescence. The movements in the provision are shown below.

Description	As of 31 December 2016	As of 31 December 2015
Balance at the beginning of the period	**32,594**	**27,229**
Accruals	7,459	5,375
Use	(18,779)	(10)
Balance at the end of the period	**21,274**	**32,594**

At 31 December 2016, there were no inventories pledged as collateral on loans received by the Group.

10.9 Trade receivables

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Receivables from suppliers for promotional activities	366,225	371,788
Receivables from customers for use of Fìdaty Oro card	63,372	63,249
Receivables from cust. for use of Fìdaty Oro card - non-	140	227
Provision for doubtful receivables	(179)	(252)
Total	**429,558**	**435,012**

Trade receivables 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 stores' customers who used the "Fìdaty Oro" payment cards in December.

The amount of the provision for doubtful receivables at 31 December 2016 entirely refers to the receivables for use of the Fìdaty Oro card.

10.10 Current tax receivables

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
IRES tax receivable from parent companies	16,402	993
IRES tax receivable from the tax authorities	119	192
IRAP tax receivable from the tax authorities	2,719	13,717
Receivables from the tax authorities for tax refunds	13	12
Total	**19,253**	**14,914**

IRES receivable from parent companies refers to taxes receivable from the consolidating entity (Supermarkets Italiani SpA) by the companies participating in the tax consolidation. The item IRES receivable from the Tax Authorities refers to advances paid to the Tax Authorities by companies not participating in the tax consolidation.

10.11 Other receivables and other current assets

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Receivables from disposal of buildings, land and business units	696	696
Advances received	-	-
Tax receivables (mainly VAT)	10,387	16,232
Receivables from parent companies (VAT)	240	3,195
Receivables from parent companies	816	1,127
Accrued income and prepaid expenses	23,131	23,075
Receivables from other debtors	21,744	20,344
Provision for doubtful receivables - other debtors	(3,825)	(2,409)
Total	**53,189**	**62,260**

This item is shown net of a provision for doubtful receivables, the movements of which are shown below:

Description	As of 31 December 2016	As of 31 December 2015
Balance at the beginning of the period	**2,409**	**2,214**
Accruals	1,910	-
Use	(26)	(48)
Reclassification	(468)	243
Balance at the end of the period	**3,825**	**2,409**

Receivables from the sale of buildings, land and businesses refer to receivables related to the sale of such assets.

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 others mainly include receivables from customers, 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.

10.12 Cash and cash equivalents

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Deposits with banks and post-office	298,177	277,068
Cheques	6	34
Cash and cash equivalents on hand	7,287	7,570
Total	**305,470**	**284,672**

The Parent Company has a credit line available for drawdown of € 67,500 thousand expiring on 27 July 2018.

There is a lien of € 8.0 million on a bank account to guarantee a real estate project.

10.13) 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 (amounts in thousands of euros):

Description	Historical cost	Accumulated depreciation	Provision for write-down	Total
Balances as of 1 January 2016	**34,002**	**(641)**	**(18,097)**	**15,264**
Increases	38,944	(4)	(29,667)	9,273
Decreases	(6,611)	353	-	(6,258)
Reclassifications	(1,930)	(1,846)	-	(3,776)
Balances as of 31 December 2016	**64,405**	**(2,138)**	**(47,764)**	**14,503**

The increase mainly refers to plant and machinery of the Ospitaletto business unit, for which the contract for the sale of the roll mill has been entered into and the contract for the demolition and sale of the resulting scrap has been awarded.

The decreases refer to the sale of buildings in Livorno.

10.14 Shareholders' Equity

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Share capital	100,000	100,000
Share premium reserve	164,510	164,510
Retained earnings	2,215,113	1,976,573
Legal reserve	20,000	20,000
Revaluation reserve	25,975	25,975
Other	3,294	3,294
Total other reserves	49,269	49,269
Equity attributable to owners of the parent	**2,528,892**	**2,290,352**
Non-controlling interest	**-**	**-**
Total Shareholders' equity	**2,528,892**	**2,290,352**

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 equity attributable to owners of the parent increased by € 262,263 thousand relating to the profit for the year, decreased by € 3,723 thousand for recognition directly in equity of actuarial losses on employee pension plans (TFR) net of the related tax effect and decreased by € 20,000 thousand for the distribution of dividends to the parent company Supermarkets Italiani SpA in 2016.

10.15 Current and non-current financial payables

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016		As of 31 December 2015	
	Current	Non-current	Current	Non-current
Other financial payables	-	-	63	-
Medium-long term bank loans	-	-	-	-
Finance lease payables	28,658	396,514	40,391	425,173
Interest expense accrued	-	-	-	-
Total	**28,658**	**396,514**	**40,454**	**425,173**

The breakdown of financial payables by maturity is shown below:

Description	As of 31 December 2016	As of 31 December 2015
Within 1 year	28,658	40,454
From 2 to 5 years	118,622	119,993
Over 5 years	277,892	305,180
Total financial payables	**425,172**	**465,627**

In 2016 the finance lease payments (principal) made by the Group amounted to € 40,391 thousand.

Finance lease payables

In 2016, the weighted average rate of finance lease contracts was 3.01% compared to 3.13% in 2015. Floating-rate finance leases accounted for 27.2% of payables at 31 December 2016.

The table below shows the reconciliation between the finance lease payable and the lease payments outstanding at 31 December 2016 (amounts in thousands of euros):

Description	As of 31 December 2016
Future lease payments until contract maturity	535,729
Implied interest	(110,557)
Outstanding debt (principal)	**425,172**

Payables to Supermarkets Italiani SpA

Payables to Supermarkets Italiani SpA relate to short-term loans bearing interest at 6-month Euribor + the average spread received from the reference banks for 6-month short-term transactions.

Fair value *measurement of* fixed rate financial payables

The Group does not intend to early repay or carry out any interest rate transactions with respect to the above-mentioned financial payables, therefore it did not recognise any provision for potential losses.

10.16 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 2016 and 2015 are shown in the following table (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Balance at the beginning of the period	**103,568**	**111,200**
Interest cost	2,044	1,635
Service Cost	-	-
Payments and transfers	(5,298)	(5,306)
Actuarial gains / (losses)	5,174	(4,700)
Other movements	1,263	739
Balance at the end of the period	**106,751**	**103,568**

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

	31 December	
	2016	**2015**
Financial Assumptions		
Inflation rate (annual)	1.5%	1.8%
Discount Rate (Annual)	1.31%	2.03%
TFR Annual rate of increase	2.63%	2.8%
Demographic Assumptions		
Expected mortality rate	Data derived from Table RG48 (State General Accounting Office), broken down by gender.	
Expected disability rate	INPS model for the 2010 projections, by gender.	
Time of retirement	Upon reaching the first of the retirement requirements for the Compulsory General Insurance.	
Expected resignations (annual)	Frequencies by company: Esselunga S.p.A. 5%, Atlantic S.r.l. 5%, Esserbella S.p.A. 5%, managers 9%	
Expected advances (annual)	3% for all types of employees, except for Esselunga SpA managers, for whom an annual figure of 2% was assumed.	

10.17 Provisions for risks and charges

Movements in the provisions for risks and charges for the years ended 31 December 2016 and 2015 are shown in the table below (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Balance at the beginning of the period	**36,216**	**29,993**
Accruals	20,395	19,065
Uses / Releases	(25,750)	(12,841)
Reclassification	-	(1)
Balance at the end of the period	**30,861**	**36,216**

The provisions set aside refer to future charges and to the risks associated with various disputes pending as at 31 December 2016.
The decrease includes € 13,350 thousand for use of the provision to cover the capital loss on the sale of the 25.04% stake in Grandi Magazzini and Supermercati Il Gigante SpA on 27 May 2016 and the release of € 12,400 thousand as the reasons for recognition of the provision in previous years no longer applied.

10.18 Deferred revenue for prize-giving promotions - current and non-current portion

This item is the liability related to the points earned and not yet redeemed by customers at the balance sheet date.
The movements in the item for the years ended 31 December 2016 and 2015, broken down by campaign, are shown in the following table (amounts in thousands of euros):

	Fìdaty	"20 anni Fìdaty" competition	Total current amount	Fìdaty	Total not current
As of 1 January 2016	**178,919**	**1,853**	**180,772**	**-**	**-**
Bonus points earned	32,333	-	32,333	60,043	60,043
Use of bonus points	(178,919)	(1,853)	(180,772)	-	-
Reclassification between current and non-current items	-	-	-	-	-
As of 31 December 2016	**32,333**	**-**	**32,333**	**60,043**	**60,043**

The "Fìdaty" gift with purchase promotion is the Group's institutional promotion for customer loyalty. Customers who shop in Esselunga, Atlantic, and EsserBella 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.

10.19 Other payables and other non-current liabilities

The breakdown of the item is as follows (amounts in thousands of euros):

Description	**As of 31 December 2016**	**As of 31 December 2015**
Security deposits	107	91
Total	**107**	**91**

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

10.20 Trade payables

At 31 December 2016 the item amounted to € 1,302,844 thousand (€ 1,230,141 thousand at 31 December 2015) and mainly included payables for the purchase of products for resale.

10.21 Current tax payables

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
IRES tax payable to parent companies	390	17,364
IRES tax payable to the tax authorities	115	421
IRAP tax payable to the tax authorities	41	18
Total	**546**	**17,803**

IRES payable to parent companies refers to taxes payable to the consolidating entity (Supermarkets Italiani SpA) 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.

10.22 Other payables and other current liabilities

The breakdown of the item is as follows (amounts in thousands of euros):

Description	As of 31 December 2016	As of 31 December 2015
Payables to employees and other staff	80,698	76,644
VAT payable to the tax authorities	87,670	83,410
IRPEF payable to the tax authorities	15,888	14,045
Other payables to the tax authorities:	9,449	8,561
Payables to social security institutions	59,996	55,177
Payables to parent companies	-	10
Advances	5,513	8,055
Other payables	29,823	43,265
Accrued expenses and deferred income	3,096	4,286
Total	**292,133**	**293,453**

The item advances in 2016 and 2015 only includes deposits received in relation to preliminary agreements for the sale of two areas located in Lombardy and Tuscany.

Other payables include commissions payable to credit institutions for use of electronic collections and amounts due for the sale of prepaid cards.

Accrued expenses and deferred income at 31 December 2016 included € 1,536 thousand of lease payments invoiced but not related to the year and € 514 thousand of revenues on promotions already invoiced but not related to the year.

11. Notes to the consolidated statement of comprehensive income

11.1 Net Sales and Net Revenues

The breakdown of net sales and net revenues for the years 2016 and 2015 is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015	Difference
Total sales	7,540,009	7,312,263	227,746
- less costs for the purchase of newspapers and phone cards and related services	(122,855)	(125,434)	2,579
- Net Recognition fair value prize-giving promotions	90,585	2,872	87,713
Total other sales adjustments	(32,270)	(122,562)	90,292
Total net revenues	**7,507,739**	**7,189,701**	**318,038**

Total sales for the year 2016 increased by € 227,746 thousand compared to the previous year. The increase in percentage terms was 3.1%.
In both years, total sales are reduced 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 paragraph 8 of IAS 18 .

The net deferral of revenues for prize-giving promotions of € 90,585 thousand arises from recognition in 2016 of € 185,785 thousand as consideration for obligations to be considered settled when prizes are collected and deferral of considerations of € 95,200 thousand for future obligations.
These considerations are measured based on the fair value of the prizes, as received by the end customer.

Net revenues in 2016 increased by € 318,038 thousand compared to those in 2015, up by 4.4%.

11.2 Other revenues and income and promotional activities

The breakdown of the item Other revenues and income and promotional activities for the years 2016 and 2015 is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015	Difference
Promotional activities	1,139,303	1,079,922	59,381
Rental income and recovery of common charges	7,194	6,250	944
Other sales	6,344	3,883	2,461
Rent of supports for the transport of perishable products	12,992	12,410	582
Points charged that do not represent goods ("Fragola" points)	1,831	2,858	(1,027)
Capital gains on disposal	1,672	1,895	(223)
Insurance reimbursements and damages charged back	1,846	2,908	(1,062)
Recharge of costs for quality control analysis	604	756	(152)
Spreads and commissions	740	716	24
Other	8,148	14,090	(5,942)
Total	**1,180,674**	**1,125,688**	**54,986**

The item Promotional activities refers to the services provided by the Group's commercial companies to their suppliers, mainly consisting of preferential product display, organisation and implementation of promotional campaigns targeted to specific products and advertising flyers. The increase in the item is due both to increased promotional activities carried out during the year and higher prices of the services provided.

The item miscellaneous sales of € 6,344 thousand in 2016 mainly refers to the sale to third parties of scrap, scrap paper 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 "Other" mainly refers to advertising spaces rented to third parties and professional services provided to third parties. In 2015, the withdrawal by a counterparty from the purchase of an area held for sale in Tuscany was accounted for in this item.

11.3 Costs for goods and raw materials

The costs for goods and raw materials in 2016 amounted to € 6,277,094 thousand compared to € 6,038,375 thousand in 2015.

11.4 Costs for services

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Transport, handling and parking	195,165	185,834
Rent payable, common charges and rentals	141,068	140,161
Utilities and data transmission expenses	104,666	103,630
Repairs and maintenance	85,886	79,291
Cleaning	42,359	39,785
Advertising and marketing	74,013	58,436
Internal and external processing of goods and products	21,957	19,253
Insurance	11,046	9,262
Other services	23,972	20,195
Bank collection fees	18,974	22,088
Consulting and professional services	17,426	20,535
Security, surveillance and transportation of valuables	20,075	17,646
Total	**756,607**	**716,116**

The costs for services increased in absolute terms and amounted to 10% of total sales (9.8% in 2015).
The increase in most of the 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.

In both years, rent, common charges and rentals almost entirely refer to properties used for retail sale.

Advertising costs increased due to higher costs incurred in 2016 for some promotional and institutional campaigns, such as the *Christmas 2016 Prize Contest* and the *Rollinz Star Wars, Bellora Capolavori su Telo* and *Amici di Scuola* promotions.

Other services mainly include: 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.

11.5 Personnel costs

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Wages and Salaries	683,823	638,247
Social security charges	199,825	191,209
Employee severance indemnity	43,717	41,695
Gifts to employees	8,623	4,845
Cost for temporary employees	2,850	3,209
Other personnel costs	5,211	1,769
Total	**944,049**	**880,974**

Personnel costs were affected by the increase in the average workforce by approximately 800 employees, the forecast wage increases resulting from the forthcoming renewal of the national collective labour agreement and the 2016 bonus to employees that was paid in 2017.
The changes in the average workforce are shown in the table below:

Description	Year ended 31 December 2016	Year ended 31 December 2015
Managers	65	59
Middle Managers and white-collars	15,071	14,656
Blue-collars	7,605	7,215
Total	**22,741**	**21,930**

11.6 Amortisation and depreciation

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Property, plant and equipment	177,146	166,134
Investment property	1,904	1,468
Intangible assets	19,572	18,126
Total	**198,622**	**185,728**

The increase in depreciation of property, plant and equipment is mainly attributable to depreciation of buildings and fixed installations in relation the opening of new stores or the expansion of existing ones in 2016 and 2015.

The increase in amortisation of intangible assets is mainly attributable to the software that came into use in 2016 and 2015.

11.7 Provisions and write-downs

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Accruals to the provisions for risks and charges	(2,666)	(6,711)
Write-downs of non-current assets	57,055	10,893
Accrual to the provision for doubtful receivables	2,023	444
Total	**56,412**	**4,626**

Provisions were made in relation to probable liabilities related to various kinds of disputes pending at the end of the financial year.
The write-downs of non-current assets were made to account for impairments on real estate projects. The item also includes the write-down of € 39,442 thousand that was recognised to adjust the carrying amount of the Ospitaletto business unit.

11.8 Other operating costs

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Capital losses on property, plant and equipment	2,120	748
Taxes related to prize-giving promotions	11,867	24,231
Municipal solid waste disposal fee - TARSU	10,698	10,441
Municipal Property Tax - IMU	12,677	11,665
Other taxes and duties	4,565	3,413
Rights, authorizations and concessions	1,770	1,267
Losses on receivables	593	892
Subscriptions, printing, etc.	578	555
Miscellaneous operating costs	5,402	5,412
Total	**50,270**	**58,624**

Capital losses on property, plant and equipment in 2016 include the capital loss booked for the disposal of some of the new Ospitaletto logistic hub facilities.

11.9 Finance income

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Dividends received from “Il Gigante"	-	1,521
Bank interest income	766	1,005
Interest income from parent company	-	4
Other interest income	5	342
Foreign exchange gains	28	8
Other financial income	43	127
Total	**842**	**3,007**

In 2015 this item included dividends of € 1,521 thousand distributed by the company Grandi Magazzini e Supermercati "Il Gigante", in relation to a 25.04% stake that was sold on 27 May 2016.

The item "Other interest income" in the previous year refers to income accrued on short-term loans.

Other financial income for the year 2016 mainly includes dividends on minority holdings.

11.10 Finance expense

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Interest expense on medium to long-term loans	-	165
Interest expense on finance lease contracts	13,410	12,823
Employee severance indemnity - discounting to PV	2,044	1,635
Costs for committed credit lines	-	304
Foreign exchange losses	37	10
Other interest expense	1,149	175
Total	**16,640**	**15,112**

The increase in interest expense on finance leases is due to the net effect of the decrease in interest rates applied to lease contracts from 3.13% in 2015 to an average 3.01% for 2016 and the increase in the average outstanding debt.

The item "Other interest expense" in the year under review mainly includes interest related to a lawsuit.

11.11 Income tax expense

The breakdown of the item is as follows (amounts in thousands of euros):

Description	Year ended 31 December 2016	Year ended 31 December 2015
Current income taxes	104,005	125,881
Income from tax consolidation	(880)	(633)
Net deferred tax income (expense)	24,173	3,026
Total	**127,298**	**128,274**

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:

Description	Year ended 31 December 2016	Year ended 31 December 2015
Applicable ordinary tax rate	31.55%	31.55%
Increases (decreases) compared to ordinary rate:		
- permanent differences	2.85%	0.71%
- different IRAP base	1.09%	0.51%
- effect of reduction in taxable A.C.E.	(3.89)%	(2.11)%
- IRAP deductibility for IRES purposes	- %	(0.27)%
- income taxes of prior years	(0.11)%	0.12%
-other changes	1.19%	0.12%
Actual tax rate	**32.68%**	**30.63%**

The higher impact compared to the previous year is mainly due to the limited deductibility of real estate companies' costs for property write-downs and the lower benefit of deferred tax assets on risk provisions valued at 28% (tax rate effective from 1 January 2017, IRES 24% IRAP 4.05%) compared to the ordinary 31.5% rate, as well as to the negative outcome of a lawsuit.

12. Transactions with 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 2016 and 2015 mainly concerned:

- commercial transactions mainly related to rents, administrative services;
- financial transactions;
- transactions regarding the management of the IRES tax consolidation and Group VAT.

Most of the above transactions fall within the Group's ordinary operations.

The breakdown of transactions with related parties affecting the statement of financial position and the income statement, with indication of the nature of the relationship and the counterparty is shown in the table below (amounts in thousands of euros):

Assets			
		As of 31 December	
Company	Type of relationship	2016	2015
La Villata S.p.A.	Provision of administrative services	202	236
Villata Partecipazioni SpA	Provision of administrative services	10	9
Supermarkets Italiani S.p.A.	Receivables for tax refunds	25,262	25,262
Supermarkets Italiani S.p.A.	Cash pooling	816	1,127
Supermarkets Italiani S.p.A.	Participation in tax consolidation	16,012	3,195
Total other receivables		**42,302**	**29,829**
Supermarkets Italiani S.p.A.	Participation in tax consolidation	-	993
Total tax receivables		**-**	**993**
Total assets		**42,302**	**30,822**

Liabilities			
		As of 31 December	
Company	Type of relationship	2016	2015
La Villata S.p.A.	Rent expense and registration taxes	26,207	25,712
Total trade payables		**26,207**	**25,712**
Supermarkets Italiani S.p.A.	Participation in tax consolidation	-	17,364
Total tax payables		**-**	**17,364**
Supermarkets Italiani S.p.A.	Trade payables	-	10
Total tax payables		**-**	**10**
Total liabilities		**26,207**	**43,086**

Income Statement			
		Year ended 31 December	
Company	Type of relationship	2016	2015
La Villata S.p.A.	Provision of administrative services	812	813
Villata Partecipazioni Srl	Provision of administrative services	32	30
Supermarkets Italiani S.p.A.	Provision of administrative services	32	30
Total other income		**876**	**873**
La Villata S.p.A.	Rent and common charges	100,230	98,919
Dom 2000 S.p.A.	Rent and common charges	15,739	15,601
Total costs for services		**115,969**	**114,520**
La Villata S.p.A.	Maintenance expenses	5,059	5,201
Total maintenance costs		**5,059**	**5,201**
Supermarkets Italiani S.p.A.	Interest on cash pooling	1	4
Total financial income		**1**	**4**
Supermarkets Italiani S.p.A.	Interest on cash pooling	-	304
Total financial expense		**-**	**304**
Total revenues / (costs)		**(120,151)**	**(119,148)**

The Parent Company is not subject to management and coordination.

13. Commitments, guarantees and contingent liabilities

13.1 Capex commitments

Commitments outstanding at 31 December 2016 for capex amounted to € 87,688 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.
There were additional commitments of € 106,340 thousand vis à vis La Villata SpA for the purchase of the Roma store, in the Prenestino district, currently under construction

and the Florence via Mariti project for which the urban planning procedures are in progress.

13.2 Commitment for the purchase of goods

The Group did not enter into significant agreements for the future purchase of goods. Therefore, there are commitments to this effect at 31 December 2016 and 31 December 2015.

13.3 Lease commitments

At 31 December 2016 and 2015, the Group had lease agreements in place, classified as operating leases, mainly related to its sales network.
The amount of these commitments broken down by maturity and use of the property is provided below (amounts in thousands of euros):

Leased asset	**Maturity**	**As of 31 December**	
		2016	**2015**
Sales network	Within 12 months	97,284	97,053
	From one to five years	382,905	384,248
	Over five years	1,871,031	1,952,722
Total		**2,351,220**	**2,434,023**
Warehouses	Within 12 months	4,606	4,602
	From one to five years	14,592	15,949
	Over five years	11,320	14,538
Total		**30,518**	**35,089**
Peripheral offices	Within 12 months	123	176
	From one to five years	303	587
	Over five years	70	21
Total		**496**	**784**
Grand Total		**2,382,234**	**2,469,896**

The commitments listed in the detail table were quantified on the basis of the contractual terms in effect on 31 December 2016, using the minimum guaranteed rent or the fixed contractually agreed rent. The impact of inflation was not taken into account nor did the rent to be paid solely based on a percentage of sales.

13.4 Guarantees given

The guarantees given by the Esselunga Group amounted to € 165,660 thousand at 31 December 2016, including bank guarantees of € 154,933 thousand and insurance guarantees of € 10,728 thousand.

Contingent liabilities and lawsuits

<u>Nordiconad</u>

By judgment of 22 March 2016, the Court of Bologna dismissed the applications lodged by Margherita SpA, Nordiconad Soc. Coop. and GD Srl against Esselunga 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.
The Court of Appeal set the hearing for clarification of the final statements on 11 December 2018.
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.
As already pointed out at the first instance hearing, we confirm that the amount of damages demanded by the appellants is exorbitant.

Coop proceedings regarding the publication of the book "Cart and Sickle"
By judgment of 31 October 2016, the Supreme Court of Cassation dismissed the applications brought by Coop Italia and Coop Adriatica (now Coop Alleanza 3.0), definitively confirming the first and second instance judgments in favour of Esselunga.
As regards the application lodged by Coop Estense (also merged into Coop Alleanza 3.0), the Supreme Court of Cassation, by judgment of 31 October 2016, quashed the judgment under appeal and referred the case back to the Court of Appeal of Milan for new proceedings.
The case has not yet been resumed before the Milan Court of Appeal.

Coop Lombardia
By a summons of 5 February 2016, Coop Lombardia filed a lawsuit before the Court of Milan against Esselunga SpA and Mr Bernardo Caprotti seeking to ascertain the defendants' liability for unfair competition and, in any event, for non-contractual liability pursuant to art. 2043 of the Italian Civil Code, claiming that their conduct facilitated the publication of a denigrating article against the Cooperative.
As a result of the alleged offence, Coop Lombardia requested that the defendants be ordered to indemnify the pecuniary and non-pecuniary damage, on a joint and several basis, for a total of € 13.5 million in addition to interest and revaluation.
According to the opinion of the Company's legal advisers, the outcome of the dispute is highly unpredictable.
In any case, the quantification of the damage does not appear to be suitably documented, although we have to wait for the Judge's ruling on the admissibility of evidence.

Coop Alleanza 3.0 Società Cooperativa – Coop Estense
On 9 February 2016, Esselunga SpA served a summons to Coop Alleanza 3.0 Società Cooperativa - in its capacity as successor of all of Coop Estense Società Cooperativa

("Coop Estense") rights, obligations and contractual relationships- to claim damages in relation to the serious and unlawful conduct of Coop Estense, starting from the year 2000, consisting of preventing Esselunga SpA from establishing new stores on the land owned by Esselunga in Modena and Vignola (MO).
The anti-competitive conduct of Coop Estense has been established by the Antitrust Authority and subsequently confirmed by the Council of State by final decision and therefore these proceedings fall within the aforementioned wider administrative and judicial proceedings.
After the exchange of statements referred to in art. 183 paragraph 6 of the Italian Code of Civil Procedure, at the hearing of 23 February 2017, scheduled for the discussion of evidence, the case was adjourned to the hearing of 22 June 2017.

Tax audits
Tax audits and the relevant tax assessment notices concern the tax periods 2004, 2005 and 2006; the most relevant disputes were closed with a favourable outcome for the Company.

14. Remuneration of the Board of Directors

The following table shows the emoluments accrued in favour of the Board of Directors for the year ended 31 December 2016 (amounts in thousands of euros):

Description	**Year ended 31 December 2016**
Board of Directors	8,739
Total	**8,739**

15. Significant events after the end of the financial year

On 1 March 2017, the new CLICCA e VAI sales channel came into operation in Varedo (MB), which was implemented through the renovation of the old store's existing structure. This channel will enable online shopping from the website www.esselunga.it/cliccaevai and pick up of purchased items up at the Varedo Centre (MB). The assortment will include fresh products such as meat, fish, fruit and vegetables, fresh bread, ready-made gourmet dishes, frozen foods, packaged food, detergents and personal hygiene products. The purchased items will be available two hours after the order and may be picked up in convenient one-hour time slots. The service will be completely free and without minimum spending limits. The payment must be made before pick up, at special kiosks by credit card, Fìdaty Oro or ATM cards

Annex 1 - List of companies included in the scope of consolidation

Company name	Registered Office	Share capital	% holding	Line-by-line consolidation		Notes
				As of 31 December 2016	As of 31 December 2015	
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	
Cedi S.r.l.	Como	10	100	Yes	Yes	
Centro Alto Milanese S.r.l.	Milan	1,607	100	Yes	Yes	
Fidaty S.p.A.	Milan	600	100	Yes	Yes	
Fintrade S.r.l.	Voghera (PV)	10	100	Yes	Yes	
I.A.M. Immobiliare Alba Mediterranea S.r.l.	Rome	10	100	Yes	Yes	
Iridea Due S.r.l.	Milan	10	100	Yes	Yes	
Lanterna S.r.l.	Milan	10	100	Yes	Yes	
Magenta Due S.r.l.	Milan	10	100	Yes	Yes	
EsserBella S.p.A.	Milan	500	100	Yes	Yes	
Orofin S.p.A.	Milan	100,000	100	Yes	Yes	
Pibiemme S.r.l.	Milan	10	100	Yes	Yes	
Commerciale Velo S.r.l.	Milan	10	100	Yes	Yes	
Concerto S.r.l.	Milan	10	100	Yes	Yes	
Innocenzo III S.r.l.	Novara	10	100	Yes	Yes	
Pegaso 2011 S.r.l.	Milan	10	100	Yes	Yes	
Ponti S.r.l.	Milan	10	100	Yes	Yes	
San Magno S.r.l.	Milan	10	100	Yes	Yes	

INDEPENDENT AUDITORS' REPORT

To the shareholder of
Esselunga SpA

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Esselunga SpA (together with its subsidiaries the "**Esselunga Group**"), which comprise the consolidated statement of financial position as of 31 December 2016, the consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in shareholders' equity for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of Esselunga SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Esselunga Group as of 31 December 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union.

Milan 12 April 2017

PricewaterhouseCoopers S.p.A.

/s/ Andrea Rizzardi

Andrea Rizzardi
(Partner)