Esselunga Group Financial Statements
Financial Year 2017

Parent Company

Esselunga S.p.A.

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

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Directors' Report

To the sole shareholder,

The consolidated financial statements as at 31 December 2017 of Esselunga S.p.A. (hereinafter also the "Parent Company"), prepared in compliance with the EU IFRS, reported a consolidated net profit of € 298.8 million compared to a net profit of € 262.3 million in 2016.

Esselunga S.p.A (hereinafter the "**Company**" or the "**Parent Company**") and, together with its subsidiaries the **Esselunga Group**, (hereinafter also the "**Group**" or "**Esselunga**") is mainly engaged in the food sector of Large-Scale Retailing in Italy through a sales network comprising, as at 31 December 2017, 156 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio. In addition, the Group manages 88 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. In addition to Esselunga S.p.A., the Group comprises the following main companies: Villata Partecipazioni S.p.A., La Villata S.p.A. Immobiliare di Investimento e Sviluppo, Orofin S.p.A., which is in charge of the majority of the real estate development projects, Atlantic S.r.l., Fìdaty S.p.A. and EsserBella S.p.A.

In 2017, the Company opened stores in Rome, Prenestino district, Novara, Veveri district, Verona, "zona fiera", and in Bergamo Celadina. The Verona, Corso Milano store was closed due to renovation and expansion.

By deed signed on 27 June 2017, Esselunga S.p.A. acquired 45% of the share capital of Villata Partecipazioni S.p.A. (hereinafter "Villata Partecipazioni") from the minority shareholders. In September 2017, Esselunga S.p.A acquired an additional 22.5% stake in Villata Partecipazioni's share capital from the majority shareholders. The purchase of the investment was financed by a group of banks for € 900 million through a "*bridge to bond*" loan with maturity up to two years.

Villata Partecipazioni owns the entire share capital of La Villata S.p.A. Immobiliare di Investimento e Sviluppo which owns 83 commercial properties for use in the business carried out by Esselunga S.p.A. and currently leased to it under long-term leases. The acquisition of control over Villata Partecipazioni will give the Group greater operational flexibility as the latter will be able to freely exercise control over the above-mentioned properties. In addition, the Group will benefit from the difference between the cost of the leases and the financial charges on the debt incurred to finance the purchase of the investment.

On 18 October 2017 Esselunga S.p.A. successfully placed two Eurobonds with a nominal value of € 500 million each, with maturities of respectively 6 and 10 years, which were used to repay bank borrowings taken out in July.

The transaction details are provided below:

6 years tranche	**10 years tranche**
Notional amount: € 500 million	Notional amount: € 500 million
Maturity: 25 October 2023	Maturity: 25 October 2027
Annual coupon: 0.875%	Annual coupon: 1.875%
Issue price: 99.281%	Issue price: 99.289%
Yield to maturity: 0.999%	Yield to maturity: 1.954%
Spread: 65 bps on the *midswap* rate	Spread: 110 bps on the *midswap* rate

The bonds are listed on the Luxembourg Stock Exchange.

The placement was addressed to institutional investors who submitted 711 orders for a total demand of approximately € 9.2 billion, more than 9 times the value of the offering, a record among Italian issues in 2017.

Following the placement of the bonds, the Group qualifies as a public interest entity subject to non-financial data reporting as per the provisions of Legislative Decree 254/2016.
The Non-Financial Statement included in this report, which exceeds legal obligations, aims to demonstrate the Group's strong focus on relevant issues for the Company and its stakeholders such as innovation, quality of raw materials and product safety, protection of the environment and the working conditions of its employees and collaborators, compliance with regulations. These elements reflect in practice the commitment, history and culture of Esselunga's people with regard to *Corporate Social Responsibility* issues.

Adjusted values

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

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

These amounts can be reconciled with the balances of the consolidated financial statements as at 31 December 2017.

The indicators used by the Group are not defined in the accounting principles adopted; as such, the definitions used by the Group may not be consistent with those specified by other companies or groups, thus preventing their comparability.

This report also includes a summary of "adjusted" income statement figures (total adjusted sales, adjusted EBITDA, adjusted operating profit and adjusted net profit) in order to present the Group's operating and financial performance.

Specifically, the adjusted EBITDA was adjusted to reflect the impact of the fair value measurement of prize-giving promotions, as required by the international accounting standards. Adjustment of the EBITDA was necessary to provide a comparative analysis of the Group's operating performance, as in the two financial years the EBITDA was significantly influenced by the difference between the fair value and the cost incurred.

Some financial ratios (*gearing*, *leverage*, *coverage*) are also provided, which are considered relevant for a better understanding of the Group's financial position.

Macroeconomic scenario in 2017 and summary of operating performance

- **In 2017, GDP growth was 1.6%** (Source: ISTAT).
- **The inflation rate was 1.2%** (Source: ISTAT).
- **Sales grew 2.8% to € 7,754** million; growth was 3.1% taking into account the additional day in 2016, a leap year.
- **Sales inflation** was 0.6%.
- **Supplier inflation was 2.2%**
- **Customer growth, which exceeded 5.6 million in number, was 5%,** mainly attributable to the network development. The opening of the new store in Rome Prenestino brought over 100 thousand new Customers, or a 2% growth.
- **Customers received discounts for almost € 1.4 billion**, up by approximately 100 million on 2016.
- **The e-commerce continued to grow**, recording sales in excess of € 180 million (+16% on 2016).
- **Our leadership in terms of efficiency was confirmed with sales exceeding € 16,000/sqm**. Esselunga is first in Italy with figures that are twice those of competitors (Source: .Mediobanca survey on 2016 data).
- **Celebrations were held for the 60th anniversary of the opening of the first store in Viale Regina Giovanna in Milan**. Super-show in Milan with over 67,000 visitors between November 2017 and January 2018.

- **EBITDA** was € 638.2 million (8.2%) compared to € 661.5 million (8.8%) in 2016.
- **Adjusted EBITDA** (EBITDA adjusted to exclude the effect of the fair value measurement of prize-giving promotions) was € 647.9 million (8.4%) compared to € 600.6 million (8%) in 2016.
- **Operating profit** was € 410.9 million (5.3%) compared to € 405.4 million (5.4%) in 2016.
- **Adjusted Operating profit** was € 420.6 million (5.4%) compared to € 344.5 million (4.6%) in 2016.
- **Net profit** was € 298.8 million (3.9%) compared to € 262.3 million (3.5%) in 2016.
- **Adjusted Net profit** was € 305.8 million (3.9%) compared to € 220.6 million

- **Capital expenditures** were € 439 million.
- **The average workforce was 23,094 people, an increase of 353 on 2016.** As at 31 December 2017, the workforce reached 23,386 people.

- **Net debt** was € 847.5 million (€ 55.5 million in 2016) following the acquisition of a controlling stake in Villata Partecipazioni. The Net debt/EBITDA ratio was 1.3.
- **Strong cash generation in Q4** which led to a reduction of debt from € 1,139 million as at 30 September 2017, when Esselunga acquired control of Villata Partecipazioni.
- **Two fixed-rate Eurobonds issued in October for € 1 billion with 6 and 10 year** maturities, to finance the acquisition of Villata Partecipazioni. Nominal interest rates of 0.875% and 1.875% respectively. Demand from investors nine times the amount offered.
- **In 2017 Esselunga was assigned two Investment Grade ratings**: Baa2 from Moody 's, in line with Italian sovereign debt, and BBB- from S&P.

Income statement data

The Income Statement is shown below in the usual format, with indication of intermediate results (amounts in millions of euros):

Income Statement	Financial Year 2017		Financial Year 2016	
	Amounts	%	Amounts	%
TOTAL SALES	**7,753.8**	**+2.8**	**7,540.0**	
Sales Adjustments	-159.1		-32.3	
NET REVENUE	**7,594.7**		**7,507.7**	
Costs for the purchase of goods and change in inventories	-5,247.5		-5,137.8	
Other operating costs and other revenues	-768.5		-764.4	
ADDED VALUE	**1,578.7**	**20.4%**	**1,605.5**	**21.3%**
Personnel costs	-940.5	-12.1%	-944.0	-12.5%
GROSS OPERATING MARGIN	**638.2**	**8.2%**	**661.5**	**8.8%**
Amortisation and depreciation	-226.9		-198.6	
Write-downs	-6.7		-57.1	
Capital gains/losses on non current assets	6.3		-0.4	
OPERATING PROFIT	**410.9**	**5.3%**	**405.4**	**5.4%**
Net financial expense	-18.1		-15.8	
Income from investments accounted for using the equity met	3.4		0.0	
PROFIT BEFORE TAXES	**396.2**	**5.1%**	**389.6**	**5.2%**
Income taxes	-97.4		-127.3	
NET PROFIT FOR THE YEAR	**298.8**	**3.9%**	**262.3**	**3.5%**
Net profit for the year attributable to owners of the parent	**295.7**		**262.3**	
Net profit for the year attributable to non-controlling interest	3.1		0.0	

Adjusted income statement results

For a more homogeneous and representative comparison of performance over the two years, some adjustments must be made, without which comparison of the results would be insignificant.

The *adjusted* income statement data are presented in the table below:

Description	Financial Year 2017		Financial Year 2016	
	Amounts	%	Amounts	%
TOTAL ADJUSTED SALES	**7,753.8**	**3.1%**	**7,522.8**	
ADJUSTED EBITDA	**647.9**	**8.4%**	**600.6**	**8.0%**
ADJUSTED OPERATING PROFIT	**420.6**	**5.4%**	**344.5**	**4.6%**
NET FINANCIAL EXPENSE	**-18.1**		**-15.8**	
ADJUSTED NET PROFIT	**305.8**	**3.9%**	**220.6**	**2.9%**

The following tables provide details of the adjustments made:

Description	Financial Year 2017		Financial Year 2016	
	Amounts	%	Amounts	%
TOTAL SALES	**7,753.8**	**+2.8%**	**7,540.0**	
Additional day for leap year	**0.0**		**-17.2**	
TOTAL ADJUSTED SALES	**7,753.8**	**+3.1%**	**7,522.8**	

An adjustment was made to **2016 sales** to take account of the additional day in the leap year;

Description	Financial Year 2017		Financial Year 2016	
	Amounts	%	Amounts	%
EBITDA	**638.2**	**8.2%**	**661.5**	**8.8%**
Non-financial component of prize-giving promotions	**9.7**		**-56.8**	
Additional day for leap year	**0.0**		**-4.1**	
ADJUSTED EBITDA	**647.9**	**8.4%**	**600.6**	**8.0%**

Description	Financial Year 2017		Financial Year 2016	
	Amounts	%	Amounts	%
OPERATING PROFIT	**410.9**	**5.3%**	**405.4**	**5.4%**
Non-financial component of prize-giving promotions	**9.7**		**-56.8**	
Additional day for leap year	**0.0**		**-4.1**	
ADJUSTED OPERATING PROFIT	**420.6**	**5.4%**	**344.5**	**4.6%**

The EBITDA, operating profit and net profit adjustments offset the impact of the fair value measurement of prize-giving promotions.

The Group's **adjusted sales** in 2017 grew by 3.1%, with **stores and the e-commerce channel growing at 3.2%.**

With regard to **Sales**, the commercial and marketing policy in 2017 continued to be targeted to:

1. ensure competitive shelf prices for Customers at all times, in order to maintain the leadership position achieved in terms of affordable price, with over three percentage points below market average (Nielsen price index in our *Trading Area*). Against a 2.2% increase in suppliers' price lists, our prices increased by 0.6%. If we focus on CPGs (Drugstore, General Merchandising and Dairy/Salami departments) customers benefited from a 0.6% deflation;

2. offer increasingly more value to Customers. The promotional approach has been revised with greater focus on fast moving items and those that most appeal to Customers. The discount granted therefore reached € 1.4 billion, up by almost € 100 million on 2016. The average discount impact has now exceeded 15% of total sales.

Even if without the relevance of a time the comparison with the HYPER + SUPER market segment shows that in the areas where Esselunga is present, growth was 2.5% (source: IRI) against 3.1% of the Esselunga Group. Therefore, our Group continued to perform well in 2017.
The positive market figure was affected by the considerable effort to rationalize the distribution network implemented by many traditional mass retail chains in recent years. This refers to the local market and the simultaneous closure of stores with very large sales areas.
The *discount* channel also grew markedly as did the *drug* specialists, with +3.6% and +6.2% recorded on a like-for-like basis in the total Italian market respectively (Source Trend Grocery Nielsen).
Lastly, the constant growth in the home delivery and out-of-home food consumption segments complete the food market picture.

Adjusted EBITDA was € 647.9 million (8.4%) up compared to € 600.6 million (8.0%) in 2016. The result positively benefited from the good sales performance commented above, alongside efficient cost management which enabled the Company to absorb the increased marketing costs linked to its 60th anniversary.

Adjusted Operating Profit was € 420.6 million (5.4%) up compared to € 344.5 million (4.6%) in 2016. In addition to the same reasons that affected the adjusted EBITDA commented above, the write-down of the Ospitaletto area in 2016 helps explain the different results in the two years.

Net **Finance expenses** were € 18.1 million (€ 15.8 million in 2016), mainly attributable to charges on finance leases (€ 12.6 million) and the loan for the purchase of Villata Partecipazioni (€ 4.5 million).

Lastly, **Adjusted Net profit** was € 305.8 million (3.9%) compared to € 220.6 million (2.9%) in 2016. Adjusted net profit benefited from the consolidation of the Villata Partecipazioni Group, which contributed € 9.8 million, net of the previously commented finance expenses.

Statement of financial position and cash flow information

The Group's statement of financial position and cash flow information is provided below (amounts in millions of euros):

Statement of financial position	As of 31 December 2017	As of 31 December 2016	Change
Property, plant and equipment	4,226.7	3,074.4	1,152.3
Intangible assets	165.0	156.6	8.4
Goodwill	6.6	6.6	0.0
Other non-current assets and liabilities	161.6	265.6	-104.0
Working capital	-763.5	-781.2	17.7
NET INVESTED CAPITAL	**3,796.4**	**2,722.0**	**1,074.4**
Shareholders' Equity	2,819.8	2,528.9	290.9
Provision for employee severance indemnity (T.F.R.) and provisions for risks and charges	129.1	137.6	-8.5
Net debt	847.5	55.5	792.0
TOTAL SOURCES OF FUNDS	**3,796.4**	**2,722.0**	**1,074.4**

Capex reached € 439.2 million in 2017, of which € 403.1 million in property, plant and equipment, € 27.8 million in software and commercial licenses, € 8.2 million for other real estate investments, and € 0.1 million for assets held for sale.

Property, plant and equipment

The change of € 1,152.3 million refers to:

- Capex of € 403.1 million;
- Disposals of € 15.8 million;
- Depreciation for the year of € 203.5 million;
- the assets from consolidation of Villata Partecipazioni for € 963.9 million; and
- for the difference to reclassifications.

Capex of € 403.1 million comprises:

- € 146.7 million for the expansion, renovation and set up of the stores opened in 2017: Rome, Prenestino district, Novara, Veveri district, Verona, Fair area, Bergamo Celadina;
- € 77 million for the purchase, modernisation and maintenance of the logistic hubs and the headquarters;
- € 77.1 million for the modernisation and maintenance of existing stores;
- € 102.3 million for the purchase and development of areas dedicated to the opening of new stores.

Intangible assets

The change in the item refers to additions for € 27.8 million, amortisation for the year for € 20.7 million and reclassifications for the difference. Additions essentially refer to the purchase of software for the improvement of the Group's IT infrastructure.

Other non-current assets and liabilities

The main elements comprised in this item are shown in the table below (amounts in millions of euros):

Description	**As of 31 December 2017**	**As of 31 December 2016**	**Change**
Investment property	161.7	182.9	-21.2
Equity investments	0.2	0.2	0.0
Deferred tax liabilities net of deferred tax assets	-49.6	65.8	-115.4
Deferred revenue for prize-giving promotions (non-current portion)	-46.8	-60.0	13.2
Other non-current assets (liabilities)	96.1	76.7	19.4
TOTAL	**161.6**	**265.6**	**-104.0**

The item investment property refers to land or buildings that are not intended for use in the Group's ordinary activities. The item includes additions of € 8.3 million, increases of € 6.9 million as a result of the acquisition of Villata Partecipazioni, depreciation of € 2.3 million and net write-downs of € 6.4 million. The item decreased by € 27.7 million due to the reclassification of some properties to the property plant and machinery item.

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

The item "deferred tax liabilities, net of deferred tax assets", includes the effects of deferred taxation primarily for risk provisions, non-deductible write-downs and various depreciation/amortisation charges deducted for tax purposes but not accounted for in the income statement. The change compared to the previous year is attributable to the deferred tax liabilities arising from consolidation of La Villata S.p.A. (€ 78.6 million) and to lower deferred tax assets due to the impact of EU IFRS application in the Esselunga S.p.A. "separate" financial statements.

The item *"deferred revenue for prize-giving promotions"* refers to the fair value of prizes that are estimated to be redeemed by customers after 12 months from the statement of financial position date.

The item "other non-current assets (liabilities)" in 2017 mainly refers to tax receivables (VAT) for € 53 million, to receivables related to an IRES tax refund application filed by the parent company Supermarkets Italiani S.p.A. for € 25.3 million and to an advance paid for the purchase of a building plot for € 21.7 million.

Working capital

The main elements comprised in this item are shown in the table below (amounts in millions of euros):

Description	**As of 31 December 2017**	**As of 31 December 2016**	**Change**
Closing inventories	409.2	394.4	14.8
Trade receivables	383.6	366.0	17.6
Tax receivables	72.7	29.6	43.1
Other receivables	30.0	42.0	-12.0
Assets held for sale	6.6	14.5	-7.9
Trade payables	-1,286.2	-1,302.8	16.6
Tax payables	-0.1	-0.5	0.4
Current deferred revenue for prize-giving promotions	-94.2	-32.3	-61.9
Current tax payables	-110.9	-113.0	2.1
Current payables to social security institutions	-56.4	-60.0	3.6
Payables to employees	-79.6	-80.7	1.1
Other current liabilities	-38.2	-38.4	0.2
TOTAL	**-763.5**	**-781.2**	**17.7**

The increase in inventories compared to December 2016 (€ 14.8 million) is attributable to new stores and confirms the Group's ability to manage and optimise the logistics for re-ordering.

Tax receivables increased mainly as a result of the IRES tax receivable, booked against the consolidating entity, which rose to € 58.3 million from € 16.4 million in 2016.

Assets held for sale represent the sale value of areas and buildings for which preliminary agreements have already been entered into.

Current tax payables mainly refer to payables to the tax authorities for VAT (€ 87.9 million) and for IRPEF (personal income taxes) (€ 18.4 million).

Deferred revenues for current prize-giving promotions represent the fair value of the prizes that are expected to be redeemed by customers in 2018 in relation to the "Bergamo" catalogue launched in May 2016.

Other current liabilities mainly refer to advances related to the sale of property and payables for prepaid cards.

Shareholders' Equity

The change of € 290.9 million in shareholders' equity is due to:

- the increase of € 295.7 million in profit for the year attributable to owners of the parent;
- the recognition of minority interests for € 321.2 million, approximately equivalent to 32.5% of the equity contributed by the Villata Partecipazioni Group in December 2017;
- negative effect of € 316 million as the difference between the price paid, based on an independent expert's valuation, and the corresponding share of shareholders' equity of the Villata Partecipazioni Group;
- the decrease of € 0.2 million for the direct recognition in equity of actuarial losses on employees' pension plans (TFR) net of the related tax effect;
- the recognition of a negative cash flow hedge reserve for € 6.8 million;
- the decrease of € 3 million for the distribution of dividends to the parent company Supermarkets Italiani SpA in 2017.

Provision for employee severance indemnity (T.F.R.) and provisions for risks and charges

The provisions for employee severance indemnity decreased by € 8.1 million for payments made in the year and increased by € 1.6 million in application of IAS 19.

The provisions for risks and charges showed a net decrease of € 2 million due to new provisions of € 3.4 million, uses of € 9 million and reclassifications of € 3.6 million.

Net debt

Net debt was € 847.5 million, an increase of € 792 million from 2016, mainly due to the acquisition of control over Villata Partecipazioni.

In order to ensure better comparability of data, especially those regarding financing activities, a summary of the changes in the net debt is provided below (amounts in millions of euros):

Statement of Cash Flows	Year ended 31 December 2017	Year ended 31 December 2016
Cash flow from operating activities	659.8	623.2
Cash flow used in investing activities	-1,409.5	-411.1
Cash flow used in financing activities	-24.8	-12.7
Dividends distributed	-3.0	-20.0
Taxation	-106.1	-118.3
Change in the scope of consolidation	91.6	0.0
TOTAL NET CASH FLOW FOR THE YEAR	**-792.0**	**61.0**
NET DEBT AT BEGINNING OF PERIOD	**-55.5**	**-116.5**
TOTAL NET CASH FLOW FOR THE YEAR	**-792.0**	**61.0**
NET DEBT AT END OF PERIOD	**-847.5**	**-55.5**
Cash and cash equivalents	490.8	305.5
Receivables from Fìdaty Oro payment card users	63.5	63.4
Current and non-current financial receivables	10.0	0.0
Receivables for loans to parent company	0.0	0.8
Bonds	-980.0	0.0
Current and non-current financial payables (leases and others)	-431.8	-425.2
NET DEBT	**-847.5**	**-55.5**

The following table shows the due dates of financial payables (amounts in millions of euros):

Description	31 December 2017				
	Less than 1 year	Between 1 and	Between 2 and	Over 5 years	Total
Bonds	0.0	0.0	0.0	-980.0	-980.0
Current and non-current financial payables (leases and others)	-33.7	-34.8	-92.6	-270.7	-431.8
TOTAL FINANCIAL PAYABLES	**-33.7**	**-34.8**	**-92.6**	**-1,250.7**	**-1,411.8**

Bonds

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

The transaction details are provided below:

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

The bonds are listed on the Luxembourg Stock Exchange.

The placement was addressed to institutional investors who submitted 711 orders for a total demand of approximately € 9.2 billion, more than 9 times the value of the offering, a record among Italian issues in 2017.

Given high demand from investors, Esselunga SpA was able to significantly tighten the spread by 25/30bps compared to initial pre-placement price indications (IPTS) of 95/135bps on the midswap, setting it at 65/110 bps. These spreads were positioned at the 6-year BTP curve level and at -8bps compared to the 10-year BTP curve.

Banca IMI, Citi, Mediobanca and Unicredit acted as *Joint Bookrunners*.

The principal of Tranche A and Tranche B will be repaid in full at maturity (respectively on 25 October 2023 and 25 October 2027).

There are no guarantees or covenants in place in relation to the bonds.

Incidental expenses on bonds

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

Financial ratios

The *Return on Investments (ROI)* ratio is shown in the table below (amounts in millions of euros):

Description	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Operating profit	410.9	405.4
Invested capital (average)	5,451.3	4,698.9
ROI	**7.5%**	**8.6%**

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

The *leverage* and *coverage* ratios are shown in the table below (amounts in millions of euros):

Description	**Year ended 31 December 2017**	**Year ended 31 December 2016**
Net debt	847.5	55.5
EBITDA	638.2	661.5
Leverage	**1.33**	**0.08**
EBITDA	638.2	661.5
Net financial expense	18.1	15.8
Coverage	**35.26**	**41.87**

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

The *coverage* ratio compares the EBITDA with net financial expense to represent the liquidity surplus after remunerating debt capital. Note that financial expenses on bond loans only refer to a three-month period.

Financial risk management

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

Compared to 31 December 2016, no significant changes occurred in the Group's risk profile or in risk management procedures put in place by management with respect to the risks to which the Group is exposed, except that in the month of October 2017 Esselunga S.p.A. successfully placed two Eurobonds with a nominal value of € 500 million each and maturities of 6 and 10 years respectively.

The main risk categories are described below.

Credit risk

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

The Group's maximum exposure to credit risk as at 31 December 2017 is the carrying amount of the financial assets reported in the financial statements, as shown in the table below (amounts in millions of euros):

Description	**31 December 2017**	**31 December 2016**	**Change**
Other receivables and other non-current assets	107.5	76.8	30.7
Trade receivables	447.6	429.7	17.9
Current tax receivables	65.2	19.3	45.9
Other receivables and other current assets	42.5	57.0	-14.5
Total gross amount	662.8	582.8	80.0
Provision for doubtful receivables	-16.5	-4.0	-12.5
Total	**646.3**	**578.8**	**67.5**

Other receivables and other non-current assets mainly include receivables from third parties for security deposits given in relation to leases and utilities and building plots, tax receivables, mainly related to VAT receivables and to IRES tax 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 means of payment.
With regard to trade receivables, there is no appreciable concentration of credit risk.

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

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

The following table provides the breakdown of receivables as at 31 December 2017 by category and by number of days past due (amounts in millions of euros):

Description	31 December 2017					
	Not yet due	Days past due				
		0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current assets	85.3	0.0	0.0	0.0	22.2	107.5
Trade receivables	379.0	1.1	33.2	30.2	4.1	447.6
Current tax receivables	65.2	0.0	0.0	0.0	0.0	65.2
Other receivables and other current assets	37.5	0.0	0.3	0.0	4.7	42.5
Total gross amount	567.0	1.1	33.5	30.2	31.0	662.8
Provision for doubtful receivables	-0.1	0.0	-0.3	0.0	-16.1	-16.5
Total net amount	**566.9**	**1.1**	**33.2**	**30.2**	**14.9**	**646.3**

As shown in the table above, receivables overdue 31 December 2017 amounted to € 95.8 million, while the allowance for doubtful receivables was estimated at € 16.5 million.

Liquidity risk

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

Liquidity risk is centrally managed by the Group, which conducts periodic monitoring of the financial position through appropriate forecast and actual cash flow reporting.
Through its centralised Treasury, the Parent Company manages the liquidity of its subsidiaries to optimise cash flows. There are no *cash pooling* agreements in place.

On 3 August 2017, Esselunga entered into three agreements with three Italian banks for three committed "revolving" credit lines for a total amount of € 300 million, expiring after 5 years. As at 31 December 2017 the above credit lines were undrawn.

The following table provides a breakdown of liabilities by maturity as at 31 December 2017. The maturity ranges are determined based on the period between the statement of financial position date and the contractual maturity of the obligations including accrued interest as at 31 December. Interest has been calculated according to the contractual terms of the loans (amounts in millions of euros):

Description	31 December 2017				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Current and non-current financial payables (leases and others)	46.5	48.1	124.3	319.5	538.4
Bonds	13.8	13.8	41.3	1,051.1	1,120.0
Other payables and other non-current liabilities	0.0	0.0	0.0	0.1	0.1
Trade payables	1,286.2	0.0	0.0	0.0	1,286.2
Current tax payables	0.1	0.0	0.0	0.0	0.1
Other payables and other current liabilities	285.1	0.0	0.0	0.0	285.1
Total	**1,631.7**	**61.9**	**165.6**	**1,370.7**	**3,229.9**

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; and
- 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 bonds and finance lease payables. Financial payables at floating rates accounted for 7.4% of total debt as at 31 December 2017.

The Group had no derivative instruments.

Capital risk

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

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

The *gearing ratio* as at 31 December 2017 and 31 December 2016 is shown in the following table (amounts in millions of euros):

Description	31 December 2017	31 December 2016
Cash and cash equivalents	500.8	305.5
Financial receivables (current and non-current)	0.0	0.8
Receivables from Fìdaty Oro payment card users	63.5	63.4
Financial payables (current and non-current)	-1,411.8	-425.2
Net debt	**-847.5**	**-55.5**
Shareholders' Equity	**2,819.8**	**2,528.9**
Net invested capital	**3,667.3**	**2,584.4**
Net debt to net invested capital ratio (Gearing ratio)	**-23.1%**	**-2.1%**

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 2017 shows that net invested capital is 76.9% financed by own funds. This indicates the Group's strong capital structure and high solvency level.

Management of business risks

Regulatory risk

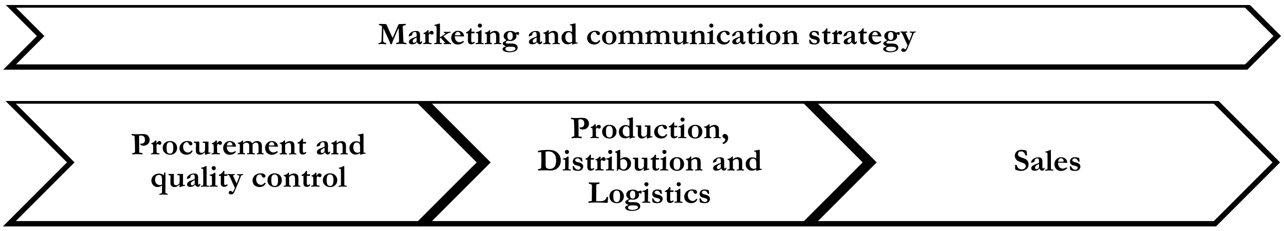
Regulatory risk consists of bureaucratic delays in obtaining permits for the opening of new stores or the expansion of existing ones. This essentially translates into lack of sales revenue while capital expenditures have already been made.

Risk for product quality

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

Esselunga Group Business model

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



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

From a strategic standpoint, the Group:

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

Procurement and quality control - The Group carefully selects its suppliers of both raw materials and finished products. Specifically, the Group defines the range of potential, core business suppliers based on its multichannel distribution strategies, and then implements an accurate selection process. The organisational units of the Group's commercial and quality management departments are strongly focused on the supply chain, as the Group is highly aware that properly identified, selected and coordinated suppliers are a key competitive advantage in the large-scale retail trade sector. To this end, inspections are carried out according to precise criteria and timelines at the production facilities of suppliers who are integrated into the production and distribution process of Esselunga branded products.

These inspections are also carried out at farms supplying fruit and vegetables, at slaughterhouses, at livestock and fish farms and at production factories. For additional information see "The Social Aspect - Responsible Management of the Supply Chain" paragraph in the Consolidated non-financial report.

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

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

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

Research and development and private label

The Group is engaged in the research and development of private label new fresh products to expand its range of high quality products. These include baking, ready-made meals, cakes, dry pastries and fresh pasta.
At the Parma production facilities, fresh pasta, including stuffed pasta, semolina pasta, pastry and bakery products are produced daily. One of the Company's key strengths is its private label; for this reason, it chose to use an ad hoc trademark for the opening of the new production site (*Made in Parma - Food Valley)* that identifies all the products made in the heart of the *Italian Food Valley*, inspired by a constant search for excellence, careful selection of raw materials and the location of the production site.
The Esselunga Top line combines superior quality products that use top quality raw materials with traditional and artisanal processing methods. The Esselunga Equilibrio line is dedicated to nutritional and health balance through a wide range of products.
To provide our customers with a product that is unique for its fragrance and freshness, but at the same time with uniform quality standards across all geographic areas, in 2016 we launched the centralised production of fresh pastries. To this end, a special department was set up at the Limito di Pioltello (MI) facility, supported by the advice of a well-known group with specific expertise in this field. To date, 13 stores offer this kind of pastries.

Offices and sales network

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

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

Sales network
The Group's sales network consists of 156 Esselunga stores, 38 EsserBella perfume shops and 88 Atlantic bars.

The geographical distribution of the Group's sales network is provided in the following table:

Sales network	Geographic area	Number
Esselunga Stores	Lombardia	94
	Toscana	28
	Piemonte	17
	Emilia Romagna	12
	Veneto	2
	Liguria	1
	Lazio	2
Total		**156**
EsserBella perfume ships	Lombardia	24
	Toscana	7
	Emilia Romagna	4
	Piemonte	3
Total		**38**
Bar Atlantic	Lombardia	52
	Piemonte	14
	Toscana	10
	Emilia Romagna	8
	Lazio	2
	Liguria	1
	Veneto	1
Total		**88**

Lastly, the Group is engaged in the *E-Commerce* sector through its home delivery service in several Italian provinces.

Treasury shares and shares of parent companies

In relation to Article 40, paragraph 2, d) of Legislative Decree no. 127/91, we confirm that the Parent Company and its subsidiaries:
a) do not hold treasury shares or shares of parent companies, including through trust companies or nominees; and
b) did not purchase treasury shares or shares of parent companies in 2017, including through trust companies or nominees.

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

Transactions with Group companies and related parties in the years ended 31 December 2017 and 2016 took place at arm's length and mainly concerned:
- business relations mainly concerning administrative services and leases;
- financial relations; and
- relations regarding the management of the IRES tax consolidation and Group VAT.

The Parent Company is not subject to management and coordination.

Derivative financial instruments

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

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

Esselunga S.p.A. has adopted its own Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 (also "MOGC pursuant to Legislative Decree 231/01"), which includes a set of rules, tools and practices designed to establish within the Company an effective organisational and management system capable of identifying and preventing the offences envisaged by the Decree.

The Code of Ethics is an integral part of the Model and sets out the general principles and the specific rules that must be complied with by all those who act in the name and on behalf of the Company.

Esselunga S.p.A. Model establishes control measures that are implemented in the relevant corporate procedures.

Esselunga SpA updated its Organisational, Management and Control Model by resolution dated 12 December 2017, whereby it introduced the Special Sections relating to Market Abuse and Offences against the individual and completed, among others, the Offences of Market Manipulation and False Company Disclosures by listed companies in the Special

Section on Corporate Crimes. Esselunga SpA also amended its Code of Ethics and Conduct by introducing a paragraph on Market Relations.

The Model therefore is made up of the following special parts: Offences against the Public Administration, Offences relating to Health and Safety at work, Offences against industry and commerce and counterfeiting, Offences of forgery of money, public debt cards and stamps, Offence of infringement of copyright, computer crimes and illegal data processing, corporate crimes, Offences of receiving, laundering and using money, goods or benefits of unlawful provenance, as well as the Offence of self-laundering, organized crime, transnational crimes, inducing someone not to make statements or to make false statements to the judicial authorities, Offences against the individual, use of illegally staying third-country nationals, environmental crimes and market abuse Offences.

The monitoring on the effectiveness, compliance with and updating of the Model is under the responsibility of the Supervisory Board appointed upon first adoption of the Organisational, Management and Control Model in 2010. By resolution of 23 March 2016, the Board of Directors of Esselunga S.p.A renewed the Supervisory Board consisting of two external professionals and the Head of Legal and Corporate Affairs who will remain in office until the date of the Board of Directors' meeting called to approve the draft financial statements for the year ended 31 December 2018.

The companies EsserBella S.p.A., Atlantic S.r.l., Villata Partecipazioni S.p.A. and La Villata Immobiliare S.p.A. have adopted their own Organisation, Management and Control Models.

An Extract of the Models and the Code of Ethics of the Companies is published on the Esselunga S.p.A. institutional website, in the Company - Organisational Model section.

Other information

Nordiconad

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

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

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.

Coop proceedings regarding the publication of the book “Falce e carrello"

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 S.p.A.

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.

Coop Alliance 3.0 (formerly Coop Estense) and Mario Zucchelli notified two separate summons on 6 April 2017 by which they resumed proceedings before the Milan Court of Appeal. The next hearing is scheduled for 28 March 2018.

Coop Lombardia

By summons of 5 February 2016, Coop Lombardia filed a lawsuit before the Court of Milan against Esselunga S.p.A. 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.

The judge adjourned the case to 5 June 2018 for submission of the final statements. According to the opinion of the Company’s legal advisers, the outcome of the dispute is highly unpredictable. In any case, following the court’s recommendation that the parties explore a possible amicable settlement of the dispute, a settlement agreement is currently being defined.

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.

The next hearing is scheduled for 10 May 2018.

2017 Consolidated non-financial report

1. 2017 Consolidated non-financial report

1.1 Methodological note

1.1.1 Standards applied to the report

This chapter contains all the necessary information, and the references to this Management Report, to be used in the preparation and disclosure to the market of the Esselunga Group Consolidated Non-Financial Report (henceforth also "NFR").

This 2017 NFR has been drafted pursuant to Italian Legislative Decree 254/2016. The reporting standard used is the "*GRI Sustainability Reporting Standards*[1]", Core option[2], published by the Global Reporting Initiative in 2016.

The data and information included in this NFR are taken from the Group's corporate information systems and from a non-financial reporting system specifically implemented to meet the requirements of Legislative Decree no. 254/2016 and the "*GRI Sustainability Reporting Standards*". The data were processed using specific calculations and, where specifically indicated, by means of estimates.

1.1.2 Scope

As required by Legislative Decree 254/2016, art. 4, this NFR includes the data of the parent company (Esselunga S.p.A.) and its material subsidiaries within the scope of the Decree. Specifically, in this report the term "Group" refers to the group of companies composed of the Parent Company, Esselunga S.p.A. and the subsidiaries consolidated on a line-by-line basis in the financial statements[3].[4]

1.1.3 Materiality assessment

To define the individual topics for which non-financial information is to be reported pursuant to Legislative Decree 254/2016, a materiality assessment was carried out in accordance with the provisions of the *"GRI Sustainability Reporting Standards*".

1.2 Introduction

1.2.1 Esselunga Group - Identity and creation of sustainable value over time

Since its establishment in 1957 by Bernardo Caprotti and Nelson Rockefeller - the Esselunga Group has always looked at **innovation** as one of its main drivers of development and creation of value, which, having been shared over time with our main stakeholders (Esselunga customers and people, partners and suppliers, and the community where the Group is established) includes both economic and social value. Esselunga was a

[1]The GRI Content Index at the end of the NFR contains the specific reference to the Standards used in the report; references to the Standards are also shown in the text notes highlighted with the [GRI No.] symbol
[2]GRI No. 102 - 54 Option in *accordance* with the GRI
[3]GRI No.102 - 46 Defining report content and topic boundaries
[4]This NFR refers to the period 1 January 2017 - 31 December 2017 which is the first reporting year pursuant to the aforementioned Decree. Since no structured reporting system of non-financial information was in place in previous years, a comparison with the information for prior years is not available.

pioneer in large-scale retailing in Europe, and it soon realized the importance of integration upstream of its value chain; the first plants for the production of fresh pasta, bakery products and ice creams were introduced in the 1960's to ensure **fresh and high-quality** products. In 1961, Esselunga launched one of the first prize competition in history, giving away the dream car of Italian baby-boomers: the Fiat 600. In 1969, with the *"Mille lire lunghe"* campaign, Esselunga began to combine the concepts of quality and freshness with that of affordable price; this mission of ensuring savings for consumers will continue over time with initiatives such as: *"Prezzo Chiaro", "Prezzi Corti"* and *"Giù i Prezzi"*. Thus freshness, quality and affordable price have become part of the Group's philosophy Group since 1977. Over time, innovation has taken various shapes: as **creativity**, through various collaborations with Italian prestigious names, such as Armando Testa and Ignazio Gardella; as **developments** in the field of **technology and automation** through the warehouse in Limito (MI) and Biandrate (NO) and as **digitalisation** of *fidelity cards* and *e-shopping*.
The Group's contemporary history is marked by steady but sustainable growth, constantly paying attention to customer satisfaction and pockets, thus focused on developing its own brands, shortening the supply chain and integrating the distribution and the production chain.

The Group's philosophy
"FRESHNESS, QUALITY AND AFFORDABLE PRICE"

1.2.2 Stakeholders: identification and involvement

The Group's philosophy of "Ensuring Freshness, Quality and Affordable Price" of both products and service immediately shows the centrality of some stakeholders; first, those upstream and downstream of the value chain that is: **Customers** and **suppliers**.

The way the Business Model has been structured enables **people and Esselunga collaborators** to maintain the highest standards of Quality, Freshness and Affordable Price in full compliance with legal and market requirements and turning it into a hallmark of the Group. This objective can only be achieved through carefully designed procedures and operational models that closely match the most stringent regulations, standards and management systems defined by **authorities**, non-governmental entities and organizations**,** and by trade associations both nationally and internationally. For information on the business model, reference can be made to page 19 of this Report on Operations.

Being an **innovative** market player has allowed Esselunga to increasingly adjust to the sweeping changes taking place in the regulatory, production and technological environment and in consumption habits across the various generations of its consumers, showing an open attitude and the ability to stay tuned to the social, environmental and economic issues of the regions in which the Group is established.

Constantly improving its performance by increasing the satisfaction of customers, employees and of a varied socio-economic environment in Italy have always been a priority.

Such priority was supported and enabled by the Group's consistent and constant focus on a strategy of sustainable growth over time, driven by organic expansion and integration and never through aggressive financial transactions.

The approach to the stakeholder engagement is based on constant dialogue between the parties and uses methods and technologies that have been shaped by management experience and according to the specificities of each individual stakeholder. The main stakeholders of the Group and the respective engagement approaches are shown in the following table.

Stakeholder categories[5]	**Engagement and communication approach**
Customers	Structured and wide-spread CRM systems ranging from the single point of sale to the most advanced on-line systems
Suppliers	Dialogue through a wide-spread collaboration and cooperation network with the marketing Department and the Quality Department specialists
Shareholders and Bondholders	Handling and submission of requests through *Investor Relations*
Personnel	Dialogue and dedicated meetings with specific functions within the Human Resources, Occupational Health and Safety and Relations with Trade Associations areas and constant dissemination of the Code of Ethics.
Trade unions and trade associations	
Public Administration	Specific procedures and control measures defined by the Group's Organizational, Management and Control Model (MOGC) pursuant to Legislative Decree 231/01, involving, based on the PA specific requests, both the company's top management and management according to their various specializations and skills

The Group involves the internal stakeholders through focus groups that gather information on the level of satisfaction, while specific questionnaires are used to involve external stakeholders.

1.2.3 Materiality

Esselunga believes that ongoing dialogue with the stakeholders is essential for our awareness of how the Group and its development strategies are perceived by the stakeholders. In 2017, Esselunga implemented the first step of a broader initiative to identify and assess priority, i.e. "material", issues. The first list of the Group's 15 material issues was released for the first year, thanks to the involvement of the top management and of the various departments involved in stakeholder engagement activities:[6]

Scope of Legislative Decree 254/2016	**Material issue**
Fight against corruption	1) Fight against active and passive corruption
Human rights	2) Defense of Human Rights
HR management	3) Employee working conditions and social dialogue 4) Diversity and equal opportunities 5) Health and Safety
Social aspects	6) Customer satisfaction 7) Consumer Health and safety

[5]GRI No.102 - 40 - List of Stakeholder Groups
[6]The approval of the relevant topics by the Board of Directors took place concurrently with the approval of this NFR.

Scope of Legislative Decree 254/2016	Material issue
	8) Responsible marketing 9) Responsible supply chain
Environment	10) Energy consumption 11) Waste Management 12) Management of Emissions 13) Management of water consumption 14) Packaging life cycle
Other aspects	15) Product innovation

In 2018, the Company will launch further actions to involve the *stakeholders* and reinforce the initiative for proritization of material issues, specifically those pertaining to CSR[7].

1.2.4 Policies implemented in the Corporate Social Responsibility area

The Group continued to implement and improve a *Corporate Social Responsibility* (CSR) policy, driven by the belief that acting with integrity, fairness, awareness and transparency, helps to create and consolidate its reputation, credibility and social consensus, which are crucial for every organization to conduct business in a sustainable manner in every situations. This policy aims to define guidelines for people who entertain relations with the Group on 4 main topics: Anti-corruption, Human Rights, Diversity & Equal Opportunities and Environment[8]. Social consensus, excellent reputation and credibility are necessary and essential prerequisites to ensure long-term economic and social development. Esselunga's CSR policy is inspired by local, national and international protocols, guiding principles and regulations; together with the Organizational, management and control model (MOGC) pursuant to Legislative Decree 231/01, it defines the top-down corporate values and culture in the Social Responsibility area. The Group's Code of Ethics and Conduct specifically addresses issues regarding business conduct, relations with the public administration, protection of industry, trade and property rights, as well as respect for the people and their fundamental rights, protection of workers' health and safety and the environment.

1.2.5 Management and Control Systems and key risks[9]

In 2017, the Group has certified its Health and Safety Management System and its Environmental Management System under a combined certification in compliance with the BS OHSAS 18001: 2007 and UNI EN ISO 14001: 2015 standards. To ensure increasing workers' health and safety protection, the environmental and safety management system covers all the Group's stores, offices and plants.

More specifically, the BS OHSAS 18001: 2007 certification was obtained by Esselunga S.p.A. in 2012, by Atlantic Srl and EsserBella S.p.A. in 2013, by La Villata SpA in 2017. The UNI ISO 14001: 2015 certification was obtained by Esselunga in 2016, by Atlantic and EsserBella in 2017.

Regarding the details of:

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[7]GRI No.102 - 44 - Key topics and critical issues emerging from stakeholder engagement activities

[8] The CSR policy already practiced by the company in its daily activities, was formalized by management in 2017. Its publication on the official website will take place after approval by the Board of Directors; Esselunga undertakes to approve and publish it by 2018.

[9]GRI No.102 - 11 - Approval and application of the precautionary principle

— the Organization, Management and Control Model pursuant to legislative Decree 231/2001, see page 23 of this Directors' Report;
— the health and food safety certifications such as *IFS* (*International Food Standard*) and *BRC* (*British Retail Consortium*), see paragraph "*Social Aspect - Supply Chain Responsible Management*";
— the governance model, see chapter "*Company information*" of this Directors' Report.

The following table shows how the management model, by implementing its main control measures, contributes to the prevention and mitigation of the main risks associated with the areas under Legislative Decree 254/2016:

Scope of Legislative Decree 254/2016	Potential risks	Main control measures
Fight against corruption	Active corruption with respect to the Public Administration in real estate acquisition processes, authorization requests, management of points of sale, health checks Active and passive corruption of individuals in procurement activities	Adoption by the Company of an Organization, management and control model (MOGC) pursuant to Legislative Decree 231/2001 and of a Code of Ethics which define control standards in the field of active and passive corruption. Suppliers' selection and defining specific contractual safeguards. Communication and training activities in the areas falling within the scope of Legislative Decree 231/01 with specific reference to anti-corruption aspects.
Human rights	Direct and indirect employment by cooperatives, suppliers and sub - suppliers of irregular labour which results in limited protection for workers	Adoption by the Company of an Organization, management and control model (MOGC) pursuant to Legislative Decree 231/2001 and of a Code of Ethics which define control standards for the defence of fundamental rights. Specific control measures (HR manager) for constant field monitoring. Adoption of an OHSAS management system. Accountability of all corporate departments on issues regarding the defence of Human Rights.
Personnel	Workers' health and safety (injuries and occupational diseases) Developments in the legislative framework and management of turnover	Adoption by the Company of an Organization, management and control model (MOGC) pursuant to Legislative Decree 231/2001 and of a Code of Ethics which define control standards in the field of occupational health and safety. Adoption of an OHSAS management system. Adoption of specific Personal Protective Equipment (PPE). Adoption of work layouts aimed at reducing or eliminating risks in the field of health and safety at work. Adoption of personnel management, remuneration and development policies.
Social aspects - Customers	Inadequate complaint handling with repercussions on the Group's reputation and decline in market appeal False information and news and social networks Customers' socio-economic changes	Set up of a specific organizational control and of a process for the timely and adequate handling of all complaints. Listening to the stakeholders through different platforms. Health and food safety certifications such as IFS (*International Food Standard*) and BRC (*British Retail Consortium*)
Social aspects – supply chain	Inadequacy of suppliers from a technical - professional and ethical standpoint	Defining a qualification process that attests the ability for responsible management and the adequacy of the standard adopted by the supplier. Inspection activities by the Quality Department and by external bodies according to specific procedures and timelines. Health and food safety certifications such as IFS (*International Food Standard*) and BRC (*British Retail Consortium*)
Environment	*Compliance risk* associated with regulatory changes	Performing specific *risk assessments* and constant monitoring. Responsible design combined with continuous monitoring

Scope of Legislative Decree 254/2016	Potential risks	Main control measures
	Pollution risk	and measurement of environmental impacts. Verification activities carried out by certifying bodies and relevant authorities. ISO 14001 certification.

1.3 Fight against corruption

1.3.1 Policy implemented by the organization

The Esselunga Group is aware that corruption in all its facets has significant negative impacts in the economic, social and environmental field both for the Group and for the counterparty. For this reason, the entire organization - from the parent company to the subsidiaries, from employees to external contractors - has no tolerance for actions that are directly or indirectly related to corruption, whether active or passive. All personnel and business partners, especially in the supply chain, are required to act according to the values of integrity, transparency, fairness and loyalty and in full compliance with all applicable anti-corruption laws and regulations. [10]All these policies are fully explained in the **Code of Ethics and Conduct**[11] and in the **Organizational, management and control model pursuant to Legislative Decree 231** adopted by the individual Group companies and in the ***CSR Policy.*** By defining specific organizational models and controls and by issuing control procedures and measures, the Company is strengthening a corporate culture that is inspired by the highest principles of Business Ethics, namely: "Doing the right thing" and according to a "no surprises approach" to risks and non-compliance.

Specifically, following the approval of the Organization, management and control model pursuant to Legislative Decree 231/2001 in 2010 and its update in 2017, Esselunga S.p.A. and its subsidiaries have launched initiatives designed to:

- ensure that the employees, the top management and all those who work in the name and on behalf of Esselunga and its Subsidiaries, in business areas exposed to the risks of offence, are aware that if they infringe the provisions of the model, they may be committing an offence, for which criminal penalties can be imposed on them and administrative sanctions can be applied to the company, under criminal law;
- reiterate that any conduct in conflict with the law and with the ethical principles endorsed by Esselunga through its Code of Ethics and Conduct are strongly condemned by the Group;
- allow the Company to monitor the activities at risk so that action can be taken promptly to prevent or combat the commission of offences.

1.3.2 Main risks and opportunities

The Risk Assessment activities carried out in the various Group companies in 2017 revealed that there is a potential risk of commission of:

[10]GRI No.102 - 16 - Group values, principles and standards
[11]GRI No.102 - 12 - Endorsement of codes of conduct, principles or initiatives, including on a voluntary basis, in the economic, environmental and social sphere, that inspire the company or of which it is a member

- active corruption offences in dealings with the Public Administration, with regard to real estate management activities;
- both passive and active corruption in dealings with private parties with regard to procurement activities.

The risks of corruption have different impacts that adversely affect the Company both from an economic and a reputational standpoint. During the Risk Assessment carried out on 100% of the 5 Group Companies, 117 “sensitive” activities were identified, of which 40 (about 34%) potentially at risk of a corruption offence. [12]

It should be noted that, during the reporting year and in past years, no corruption cases have ever occurred nor have any legal proceedings been brought in this regard.[13]

1.3.3 Management procedures and KPI

The business model in the Anti-Corruption area is embodied by the Code of Ethics and Conduct and the Organizational, management and control model (MOGC) pursuant to Legislative Decree 231/01, while the main organizational controls in place to support the Model are the **Supervisory Board** (SB), the **Human Resources and Organization Department and the Internal Audit Department**.

The SB’s functions include:

- overseeing the effectiveness of and compliance with the Model;
- assessing the adequacy and effectiveness of the Model;
- assessing whether the above mentioned requirements are continuously satisfied over time and updating of the Model.

Furthermore, to ensure effective discharge of its duties, the SB has a set of powers and prerogatives; for details see chapter 7.4 of the current Model on the official website of the Esselunga Group.

The Human Resources and Organization Department is responsible for ensuring communication of, and training on the contents and principles of the Model, by identifying the best delivery-mode for these services. Communication and training activities are supervised by the Group's SB, which is also tasked with cooperating with the Human Resources and Organization Department in relation to initiatives for the dissemination of knowledge and understanding of the Model, for personnel training on the Model’s contents and for raising employees’ awareness with regard to compliance with the Model’s underlying principles.

Communication and training activities are diversified according to the recipients, and are inspired by the principles of completeness, clarity, accessibility and continuity.

Upon hiring, all new employees are informed that the Company has adopted the Model and the Code of Ethics and Conduct. Participation in training courses is mandatory and is verified through an attendance monitoring system. [14]Training is provided both in classroom and through e-learning. The content of training activities is updated to reflect changes in

[12]GRI No.205 - 1 - Sensitive activities assessed for risks related to corruption
[13]GRI No.205 - 3 - Reported and ascertained corruption incidents and improvement actions taken
[14]For further details, see the Training Activities paragraph

regulations and in the content of the Model. Finally, ***Internal Audit***, as third level control, is tasked with carrying out periodic audits to verify the application of procedures and rules pursuant to Legislative Decree 231/01.

Suppliers, collaborators and external consultants:
- are first assessed on principles of ethics, integrity and transparency, for the purposes of qualification;
- subsequently, for the purpose of awarding contracts, they are required to comply with the Code and the Model through specific contractual clauses and, if necessary, by making reference to the Model[15].

1.4 Respect for human rights

1.4.1 Policy implemented by the organization

Since its establishment, the Esselunga Group has placed people at the center of its attention whether they are customers, employees or suppliers, being aware that people's integrity and development are essential for building and maintaining social welfare. For this reason, the Group **promotes the protection of human rights** inside and outside its organization, thus requiring its personnel and collaborators to fully comply with the principles underlying its Code of Ethics and Conduct.

These principles set forth the absolute:
- refusal and prohibition of all forms of forced or compulsory, child and irregular labour and all forms of discrimination, harassment and violence;
- respect for freedom of association and the right to collective bargaining and to the health and safety of workers.

Furthermore, the Companies promote respect for diversity and equal opportunities, including through an approach that facilitates employee work-life balance.

1.4.2 Main risks and opportunities[16]

The risks to which the Company is exposed mainly arise from the use of suppliers, and specifically of sub-suppliers and cooperatives, which could directly or indirectly employ irregular labour or which may be unable to ensure adequate workers' protection.

For this reason, at the time of hiring/formalization of the contract, Esselunga contractually requires its suppliers and internal personnel to read the Code of Ethics, which requires the recipients to "*conform their conduct to the fundamental ethical principles that guide all company's activities*"[17] (see point 4), and to undertake to "*respect the fundamental human rights and the dignity of each person*" and, especially, to prevent "*all forms of child exploitation or workers' situations of need, of physical or mental inferiority, of forced labour or work performed under slavery or servitude*" (see point 12[18]).

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[15] GRI No.205 - 2 - Communication and training on policies and procedures designed to prevent and combat potential corruption-related activities
[16] GRI No.102 - 15 - Corruption related risks
[17] *"Diligence, honesty, transparency, competence, compliance with the law, good faith, utmost fairness and integrity"*
[18] GRI No.414 - 1 Percentage of new suppliers that have been assessed according to human rights and social criteria

The Group has also identified as potential situations exposed to the risk of forced labour some parts of its supply chain, and specifically those regulated by logistic and production contracts. [19] For this reason, to prevent any possible infringements of these rights, the Company has implemented:

- further contractual safeguards for cooperatives, which are explicitly required to comply with legislative provisions on work, safety and administrative requirements;
- specific organizational controls, i.e. the HR Managers who monitor employee working conditions through constant communication and dialogue;
- initiatives aimed at gradually raising the level of responsibility and management by the contracted companies (e.g. for logistics and production companies one of the qualifying requirements is the implementation of SSL management systems according to the BS OHSAS 18001 standard: 2007; in addition, for each contract, the supplier is required to disclose its ethical code when defining the contract);
- accountability of all the competent company departments involved in the qualification process, in the control and monitoring of all contracted activities.

1.4.3 Management procedures and KPI

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

As evidence that everyone's focus on human rights is strong, we report the following: (i) no discrimination events were recorded in the reference year; [20](ii) nor any situation of child labour; [21](iii) furthermore, the Group does not believe that the right to free association can in any way be infringed within its activities.[22]

Furthermore, the Esselunga Group has implemented a training plan on policies and procedures concerning respect for human rights and personal safety; this issue is especially relevant for the internal personnel in charge of shop safety. Esselunga outsources the security activities to be carried out by external staff (armed and non-armed security guards) to private security firms (IdV) for which the specific prefectural authorization decrees have been issued; therefore their activity is regulated by the law applicable to IDVs which also covers ethical aspects. In any case, Esselunga's internal procedures on procurement contracts include, in addition to acceptance of the Code of Ethics, the termination of the contract for breach of the mentioned Code. As regards monitoring and control activities, Esselunga carries out systematic cooperation and coordination meetings on engagement rules; any requests for measures concerning the personnel engaged in the contract that does not comply with ethical principles are also reported and formalized during the above meetings.[23]

[19]GRI No.409 - 1 - Group companies / branches / offices / production sites / warehouses considered to be at high risk for incidents of forced labour
[20]GRI No.406 - 1 - Registered discrimination incidents in the reporting year
[21]GRI No.408 - 1 - Companies, operating offices or shops that may be at risk for incidents of child labour
[22]GRI No.407 - 1 - Companies, operating offices or shops that may be at risk of severe infringement of the freedom of association
[23]GRI No.410 - 1 - Percentage of security personnel (both direct employees and indirect staff) who have received training on human rights procedures and policies relevant to the organization's activities

1.5 The Esselunga Group's people

1.5.1 Policy implemented by the organization

For Esselunga, **Human Capital**, i.e. the people with their skills, experience, professionalism and commitment, is the fundamental resource of the entire organization and plays a key role in achieving corporate objectives. This is all the more true given the peculiarity of Esselunga's Business Model, which has developed vertically both through the multi-channel distribution of products and the production and supply of food products up to the planning and construction of real estate.[24] Therefore, Esselunga is aware that company performance is largely dependent on a policy on human resources management that ensures the wellbeing of people through individual recognition and the promotion of a healthy, safe and non-discriminatory work environment that encourages each person to express their potential and develop their skills.

In in the field of personnel management, in 2017 Esselunga launched a number of initiatives designed to:

- attract talented people by paying **attention to young** graduates and young professionals[25];
- develop the skills of employees through general and specific training for the continuous improvement of people and their abilities;
- promote respect for diversity and **equal opportunities** by taking specific actions;
- encourage the recruitment and maintenance of people with **disabilities** by building a positive work environment;
- ensure the highest workers' **health and safety** standards, through specific prevention and protection measures designed to minimize occupational risks;
- support the well-being of its people, including through an office dedicated to corporate welfare services, that implements agreements and to which employees can turn to for their needs in this area.

1.5.2 Main risks and opportunities[26]

The potential risks generated by the company's operations may concern failure to fully comply with international regulations and standards on the Health and Safety in the workplace, with potential impact on personnel and on contractors in terms of **accidents** and **occupational diseases**. To minimize the probability or severity of the incidents related to this risk, Esselunga has constantly invested to upgrade its organizational models and controls, to define specialized skills, to obtain certifications and upgrade its plants, to re-engineer productive and operating lay-outs, to ensure the ongoing and in-depth training and information of personnel, to supply protection material and personal equipment and in as many initiatives to ensure that workers can carry out their job in total safety. One of the main peculiar risk refers to the **manual handling of loads**, especially with regard to the biomechanical overload of the musculoskeletal system. To manage this risk Esselunga

[24] It refers to both the stores and the production facilities
[25] In 2017, 69% of new hires were less than 30 years old
[26] GRI No.102 - 15 - Risks related to personnel

carries out specific research and has introduced work tools to ease the effort and work related to lifting loads.

The potential risks generated by the labour market refer to the evolution of the applicable legislation and the management of staff turnover. For both risks, the Company pays extreme attention to the entire human resource management process, from selection up to remuneration and development policies. The mitigation of these risks relies on our people's strong attitude towards compliance in managing relationships with employees and in the various obligations, as well as on the implementation of remuneration and retention policies, the application of specific allowances and the development of welfare according to international benchmarks.

1.5.3 Management procedures and KPI

The corporate model for Human Resources management is primarily governed by the Group Human Resources and Organization Department and the Health and Safety Department for the related topics. The two Departments are responsible for the implementation of monitoring processes and systems designed according to national and international best practices, the principles of the Code of Ethics and Conduct, the CSR Policy, the legislation in force, the Organization, management and control model (MOGC) 231/01 and the certified Management Systems such as OHSAS 18001. In addition, a more favourable **Company Collective Bargaining Agreement** has been adopted for Esselunga S.p.A compared to the national collective bargaining agreement.

1.5.3.1. Workforce

At the end of 2017, the Esselunga Group had **23,386 employees**, **women accounting for 45% of the total**.
In terms of contract, **93%** of personnel had a **permanent contract** and 28% a part-time contract, 21% of whom were women[27].

Employees by type of contract	Men	Women	Total
Permanent contract	11,756	9,878	**21,634**
Fixed-term contract	1,223	529	**1,752**
Total	**12,979**	**10,407**	**23,386**

Employees by type of employment	Men	Women	Total
Full - time employees	11,428	5,491	**16,919**
Part - time employees	1,551	4,916	**6,467**
Total	**12,979**	**10,407**	**23,386**

In addition, the Group employed approximately 633 leased workers, mostly in stores and in production departments. The Group employs a **total of 1,233 people who fall within "protected" categories**, in accordance with the applicable legislation: 58% of them are women[28].

[27]GRI No.102 - 8 - Employees by type of contract and gender. The calculation of the entire workforce and of the resulting indicators does not include 15 employees of La Villata S.p.A. who have become part of the Group's workforce following the transaction of 21/09 (see page 1 and following of the report on operations)
[28]GRI No.405 - 1 - Employees by type of contract, gender, age and classification as protected categories

Employees by age	Men	Women	Total
Managers	59	7	**66**
aged less than 30	0	0	**0**
between 30 and 50 years old	26	6	**32**
older than 50	33	1	**34**
Middle managers	391	36	**427**
aged less than 30	1	0	**1**
between 30 and 50 years old	268	26	**294**
older than 50	122	10	**132**
White-collars	6,759	8,051	**14,810**
aged less than 30	1,341	881	**2,222**
between 30 and 50 years old	4,571	5,917	**10,488**
older than 50	847	1,253	**2,100**
Blue-collars	5,770	2,313	**8,083**
aged less than 30	1,735	537	**2,272**
between 30 and 50 years old	3,217	1,546	**4,763**
older than 50	818	230	**1,048**
Total	**12,979**	**10,407**	**23,386**

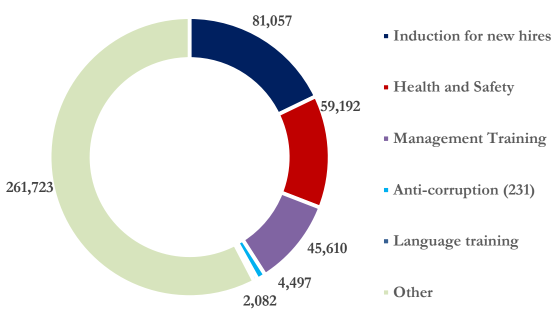
During the reporting period, 1,690 new people joined the Group, while 1,766 people left the companies, resulting in a turnover rate of 8% (see tables)[29]. The turnover percentage also considers fixed-term contracts.

Employees hired and employees who left the Group by gender	Men	Women	Total
Employees hired	1,169	521	1,690
Employees who left the Group	1,259	507	1,766
Employees hired and employees who left the Group by age	**<30 years**	**30 to –50 years**	**> 50 years**
Employees hired	1,263	417	10
Employees who left the Group	916	640	210

1.5.3.2 Training activities

In 2017, the Esselunga Group delivered **454,161 hours of training to its employees**[30]. The table below shows the breakdown of training provided by gender and professional level:

Hours of training by gender and level	Men	Women	Total
Managers	1,672	265	1,937
Middle managers	8,603	1,077	9,680
White-collars	170,004	51,939	221,943
Blue-collars	174,878	45,723	220,601
Total	**335,157**	**99,004**	**454,161**



The training provided by the Group in 2017 focused on 5 main areas. More specifically, Esselunga makes sure that each person employed receives specific training on the 231/2001 Model and that any updates to the aforementioned Model are communicated promptly and completely.[31]

[29]GRI No.401 - 1 - Total number and new employee hires and turnover rates
[30]GRI No.404 - 1 - Hours of training by type of employee and gender
[31]GRI No.205-2 - Personnel trained in the anti - corruption area and training processes in this area

Since 2017, in-house training on social-environmental issues has been provided to all buyers to spread awareness and provide expertise in the field.[32]

1.5.3.3 Remuneration and benefits

Esselunga undertakes to attract people who not only endorse the Group's values and culture, but who also contribute key strategic skills to the Company thereby ensuring the achievement of current and future objectives. For this reason, the Esselunga Group determines the remuneration of its personnel based on industry benchmarks as well as on the best remuneration practices on the market[33]. Furthermore, the Company pursues remuneration policies that link remuneration, meritocracy and sustainability of performance through effective remuneration solutions that help support competitiveness and motivation.

As required by Italian law, **100% of Group employees are covered by collective bargaining agreements**[34]. Benefits and allowances for employees are granted equally to full - time and part - time personnel, without discrimination. The benefits offered to the Group's personnel include, inter alia: the extra professional insurance policy, commercial agreements, the Health Fund and the Complementary Pension Fund stipulated by the National Collective Bargaining Agreement and cars for personal and business use[35].

1.5.3.4 Operational changes

With regard to Esselunga's *operations*, **operational changes** affecting a plurality of employees are notified in advance to the concerned workers and to the trade union representatives as follows: (i) generally, from 3 to 6 month-notice in the event of temporary closure of a shop/factory and in the event of transfer of the entire staff employed in a shop/factory; (ii) approx. 15/30 day-notice when the timetable changes for an entire shop/factory. With regard to the rules and introduction of Sunday work at a general level, the national trade union representatives requested consultation of the workers concerned by way of referendum[36].

1.5.3.5 Health and Safety at Work

Protecting health and safety at work is a Group's value, as well as a factor of competitiveness and growth. The ongoing commitment of Esselunga in this area is confirmed by the many initiatives launched over the years for the prevention of accidents and occupational diseases. Such initiatives involved training, information, awareness raising and performance monitoring activities, to promote responsible actions in line with Group policies and compliance with operating and safety procedures.

Health and Safety policies were issued by the Group companies and, subsequently, when the Environmental Management System started being implemented, they were updated and supplemented[37]. All Group companies' workers, at every organizational level, are

[32]The courses included for example: "*Nutritional aspects and new styles of consumption*", "*Packaging sustainability: design principles and guidelines*", "*Course on Life Cycle Analysis (LCA) of fresh semolina pasta*"
[33]GRI No.102 - 36 - Processes for determining remuneration
[34]GRI No.102 - 41 - Percentage of personnel covered by collective bargaining agreements
[35]GRI No.401 - 2 - Benefits provided to full-time employees that are not provided to part-time employees. As stated: "the Benefits and allowances for employees are granted equally to full - time and part - time personnel, without discrimination".
[36]GRI No.402 - 1 - Minimum notice period for operational changes
[37]see paragraph *"Management and Control Systems"*

responsible for the correct implementation of the principles contained in company policies and each of them within their own remit: (i) fully respects and is familiar with legal requirements in the health and safety, and the environmental field, (ii) identifies and is aware of the risks related to his/her activities, (iii) promotes a responsible conduct and the implementation of preventive actions to minimize the occurrence of occupational accidents and diseases. This is why all Group companies are committed to defining specific and measurable improvement targets, including through a detailed and in-depth collection of information from accurate inspections and an intensive and extensive program to update the Risk Assessment Documents (DVR).

Specifically, these objectives led to the implementation of initiatives:

- to reduce the occurrence of occupational accidents and diseases;
- to develop new training programs that meet personnel needs;
- to implement appropriate monitoring, protection and prevention tools and measures to reduce risks; and
- to increase the level of personnel involvement and awareness.[38]

The Italian **ISL Office** (Health and Safety at Work) deals with the management of health and safety in the workplace. This unit comprises the **Health & Safety Service** (SPP) pursuant to Legislative Decree no. 81/2008, the **Central head of the health & safety service** (RSPP), the **Area heads of the health & safety service** (Area RSPP) (also known as ISL Technicians) and the Head of the Management System (**RSG**). To date, the ISL office consists of 21 employees whose functions include: managers, technicians in the field of safety at work, environmental engineers, specialists in ergonomics. The ISL Manager is the Health & Safety at Work expert who is appointed by the Employer to manage and coordinate the ISL office activities. Within the organization, the Employer has also designated about **60 people engaged in the Health and Safety Service (ASPPs)** mainly within the Human Resources and Organization Department and the Technical Department in support of the company prevention and protection activities. These employees have been adequately trained and mainly perform supervision and inspection activities in the field and report any non-compliances in accordance with the management system. In addition, suitable prevention and protection measures are supplemented, for workers exposed to specific risks, by periodic health surveillance performed by Company Doctors.

In compliance with Italian legislation and in accordance with the agreements in place with trade union representatives, a workers' representative for H&S matters (RLS) was elected for almost all of the organizational units, for a total of 99 representatives. They participated in the compulsory training activities that include a training program of 32 hours with periodic updating. The RLS are consulted in the cases provided for by the relevant legislation, participate in the periodic meeting referred to in art. 35 of Legislative Decree 81/2008 and in the periodic joint inspections with Area RSPPs; as provided for by the agreements established during collective bargaining, the workers' representatives can contact

[38] GRI Np. 102-15 Risks related to health and safety

the ISL office whenever the need arises. Each RLS is informed on the DVR and is provided with a specific e-mail address for communications with the Health & Safety Service[39].

In late 2014, in cooperation with ATS Milano 1 and 2, the **WHP program** "Workplaces that promote health" was launched. The program involved 12 stores in addition to the Limito site, and a total of 3,500 employees. In this respect, Esselunga undertook to ensuring the annual implementation of at least two "best practices", starting from the fight against tobacco smoking and the promotion of proper nutrition up to the subjects of "Alcohol and addictions" and "Wellness" covered in 2017.

The Company carefully monitors the accidents occurred during work and those currently in progress. The 2017 report is presented below:

Injuries[40]	**Men**	**Women**	**Total**
Work-related	618	249	**867**
Ongoing	180	112	**292**
Fatalities	**Men**	**Women**	**Total**
Work-related	0	0	**0**
Ongoing	1	0	**1**
Confirmed cases of occupational disease	6	2	**8**
Number of hours of absence due to injuries*	98,138	45,826	**143,964**
Lost work hours rate	4.063	3.083	**3.690**
Occupational disease rate (ODR)[41]	0.0497	0.0269	**0.0410**
Injury rate (IR)[42]			
At work	25,588	16,751	**22,221**
Ongoing	7,494	7,535	**7,510**
Absentee rate (AR)[43]	4%	6%	**5%**

* The number of hours of absence due to injuries is calculated for both injuries at work and those in progress, as a breakdown is not possible

1.6 The Social Aspect - Responsible Management of the Supply Chain

Every day Esselunga people are committed to satisfying consumer requests by offering them: neat and functional stores, carefully selected and controlled quality products, advantageous pricing policies and a high level of service. To pursue these targets in a consistent way, Esselunga has put in place processes for gathering and analysing needs, for the procurement and processing of raw materials and for checking and transporting the products. Thus, the Supply Chain is the beating heart of Esselunga's organizational system; it is "pulled" by the market and, thus, by **customer** needs, and is constantly sourced by countless **suppliers of different sizes**.

[39]GRI No.403 - 1 - Percentage of total workers represented in formal health and safety employer-employee committees that enable monitoring and information on occupational health and safety programs. There are no Group health and safety committees where occupational safety programs are shared, but, as described, the organizational model is consistent with all the specified regulations.
[40]GRI No.403 - 2 - Type of injuries, injury rate (IR), occupational disease rate (ODR), lost day rate (LDR), absentee rate (AR) and work-related fatalities broken down by region and gender.
[41]Occupational disease rate (ODR): (total number of occupational diseases / total hours worked) * 200,000
[42]Injury rate (IR) ((total number of injuries + total number of fatalities) / total hours worked) * 1,000,000
[43]Absentee rate (AR): (total number of days lost in the period / total number of work days in the period) * 200,000

Considering the high number and diversity of business interactions inherent in its operations, the Company is aware that rigorous and responsible management of the entire Supply Chain is an essential requisite for a constant distribution of the economic and social value it creates.

1.6.1 Customer care - Policy implemented by the organization

The Group pays constant attention to, and analyses the needs and expectations of its Customers, both with regards to product distribution and the services provided. The Company's focus on customer does not end in the store but it's extended to all company processes and areas (from the Customer Service and Quality Department up to, if necessary, the Sales Department and its suppliers).

Customer Service is one of the main functions that performs **stakeholder engagement**; it is made up of 112 people supported by an advanced CRM model. The Customer Service **manages 100%** of reports, both positive and negative, regardless of the degree of customer loyalty or the type of business relationship with the reporting party[44], in the belief that each input can inspire innovative, corrective and/or improvement actions.

Based on these policies, Esselunga assigns specific priorities to reports relating to:

— *"Product quality"* (non-compliance, foreign bodies, labelling);
— *"Assortment"* (requests for new items, cancelled items, differences found between stores);
— *"Price"* (excessive price, price difference between stores, price comparison with competitors);
— *"Service at the store"* (rude staff, expired products, internal service disruptions);
— *"Fìdaty Catalog"* (unsuitable product, suggestion of items for future catalogs).

1.6.2 Customer care - Main risks and opportunities[45]

Inadequate customer management and inadequate handling of customer reports and expectations can have reputational impacts on the Companies, leading to loss of appeal, decreased loyalty and, hence, loss of market share.

The untimely and disorganized management of false or excessively negative information from *traditional media*, *social networks* and *blogs*, as well as failure to capture *customer socio-economic changes* (such as developments in purchasing habits based on age and ethnicity) are the main risks to which the Group is exposed and which are dealt with by the Customer Service and the Commercial Departments on a daily basis.

Finally, the protection of customer privacy and personal data is one of the central risk areas for the Group. Several initiatives for privacy and related risk management have been implemented over the years; through this approach, the Group recorded zero breaches of its customer privacy and/or loss of personal data in 2017[46].

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[44] E.g. customer, employee, supplier, consultant, associations, lawyers, etc.
[45] GRI No.102 - 15 - Risks related to customers
[46] GRI No.418 - 1 - Data loss and privacy incidents

1.6.3 Customer care - Management procedures and KPI

The Group Management Model, which pursues the highest standards of customer satisfaction and customer care, consists of: (i) the Customer Service Department, (ii) a CRM system, (iii) structured information flows to the various Group Departments, (iv) monitoring and tracking systems of activities and related customer feedback.

The model also encompasses satisfaction surveys carried out during the year on both service and products to monitor their performance over time, while the frequency of customer engagement processes may vary according to need. In 2017 **micro surveys** were carried out on specific topics, including: local analysis performed by the Development Department with the various stakeholders in view of decisions to be made on the opening of new stores. In addition, a brand perception survey focused on intangible aspects including, Corporate Social Responsibility, business climate and value returned to the local community, was carried for the first time. When new products, both private label and branded products, are launched, some packs are given free to target customers in order to make products known in advance and to subsequently collect the relevant feedback. Finally, for the sixtieth anniversary since its establishment, Esselunga organized the "**SuperMostra**", which attracted around 67,000 visitors between 29 November 2017 and 6 January 2018.[47]

In 2017, Esselunga undertook some initiatives in the ethical and social sphere, also based on customer requests and market trends; these included: (i) the **decrease in confectionery** in check-out displays; (ii) development of the **"Equilibrio" line**, which includes products that meet statistical consumption requirements of fiber, fats, sodium and sugars; (iii) development of a **"gluten-free" line**, registered in the National Register of products for special diets that can be purchased with the Regional Service Card; (iv) **reformulation of the recipes** of branded products favouring a reduction in salt, sugar and fat content[48].

Finally, the Group recorded **no cases of infringement** and/or non-compliance with regulations or voluntary codes on marketing activities, such as **advertising**, **promotion and sponsorship.**[49]

1.6.4 Supply chain - Policy implemented by the organization

To guarantee the daily freshness, quality and affordable price of the products in its **156 Esselunga stores, 38 EsserBella perfume shops and 88 Atlantic bars**, the Esselunga Group has implemented a strict and responsible management policy for its approximately **3,000 suppliers**; in all types of collaboration and cooperation, from supplier selection to invoicing, Esselunga is inspired by the principles of integrity, **fairness** and **transparency**.

The Company's management is aware that managing and monitoring the supply chain in a rigorous and responsible manner is:

- a **strategic advantage** and a **management tool** to timely prevent or mitigate situations that could undermine the Group's reputation;

[47] GRI No.102-43 and 102-44 - Customer surveys and results
[48] GRI No.416-1 -Assessment of the health and safety impacts of product
[49] GRI No.417 - 2 and 417 - 3 Total number (divided by type) of incidents of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship.

— an instrument for the long-term consolidation of **virtuous and trusted collaborative relationships** between the various stakeholders.

To ensure that all the actors in its supply chain are aware of and responsible for their company policies and choices - and especially of the critical nature of the issues related to: (i) **product liability**; (ii) **respect for human rights** and **working conditions**; (iii) respect for the **environment**; and (iv) fairness of relationships with **institutions and the community**, Esselunga requires acknowledgement of its Organizational, management and control model (MOGC) pursuant to Legislative Decree 231/2001 and of the Code of Ethics, upon presentation and first qualification of a new supplier. In addition, when awarding contracts and sharing commercial documents, the Group companies require their suppliers to **guarantee that all activities are carried out according to fairness and lawfulness principles and in compliance** with the legislation in force and the provisions set forth in the Model and in the Code of Ethics.

All those who work in the name and on behalf of the Company are therefore required to act with integrity and in a fair and transparent manner to prevent any crime and avoid jeopardizing the Company's image and reputation.

1.6.5 Supply chain - Main risks and opportunities

The main risks arising from the supply chain are directly related to the use of suppliers that are unsuitable in terms of technical, professional and ethical qualifications, of integrity and transparency and that can have a direct impact on the quality and safety of distributed products, on the continuity of supplies and/or on the Group's reputation.

The qualification and continuous assessment of supplied products is in itself a risk prevention system. The Sales Department, through its organizational unit, assess the ability of potential suppliers to meet the Group's required standards, in terms of: economic and financial strength and capabilities, ethical reliability, quality and health and food safety requirements and technical and organizational skills and abilities. The supplier selection process consists of two steps: (i) candidacy of the supplier and (ii) assessment by the relevant Departments that play an active and independent role[50].

In 2017, 100%**[51]** of suppliers reviewed the contents of the Code of Ethics and Conduct and of the 231/2001 MOGC upon signing the contract, as each framework agreement includes specific clauses on compliance with the rules on the protection of human rights and on social aspects[52]. Furthermore, in 2017, the qualification process was re-engineered to include in the assessment qualitative-quantitative criteria on environmental aspects, with specific focus on the most critical segments, such as the fruit and vegetable sector. Starting in 2018, the Group shall extend this assessment to all suppliers and shall *disclose* the results of this new supplier *screening* activity.

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[50](a) the Management Control Office assesses the supplier's ability to meet contractual commitments; (b) the Security Office assesses ethical reliability; (c) the ISL Office assesses the OSH and environmental aspects; (d) the Quality Assurance Department assesses food safety requirements and the certifications (if any) held by suppliers of products intended for sale and consumables; (e) the Sales Department's role is to complete the assessment process following the analyses carried out by the other Departments

[51]GRI No.414 - 1 Percentage of new suppliers that have been assessed according to human rights and social criteria

[52]GRI No.412-3 - Inclusion of human rights clauses in contracts

Furthermore, following the signing of the contract with suppliers of raw materials to the factories, the production centres and the departments at the points of sale, the Quality Assurance Department is responsible for carrying out sampling quality checks and audits at the supplier, using both its own technicians and the support of external bodies.

1.6.6 Supply chain - Management procedures and KPI

The entire Management Model is geared towards assessing, verifying and ensuring the daily supply of approximately **130 product categories**. Its cornerstones are: **3 logistics centres** (which also include a meat processing centre, a fish processing centre, a food production centre, a confectionery production centre, a centre for the production of fresh organic juices, fruit and vegetables, other packaged grocery products and fresh dairy products, cured meats and cheeses) and a production centre of fresh egg pasta and *bakery* products.

The entire Management Model is governed by the Commercial, Production, Logistics and Quality Assurance Departments, according to a specific external and internal regulatory system that governs roles and responsibilities, obligations, operating methods, information flows, monitoring and reporting processes, control rules, as well as certification systems.

To pursue the highest quality standards of the model, the Quality Assurance Department is constantly dedicated to:

— implementing an integrated quality system that meets food safety requirements pursuant to the applicable compulsory legislation and according to voluntary standards (BRC Standard, IFS, FSSC 22000[53]). The fresh pasta production factory in Parma has been certified according to the BRC and IFS standards since 2015. As of 2018, the FSSC 22000 standard (recognized worldwide) will be adopted as certification framework, replacing the BRC and IFS standards, and the certification process will be extended to all production plants and processing centres;
— supporting its suppliers with regard to *compliance* with **labelling** legislation;
— promoting compliance with **stringent quality** and **safety** requirements on branded products through frequent inspections at the producers and/or through systematic analytical and sensory assessments on hundreds of thousands of samples;
— carefully performing visual, chemical, microbiological and labelling **checks** on branded products in the assortment;
— supporting the Sales Department in the management of products in the assortment that, following a complaint or warning, are critical in terms of quality, technical aspects or food safety
— actively cooperating with charitable organization linked to the "Banco Alimentare" for the purpose of verifying food safety requirements and principles through audits at their facilities;

To pursue continuous improvement objectives in the social-environmental field of its supply chain Esselunga has been engaged on several fronts through long-term initiatives which include, by way of example and without limitation:

[53] BRC - British Retail Consortium; IFS - International Food Standard; FSSC - Food Safety System Certification.

— **promoting fruitful and long-term collaborations with Suppliers** through supply policies that prohibit Dutch auctions and guarantee 30-day payment terms;
— promoting the principles of the **short supply** chain, undertaking to reduce the number of companies and steps "*from the farm to the table*";
— promoting **local economic growth** by: (i) increasingly source *Made in Italy* products, also supporting the smallest local undertakings, (ii) promoting regional products and production processes;
— **fight against the gangmaster system**, through the endorsement of the Code of Ethics in the purchase of agricultural and agri-food products as envisaged in the agreement between Federdistribuzione and the Ministry of Agriculture and promoting the registration of its suppliers in the Network of Quality Agricultural Work;
— promoting greater **traceability and transparency of product information** by obtaining the Labelling Regulation authorization from **MIPPAF**;
— promoting **Animal welfare** policies (see table)

Esselunga and Animal Welfare
Esselunga has always paid special attention to animal welfare in both the fish and meat sectors. Some of the initiatives promoted in the meat sector are presented below: ✓ adoption by the Group of the Standard of the National Standard Centre for Animal Welfare (CReNBA) regarding the **Scottona Naturama beef** bred in Italy; ✓ elimination from Esselunga assortment of **fresh eggs** from **caged hens** and exclusive use of Italian **barn eggs** for all the products prepared in its own factories: fresh pastas, bakery products and pastries, delicatessens; ✓ for **chicken**, since 2016 Esselunga has marketed products that do not use antibiotics in breeding; ✓ elimination of *Fois Gras* obtained from force-fed **geese**. Some of the initiatives promoted in the fish sector are presented below: ✓ for the **Irideae Salmonino Trout** with the Esselunga Naturama brand supplied by ASTRO (Troticoltori Trentini Association), a collaboration has been in place for many years to monitor the quality of the water in and out of the fish farming plant, as evidence of the low environmental impact of these farms; ✓ for **tuna**, all fish originating from vessels reported for illegal fishing has been prohibited; transhipments at sea are allowed only if accepted and authorized by the RFMO (Regional Fisheries Management Organizations). It is also certified by *Friends of the Sea*, an NGO that certifies the product following inspections to check the raw material sustainability under all respects.

All Esselunga shops, Distribution Centres and production plants, are periodically **inspected** by the **authorities** in charge of controls on the marketing, and on the health and safety of food and of production and commercial facilities in which goods are produced, stored or sold. There are numerous bodies responsible for checking compliance with food regulations; in addition to **Local Health Authorities** (ATS), checks on the facilities and products are also carried out by **N.A.S.** (food purity and hygiene unit), the **Port Authorities**, the **Agencies** and **territorial offices of MIPAAF**, the **Consorzi di Tutela**, the **Municipal Police**, other police bodies. Companies are also subject to supervision with regard to **compliance with regulations on promotional sales** (e.g. "Sottocosto") and with regard to **compliance** with the **environmental rules and best practices** (e.g. waste disposal procedures and monitoring of air emissions)[54].

[54]GRI No.102 - 9 Description of the supply chain

For reporting purposes, in 2017 over **650 inspections** and audits were carried out, and more than **600 samples of products** were taken for subsequent analyses. This control activity generated a limited number of prescriptions (less than 50) that were managed in compliance with applicable company rules and procedures. This supervisory activity resulted in an equally limited number of administrative disputes that is not considered significant[55].

1.6.7. Solidarity by Esselunga and by our suppliers and customers

Esselunga has always been engaged in Solidarity activities in favour of non-profit associations through cash donations (direct contribution), fundraising and activities to raise customer awareness (indirect contribution) or through the donation of food products, especially thanks to the solidarity of its suppliers (contribution of goods). With regards to the contribution, in 2017 Esselunga and its suppliers donated about € 7 million to Associations, Non-profit organisations and "Banco Alimentare"; specifically has been donated goods worth € 5,4 million (994 tonnes).

In terms of **indirect contribution**, Esselunga launched the following initiatives together with its customers:

<u>Italian Red Cross - Help for Central Italy</u>

From 1 November 2016 to 31 October 2017.

Funds raised: € 954,900

<u>Diabetes - Aid for research</u>

From 16 October 2017 to 15 April 2018. Diabetes is a disease that causes disability or death, just like cancer. Through their donations (500 "punti Fragola" = € 10), customers enabled Esselunga to support the activities of the Associazione Diabete Ricerca (established in 2013 by the Fondazione Diabete Ricerca Onlus).

Funds raised: € 55,410

[55]GRI No.419 - 1 - Infringement of laws or rules in the socio-economic area

In terms of direct contribution, Esselunga launched the following initiative: **<u>“Associazione nazionale italiana cantanti - Partita del Cuore”</u>**

The Italian National Singer Association was founded in 1981 to promote and support solidarity projects, works and actions for the protection of vulnerable and needy people. On 30 May 2017, the “partita del cuore” was played at the Juventus Stadium in Turin by the national singers’ team against the Research team. Esselunga sponsored the event by donating € 90,000.

Esselunga also supported:
- the National Food Collection Day of 25 November 2017: **€ 20,000;**
- the Campagna Nastro Rosa (LILT) - October month of breast cancer prevention: **€ 10,000**[56].

1.7 Environment

1.7.1 Policy implemented by the organization

Esselunga is aware that environmental respect and protection as well as the responsible use of primary resources has become part of business activities and, thus, of the creation of long-term value. This awareness is reflected in practice: both at Group level (through environmental guidelines set out in the Code of Ethics and Conduct, in the CSR Policy and in the Organization, management and control Model pursuant to Legislative Decree 231/01); and at the level of individual companies (by issuing specific integrated Health, Safety and the Environmental policies [57]). The Environmental Management Systems, certified in all Group companies according to the ISO 14001 standard, are implemented through company policies that are advertised on the company website and which, in turn, are verticalized by way of corporate control procedures and rules.

Briefly, these policies require Esselunga to:
- act **in compliance** with all applicable **legal** requirements;
- consider the environment, the fight against climate change **and sustainable development** as **strategic factors** that must be preserved in the conduct and development of its activities;
- operate its facilities using **energy, water, materials and natural resources** in an effective way, pursuing the reduction of its environmental footprint and, where possible, the **use** of **renewable sources** and the best available techniques through an **eco-sustainable approach** that guarantees benefits in terms of environmental performance;

[56]GRI No.203-1 - Investments made by the Group that had an impact on the community including donations and social initiatives
[57] See Chapter 1.2.5 Management and Control Systems

- ensure the **improvement of environmental performance** by defining suitable performance indicators that help achieve company objectives;
- plan and then implement its work activities according to criteria that help **prevent and reduce the environmental impact;**
- promote the **involvement and cooperation of the staff** to achieve an effectively implemented management system that ensures a **proper level of accountability**;
- improve the efficiency of the management system, including through ongoing **training**, **information and consultation of internal and external staff.**

The commitment on environmental issues is also reflected in the **centralized strategic guidelines adopted with regard to efficiency and energy savings** in Production and Logistics centres and in shops. These strategic guidelines regulate the activities of the technical departments in the following areas: (i) design, installation, use and management of the technological systems in the shops and in the Distribution Centres; (ii) management of contracts for the supply of electricity, natural gas, district heating and water for buildings. Based on these guidelines, for years the Group has been engaged in projects: (i) for the design, implementation and improvement of **measurement models** to measure environmental aspects; (ii) for the **design and/or redesign of plants** to pursue energy and consumption efficiency targets.

1.7.2 Main risks and opportunities[58]

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

In terms of environmental opportunities, it is important to point out that for about twenty years Esselunga has been engaged in the acquisition of abandoned areas and in the design and implementation of remediation, recovery and redevelopment projects to turn those areas into **production plants, shops and green areas.** In the reporting year, of great importance was Esselunga's continued involvement in the project for the **reclamation and redevelopment of the former steelworks and lamination plant of Ospitaletto (BS)**, which provides for the conversion of approximately 900 thousand square meters of

[58]GRI No.102 - 5 - Risks related to the environment

industrial plant into a logistic facility, featuring a park of approx. 220 square metres with the planting of approx. 13 thousand trees, the creation of a cycle path and an "eco-duct".

1.7.3 Management procedures and KPI

The Group's environmental management model is governed by:

- the **Occupational Health and Safety Department** which deals with the definition and maintenance of the individual Environmental Management Systems (EMS) and Health and Safety systems of the Group Companies, according to an integrated approach;
- the **Technical Department** which, through its two functions in the construction and plant engineering sectors and on the basis of Group and corporate environmental policies, centrally defines strategic guidelines, initiatives and operating methods in the following areas: (i) energy efficiency and management of renewable sources; (ii) reduction in consumption; (iii) the management and control of waste, discharges and emissions; (iv) plant engineering initiatives.

1.7.3.1 Energy consumption

Since its inception, the Group has decided to invest in systems that monitor its energy consumption and provide data on its consumption levels, thus enabling it to set savings targets through specific initiatives.

Total energy consumption [59] from renewable and non-renewable sources in 2017 was approx. **3,179,906 Gj** broken down as follows:

Total consumption of direct energy, i.e. from the direct consumption of fuels (e.g. natural gas, diesel oil, owned vehicles)	
From renewable sources	14,824.57 Gj
From non-renewable sources	821,103.15 Gj
Total consumption of indirect energy, i.e. from the consumption of electricity	
From renewable sources	165,377.52 Gj
From non-renewable sources	2,178,601.56 Gj

In keeping with previous years and in compliance with its policies, in 2017 the Group completed the following energy savings initiatives:

- installation of an **automatic lighting system** in 5 stores;
- **light dimming system in 5 stores;**
- **replacement of LED lamps** in 16 stores[60];
- **installation of photovoltaic systems** in 2 stores (energy avings of 99.5 MWh).

Each year, the effects of similar initiatives in other stores contribute to the pursuit of Esselunga energy savings goals. The following should be noted in particular: (i) **to date, automatic lighting** has been implemented in about 110 shops; (ii) to date, light **dimming** in the sales room has been implemented in about 65 stores; (iii) to date, ***LED relighting***

[59] GRI No.302 - 1 Consumption within the organization

[60] In 2017 alone, the new initiatives led to savings of 4,252.8 Mwh and reduction in emissions of approx. 2,098 tCO_2e/year

has been implemented in 35 stores; (iv) in 2017, **30 photovoltaic plants** were in operation. These initiatives and structural measures led to energy savings of 19,420 [61]MWh in 2017 alone, avoiding the emission of 14,280 tCO_2e / year.[62]

1.7.3.2 Consumption of materials

In 2017, the Group consumed **36,881.07 tonnes**[63] [64] of recyclable and non-recyclable materials to package and advertise its products; more specifically:

Packaging Materials[65]	1 - Recyclable	2 - Not recyclable	3 - Compostable
Plastic	5,709.93	3,593.30	-
Paper and cardboard	2,654.31	-	-
Laminated paper	-	398.73	-
Aluminium	157	-	-
Bioplastics	-	-	342.75
Adhesive thermal labels	-	447.92	13.98
Total	**8,521.23**	**4,439.95**	**356.73**

Esselunga is engaged in the *Packaging Lifecycle* field as it is aware of the impact these materials have on the environment. To increase the sustainability of its *packaging* activities, the Group uses more than 10 types of **recyclable mono material plastic** and **is constantly engaged - through agreements with institutional consortia and specific internal and external research** - in the search for solutions that guarantee a decrease in packaging weight and volume. For non-recyclable materials, mainly two-layer or coextruded materials necessary for product conservation and safety, the Group undertakes: (i) to select materials that can be disposed of through waste-to-energy systems or (ii) to replace, where possible and without prejudicing food safety, the plastic component with compostable material.

In addition to packaging, the Group also monitors the consumption of paper used in offices and for the publication of flyers and catalogues:

Type of paper	Recycled / PEFC certified	Pure virgin cellulose
A4 / A3 paper	250	113.16
Flyers and promotional catalogues	17,000	-
Billboards	1,500	-
"Da Noi" monthly magazine and Fidaty catalogue	4,700	-
Total	**23,450**	**113.16**

[61]GRI No.302 - 4 Reduction of energy consumption obtained through specific activities and initiatives in offices and facilities
[62]GRI No.305 - 5 Reduction of emissions as a direct consequence of specific activities and initiatives. This also includes figures for photovoltaic, solar thermal and cogeneration plants.
[63]GRI No.301 - 1 Materials used / consumed to produce and package the main products of the Company, broken down by weight
[64]This NFR does not include the quantitative data relating to compostable bags for the packaging of fruits, vegetables and fish that have replaced plastic as of 1/01/2018 pursuant to law, since, being charged to the customer (1 cent / bag) they are no longer classified as packaging. As a result of this legislation, the Group recorded a decrease of about 1000 tonnes of plastic that was replaced by approximately 800 tonnes of compostable material
[65] The consumption of packaging materials is referred only to those materials that have been used for Esselunga Private Label products as these are the only materials the Group is able to monitor

About 70% of copier paper has a double *Ecolabel* and PEFC[66] certification, the remaining 30% will be almost entirely incorporated into the above mentioned certified paper in 2018. The paper used for the Fìdaty catalogue has both certifications since 2017. 100% of the paper used for promotional flyers is recycled and since January 2017 it is also PEFC certified. The monthly magazine "Da Noi" has been *Ecolabel* certified in 2017 and in 2018 it will also be PEFC certified.

In addition to the materials used for packaging, the Group implements initiatives for the re-use of returnable pallets with consequent reduction in quantities disposed. The solution adopted is called ***CHEP* pooling** and is fully sustainable as, in addition to reusing the product, the pallets are made of wood from controlled forests and is both FSC[67] and PEFC certified. On average, 1.2 million CHEP pallets are used every year, which, compared to the use of traditional pallets, involves a reduction of approx. (i) 50% of CO_2 emissions; (ii) 80% of waste production. In 2017, the initiative led to wood savings of 1,319 m^2, a reduction of 1,046 t of CO_2e and the elimination of 140.5 t of waste.

1.7.3.3 Atmospheric emissions

The Group's **energy consumption** and operations involve direct and indirect atmospheric CO_2 emissions; in 2017 they were respectively:

Direct CO_2 emissions (Scope 1)[68]	42,742.55 tCO_2
Indirect di CO_2 emissions (Scope 2)[69]	209,878.86 tCO_2

Esselunga is also aware of the environmental impact linked to the **distribution chain** (indirect emissions *scope 3*), especially that originating from polluting emissions, induced traffic and road congestion related to the transport of goods. To manage and mitigate these environmental impacts, Esselunga logistics has implemented several initiatives to **optimize the loading compartments** and **routes of vehicles**. To reduce this type of atmospheric pollution, the Group also developed specific **methods to increase the efficiency** of both own and third-party vehicles, and in particular: (i) all Esselunga vehicles and approx. 95% of the means of all the Group's direct contracts in 2017 consisted of "Euro 5 and 6" vehicles; (ii) the waste collection system helps avoid approx. 300 return journeys a day from the stores to the distribution centres with savings of around 32,000 litres of diesel fuel and 84,000 kilometres a year.

[66] Programme for Endorsement of Forest Certification scheme
[67] Forest Stewardship Council
[68]GRI No.305 - 1 Emissions originating from direct energy consumption, for example, fuels directly consumed by the Group, fleet owned by the Group and a co-generator
[69]GRI No.305 - 2 Emissions originating from indirect energy consumption, for example the consumption of electricity and thermal energy

1.7.3.4 Management of waste and water resources

The production of waste and the use of water for the Group's activities are topics of great importance and as such they are monitored, and, where possible, contained within specific limits.

The Group's water consumption in 2017 was **6,520,520 m^3**. In terms of withdrawals: 45% were from **public water services**[70] and 55% from **groundwater** (wells)[71][72].

With regard to waste management, the Group uses specific authorized plants that store the waste delivered by the Group for future disposal or recycling. The following table shows the **quantities of waste produced and delivered**[73] **to these plants** broken down by type[74]:

Hazardous waste	**Tonnes (stores, Distribution Centres, offices)**[75]
Electronic equipment	98.60
Non-edible oils	10.75
Detergents	17.52
Other (including batteries, lamps and neon, packaging, antifreeze liquid, insulating materials, etc.)	31.25
Total hazardous waste	**158.12**
Non-hazardous waste	**Tonnes (shops, Distribution Centres, offices)**
Paper and cardboard including packaging	62,966.59
Wood	15,683.54
Packaging	9,480.86
Plastic	4,042.12
Other (including glass, polystyrene, sludge, edible oils, toner, etc.)	6,985.22
Total non-hazardous waste	**99,158.33**

1.8 GRI content index

GRI Standard	Indicator	Page	Notes (comments and omissions)
GRI 101: Foundation 2017			
GRI 102: General Disclosure			
GRI 102 General Disclosure - Organization profile	102 - 1 Name of the Organization	Page 1 and 28	Ref. "Introductory letter" and "1.1.2 Perimeter"
	102 - 2 Activities, main brands, products and / or services	Page 19 Page 21	Ref. "Esselunga Group Business model" Ref. "Research and development and private label"
	102 - 3 Location of headquarters	Page 22	Ref. "Offices and sales network"
	102 - 4 Number of countries in which the organization has operations	Page 1	-
	102 - 5 Ownership and legal form	-	The Esselunga Group is 100% controlled by Supermarkets Italiani; the Parent Company is not subject to management and coordination.
	102 - 6 Markets served (including breakdown by geographical areas, sectors, types of customers and beneficiaries)	Page 1 Page 22	Ref. "Introductory letter" Ref. "Offices and sales network"

[70] The main use of which is related to cleaning and sanitation of departments and shops
[71] Mainly for technological uses and linked to the Distribution Centres.
[72] GRI N 303 - 1 Water withdrawals for offices and buildings
[73] GRI N 306 - 2 Internally produced waste, by type and disposal method
[74] Since the Group uses an authorized waste disposal facility, it has no information regarding the disposal methods and the percentage actually recycled or disposed of. Esselunga undertakes to obtain this data for the 2018 reporting
[75] These figures do not include the disposal activities relating to the former Ospitaletto steel plant where Esselunga, following the acquisition, is the de facto producer and is therefore taking care of waste disposal, mainly foundry slag, in agreement with the environmental authorities (waste from these activities amounted to 10,198.34 tonnes of hazardous waste and 268,435.37 tonnes of non-hazardous waste)

GRI Standard	Indicator	Page	Notes (comments and omissions)
	102 - 7 Size of the organization	Pages 4-5	Ref. “Macroeconomic scenario in 2017 and summary of operating performance”
	102 - 8 Information on employees and other workers	Page 37	Ref. “1.5 The Esselunga Group’s people”
	102 - 9 Description of the supply chain	Page 43	Chapter “1.6 The Social Aspect - Responsible Management of the Supply Chain”
	102 - 10 Significant changes during the reporting period	Pages 1-5	Ref. “Introductory letter” and Ref. “Macroeconomic scenario in 2017 and summary of operating performance”
	102 - 11 Methods of application of the precautionary principle or approach (Risk Management in the planning of operations and / or development of new products)	Pages 31-32 Pages 41-43	Ref. “1.2.5 Management and Control Systems” Ref. “1.5.3.5 Health and Safety at Work”
	102 - 12 Endorsement of external codes of conduct, principles or initiatives	Page 31 Page 39	Ref. “1.2.4 Policies implemented in the Corporate Social Responsibility area” Ref. “More favourable Company Collective Bargaining Agreement adopted than the national collective bargaining agreement”
	102 - 13 Membership in national and/or international trade associations	-	Unlike other Italian retail groups, Esselunga has no central purchasing units. The Group holds governance positions only for FederDistribuzione and participates in projects and decision-making committees within Assolombarda.
GRI 102 General Disclosure - Strategy	102 - 14 Statement by the Chief Executive Officer	Page 1-2	Ref. "Introductory letter"
	102 - 15 Key impacts and risks	Pages 15-19 34; 36; 38; 44; 46; 52.	Ref. “Financial risk management”; Ref. "1.3.2 Fight against corruption - main risks and opportunities"; Ref. "1.4.2 Human rights - main risks and opportunities"; Ref. "1.5.2 Personnel - main risks and opportunities"; Ref. "1.6.2 Customers - main risks and opportunities"; Ref. “1.6.5 Supply chain - Main risks and opportunities”; Ref. "1.7.2 Environment - main risks and opportunities";
GRI 102 General Disclosure - Ethics and Integrity	102 - 16 Values, principles, standards and rules of conduct	Pages 28-29	Ref. “1.2.1 Esselunga Group - Identity and creation of sustainable value over time”
GRI 102 General disclosure - Governance	102 - 18 Corporate governance structure	Page 139	Ref. “Company information”
GRI 102 General disclosure - stakeholder engagement	102 - 40 List of stakeholder groups engaged by the organization	Pages 29-30	Ref. “1.2.2 Stakeholders: identification and engagement”
	102 - 41 Collective bargaining agreements	Pages 40-41	Ref. “1.5.3.3. Remuneration and benefits”
	102 - 42 Process of identification and selection of stakeholders to be involved	Pages 29-30	Ref. “1.2.2 Stakeholders: identification and engagement”
	102 - 43 Approach to stakeholder engagement, specifying frequency by type of activity and stakeholder group	Pages 29-30	Ref. “1.2.2 Stakeholders: identification and engagement”
	102 - 44 - Key topics and critical issues emerging from stakeholder engagement and how the organization has responded to those critical issues, including through its reporting	Pages 29-30	Ref. “1.2.2 Stakeholders: identification and engagement”
GRI 102 General disclosure - Reporting system	102 - 45 List of companies included in the consolidated financial statements and indication of the companies not included in the report	Page 123	Refer to Annex 1 of the Group’s annual financial statements which list all the companies included in its reporting.
	102 - 46 Defining report content and topic boundaries	Page 28	Ref. “1.1 Methodological note”
	102 - 47 List of material topics in defining the NFR content	Pages 30-31	Ref. “1.2.3 Materiality”
	102 - 48 Explanation of the effects of any restatements of information given in previous financial statements and reasons for such restatements	-	This NFR is the first published by the Group. Therefore, there are no restatements of previous information, nor significant changes in material topics or boundaries. The NFR has been drawn up only with regard to the figures for 2017.
	102 - 49 Significant changes compared to the previous reporting period		
	102 - 50 Reporting period	Page 28	Ref. “1.1 Methodological note”
	102 - 51 Date of publication of the most recent report	Page 28	Ref. “1.1 Methodological note”
	102 - 52 Reporting cycle	Page 28	Ref. “1.1 Methodological note”
	102 - 53 Contacts and useful addresses for questions on the report and its contents	-	Esselunga S.p.A. Via Giambologna, 1 - 20096 Limito di Pioltello (Milan) Tel. 02.92931 - Fax 02.9267202
	102 - 54 Reporting in "accordance" with GRI	Page 28	Ref. “1.1 Methodological note”
	102 - 55 GRI Index	Page 56	Ref. “1.8 GRI content index”
	102 - 56 External Assurance	Page 56	Ref- “1.9 Independent auditors”
GRI 201 - Economic Performance			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 62-65	Ref. “Consolidated statement of financial position”
	201 - 1 Direct economic value generated and distributed	Pages 62-65	Ref. “Consolidated statement of financial position”
GRI 202: Market presence - this topic is not considered material as all the Group companies operate in Italy only			
GRI 203: Indirect economic impacts - this topic is not considered material by the Group			
GRI 204: Procurement practices - this topic is not considered material as all the Group companies operate in Italy only			
GRI 205: Anti - corruption - Management approach 103			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 33-35	Ref. “1.3 Fight against corruption”
GRI 205 - Specific disclosure	205 - 1 Percentage and total number of areas / departments / processes / activities assessed on risks related to corruption	Page 34	Ref. "1.3.2 Fight against corruption - main risks and opportunities"
	205 - 2 - Communication and training on policies and procedures to prevent and combat corruption	Pages 34-35	Ref. “1.3.3 Fight against corruption - Management procedures and KPI”
	205 - 3 Confirmed corruption incidents and corrective actions taken	Pages 34-35	Ref. “1.3.3 Fight against corruption - Management procedures and KPI”

GRI Standard	Indicator	Page	Notes (comments and omissions)
GRI 206: Anti - competitive behaviour - this topic is not considered material by the Group			
GRI 301 - Materials			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 301 - Materials	301 - 1 Materials used by weight and volume broken down by renewable and non-renewable	Page 53	Ref. "1.7.3.2 Environment - Consumption of materials"
GRI 302 - Energy			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 302 - Energy	302 - 1 Consumption of fuel, electricity and thermal energy for offices and facilities broken down between renewable / non-renewable sources	Pages 52-53	Ref. "1.7.3.1 Environment - energy consumption"
	302 - 4 Reduction of energy consumption obtained through specific activities and initiatives (e.g. photovoltaic systems, heater replacement, etc.)	Pages 52-53	Ref. "1.7.3.1 Environment - energy consumption"
GRI 303 - Water resources			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 303 - Water resources	303 - 1 Water withdrawals for offices and buildings	Page 55	Ref. "1.7.3.4 Environment - Management of waste and water resources"
GRI 304 - Biodiversity - this topic is not considered material by the Group			
GRI 305 - Emissions			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 305 - Emissions	305 - 1 Emissions generated by the consumption of fuel for offices and facilities (scope1) + for company cars	Pages 54-55	Ref. "1.7.3.3 Environment - Atmospheric emissions"
	305 - 2 Emissions generated by the consumption of electricity and thermal energy for offices and facilities (scope2)	Pages 54-55	Ref. "1.7.3.3 Environment - Atmospheric emissions"
	305 - 5 Reduction of emissions as a direct consequence of specific activities and initiatives (such as installation of photovoltaic systems, etc.)	Pages 54-55	Ref. "1.7.3.3 Environment - Atmospheric emissions"
GRI 306 - Effluents and Waste			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 306 - Waste	306 - 2 Waste produced by type and disposal methods (paper and technological waste, pulping, annexes, etc.)	Page 55	Ref. "1.7.3.4 Environment - Management of waste and water resources"
GRI 307 - Compliance with environmental regulations			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 51-55	Ref. "1.7 Environment"
GRI 307 - Environmental Compliance	307 - 1 Monetary value of significant fines and number of non-monetary sanctions for non-compliance with environmental regulations and laws	-	In 2017 Esselunga received no significant environmental sanctions
GRI 400 - Employment			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Page 37	Ref. "1.5 The Esselunga Group's people"
GRI 401 - Employment	401 - 1 Total number and new employee hires and employee turnover rates (broken down by age, gender and origin).	Pages 39-40	Ref. "1.5.3.1. Workforce"
	401 - 2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by main activities	Pages 40-41	Ref. "1.5.3.3 Remuneration and benefits"
GRI 402 - Labour /Management relations			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 37-43	Ref. "1.5 The Esselunga Group's people"
GRI 402 - Labour/management relations	402 - 1 Minimum notice period for operational changes, including if notice period is specified in the collective labour agreements	Page 41	Ref. "1.5.3.4 Operational changes"
GRI 403 - Workers' health and safety			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 37-43	Ref. "1.5 The Esselunga Group's people"
GRI 403 - Workers' health and safety	403 - 1 - Percentage of total workers represented in formal health and safety employer-employee committees that enable monitoring and information on occupational health and safety programs.	Page 41	There are no Group health and safety committees where occupational safety programs are shared, but, as described, the organizational model is consistent with all the specified regulations.
	403 - 2 - Type of injuries, injury rate, occupational diseases, lost work days, absenteeism and number of work-related fatalities broken down by region and gender.	Page 41	Ref. "1.5.3.5 Health and Safety at Work"
GRI 404 - Training and education			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 37-43	Ref. "1.5 The Esselunga Group's people"
GRI 404 - Training and education	404 - 1 Average annual training hours per employee, by gender and category	Page 40	Ref. "1.5.3.2 Training activities"
GRI 405 - Diversity and equal opportunities			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 37-43	Ref. "1.5 The Esselunga Group's people"

GRI Standard	Indicator	Page	Notes (comments and omissions)
GRI 405 - Equal opportunities	405 - 1 Diversity of governing bodies and employees	Pages 39-40	Ref. "1.5.3.1. Workforce" Diversity of governing bodies: following Company's assessments, the issue of gender diversity of the Governing and Control Bodies has not been considered at this time.
GRI 406 - Non-discrimination			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 406 - Non-discrimination	406 - 1 Confirmed incidents of discrimination and corrective actions taken	Page 36	Ref. "1.4.3 Human rights - Management procedures and KPI"
GRI 407 - Freedom of association and collective bargaining			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 407 - Freedom of association and collective bargaining	407 - 1 Identification of operations and main suppliers in which the freedom of association and collective bargaining may be at risk and actions taken to protect these rights	Page 36	Ref. "1.4.3 Human rights - Management procedures and KPI"
GRI 408 - Child labour			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 408 - Child labour	408 - 1 Identification of operations at significant risk for incidents of child labour and measures taken to contribute to its elimination	Page 36	Ref. "1.4.3 Human rights - Management procedures and KPI"
GRI 409 - Forced or compulsory labour			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 409 - Forced labour	409 - 1 Operations at significant risk for incidents of forced or compulsory labour and measures taken to contribute to their abolition	Page 36	Ref. "1.4.3 Human rights - Management procedures and KPI"
GRI 410 - Security practices			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 410 - Safety Practices	410 - 1 - Percentage of security personnel (both direct employees and indirect staff) who have received training on human rights procedures and policies relevant to the organization's activities	Page 36	Ref. "1.4.3 Human rights - Management procedures and KPI"
GRI 411 - Rights of indigenous peoples - this topic is not considered material as all the Group companies operate in Italy only			
GRI 412 - Human rights assessment			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37	Ref. "1.4 Respect for human rights"
GRI 412 - Assessment of human rights	412 - 3 Percentage and total number of significant contracts and investments that include human rights clauses or are subject to human rights screening	Page 46	Ref. "1.6.5 Supply chain - Main risks and opportunities"
GRI 413 - Local communities - this theme is not considered material by the Group			
GRI 414 - Supplier social assessment			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 35-37 and 43-50	Ref. "1.4 Respect for human rights" Ref. "1.6 The Social Aspect - Responsible Management of the Supply Chain"
GRI 414 - Assessment of local suppliers	414 - 1 Percentage of new suppliers that have been assessed according to human rights and social criteria	Pages 36-37 and 46-47	Ref. "1.4.2 Human rights - main risks and opportunities" Ref. "1.6.5 Supply chain - Main risks and opportunities"
GRI 415 - Public policies			
GRI 415 - Public order	415 - 1 Total value of political contributions, by country and beneficiary	-	The Group did not make any political contribution in the reporting year
GRI 416 - Customer Health and safety			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 43-50	Ref. "1.6 The Social Aspect - Responsible Management of the Supply Chain"
GRI 416 - Customer Health and safety	416 - 1 Percentage of product and service categories for which health and safety impacts are assessed (according to current regulations and other international standards)	Pages 44-45	Ref. "1.6.2 Customer care - Main risks and opportunities"
GRI 417 - Marketing and labelling			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 43-50	Ref. "1.6 The Social Aspect - Responsible Management of the Supply Chain"
GRI 417 - Advertising and labelling	417 - 2 Total number of incidents of non-compliance with regulations or voluntary codes concerning product /service information and labelling 417 - 3 Total number of incidents of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship	Pages 44-45	Ref. "1.6.2 Customer care - Main risks and opportunities"
GRI 418 - Customer privacy			
GRI 103: 2017 management approach	103 – 1; 103 – 2; 103 – 3	Pages 43-50	Ref. "1.6 The Social Aspect - Responsible Management of the Supply Chain"
GRI 418 - Customer privacy	418 - 1 Number of documented complaints regarding privacy breaches and loss of consumer data	Pages 44-45	Ref. "1.6.2 Customer care - Main risks and opportunities"
GRI 419 - Socio-economic compliance			
GRI 103: 2017 management	103 – 1; 103 – 2; 103 – 3	Pages 43-50	Ref. "1.6 The Social Aspect - Responsible Management of the Supply Chain"

GRI Standard	Indicator	Page	Notes (comments and omissions)
approach			
GRI 419 - Socio-economic compliance	419 - 1 Monetary value of significant penalties for non-compliance with laws or regulations, products and services	Page 47	Ref. "1.6.6 Supply chain - Management procedures and KPI"

1.9 Letter of Audit Firm

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

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

To the board of directors of Esselunga SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of Esselunga SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree, included in the specific section of the Management report and approved by the board of directors on 23 March 2018 (hereafter the "NFS").

Responsibility of the directors and of the board of statutory auditors for the NFS

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

Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

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

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

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Auditor's Independence and Quality Control

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

Auditor's responsibilities

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

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

In particular, we performed the following procedures:

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

    With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;

4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.

   In particular, we held meetings and interviews with the management of Esselunga SpA, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

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

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

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Esselunga Group for the year ended 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Other aspects

As disclosed in paragraph “Methodology”, no comparative data for the financial year ended 30 December 2016 was presented in the NFS; therefore, there are no comparative data to be subjected to assurance procedures.

Milan, 7 April 2018

PricewaterhouseCoopers SpA

Signed by

Andrea Rizzardi (Partner)	Paolo Bersani (Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers.

Business outlook

The uncertain economic situation is not having significant effects on consumption; in addition to this uncertainty, the economic scenario reveals new eating habits, such as the increase in out-of-home consumption, the growth of the local market and above all the continuous growth of the *discount* channel.
The development of the sales network with the opening of new stores and the development of the e-commerce channel will continue in the forthcoming future.

The Chairman
of the Board of Directors

(Avv. Prof. Vincenzo Mariconda)

Consolidated statement of financial position (thousands of Euro)

Statement of financial position	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	12,1	4,226,685	3,074,402
Investment property	12,2	161,692	182,900
Goodwill	12,3	6,586	6,586
Intangible assets	12,4	165,023	156,599
Equity investments	12,5	196	196
Deferred tax assets	12,6	0	65,768
Other receivables and other non-current assets	12,7	96,282	76,839
Total non-current assets		**4,656,464**	**3,563,290**
Current assets			
Closing inventories	12,8	409,182	394,419
Trade receivables	12,9	447,087	429,558
Current tax receivables	12,10	65,188	19,253
Other receivables and other current assets	12,11	37,588	53,189
Cash and cash equivalents	12,12	500,796	305,470
Total current assets		**1,459,841**	**1,201,889**
Assets held for sale	12,13	**6,628**	**14,503**
TOTAL ASSETS		**6,122,933**	**4,779,682**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital	12.14	100,000	100,000
Share premium reserve	12.14	164,510	164,510
Other reserves	12.14	49,269	49,269
Retained earnings	12.14	2,184,808	2,215,113
Equity attributable to owners of the parent	12.14	**2,498,587**	**2,528,892**
Equity attributable to non-controlling interests	12.14	321,228	0
Total Shareholders' equity	12.14	**2,819,815**	**2,528,892**
Non-current liabilities			
Non-current financial payables	12.15	1,378,198	396,514
Employee severance indemnities (TFR) and other staff-related p	12.16	100,276	106,751
Deferred tax liabilities	12,6	49,579	0
Provisions for risks and charges	12.17	28,828	30,861
Non-current deferred revenue for prize-giving promotions	12.18	46,847	60,043
Other payables and other non-current liabilities	12.19	186	107
Total non-current liabilities		**1,603,914**	**594,276**
Current liabilities			
Current financial payables	12.15	33,677	28,658
Trade payables	12.2	1,286,194	1,302,844
Current deferred revenue for prize-giving promotions	12.18	94,063	32,333
Current tax payables	12.21	130	546
Other payables and other current liabilities	12.22	285,140	292,133
Total current liabilities		**1,699,204**	**1,656,514**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,122,933**	**4,779,682**

Consolidated income statement (thousands of Euro)

Income Statement	**Notes**	**Year ended 31 December**	
		2017	**2016**
Total sales	13.1	7,753,761	7,540,009
Other sales adjustments		-159,020	-32,270
Net revenue		7,594,741	7,507,739
Net costs for goods and raw materials	13.2	-5,247,543	-5,137,791
Other revenues and income	13.3	51,892	41,371
Costs for services	13,4	-750,692	-756,607
Personnel costs	13,5	-940,490	-944,049
Amortisation and depreciation	13,6	-226,915	-198,622
Provisions and write-downs	13,7	-19,688	-56,412
Other operating costs	13,8	-50,384	-50,270
Operating profit		**410,921**	**405,359**
Income from investments measured using the equity method	13,9	3,449	0
Finance income	13,10	829	842
Finance expense	13,11	-18,907	-16,640
Profit before taxes		**396,292**	**389,561**
Income taxes	13,12	-97,441	-127,298
Net profit for the year		**298,851**	**262,263**
Net profit (loss) for the year attributable to owners of the parent		295,721	262,263
Net profit (loss) for the year attributable to non-controlling interests		3,130	0

Consolidated statement of comprehensive income (thousands of Euro)

Income Statement	**Year ended 31 December**	
	2017	**2016**
Net profit for the year	**298,851**	**262,263**
Net profit (loss) for the year attributable to owners of the parent	295,721	262,263
Net profit (loss) for the year attributable to non-controlling interests	3,130	0
Other comprehensive income		
Components that will subsequently be reclassified to profit or loss		
Cash flow hedge	-6,796	**0**
Components that will not subsequently be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit pension plans, net of tax effect	-204	-3,723
Total other comprehensive income / (loss)	**-7,000**	**-3,723**
Net comprehensive income for the year	**291,851**	**258,540**
Net comprehensive income for the year attributable to owners of the parent	288,721	258,540
Net comprehensive income for the year attributable to non-controlling interests	3,130	0

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 2017	Year ended 31 December 2016
Cash flow from operating activities		
Collections customers	7,753,761	7,540,009
Collections from promotional activities	1,246,806	1,158,692
Other receipts	51,236	41,907
Payments to suppliers	-7,251,743	-7,012,436
Payments to employees	-944,414	-907,873
Rent and rental expenses	-143,054	-139,559
Other payments	-52,772	-57,562
Cash flow of ordinary operations	**659,820**	**623,178**
Income tax paid	-106,146	-118,308
A) CASH FLOW FROM OPERATING ACTIVITIES	**553,674**	**504,870**
Cash Flow from investing activities		
Capex on tangible and intangible assets	-454,053	-453,739
Disposals of tangible and intangible assets	13,528	9,714
Equity investments	-968,995	0
Disposal of equity investments	0	32,977
Interest collected	952	869
Other	-3	-18
B) CASH FLOW USED IN INVESTING ACTIVITIES	**-1,408,571**	**-410,198**
Cash flow from financing activities		
Financing received Bonds	979,975	0
Other financing received/given	816	309
Other proceeds (Fidaty Oro customers)	-103	-116
Reimbursed financing (leasing)	-26,328	-40,391
Payment of interest	-25,733	-13,613
Distribution of dividends	-3,000	-20,000
C) CASH FLOW USED IN FINANCING ACTIVITIES	**925,627**	**-73,811**
Change in the scope of consolidation		
Villata Partecipazioni	135,479	0
Other companies	-10,884	0
C) CASH FLOW FROM CHANGE IN THE SCOPE OF CONSOLIDATION	**124,595**	**0**
NET CASH FLOW OF THE PERIOD (A + B + C)	**195,325**	**20,861**
Cash and cash equivalents at the beginning of the period and current account overdrafts	**305,470**	**284,609**
Cash and cash equivalents at the end of the period and current account overdrafts	**500,796**	**305,470**

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

	Share Capital	Share premium reserve	Revaluation reserve	Other reserves	Retained earnings	**Group shareholders' equity**	Third parties shareholdres' equity	**Totalr shareholders' equity**
As of 31 December 2016	**100,000**	**164,510**	**25,975**	**23,294**	**2,215,113**	**2,528,892**	**0**	**2,528,892**
Other transactions:								
Actuarial loss on defined benefit pension plans	0	0	0	0	-204	-204	0	-204
Profit for the period	0	0	0	0	295,721	295,721	3,130	298,851
Change in the scope of consolidation	0	0	0	0	-312,579	-312,579	318,098	5,519
Equity Villata Partecipazione	0	0	0	0	-3,447	-3,447	0	-3,447
Distribution of dividends	0	0	0	0	-3,000	-3,000	0	-3,000
Cash flow hedge reserve	0	0	0	0	-6,796	-6,796	0	-6,796
As of December 2017	**100,000**	**164,510**	**25,975**	**23,294**	**2,184,808**	**2,498,587**	**321,228**	**2,819,815**

1. General information

Esselunga S.p.A (hereinafter the "**Company**" or the "**Parent Company**") and, together with its subsidiaries the **Esselunga Group**, (hereinafter also the "**Group**" or "**Esselunga**") is mainly engaged in the food sector of Large-Scale Retailing in Italy through a sales network comprising, as at 31 December 2017, 156 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio. In addition, in the main stores the Esselunga Group manages 88 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. In addition to Esselunga S.p.A., the Group comprises the following main companies: La Villata S.p.A. Immobiliare di Investimento e Sviluppo, Villata Partecipazioni SpA, Orofin S.p.A., which is in charge of the majority of the real estate development projects, Atlantic S.r.l., Fìdaty S.p.A. and EsserBella S.p.A.

By deed signed on 27 June 2017, Esselunga S.p.A. acquired 45% of the share capital of Villata Partecipazioni S.p.A. (hereinafter "Villata Partecipazioni) from the minority shareholders. In September 2017, Esselunga S.p.A acquired an additional 22.5% stake in Villata Partecipazioni's share capital from the majority shareholders. The purchase of the investment was financed by a group of banks for € 900 million through a "*bridge to bond*" loan with maturity up to two years.

Villata Partecipazioni owns the entire share capital of La Villata S.p.A. Immobiliare di Investimento e Sviluppo which owns 83 commercial properties for use in the business carried out by Esselunga S.p.A. and currently leased to it under long-term leases. The acquisition of control over Villata Partecipazioni will give the Group greater operational flexibility as the latter will be able to freely exercise control over the above-mentioned properties. In addition, the Group will benefit from the difference between the cost of the leases and the financial charges on the debt incurred to finance the purchase of the investment.

On 18 October 2017 Esselunga S.p.A. successfully placed two Eurobonds with a nominal value of € 500 million each, with maturities of respectively 6 and 10 years, which were used to repay bank borrowings taken out in July.

The transaction details are provided below:

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

The bonds are listed on the Luxembourg Stock Exchange.

The placement was addressed to institutional investors who submitted 711 orders for a total demand of approximately € 9.2 billion, more than 9 times the value of the offering, a record among Italian issues in 2017.

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).

As at 31 December 2017 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 show a classification of costs and revenues by nature;
- The consolidated cash flow statement is represented using the direct method.

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

2.3 Scope of consolidation

These consolidated financial statements include the draft financial statements for the financial year ended 31 December 2017 of the Parent Company Esselunga SpA prepared by the Board of Directors and the draft financial statements for the year ended 31 December 2017 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 2017 and the changes in the scope of consolidation compared to 31 December 2016 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 on administrative and management decisions, although it does not have or control or joint control over them. Generally, significant influence is presumed when the Group directly or indirectly holds between 20% and 50% of voting rights.

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

- The carrying amount of the investments is aligned with the subsidiary's equity, adjusted where necessary to reflect the application of accounting standards that are consistent with those applied by the Company and, where applicable, includes any goodwill identified upon acquisition;

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

2.5 Measurement criteria

Property, plant and equipment

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

Interest expenses incurred in respect of loans obtained for the acquisition or construction of tangible assets increase the carrying amount of those assets only if the assets meet the requirements for being accounted for as such or a significant period is required to make the asset ready for use or sellable.
The costs incurred for ordinary and/or recurring maintenance and repairs are directly charged to the income statement as incurred. The costs for expansion, modernisation or improvement of structural elements owned or used by third parties are capitalised to the extent they meet the requirements for being separately classified as assets or part of an asset.

Depreciation is charged on a straight-line basis through rates that enable the 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.
Land appurtenant or underlying business and investment properties is not depreciated.

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.

Assets held under finance leases

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

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

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

Intangible assets

Intangible assets consist of non-monetary items that are identifiable and have no physical substance, which are controllable and capable of generating future economic benefits. Intangible assets are recognised at purchase and/or production cost, including the costs directly incurred to make the asset ready for its use, net of accumulated amortisation and any impairment losses.
Interest expenses incurred in respect of loans obtained for the acquisition or development of intangible assets increase the carrying amount of those assets only if the assets meet the requirements for being accounted for as such or a significant period is required to make the asset ready for use or sellable.
Amortisation begins when the asset is available for use and is systematically allocated in relation to the residual possibility of use, i.e. on the basis of its estimated useful life.
The useful life estimated by the Group for the various categories of intangible assets is as follows:

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

There are no intangible assets with an indefinite useful life.

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

At the statement of financial position 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;
- the debtor will likely declare bankruptcy or other financial restructuring procedures are started.

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 statement of financial position 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. The elements included in cash and cash equivalents are measured at amortized cost, with changes recognized in the income statement.

Derivative instruments

Derivative instruments are considered as assets acquired for short-term trading and valued at fair value with contra-entry in the income statement, unless they are considered as suitable for hedging purposes and capable of effectively offsetting the risk of underlying assets or liabilities or commitments undertaken by the Company.
The Company has used derivative instruments as part of hedging strategies designed to offset the risk of changes in expected cash flows from contractually defined or highly probable transactions (*cash flow hedges*).

The effectiveness of hedging transactions is documented and tested both at the beginning of the transaction and periodically (at least at each annual statement of financial position date) and is measured by comparing the changes in fair value of the hedging instrument with those of the hedged item.

Changes in the fair value of derivatives designated as cash flow hedges and which qualify as such are recognized, limited to the "effective" portion, in a specific equity reserve ("cash flow hedge reserve"), which is subsequently transferred to the income statement when the underlying hedged item impacts the income statement. The change in fair value that refers to the "ineffective" portion is immediately recognized in the income statement for the period. If the occurrence of the underlying transaction is no longer considered as highly probable, the portion of the related "cash flow hedge reserve" is immediately reversed to the income statement.

If, on the other hand, the derivative instrument is sold or no longer qualifies as an effective hedge of the risk that justified the transaction, the portion of the related "cash flow hedge reserve" is maintained until the underlying contract is fulfilled.

As regards the methods for determining the fair value, see the information already provided with respect to financial assets available for sale.

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.

Financial liabilities

Financial liabilities include financial debts, trade payables and other payables. Financial liabilities 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. Financial liabilities are classified as current liabilities, unless the Company has an unconditional right to postpone their payment for at least twelve months after the statement of financial position date.
Financial liabilities are recognised when the entity becomes a party to the relevant contract and are derecognised when they are discharged and when the Company 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 Group grants to its customers. These plans allocate bonus points to final customers, calculated based on purchases and which can be redeemed against prizes or to obtain discounts on future purchases.
The “Fìdaty" gift with purchase promotion is the Company’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.
In accordance with IFRIC 13 - Customer Loyalty Programmes - reward points are accounted for as a separately identifiable component of the sales transaction(s) in which they are assigned (the "initial sale"). The fair value of the consideration received or receivable from the initial sale is therefore divided between reward points and goods and finished products sold.
Deferred revenue for prize-giving promotions are measured based on the *fair value* of points accrued, calculated based on the price currently applied by the suppliers of the prizes included in the catalogue or of discount vouchers, less an amount that reflects the estimated number of bonus points that will likely not be redeemed by final customers.

The consideration assigned to the bonus points (i.e. the deferred revenue) is subsequently recognized as revenue in the period the customer redeems the points and the Company fulfils its obligation to give the prizes.

Deferred revenue for prize-giving promotions is classified under current liabilities unless the Group plans to discharge its obligations after 12 months from the statement of financial position 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 statement of financial position date.
They are recognised only if there is a current (legal or constructive) obligation to make payments as a result of past events and it is likely that the payment will be necessary to settle the obligation. This amount is the best estimate of the expenditure required to settle the obligation.
Possible risks that may result in a liability are disclosed in the notes under the section on commitments and risks, 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 statement of financial position 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.

Revenues from promotional activities are recognised in the income statement in accordance with the accrual principle and on the basis of contractual arrangements with counterparties. Revenues from promotional activities are recorded as a reduction to the item "Costs for goods and raw materials".

Revenues from the sale of newspapers, magazines and prepaid cards are shown net of the related costs as the Company acts as an agent in accordance with IAS 18.

Public grants

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

Recognition of costs

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

Dividends received

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

Dividends distributed

A liability is recognised in the consolidated financial statements 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 statement of financial position date.
Deferred taxes are calculated on all differences arising between the tax base of an asset or liability and the corresponding book value. Deferred tax assets, including those arising from previous tax losses, for the portion not offset by deferred tax liabilities, are recognised to the extent that it is probable that future taxable income will be available for such assets to be recovered. Deferred taxes are calculated using the tax rates that are expected to apply in the years in which the differences will be realised or settled, based on the tax rates in force or substantially enacted at the statement of financial position date.

Current and deferred taxes are recognised in the income statement, except for items that are directly charged or credited to equity, in which case the related tax effect is also directly recognised in equity. Taxes are offset when income taxes are applied by the same tax authority and the entity has a legal right to settle on a net basis.

3. Recently issued accounting standards

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

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

	Endorsed by the EU	Effective date
IFRS 17 Insurance Contracts	No	Periods beginning on 1 January 2021
IFRIC 22, "Foreign currency transactions and advance consideration"	No	Periods beginning on 1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	No	Periods beginning on 1 January 2019
Amendments to IAS 40: Transfers of Investment Property	No	Periods beginning on 1 January 2018
Amendments to IFRS 9: Prepayment Features with Negative Compensation	No	Periods beginning on 1 January 2019
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	No	Periods beginning on 1 January 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	No	Periods beginning on 1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	No	Periods beginning on 1 January 2019

Accounting standards, amendments and interpretations not yet adopted but for which early application is permitted

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

Accounting standard	Description
IFRS 15 "Revenue from contracts with Customers"	On 28 May 2014, the IASB published IFRS 15 "Revenues from contracts with customers" (hereinafter IFRS 15), which governs the timing and amount of revenue recognition with respect to revenue from contracts with customers, including contract work. More specifically, IFRS 15 requires that revenue recognition be based on the following five steps / points: 1) identification of the contract with the customer; 2) identification of contractual commitments to transfer goods and/or services to a customer ("performance obligations"); 3) determination of the transaction price; 4) allocation of the transaction price to the identified performance obligations based on the stand-alone sale price of each good or service; and 5) recognition of the revenue when the corresponding performance obligation is satisfied. Furthermore, IFRS 15 requires additional financial statement disclosures to be provided on the nature, amount, timing and uncertainty of revenues and the related cash flows. The new standard, adopted by the European Commission through EU Regulation no. 2016/1905 of 22 September 2016, is effective for periods beginning on or after 1 January 2018. Early adoption is permitted. The Company does not expect any significant impact from adoption of the new accounting standard IFRS 15. The Company intends to adopt the standard using the modified retrospective approach, which means that any cumulative impact from adoption of the standard will be recognized in retained earnings as of 1 January 2018 and that comparative data will not be restated.
"Clarifications to IFRS 15 Revenue from Contracts with Customers"	The document, published by the IASB on 12 April 2016, contains clarifications on certain aspects relating to the implementation of IFRS 15 "Revenues from contracts with customers". The amendments to IFRS 15 are effective for periods beginning on or after 1 January 2018. For the analysis carried out by the Company, see the previous comments on IFRS 15 "Revenues from contracts with customers".
IFRS 16 Leases	On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16") which replaces IAS 17 "Leases" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases from the point of view of the lessee's financial statements; for all lease contracts with a duration of more than 12 months, the lessee is required to recognize an asset, representing the right to use, and a liability, representing the obligation to make the payments under the contract. From the point of view of the lessor's accounts, however, the distinction between operating and finance leases is maintained. Under IFRS 16 enhanced financial statements disclosures are required for both lessees and lessors. The provisions of IFRS 16 are effective beginning on 1 January 2019. Early adoption is permitted, subject to the early adoption of IFRS 15. With reference to the Company, the new accounting standard IFRS 16 will mainly affect the accounting of operating leases. At the statement of financial position date, the Company had operating lease commitments mainly relating to its sales network for a total of € 0.5 billion. The Company is also assessing the appropriate discount rate and is analysing its short-term and low-value leases, which will be recognized on a straight-line basis as cost in the income statement. However, the Company has not yet assessed the other adjustments required, if any, as due for example for the different definition of the lease term and the different treatment of variable lease payments and of extension and termination options. Therefore, it is not yet possible to estimate the amount of assets and liabilities for the right to use that will have to be recognized when the new standard is adopted and how this may affect the Company's profits and losses and the classification of future cash flows.
IFRS 9 "Financial Instruments"	On 24 July 2014, the IASB completed the project to revise the standard on financial instruments by issuing the full version of IFRS 9 "Financial instruments" (hereinafter, "IFRS 9"). The new provisions of IFRS 9: • change the classification and evaluation model of financial assets; • introduce a new method to write-down financial assets that takes into account expected losses (*expected credit losses*); and • change the provisions on *hedge accounting*. The provisions of IFRS 9, adopted by the European Commission through Regulation (EU) no.2016/2067 of 22 November 2016, are effective for periods beginning on or after 1 January 2018. The new *impairment* model requires the recognition of provisions for impairment losses on the basis of expected credit losses rather than limited to actual credit losses as envisaged in IAS 39. The standard applies to financial assets classified at amortized cost, to debt instruments measured at fair value recognized in other comprehensive income, to contractual assets pursuant to IFRS 15, to lease receivables, to loan commitments and to certain financial guarantee agreements. Based on the assessments carried out to date, the Company envisages a non-significant loss adjustment for trade receivables. The new standard also introduces enhanced disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosure on its financial instruments, especially in the year in which the new standard is adopted. The Company will apply the IFRS 9 for the periods beginning 1 January 2018, with the practical expedients permitted by the standard. Comparative data for 2017 will not be restated.

Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	On 12 September 2016, the IASB issued the amendment to IFRS 4 to address certain issues concerning the application of IFRS 9 "Financial instruments" with reference to issuers of insurance contracts. The changes are effective beginning on 1 January 2018. It is believed that the entry into force of this standard will have no financial impact on the Company.

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

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

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

c) Measurement of goodwill
Goodwill is tested annually for impairment (impairment test), to be recognised through a write-down, which occurs when the net carrying amount of the cash-generating unit to which goodwill has been allocated exceeds its recoverable amount (defined as the higher of the value in use and the *fair value* of the CGU). To verify the above values, the Directors are required to make subjective valuations based on the information available within the Group 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.
d) Provisions for risks and charges
Determining whether a current (legal or constructive) obligation exists is not easy in some circumstances. The Directors make case-by-case assessments and estimate the amount of financial resources required to discharge the obligation. When the directors consider that the occurrence of a liability is only possible, the risks are disclosed in the notes under the commitments and risks section and no provision is recognised.

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

f) Calculation of the liability for customer loyalty plans
The identification of the *fair value* of the points attributed to customer loyalty plans 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.

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

5. 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 undertakes to provide Supermarkets Italiani Group with its surplus of non-deductible interest expense or of EBIT, so that the consolidating entitiy can make the necessary adjustments to the Group taxable income in application of the provisions of art. 96, paragraph 7, of the TUIR. Conversely, the consolidating entity undertakes to exclusively pay to the contributing entity the surplus of ACE and of non-deductible interest expense used to adjust income in the tax consolidation, an amount equal to the product of the IRES tax rate currently in force and the amount of the above mentioned surpluses in the manner described 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.

6. 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.

Although the Group is not exposed to any significant financial risk, except for two Eurobonds successfully placed in the month of October 2017 by Esselunga S.p.A. with a nominal value of € 500 million each and maturities of 6 and 10 years respectively, the main risk categories are described below.

6.1 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 as at 31 December 2017 and 2016 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	**31 December 2017**	**31 December 2016**	**Change**
Other receivables and other non-current assets	107,476	76,839	30,637
Trade receivables	447,560	429,737	17,823
Current tax receivables	65,188	19,253	45,935
Other receivables and other current assets	42,461	57,016	-14,555
Total gross amount	662,685	582,845	79,840
Provision for doubtful receivables	-16,540	-4,004	-12,536
Total net amount	**646,145**	**578,841**	**67,304**

These items are accounted for net of a provision for doubtful receivables, for a total of € 16,540 thousand as at 31 December 2017 and € 4,004 thousand as at 31 December 2016, 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.

The following tables provide a breakdown of receivables as at 31 December 2017 and 31 December 2016 by category and by number of days past due (amounts in thousands of euros).

Description	**31 December 2017**					
	Not yet due	**Days past due**				
		0 - 30	**31 - 60**	**61 - 90**	**> 90**	**Total**
Other receivables and other non-current assets	85,276	0	0	0	22,200	107,476
Trade receivables	378,929	1,111	33,209	30,174	4,137	447,560
Current tax receivables	65,188	0	0	0	0	65,188
Other receivables and other current assets	37,485	0	317	28	4,631	42,461
Total gross amount	566,878	1,111	33,526	30,202	30,968	662,685
Provision for doubtful receivables	-80	-22	-317	-28	-16,093	-16,540
Total net amount	**566,798**	**1,089**	**33,209**	**30,174**	**14,875**	**646,145**

Description	31 December 2016					
	Not yet due	Days past due				
		0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current assets	76,839	0	0	0	0	76,839
Trade receivables	382,057	2,691	33,814	5,400	5,775	429,737
Current tax receivables	19,253	0	0	0	0	19,253
Other receivables and other current assets	57,016	0	0	0	0	57,016
Total gross amount	538,894	1,924	33,675	5,253	3,099	582,845
Provision for doubtful receivables	-180	0	-1	-10	-3,813	-4,004
Total net amount	**538,714**	**1,924**	**33,674**	**5,243**	**-714**	**578,841**

As shown in the table above, receivables expired as at 31 December 2017 amounted to € 95,807 thousand, while the allowance for doubtful receivables amounted to € 16,540 thousand.
Past-due receivables that are not covered by the provision refer to situations that are inherent in the Group's activities.

6.2 Liquidity risk

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

Liquidity risk is centrally managed by the Group, which conducts periodic monitoring of the financial position through appropriate forecast and actual cash inflow and outflow reporting. In this way, the Group seeks to ensure adequate coverage of needs, closely monitoring funding, open credit lines and their use to optimise resources and manage any temporary liquidity surpluses.

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

The following tables provide a breakdown of liabilities by maturity as at 31 December 2017 and 31 December 2016 (amounts in thousands of euros). The various maturity ranges are determined based on the period between the statement of financial position date and the contractual maturity of the obligations including accrued interest as at 31 December. Interest has been calculated according to the contractual terms of the loans.

	31 December 2017				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Bonds	13,750	13,750	41,288	1,051,276	1,120,064
Finance lease payables (current and non-current)	46,482	48,084	124,281	319,510	538,357
Other payables and other non-current liabilities	0	0	0	186	186
Trade payables	1,286,194	0	0	0	1,286,194
Current tax payables	130	0	0	0	130
Other payables and other current liabilities	285,140	0	0	0	285,140
Total	**1,631,696**	**61,834**	**165,569**	**1,370,972**	**3,230,071**

	31 December 2016				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Finance lease payables (current and non-current)	41,550	41,550	119,625	333,004	535,729
Other payables and other non-current liabilities	0	0	0	107	107
Trade payables	1,302,844	0	0	0	1,302,844
Current tax payables	546	0	0	0	546
Other payables and other current liabilities	292,133	0	0	0	292,133
Total	**1,637,073**	**41,550**	**119,625**	**333,111**	**2,131,359**

On 3 August 2017, Esselunga entered into three agreements with three Italian banks for three committed "revolving" credit lines for a total amount of € 300 million, expiring after 5 years. As at 31 December 2017 the above credit lines were undrawn.

6.3 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 bonds and finance lease payables. Financial payables at floating rates accounted for 7.4% of total debt as at 31 December 2017.
The Group had no derivative instruments.

The following table shows a sensitivity analysis with respect to interest rate risk. More specifically, the table below shows the impact on shareholders' equity and profit for the years ended 31 December 2017 and 31 December 2016 of a positive or negative 0.5% change in interest rates, all other variables being unchanged:

Description	31 December 2017		31 December 2016	
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	-1,402	1,402	-435	435

6.4 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 following table shows the calculation of the *gearing ratio* as at 31 December 2017 and 2016 (amounts in thousands of euros):

Description	31 December 2017	31 December 2016
Cash and cash equivalents	500,796	305,470
Financial receivables (current and non-current)	0	817
Receivables from Fidaty Oro payment card users	63,527	63,424
Financial payables (current and non-current)	-1,411,874	-425,174
Net debt	**-847,551**	**-55,463**
Shareholders' equity	**2,819,815**	**2,528,892**
Net Invested Capital	**3,667,366**	**2,584,355**
Gearing ratio	**-23.1%**	**-2.1%**

The *gearing ratio* compares the net debt and the net invested capital (defined as the sum of net debt and shareholders' equity) to represent the company's financial strength and its use of third party funds.
The Esselunga Group's ratio for 2017 shows that net invested capital is 76.9% financed by own funds, third-party funds covering the remaining portion. This indicates the Group's strong capital structure and high solvency level.
The change in the gearing ratio compared to 31 December 2016 is mainly due to the placement of two Eurobonds as part of the aforementioned acquisition of a 67.5% stake in Villata Partecipazioni.

7. 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 2017 and 31 December 2016 (amounts in thousands of euros):

	31 December 2017						
	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	0	0	0	196	0	196	196
Other receivables and other non-current assets	0	0	96,282	0	0	96,282	96,282
Trade receivables	0	0	447,087	0	0	447,087	447,087
Other receivables and other current assets	0	0	37,588	0	0	37,588	37,588
Cash and cash equivalents	0	0	500,796	0	0	500,796	500,796
Total	**0**	**0**	**1,081,753**	**196**	**0**	**1,081,949**	**1,081,949**
Financial payables (current and non-current) excluding leases	0	0	0	0	979,975	979,975	1,012,010
Lease payables (current and non-current)	0	0	0	0	431,900	431,900	454,795
Deferred revenue for prize-giving promotions (Current and non-current)	140,910	0	0	0	0	140,910	140,910
Other payables and other non-current liabilities	0	0	0	0	186	186	186
Trade payables	0	0	0	0	1,286,194	1,286,194	1,286,194
Other payables and other current liabilities	0	0	0	0	285,140	285,140	285,140
Total	**140,910**	**0**	**0**	**0**	**2,983,395**	**3,124,305**	**3,179,235**

	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	0	0	0	196	0	196	196
Other receivables and other non-current assets	0	0	76,839	0	0	76,839	76,839
Trade receivables	0	0	429,558	0	0	429,558	429,558
Other receivables and other current assets	0	0	53,189	0	0	53,189	53,189
Cash and cash equivalents	0	0	305,470	0	0	305,470	305,470
Total	**0**	**0**	**865,056**	**196**	**0**	**865,252**	**865,252**
Lease payables (current and non-current)	0	0	0	0	425,172	425,172	447,395
Deferred revenue for prize-giving promotions (Current and non-current)	92,376	0	0	0	0	92,376	92,376
Other payables and other non-current liabilities	0	0	0	0	107	107	107
Trade payables	0	0	0	0	1,302,844	1,302,844	1,302,844
Other payables and other current liabilities	0	0	0	0	292,133	292,133	292,133
Total	**92,376**	**0**	**0**	**0**	**2,020,256**	**2,112,632**	**2,134,855**

8. 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.
Deferred revenue for prize-giving promotions and assets held for sale, which fall under level 3 of the hierarchy, are measured at fair value.

9. Segment reporting

An operating segment is an entity's component:

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

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

The Group currently carries out its activities exclusively in Italy, therefore no disclosure by geographical segment is provided.

Given the nature of the Group's business, there are no situations of revenue concentration on individual customers.

10. Seasonal events

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

11. Business combinations

By deed signed on 27 June 2017, Esselunga acquired 45% of the share capital of Villata Partecipazioni S.p.A. (hereinafter "Villata Partecipazioni) from the minority shareholders for an amount of € 643.5 million. On 21 September 2017, Esselunga acquired an additional 22.5% stake in Villata Partecipazioni's share capital from the majority shareholders, for a total price of € 321.8 million.
Villata Partecipazioni owns the entire share capital of La Villata S.p.A. Immobiliare di Investimento e Sviluppo (hereinafter "La Villata") which owns 83 commercial properties for use in the business carried out by Esselunga and currently leased to it under long-term leases. Through the acquisition of control over Villata Partecipazioni, Esselunga S.p.A. has achieved greater operational flexibility with the ability to freely exercise control over the above-mentioned properties.
The transaction is a business combination between entities under common control, as both companies are controlled by the same shareholders.

This transaction was carried out between parties under common control and therefore is not regulated by IFRS 3.

In compliance with the provisions contained in the Assirevi OPI 1 document - "Accounting treatment of *business combinations under common control* in the separate financial statements and in the consolidated financial statements", the accounting treatments for transactions under common control depend on the evidence, or otherwise, of economic substance, i.e. of a significant influence on the future cash flows of the net assets transferred for the entities concerned.

The application of the predecessor basis of accounting results in recognition in the statement of financial position of the same values as those that would apply if the combined companies had always been combined. The net assets of the acquired entity and of the purchasing entity were therefore recognized at book values as reported in their respective accounts before the transaction. The excess of the price paid for the acquisition of the investment compared to the net assets of the acquired entity was recorded as a direct reduction of shareholders' equity.

The total cost of the business combination was € 968.6 million, compared to the corresponding (67.5%) carrying amount of the net assets at the acquisition date of € 652.6 million. The excess value resulting from this comparison of € 316 million, was, as noted above, deducted from a shareholders' equity reserve.

The following table shows the carrying amounts of the assets acquired and the liabilities assumed at the acquisition date (amounts in millions of euros):

Description	Amount
Property, plant and equipment	963.6
Cash and cash equivalents	132.4
Other assets	8.2
Liabilities	89.7
Financial payables	31.8
Shareholders' Equity	982.7

The acquisition led to an increase in the Group's net profit of € 13 million (mainly due to lower costs for rent and higher depreciation).
Had the acquisition occurred on 1 January 2017, the Group's net profit would have increased by € 33.7 million.

The net cash flow from the aforementioned acquisition amounts to € 833 million, equal to the difference between the price paid of € 968 million and the cash and cash equivalents contributed by the acquired companies of € 135 million.

12. Notes to the consolidated statement of financial position

12.1 Property, plant and equipment

In 2017, the Esselunga Group opened stores in Rome, Prenestino district, Novara, Veveri district, Verona, Fair area, and in Bergamo Celadina. The store in Verona Corso Milano, opened in 1988, was closed for complete renovation, while the store in Verona, Fair area, was opened at the same time.

The details and movements of property, plant and equipment for the year ended 31 December 2017 are shown in the following table (amounts in thousands of euros):

Description	31 December 2016	Change in the scope of consolidation	Increases	Decreases	Reclassifications and transfers	31 December 2017
Land and buildings						
Historical cost	2,737,981	1,759,622	159,620	-30,098	-4,771	4,622,354
Accumulated depreciation	-568,558	-829,807	-78,079	9,199	5,046	-1,462,199
Provision for impairment	-15,774	0	0	11,572	-6,860	-11,062
Net amount	**2,153,649**	**929,815**	**81,541**	**-9,327**	**-6,585**	**3,149,093**
Plant and machinery						
Historical cost	1,171,142	136,992	95,246	-9,262	45,216	1,439,334
Accumulated depreciation	-748,950	-116,289	-88,646	8,785	2,065	-943,035
Provision for impairment	3,769	0	0	0	-3,769	0
Net amount	**425,961**	**20,703**	**6,600**	**-477**	**43,512**	**496,299**
Industrial and commercial equipment						
Historical cost	1,738	0	29	-3	4	1,768
Accumulated depreciation	-1,661	0	-26	3	0	-1,684
Net amount	**77**	**0**	**3**	**0**	**4**	**84**
Other assets						
Historical cost	481,905	167	40,028	-22,166	3,367	503,301
Accumulated depreciation	-353,096	-42	-36,743	16,150	204	-373,527
Net amount	**128,809**	**125**	**3,285**	**-6,016**	**3,571**	**129,774**
Assets under construction and advances						
Historical cost	380,206	13,210	108,130	-17	-50,092	451,437
Provision for impairment	-14,300	0	0	0	14,298	-2
Net amount	**365,906**	**13,210**	**108,130**	**-17**	**-35,794**	**451,435**
Total						
Historical cost	4,772,972	1,909,991	403,053	-61,546	-6,276	7,018,194
Accumulated depreciation	-1,672,265	-946,138	-203,494	34,137	7,315	-2,780,445
Provision for impairment	-26,305	0	0	11,572	3,669	-11,064
Total net amount	**3,074,402**	**963,853**	**199,559**	**-15,837**	**4,708**	**4,226,685**

The change in the scope of consolidation column refers to assets deriving from the acquisition of control over Villata Partecipazioni.

The increase in **land and buildings** includes capital expenditures of € 98,709 thousand for the expansion, renovation and construction of stores opened by the Esselunga Group in 2017 in Rome, Prenestino district, Novara, Veveri district, Verona Fiera , and in Bergamo Celadina. In addition, capital expenditures of € 7,128 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 € 25,176 thousand and the Group's commercial development for € 28,608 thousand.
The decrease in land and buildings refers to the closure of the Verona Corso Milano store, opened in 1988, which will be completely rebuilt and renovated, the demolitions carried out at the Ospitaletto logistics hub and the sale of areas no longer considered instrumental for the Group’s commercial development.
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 from the investment property item.

The increase in **plant and machinery** includes € 40,699 thousand for new stores and for the expansion and renovation of existing ones, and € 21,807 thousand for the logistic hubs,

production facilities and headquarters. Finally, € 32,712 thousand concerned the maintenance of the sales network and € 28 thousand of capital expenditures for the Group's commercial development.
The decrease in plant and machinery 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 € 10,297 thousand in relation to the construction of new stores and expansion and renovation works in 2017; € 14,688 thousand refer to capital expenditures for the logistic hubs, production facilities and headquarters. Finally, € 15,043 thousand refer to capital expenditures for the maintenance of the sales network.
The decrease in other assetts refers to the normal replacement of the Group's tangible assets and the sale of owned cars, now rented.
The reclassifications and transfers mainly refer to capital expenditures of previous years relating to new stores opened in the current 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 € 31,681 thousand, for commercial development for € 74,831 thousand and for renovation of the head office, mainly in relation to completion of the new office buildings, for € 1,618 thousand.
The reclassifications and transfers column for this item includes the reclassification to the other tangible asset items, of expenditures made in previous years for the stores opened in 2017 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	**31 December 2017**	**31 December 2016**
Motor vehicles, cars and vehicles for internal use	6,743	13,410
Office furniture and equipment	81,690	76,341
Electronic office equipment	30,491	27,838
Niche perfumery furniture and furnishings	1,740	1,920
Bar furniture and furnishings	9,110	9,300
Total	**129,774**	**128,809**

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	3,093	17,009	20,102
Plant and machinery	163	0	163
Other assets	122	57	179
Total	**3,378**	**17,066**	**20,444**

As at 31 December 2017, the amount of revaluations not yet depreciated was € 56 thousand mainly pertaining to land and buildings.

Property, plant and equipment include buildings held under finance leases for a net carrying amount of € 478,872 thousand and € 472,252 thousand as at 31 December 2017 and 31 December 2016, respectively. The increase is due to the inclusion of Villata Partecipazione (two properties held under finance lease) within the scope of consolidation of the Esselunga Group.

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

12.2 Investment property

Investment property includes land or buildings that are not intended for use in the Group's ordinary activities.
The movements in investment property for the year ended 31 December 2017 are shown in the following table (amounts in thousands of euros):

Description	Historical cost	Accumulated Provision for	Accumulated depreciation	Total
Balances at 1 January 2017	**400,068**	**-26,779**	**-190,389**	**182,900**
Change in the scope of consolidation	18,605	-10,758	-978	6,869
Increases	8,260	-2,282	-24,195	-18,217
Decreases	0	0	17,789	17,789
Reclassifications	-33,780	-207	6,338	-27,649
Balances as of 31 December 2017	**393,153**	**-40,026**	**-191,435**	**161,692**

The increase in historical cost refers to the development of areas not intended for use in the Group's ordinary activities.
The reclassifications and decreases refer to a change in the intended use of some areas which are now used to carry out the Group's activities and which have been reclassified under item "property, plant and equipment".
The acquisition of Villata Partecipazioni by Esselunga S.p.A. led to a net increase of € 6,869 thousand, relating to areas not intended for use in the Group's business activities.
The breakdown by geographical location of investment property is shown in the following table (amounts in thousands of euros):

Description	Net historical cost	Accumulated depreciation	Total
Emilia Romagna	35,426	-15,538	19,888
Lombardia	211,290	-111,698	99,592
Piemonte	71,869	-43,529	28,340
Toscana	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**
Emilia Romagna	35,136	-15,629	19,507
Lombardia	213,394	-112,726	100,668
Piemonte	49,375	-31,005	18,370
Toscana	36,421	-18,955	17,466
Veneto	8,905	-5,204	3,701
Lazio	9,897	-7,917	1,980
Balances as of 31 December 2017	**353,128**	**-191,436**	**161,692**

As at December 31, 2017, the fair value of property investments was determined on the basis of appraisals drawn up by an independent third party, in order to align the book values with the lower between the cost and the fair value expressed by the appraisals.
The fair value expressed by the appraisals was defined according to the models for determining the Level 3 fair value, as the inputs directly / indirectly not observable on the market, used in the valuation models, are preponderant with respect to the inputs observable on the market.

12.3. Goodwill

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

Description	31 December 2017	31 December 2016
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% in 2016 and 7.32% in 2017.

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 = 7.82%, with an increase of 50 basis points over the baseline scenario;
- Scenario 2: Discount rate = 8.32%, with an increase of 100 basis points over the baseline scenario.

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

12.4 Intangible assets

The breakdown and movements of intangible assets for the year ended 31 December 2017 are shown in the table below (amounts in thousands of euros):

Description	31 December 2016	Increases	Decreases	Reclassifications and transfers	31 December 2017
Software					
Historical cost	176,994	10,304	-159	8,914	196,053
Accumulated amortisation	-142,159	-16,561	1	0	-158,719
Net amount	**34,835**	**-6,257**	**-158**	**8,914**	**37,334**
Trademarks, concessions and similar rights					
Historical cost	66,463	32	-19	4,016	70,492
Accumulated amortisation	-14,704	-1,796	2	-504	-17,001
Net amount	**51,759**	**-1,764**	**-17**	**3,512**	**53,491**
Commercial licenses					
Historical cost	77,725	560	0	-3,592	74,693
Accumulated amortisation	-19,870	-1,750	0	804	-20,816
Provision for impairment	-3,066	0	0	-189	-3,255
Net amount	**54,789**	**-1,190**	**0**	**-2,977**	**50,622**
Assets under construction and advances					
Historical cost	15,216	16,935	0	-9,139	23,012
Net amount	**15,216**	**16,935**	**0**	**-9,139**	**23,012**
Others					
Historical cost	2,171	0	0	1,260	3,430
Accumulated depreciation	-2,171	-550	0	-145	-2,866
Net amount	**0**	**-550**	**0**	**1,115**	**564**
Total					
Historical cost	338,569	27,831	-178	1,459	367,680
Accumulated depreciation	-178,904	-20,657	3	155	-199,402
Provision for impairment	-3,066	0	0	-189	-3,255
Net amount	**156,599**	**7,174**	**-175**	**1,425**	**165,023**

Additions in the year 2017 amounted to € 27,831 thousand and mainly refer to the purchase of software for the improvement of the Group's IT infrastructure.
The increase in assets under construction and advances refers to the development of software not yet in use. The decrease shown in the reclassifications column mainly refers to additions made in prior years for software and commercial licenses that have come into operation in the year under review and have therefore been reclassified in the appropriate items.

The reclassifications mainly refer to identification of the intangible component of capital expenditures previously classified under tangible assets under construction and advances.
No revaluations were made to intangible assets pursuant to Article 2427, paragraph 3-bis of the Italian Civil Code; there were no intangible assets to be written down due to impairment losses.

12.5 Equity investments

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

Description	31 December 2017	31 December 2016
Investments in associated companies	130	130
Equity investments in other companies	66	66
Total	**196**	**196**

12.6 Deferred tax assets and liabilities

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

The breakdown and movements of these items, gross of any offsetting based on the timing in the use of taxes, for the year ended 31 December 2017 are shown in the following table (amounts in thousands of euros):

Description	Balance 31/12/2016	Effect on the Income Statement	Effect on the Balance Sheet	Balance 31/12/2017
Deferred tax assets and liabilities				
Costs with deferred deductibility	1,953	-779	0	1,174
Deferred revenue for prize-giving promotions	24,029	-18,353	0	5,676
Costs for bond issue	0	-2,159	0	-2,159
Inventories and inventory write-downs	27,042	-22,884	0	4,158
Employee severance indemnity (TFR) IAS 19	1,905	-176	78	1,807
Provision for write-downs and provisions for risks with deferred deductibility	12,911	-3,265	0	9,646
Property, plant and equipment (excluding leases)	47,667	1,066	-2,831	45,902
Lease-back capital gain	50	-12	0	38
Finance leases IAS 17	-43,998	14,208	-78,119	-107,909
Intangible Assets	-5,160	-653	0	-5,813
Capital gains subject to deferred taxes	-1,285	-1,347	0	-2,632
Others	654	-121	0	533
Total deferred tax assets and liabilities	**65,768**	**-34,475**	**-80,872**	**-49,579**
Deferred tax assets not recognised				
Tax losses from prior years	1,572	-808	0	764
Total deferred tax assets, not recognised	**1,572**	**-808**	**0**	**764**

12.7 Other receivables and other non-current assets

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

Description	31 December 2017	31 December 2016
Tax receivables	52,962	49,299
IRES tax receivable from parent companies	25,262	25,262
Security deposits	3,052	2,278
Other non-current receivables	15,006	0
Total	**96,282**	**76,839**

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 tax 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 the supply of utilities.

The item other non-current receivables mainly includes the receivable, amounting to € 21,700 thousand, for an advance paid for the purchase of a building area; the receivable was written down by € 10,700 thousand as at 31 December 2017.

12.8 Inventories

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

Description	31 December 2017	31 December 2016
Raw materials, supplies and consumables	58,030	35,922
Finished products and goods	351,152	358,497
Total	**409,182**	**394,419**

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

Description	31 December 2017	31 December 2016
Balance at the beginning of the year	**21,274**	**32,594**
Provisions	17,320	7,459
Use	-21,274	-18,779
Balance at the end of the financial year	**17,320**	**21,274**

As at 31 December 2017, there were no inventories pledged as collateral on loans received by the Group.

12.9 Trade receivables

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

Description	31 December 2017	31 December 2016
Receivables from suppliers for promotional activities	383,987	366,225
Receivables from customers for use of Fìdaty Oro card	63,462	63,372
Receivables from cust. for use of Fìdaty Oro card - non-performir	79	140
Receivables from parent companies	32	0
Provision for doubtful receivables	-473	-179
Total	**447,087**	**429,558**

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

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

Trade receivables are shown gross of the related provision for doubtful accounts which amounted to € 473 thousand as at 31 December 2017 (€ 179 thousand as at 31 December 2016).

12.10 Current tax receivables

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

Description	31 December 2017	31 December 2016
IRES tax receivable from parent companies	58,255	16,402
IRES tax receivable from the tax authorities	3,094	119
IRAP tax receivable from the tax authorities	3,820	2,719
Receivables from the tax authorities for tax refunds	19	13
Total	**65,188**	**19,253**

IRES tax receivable from parent companies refers to taxes receivable from the consolidating entity (Supermarkets Italiani SpA) by the companies participating in the tax consolidation. As at 31 December 2017, this item mainly refers to IRES tax receivable (€ 11,611 thousand as at 31 December 2016). As at 31 December 2016, this item also included € 4,537 thousand related to the adjustment for the ACE subsidy (Economic Growth Aid). The item IRES tax receivable from the Tax Authorities refers to advances paid to the Tax Authorities by companies not participating in the tax consolidation.

12.11 Other receivables and other current assets

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

Description	31 December 2017	31 December 2016
Receivables from disposal of buildings, land and business units	0	696
Tax receivables (mainly VAT)	7,490	10,387
Receivables from parent companies (VAT)	0	240
Receivables from parent companies	0	816
Accrued income and prepaid expenses	20,977	23,131
Receivables from other debtors	13,994	21,744
Provision for doubtful receivables -other debtors	-4,873	-3,825
Total	**37,588**	**53,189**

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

Description	31 December 2017	31 December 2016
Balance at the beginning of the period	**3,825**	**2,409**
Provisions	1,237	1,910
Use	0	-26
Change in the scope of consolidation	0	0
Reclassification	-189	-468
Balance at the end of the period	**4,873**	**3,825**

Receivables from the sale of buildings, land and businesses in 2016 referred 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 employees and social security institutions and receivables for the recovery of costs and other non-performing loans for which the provision for doubtful accounts has been allocated.

12.12 Cash and cash equivalents

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

Description	31 December 2017	31 December 2016
Deposits with banks and post-office	492,618	298,177
Cheques	15	6
Cash and cash equivalents on hand	8,163	7,287
Total	**500,796**	**305,470**

As at 31 December 2017, the item Bank and postal deposits includes the amount of two restricted savings bonds, totalling € 10 million, subscribed with a major Bank and effective from 14 November 2017 to 16 February 2018.

On 3 August 2017, the Company entered into three agreements with three major Italian banks for three committed "revolving" credit lines, for a total amount of € 300 million and with 5 year maturity. As at 31 December 2017 the above credit lines were undrawn.

12.13 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 Provision for	Accumulated depreciation	Total
Balances at 1 January 2017	**64,405**	**-2,138**	**-47,764**	**14,503**
Increases	95	0	-249	-154
Decreases	-37,644	2,129	27,794	-7,721
Reclassifications	-9	9	0	0
Balances as of 31 December 2017	**26,847**	**0**	**-20,219**	**6,628**

The decrease is attributable to the sale of plant and machinery relating to the Ospitaletto business unit and the Capannori property (Lucca).

The net balance as at 31 December 2017, of € 6,628 thousand, includes the value of an area located in Sesto Calende (VA) for an amount of € 6,461 thousand and the value of plant in the Ospitaletto business unit for an amount of € 167 thousand. The value recorded reflects the price defined in the preliminary sales agreement.

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

12.14 Shareholders' Equity

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

Description	31 December 2017	31 December 2016
Share capital	100,000	100,000
Share premium reserve	164,510	164,510
Retained earnings	2,184,808	2,215,113
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	**2,498,587**	**2,528,892**
Non-controlling interest	**321,228**	**0**
Total Shareholders' equity	**2,819,815**	**2,528,892**

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

The change of € 290,923 thousand in shareholders' equity is due to:

- the increase of € 295,721 thousand in profit for the year attributable to owners of the parent;
- the recognition of minority interests for € 321,228 thousand, approximately equivalent to 32.5% of the equity contributed by Villata Partecipazioni Group in December 2017;
- negative effect of € 316,026 thousand as the difference between the price paid, based on an independent expert's valuation, and the corresponding portion of shareholders' equity of Villata Partecipazioni Group;
- the decrease of € 204 thousand for the direct recognition in equity of actuarial losses on employees' pension plans (TFR) net of the related tax effect;
- the recognition of a negative cash flow hedge reserve for € 6,796 million;
- the decrease of € 3,000 thousand for the distribution of dividends to the parent company Supermarkets Italiani S.p.A. in 2017.

12.15 Current and non-current financial payables

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

Description	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
Bonds	0	979,975	0	0
Finance lease and other payables	32,441	398,223	28,658	396,514
Interest expense accrued	1,236	0	0	0
Total	**33,677**	**1,378,198**	**28,658**	**396,514**

The breakdown of financial payables by maturity is shown below:

Description	31 December 2017	31 December 2016
Less than 1 year	33,677	28,658
Between 2 and 5 years	127,419	118,622
Over 5 years	1,250,779	277,892
Total financial payables	**1,411,875**	**425,172**

In 2017 the Group made finance lease payments (principal) of € 28,728 thousand (€ 28,149 thousand by Esselunga S.p.A. and € 579 thousand by La Villata S.p.A.); prior to the acquisition by the Group, La Villata S.p.A. had made lease payments (principal) of € 1,690 thousand.

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

The transaction details are provided below:

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

The principal of Tranche A and Tranche B will be repaid in full at maturity (respectively on 25 October 2023 and 25 October 2027).

The bonds are listed on the Luxembourg Stock Exchange.

The placement was addressed to institutional investors who submitted 711 orders for a total demand of approximately € 9.2 billion, more than 9 times the value of the offering, a record among Italian issues in 2017.

Given high demand from investors, Esselunga S.p.A. was able to significantly tighten the spread by 25/30bps compared to initial pre-placement price indications (IPTS) of 95/135bps on the *midswap*, setting it at 65/110 bps.These spreads were positioned at the 6-year BTP curve level and at -8bps compared to the 10-year BTP curve.

There are no guarantees or covenants in place in relation to the bonds.

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

Finance lease payables

In 2017, the weighted average rate of finance lease contracts was 3.17% compared to 3.01% in 2016. Floating-rate finance leases accounted for 24.3% of payables as at 31 December 2017.

The table below shows the reconciliation between the finance lease payable and the lease payments
outstanding at 31 December 2017 (amounts in thousands of euros):

Description	31 December 2017
Future lease payments until contract maturity	535,958
Implied interest	-107,692
Outstanding debt (principal)	**428,266**

12.16 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 2017 and 2016 are shown in the following table (amounts in thousands of euros):

Description	31 December 2017	31 December 2016
Balance at the beginning of the period	**106,751**	**103,568**
Interest cost	1,341	2,044
Payments and transfers	-7,683	-5,298
Actuarial gains / (losses)	285	5,174
Other movements	-418	1,263
Balance at the end of the period	**100,276**	**106,751**

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

	31 December	
	2017	2016
Financial Assumptions		
Inflation rate (annual)	1.5%	1.5%
Discount Rate (Annual)	1.3%	1.3%
TFR Annual rate of increase	2.6%	2.6%
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.	

12.17 Provisions for risks and charges

Movements in the provisions for risks and charges for the years ended 31 December 2017 and 2016 are shown in the table below (amounts in thousands of euros):

Description	31 December 2017	31 December 2016
Balance at the beginning of the year	**30,861**	**36,216**
Allocations	3,387	20,395
Uses / Releases	-8,985	-25,750
Change in the scope of consolidation	10	0
Reclassification	3,555	0
Balance at the end of the financial year	**28,828**	**30,861**

The provisions set aside refer to future charges and to the risks associated with various disputes pending as as at 31 December 2017.

The item uses / releases for the year ended 31 December 2017 mainly includes:

- a provision for risks set aside in previous years in relation to reclamation costs, which was released as the underlying reasons no longer apply (for an amount € 1,000 thousand);
- the use of funds for personnel costs (for an amount of € 3,101 thousand).

The item uses / releases for the year ended 31 December 2016 mainly includes:

- the use of the provision to cover the capital loss on the sale of the 25.04% stake in Grandi Magazzini e Supermercati Il Gigante S.p.A. on 27 May 2016 (for an amount of € 13,350 thousand);
- a tax provision set aside in previous years which was released as the underlying reasons no longer apply (for an amount of € 6,693 thousand).

12.18 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 statement of financial position date.
The movements in the item for the years ended 31 December 2017 and 2016, broken down by campaign, are shown in the following table (amounts in thousands of euros):

	Fìdaty	"20 anni Fidaty" competition	"Amici di scuola"	Christmas 2017	Total current amount	Fìdaty	Total not current
As of 1 January 2017	**32,333**	**0**	**0**	**0**	**32,333**	**60,043**	**60,043**
Bonus points earned	69,447	0	6,918	143	76,508	37,394	37,394
Use of bonus points	-42,487	0	0	0	-42,487	-22,881	-22,881
Reclassification between current and non-current items	27,709	0	0	0	27,709	-27,709	-27,709
As of 31 December 2017	**87,002**	**0**	**6,918**	**143**	**94,063**	**46,847**	**46,847**

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

12.19 Other payables and other non-current liabilities

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

Description	31 December 2017	31 December 2016
Security deposits	186	107
Total	**186**	**107**

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

12.20 Trade payables

As at 31 December 2017 the item amounted to € 1,286,194 thousand (€ 1,302,844 thousand as at 31 December 2016) and mainly included payables for the purchase of products for resale.

12.21 Current tax payables

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

Description	31 December 2017	31 December 2016
IRES tax payable to parent companies	0	390
IRES tax payable to the tax authorities	115	115
IRAP tax payable to the tax authorities	15	41
Total	**130**	**546**

IRES tax 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.

12.22 Other payables and other current liabilities

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

Description	31 December 2017	31 December 2016
Payables to employees and other staff	79,594	80,698
VAT payable to the tax authorities	87,915	87,670
IRPEF payable to the tax authorities	18,429	15,888
Other payables to the tax authorities:	4,590	9,449
Payables to social security institutions	56,415	59,996
Advances	4,631	5,513
Other payables	31,208	29,823
Accrued expenses and deferred income	2,358	3,096
Total	**285,140**	**292,133**

The item advances in 2017 only includes a deposit received in relation to preliminary agreements for the sale of an area located in Lombardy (in 2016 it also included a deposit for an area in Tuscany).

Other payables include commissions payable to credit institutions for use of electronic collections for € 2,160 thousand and amounts due for the sale of prepaid cards for € 20,395 thousand.

Accrued expenses and deferred income as at 31 December 2017 included € 1,653 thousand of lease payments invoiced but not related to the year and € 291 thousand of revenues on promotions already invoiced but not related to the year.

13. Notes to the consolidated statement of comprehensive income

13.1 Net Sales and Net Revenues

The breakdown of net sales and net revenues for the years 2017 and 2016 is as follows (amounts in thousands of euros):

Description	Financial Year 2017	Financial Year 2016	Difference
Total sales	7,753,761	7,540,009	213,752
Other sales adjustments:			
costs for the purchase of newspapers and phone cards and related services	-115,568	-122,855	7,287
Net (Deferral)/Recognition fair value prize-giving promotions	-44,156	90,585	-134,741
other minor adjustments	704	0	704
Total other sales adjustments	-159,020	-32,270	-126,750
Total net revenues	**7,594,741**	**7,507,739**	**87,002**

Total sales for the year 2017 increased by € 213,752 thousand compared to the previous year. The increase in percentage terms was 2.8%.

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 € 44,156 thousand for the year ended 31 December 2017 results from recognition in 2017 of € 69,737 thousand, as consideration for obligations to be considered settled when prizes are collected, and from deferral of considerations of € 113,893 thousand for future obligations. These considerations are measured based on the *fair value* of the prizes, as received by the end customer.
The change of € 134,741 thousand in terms of lower recognized revenues compared to the previous year was mainly attributable to the redemption of points of the Fidaty Catalogue that were used until May 2016 and the consequent recognition of revenues as a result of customers using accumulated points. By contrast, in April 2016, the new prize catalogue was opened with validity up to 30 April 2021, which initially generated a more limited impact in terms of revenue recognition as a result of initial accumulation of loyalty points.

These considerations are measured based on the *fair value* of the prizes, as received by the end customer.

Net revenues in 2017 increased by € 87,002 thousand compared to those in 2016, up by 1.2%.

13.2 Net costs for goods and raw materials

The net costs for goods and raw materials in 2017 amounted to € 5,247,543 thousand compared to € 5,137,791 thousand in 2016.
The breakdown of the item is as follows (amounts in thousands of euros):

Description	Financial Year 2017	Financial Year 2016	Difference
Costs for goods and raw materials	6,497,610	6,277,094	220,516
Promotional activities	-1,250,067	-1,139,303	-110,764
Total	**5,247,543**	**5,137,791**	**109,752**

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

13.3 Other revenues and income

The breakdown of the item Other revenues and income for the years 2017 and 2016 is as follows (amounts in thousands of euros):

Description	Financial Year 2017	Financial Year 2016	Difference
Rental income and recovery of common charges	8,607	7,194	1,413
Other sales	7,568	6,344	1,224
Rent of supports for the transport of perishable products	12,841	12,992	-151
Points charged that do not represent goods ("Fragola" points)	1,311	1,831	-520
Sale of customer profiling data	3,346	2,624	722
Capital gains on disposal	8,862	1,672	7,190
Insurance reimbursements and damages charged back	2,549	1,846	703
Recharge of costs for quality control analysis	615	604	11
Spreads and commissions	747	740	7
Other	5,446	5,524	-78
Total	**51,892**	**41,371**	**10,521**

The item miscellaneous sales of € 7,568 thousand in 2017 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.

13.4 Costs for services

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

Description	Financial Year 2017	Financial Year 2016
Transport, handling and parking	211,194	195,165
Rent expense	100,720	128,789
Common charges	8,992	9,602
Rentals	3,357	2,677
Utilities and data transmission expenses	100,886	104,666
Repairs and maintenance	88,487	85,886
Cleaning	43,988	42,359
Advertising and marketing	75,002	74,013
Internal and external processing of goods and products	22,770	21,957
Insurance	9,894	11,046
Other services	26,979	23,972
Bank collection fees	20,225	18,974
Consulting and professional services	17,773	17,426
Security, surveillance and transportation of valuables	20,425	20,075
Total	**750,692**	**756,607**

The costs for services decreased in absolute terms and amounted to 9.7% of total sales (10% in 2016).

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 in the retail sale business. The item costs for "rent" includes € 71,361 thousand vis à vis La Villata, the remaining € 29,359 thousand vis à vis third-party companies (of which € 26,494 thousand for guaranteed minimums).
The reduction compared to 2016 is due to the purchase of the controlling interest in Villata Partecipazioni S.p.A.

Advertising costs incurred for promotional and institutional campaigns were in line with the costs incurred in 2016.
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.

13.5 Personnel costs

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

Description	Financial Year 2017	Financial Year 2016
Wages and Salaries	689,970	683,823
Social security charges	199,795	199,825
Employee severance indemnity	44,585	43,717
Gifts to employees	1,184	8,623
Cost for temporary employees	3,401	2,850
Corporate welfare	1,555	0
Other personnel costs	0	5,211
Total	**940,490**	**944,049**

Personnel costs were driven up by the increase in the average workforce of about 350 employees and by the significant corporate welfare programme through which employees were able to take advantage of benefits for themselves and their families and to convert their performance bonus into services. Gifts to employees decreased compared to 2016; they were paid in 2017 although pertaining to the previous year.
The changes in the average workforce are shown in the table below:

Description	Financial Year 2017	Financial Year 2016
Managers	68	65
White-collars	15,253	15,071
Blue-collars	7,773	7,605
Total	**23,094**	**22,741**

13.6 Amortisation and depreciation

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

Description	Financial Year 2017	Financial Year 2016
Property, plant and equipment	203,976	177,146
Investment property	2,282	1,904
Intangible assets	20,657	19,572
Total	**226,915**	**198,622**

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 2017 and 2016.
The increase in amortisation of intangible assets is mainly attributable to the software that came into use in 2017 and 2016.

13.7 Provisions and write-downs

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

Description	Financial Year 2017	Financial Year 2016
Accruals to the provisions for risks and charges	225	-2,666
Write-downs of non-current assets	6,655	57,055
Accrual to the provision for doubtful receivables	12,808	2,023
Total	**19,688**	**56,412**

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.

13.8 Other operating costs

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

Description	Financial Year 2017	Financial Year 2016
Property, plant and equipment	2,612	2,120
Taxes related to prize-giving promotions	9,973	11,867
Municipal solid waste disposal fee - TARSU	10,313	10,698
Municipal Property Tax - IMU	15,744	12,677
Other taxes and duties	4,389	4,565
Rights, authorizations and concessions	1,252	1,770
Losses on receivables	87	593
Subscriptions, printing, etc.	586	578
Other operating costs	5,428	5,402
Total	**50,384**	**50,270**

Capital losses on property, plant and equipment in 2017 include the capital loss booked for the disposal of some of the new Ospitaletto logistic hub facilities.

13.9 Income from investments measured using the equity method

The item, amounting to € 3,449 thousand, refers to the portion attributable to owners of the parent of the net profit achieved by Villata Partecipazioni Group for the period between 27 June 2017 (date the 45% interest was acquired by Esselunga) and 20 September 2017 (day prior to the date on which the additional 22.5% interest was acquired by Esselunga S.p.A., thereby obtaining control).

13.10 Finance income

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

Description	Financial Year 2017	Financial Year 2016
Bank interest income	324	766
Interest income on loans	0	5
Income from equity investments	5	35
Foreign exchange gains	13	28
Other financial income	487	8
Total	**829**	**842**

Other finance income includes interest on tax collection notices and the recovery of interest on reimbursement requests of 10% Irap deductible for the years from 2004 to 2007. In 2016, they mainly included dividends on Esselunga S.p.A. minority holdings.

13.11 Finance expense

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

Description	Financial Year 2017	Financial Year 2016
Interest expense on finance lease contracts	12,609	13,410
Interest expense on bonds	3,238	0
Interest expense on Bridge financing	1,336	0
Other finance expenses	274	1,147
Other finance expenses vis à vis parent companies (use of credit lines)	64	0
Employee severance indemnity - discounting to PV	1,343	2,044
Interest expense on borrowings from banks	33	2
Foreign exchange losses	10	37
Total	**18,907**	**16,640**

The decrease in interest expense on finance leases is due to the net effect of the decrease in average debt and the increase in interest rates applied to the lease contracts from 3.01% in 2016 to an average of 3.17% in 2017.
Interest expense on bonds refers to the interest accrued in the year on the two Eurobonds placed on 18 October 2017 on the Luxembourg Stock Exchange.
Interest expense on Bridge loan includes interest expense on a loan granted by Citibank Europe plc, UK Branch ("Citibank"). Interest expense was calculated based on the period of actual use and is subject to a variable rate equal to the Euribor plus a *spread that* varies according to the term of the loan and Esselunga's credit *rating*.

The item Other finance expenses in the prior year mainly included interest related to a lawsuit of a Group company.

13.12 Income tax expense

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

Description	Financial Year 2017	Financial Year 2016
Current income taxes	55,603	104,005
Income from tax consolidation	-471	-880
Net deferred tax income (expense)	42,309	24,173
Total	**97,441**	**127,298**

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 2017	Year ended 31 December 2016
Applicable ordinary tax rate	28.05%	31.55%
Increases (decreases) compared to ordinary rate:		
- permanent differences	2.05%	2.55%
- different IRAP base	0.63%	1.09%
- effect of reduction in taxable A.C.E.	-1.50%	-3.89%
- IRAP deductibility for IRES purposes	-0.20%	0.00%
- income taxes of prior years	-3.98%	-0.11%
- extra depreciation and amortisation	-0.76%	-0.50%
-other changes	0.29%	1.99%
Actual tax rate	**24.58%**	**32.68%**

The effective tax charge for 2017 was 24.58% (32.68% in 2016) of the pre-tax profit, compared to the theoretical tax rate of 28.05% in FY2017 (31.55 % in 2016). The difference between the theoretical tax rate and the effective tax rate is mainly due to:

- **benefit attributable to ACE** (Aid to Economic Growth) for € 5,946 thousand (1.50%) in 2017 and € 15,155 thousand in 2016 (3.89%).
- **extra-depreciation and hyper-depreciation** that permit companies investing in capital goods to depreciate 140 and 250 percent of the asset cost respectively for tax purposes. This provision resulted in a benefit of € 3,020 thousand (0.76%) in 2017 and € 1,944 thousand in 2016 (0.50%);
- **permanent differences** that led to an increase in the tax burden of € 8,142 thousand and € 9,937 thousand respectively (2.05% change in 2017 and 2.55% change in 2016); they mainly refer to the non-deductible IMU tax (municipal property tax) (€ 4,755 thousand in 2017 and € 3,201 thousand in 2016), the withholding taxes on prize-giving competitions not charged back (€ 2,315 thousand in 2017 and € 1,751 thousand in 2016);
- **different IRAP tax bases**, that increased the tax expense for 2017 and 2016 respectively by € 2,503 thousand and € 4,261 thousand (0.63% change in 2017, 1.09% change in 2016).

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

The transactions carried out by the Group with related parties do not qualify as either atypical or unusual, fall within the Group's ordinary activities and are entered into at arm's length conditions.
Transactions with related parties in the years ended 31 December 2017 and 2016 mainly concerned:

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

The following tables show the statement of financial position amountsarising from transactions with related parties as at 31 December 2017 and 31 December 2016:

(thousands of Euros)	La Villata S.p.A.	Villata Partecipazione S.p.A.	Supermarkets Italiani S.p.A.	Dom 2000 S.p.A.	Centomilacandele S.c.p.a.	Board of Directors	Others	Total	Total balance sheet item
Other receivables and other non-current assets									
As of 31 December 2017	0	0	25,262	0	0	0	0	**25,262**	**96,282**
As of 31 December 2016	0	0	25,262	0	0	0	0	**25,262**	**76,839**
Trade receivables									
As of 31 December 2017	0	0	31	0	0	0	0	**31**	**447,087**
As of 31 December 2016	0	0	0	0	0	0	0	**0**	**429,558**
Other receivables and other current assets									
As of 31 December 2017	0	0	0	0	0	0	0	**0**	**37,588**
As of 31 December 2016	202	10	1,056	0	0	0	0	**1,268**	**53,189**
Current tax receivables									
As of 31 December 2017	0	0	58,255	0	0	0	0	**58,255**	**65,188**
As of 31 December 2016	0	0	16,402	0	0	0	0	**16,402**	**19,253**
Trade payables									
As of 31 December 2017	0	0	0	-2,644	-4,595	0	-486	**-7,725**	**1,286,194**
As of 31 December 2016	-26,308	0	0	-2,583	-4,999	0	-187	**-34,077**	**1,302,844**
Employee severance ondemnities (TFR) and other staff-related provisions									
As of 31 December 2017	0	0	0	0	0	-441	0	**-441**	**100,276**
As of 31 December 2016	0	0	0	0	0	-224	0	**-224**	**106,751**
Current tax payables									
As of 31 December 2017	0	0	0	0	0	0	0	**0**	**130**
As of 31 December 2016	0	0	-390	0	0	0	0	**-390**	**546**
Other payables and other current liabilities									
As of 31 December 2017	0	0	0	0	0	-596	0	**-596**	**285,140**
As of 31 December 2016	0	0	0	0	0	-4,576	0	**-4,576**	**292,133**

The following table shows the income statement amounts arising from transactions with related parties during the years ended 31 December 2017 and 31 December 2016:

(thousands of Euros)	La Villata S.p.A.	Villata Partecipazione S.p.A.	Supermarkets Italiani S.p.A.	Centomilacandele S.c.p.a.	Dom 2000 S.p.A.	Board of Directors	Others	Total	Total balance sheet item	As % of balance sheet item
Other revenues and income										
As of 31 December 2017	0	0	32	0	0	0	0	**32**	**51,892**	**0.06%**
As of 31 December 2016	812	32	0	0	0	0	0	**844**	**41,371**	**2.04%**
Costs for services										
As of 31 December 2017	0	0	0	-36,934	-15,809	0	-779	**-53,522**	**-750,692**	**7.13%**
As of 31 December 2016	-105,238	0	0	-40,509	-15,739	0	-1,084	**-162,570**	**-756,607**	**21.49%**
Personnel costs										
As of 31 December 2017	0	0	0	0	0	-8,971	0	**-8,971**	**-940,490**	**0.95%**
As of 31 December 2016	0	0	0	0	0	-9,719	0	**-9,719**	**-944,049**	**1.03%**
Other operating costs										
As of 31 December 2017	0	0	0	0	0	0	0	**0**	**-50,384**	**0.00%**
As of 31 December 2016	-51	0	0	0	0	0	0	**-51**	**-50,270**	**0.10%**
Finance income										
As of 31 December 2017	0	0	0	0	0	0	0	**0**	**829**	**0.00%**
As of 31 December 2016	0	0	0	0	0	0	0	**0**	**842**	**0.00%**

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

The costs for services to Dom 2000 S.p.A. refer to lease costs.

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

Transactions with related parties included in personnel costs refer to the directors' fees, including the remuneration paid to them for whatever reason and in any form. In addition to the fixed compensation set by the shareholders' meeting at the time of appointment (€ 505 thousand) and the fees awarded to directors with particular responsibilities pursuant to the third paragraph of article 2389 of the Italian Civil Code, the fees paid in 2017 also included € 4,164 thousand awarded to a former director under a settlement agreement and related arrangements.

These amounts include the provisions; therefore, their recognition in the financial statements is made regardless of actual payment.

On 21 September 2017, Esselunga acquired an additional 22.5% stake in Villata Partecipazioni from the majority shareholders, for a price of € 321.8 million.

The Parent Company is not subject to management and coordination.

15. Commitments, guarantees and contingent liabilities

15.1 Capex commitments

Commitments outstanding as at 31 December 2017 for capex amounted to € 88,374 thousand and were determined based on contracts and agreements entered into with the relevant local authorities net of capex already made at that date and liabilities already recorded in the financial statements.

15.2 Commitment for the purchase of goods

The Group did not enter into significant agreements for the future purchase of goods. Therefore, there are no commitments to this effect as at 31 December 2017 and 31 December 2016.

15.3 Lease commitments

As at 31 December 2017 and 2016, 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**
		2017
Sales network	Within 12 months	21,895
	From one to five years	76,447
	Over five years	325,941
Total		**424,283**
Warehouses	Within 12 months	4,612
	From one to five years	15,541
	Over five years	8,813
Total		**28,966**
Peripheral offices	Within 12 months	477
	From one to five years	1,791
	Over five years	2,554
Total		**4,822**
Grand Total		**458,071**

The commitments listed in the detail table were quantified on the basis of the contractual terms in effect on 31 December 2017, 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.

15.4 Commitments for long-term rental agreements

As at 31 December 2017, the Company had long-term rental agreements in force relating to the company car fleet for an amount of € 3,637 thousand.

15.5 Guarantees given

The guarantees given by the Esselunga Group amounted to € 88,616 thousand as at 31 December 2017, including bank guarantees of € 79,404 thousand and insurance guarantees of € 9,212 thousand.

15.6 Contingent liabilities and lawsuits

Nordiconad

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

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

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.

Coop proceedings regarding the publication of the book “Falce e carrello"

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 S.p.A.

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.

Coop Alliance 3.0 (formerly Coop Estense) and Mario Zucchelli notified two separate summons on 6 April 2017 by which they resumed proceedings before the Milan Court of Appeal. The next hearing is scheduled for 28 March 2018.

Coop Lombardia
By summons of 5 February 2016, Coop Lombardia filed a lawsuit before the Court of Milan against Esselunga S.p.A. 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.
The judge adjourned the case to 5 June 2018 for submission of the final statements. According to the opinion of the Company's legal advisers, the outcome of the dispute is highly unpredictable. In any case, following the court's recommendation that the parties explore a possible amicable settlement of the dispute, a settlement agreement is currently being defined.

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.
The next hearing is scheduled for 10 May 2018.

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

During the year ended 31 December 2017, no atypical and/or unusual transactions were carried out which, due to their nature, size, or effect, may affect the Group's assets, liabilities, equity, net result or cash flows.

17. Remuneration of the Board of Statutory Auditors

The fees paid to the Board of Statutory Auditors for the year ended 31 December 2017 amounted to € 113 thousand (€ 68 thousand in 2016).

18. Independent auditors' fees

Pursuant to the applicable laws, the total fees for the 2017 financial year for auditing services and for services other than auditing services rendered by the company PricewaterhouseCoopers S.p.A. and by other entities belonging to its network were as follows.

(in thousands of euro)	**Company that provided the services**	**Company that received the services**	**Total fees**
Independent auditing services (1)	PricewaterhouseCoopers SpA	Esselunga SpA Subsidiaries	722 133
Independent certification services (2)	PricewaterhouseCoopers SpA	Esselunga SpA	270
Services other than auditing (3)	PricewaterhouseCoopers SpA	Esselunga SpA	100
	Network PricewaterhouseCoopers	Esselunga SpA	275
			1,500

(1) the item "Independent auditing services" includes 204 thousands of euro paid for the review of the consolidated condensed half-year financial statements as of 30 June 2017 included in the Registration Document released for the listing of debt securities of Esselunga SpA in the Luxembourg Stock Exchange, successfully completed on 25 October 2017.

(2) the item "Independent certification services" includes amounts paid for certification services for the listing of debt securities of Esselunga SpA in the Luxembourg Stock Exchange, successfully completed on 25 October 2017.

(3) the item "Services other than auditing" includes amounts paid for services other than auditing mainly awarded before 25 October 2017, date of completion of the listing of debt securities of Esselunga SpA in the Luxembourg Stock Exchange (275 thousands of euros).

The Chairman
of the Board of Directors

(Avv. Prof. Vincenzo Mariconda)

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

Company name	Registered Office	Share capital	% holding	Line-by-line consolidation As of 31 December 2017	As of 31 December 2016	Notes
Esselunga S.p.A.	Milan	100,000		Yes	Yes	
Albria S.r.l.	Milan	16	100	Yes	Yes	
Atlantic S.r.l.	Milan	90	100	Yes	Yes	
Fidaty S.p.A.	Milan	600	100	Yes	Yes	
EsserBella S.p.A.	Milan	500	100	Yes	Yes	
Orofin S.p.A.	Milan	100,000	100	Yes	Yes	
Villata Partecipazioni SpA	Milan	48,000	67.5	Yes	No	acquired in 2017
La Villata S.p.A. Immobiliare di Investimento e Sviluppo	Milan	45,000	67.5	Yes	No	acquired in 2017
I.A.M. Immobiliare Alba Mediterranea S.r.l.	Rome	10	100	Yes	Yes	
Lanterna S.r.l.	Milan	10	100	Yes	Yes	
Magenta Due S.r.l.	Milan	10	100	Yes	Yes	
Fintrade S.r.l.	Voghera (PV)	10	100	No	Yes	Merged in 2017
Iridea Due S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Cedi S.r.l.	Como	10	100	No	Yes	Merged in 2017
Centro Alto Milanese S.r.l.	Milan	1,607	100	No	Yes	Merged in 2017
Pibiemme S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Commerciale Velo S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Concerto S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Innocenzo III S.r.l.	Novara	10	100	No	Yes	Merged in 2017
Pegaso 2011 S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Ponti S.r.l.	Milan	10	100	No	Yes	Merged in 2017
San Magno S.r.l.	Milan	10	100	No	Yes	Merged in 2017
Others				Yes	Yes	

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

Report of the Board of Statutory Auditors

Esselunga S.p.A. (Sole Shareholder)

Registered office in Milan, via Vittor Pisani 20

Share Capital € 100,000,000 fully paid up

Tax Code and Milan Register of Companies no. 01255720169

Milan R.E.A. no. 1063068

BOARD OF STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2017

To the sole shareholder,

The Board of Statutory Auditors has fulfilled the supervisory duties prescribed by art. 2403 of the Italian Civil Code and has drawn up this report pursuant to art. 2429 of the Italian Civil Code; the statutory audit of the accounts is performed by the Independent Auditors PricewaterhouseCoopers S.p.A.

During the financial year ended 31 December 2017 our activity was based on the statutory provisions in force and on the Code of Conduct of the Board of Statutory Auditors issued by the Italian National Board of Certified Accountants and Accounting Experts, in respect of which we carried out our self-assessment for each member of the Board of Statutory Auditors, with a successful outcome.

Supervisory activities pursuant to art. 2403 et seq. of the Italian Civil Code

During the year under review, we monitored compliance with the law and with the Articles of Association, as well as observance of the principles of proper administration.

Based on the information obtained from the company managers and during our periodic meetings with the Independent Auditors, we assessed and monitored the adequacy of the organizational structure, of the administrative and accounting system, and the reliability of such system in correctly representing the company's operations, and in this regard we have no special observations to make.

In 2017, the Board of Statutory Auditors met 9 times; the Board of Statutory Auditors also participated in all the Shareholders' Meetings and in the Board of Directors' meetings, which took place in compliance with the Articles of Association and with the legal provisions governing their functioning; it periodically received detailed information from the Directors regarding the progress of operations and their outlook; the Directors provided the Board of Statutory Auditors with

adequate information on the activities carried out and on the most significant transactions in terms of their effect on the company's financial position and earnings approved during the year.
Amongst the most significant transactions that took place in FY2017, which had an impact on the Group's organizational structure, we note the acquisition of the 67.5% stake in the company Villata Partecipazioni S.p.A. , as well as the issue of bonds listed on the Luxembourg Stock Exchange, consisting of two tranches of € 500 million each, with 6-year (25 October 2023) and 10-year (25 October 2027) maturity, respectively.

Based on findings from the activity performed during the financial year, the Board of Statutory Auditors can state that:

- the decisions taken by the Shareholders' Meeting and by the Board of Directors were compliant with the Law and with the Articles of Association and were not atypical, unusual, manifestly careless, risky, in potential conflict of interest or otherwise such as to jeopardize the integrity of corporate assets, also considering intragroup transactions;
- the management decisions made by the Directors appeared consistent with general economic rationality principles;
- the transactions carried out were also compliant with the Law and with the Articles of Association and were not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to jeopardize the integrity of the company's assets.

During the financial year, the Board of Statutory Auditors did not receive any reports pursuant to art. 2408 of the Italian Civil Code.
During the year the Board of Statutory Auditors issued the opinions envisaged by law.
During the supervisory activity, as described above, no significant circumstances were detected that need be mentioned in this report.
The Supervisory Board provided for by Legislative Decree 231/2001 regularly performed the activities under its responsibility, as evidenced by the periodic disclosures submitted to the attention of the Board of Directors and of the Board of Statutory Auditors, from which no critical issues emerged with respect to the Model in place, that need be mentioned in this report.

Observations regarding Esselunga Group's consolidated financial statements.

The Esselunga Group's consolidated financial statements for the year ended 31 December 2017 reported a consolidated net profit of €298,851 thousand; they comprise the Consolidated Statement of Financial Position, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Cash Flow Statement and the Report on Operations pursuant to art. 2428 of the Italian Civil Code, including the non-financial Statement drafted pursuant to Legislative Decree 254/2016.

The aforementioned documents were delivered to the Board of Statutory Auditors in due time for their subsequent filing at the Company's registered office, together with this report, within the time limits established by the Italian Civil Code.

In compliance with legal obligations, the Board of Statutory Auditors points out the following:

- on 7 April 2018, the Independent Auditors, which are responsible for the statutory audit of the accounts, issued the report drawn up pursuant to Legislative Decree no. 39 of 27/01/2010, in which they certify that the Esselunga Group's consolidated financial statements for the year ended 31 December 2017 provide a true and fair view of the Group's financial position and operating result for the year; in addition, the Independent Auditors' report contains an opinion on the consistency of the report on operations with the financial statements for the year;
- On 7 April 2018 the Independent Auditors sent the Board of Statutory Auditors the report required by art. 11 of EU Regulation 537/2014;
- by means of direct checks and information obtained from the Heads of the various functions, the Board of Statutory Auditors ascertained the general compliance of the financial statements with the applicable laws on their drafting and structure;
- the Board of Statutory Auditors was able to ascertain the general consistency of the financial statements with the information gathered, the documentation examined and the facts discovered during the periodic audits and the interviews carried out;
- the Board of Statutory Auditors acknowledges that the Report on Operations provides a truthful, balanced and comprehensive analysis of the corporate affairs.

Supervisory activities pursuant to the "Consolidated Law on the Statutory Audit of the Accounts".

Following Esselunga S.p.A. classification as Public Interest entity, , the Board of Statutory Auditors - pursuant to art. 19 of Legislative Decree 39/2010 - also takes on the role as "Committee for Internal Control and Statutory Audit of the Accounts", which is assigned the following supervisory duties:

- on the financial reporting process;
- on the effectiveness of the internal control, internal audit and risk management systems;
- on the statutory audit of the annual and consolidated accounts;
- on the independence of the Independent Auditors, with specific reference to the provision of

services other than the statutory audit of the accounts.

Supervision over financial reporting

The Board of Statutory Auditors ascertained that adequate procedures are in place to monitor the formation and disclosure of financial information. In particular, it received and examined the content of the procedures concerning the preparation of the company's financial statements.

It has also received confirmation that, based on the activity carried out as part of the statutory audit of the accounts, no significant deficiencies were detected in the internal control system in relation to the financial reporting process.

In this regard, the Board of Statutory Auditors issues an opinion that confirms the adequacy of the financial reporting process and believes that there are no findings to report to the Shareholders' Meeting.

Supervision on the effectiveness of the internal control, internal audit and risk management systems

In 2017, the Board of Statutory Auditors dealt with and coordinated its activity with the head of the new Internal Audit function, in order to obtain information on the Audit plan for FY2018, recently approved by the Board of Directors.

Supervision on the statutory audit of annual accounts

The supervision of audit activities referred to in Article 19 of Legislative Decree 39/2010 was conducted by the Board of Statutory Auditors as part of the meetings held with the appointed Independent Auditors, who illustrated the results of the audits performed, the audit strategy, as well as the material issues identified while performing their activity. No critical issues emerged from these meetings that could affect the Company's financial statements.

Supervisory activity on the independence of the Independent Auditors, with specific reference to the provision of non-audit services

The Board of Statutory Auditors supervised the independence of the Independent Auditors PricewaterhouseCoopers S.p.A., which Esselunga S.p.A. appointed in 2017 to carry out the statutory audit of the accounts for the nine-year period 2017-2025 pursuant to Legislative Decree 39/2010; in this regard, it is recalled that on 27 November 2017 the Board of Statutory Auditors, having verified satisfaction of the independence requirement, approved the appointment of the firm PricewaterhouseCoopers S.p.A. to perform a non-audit service consisting in a high-level analysis of the EU IFRS guidance, in support of the preparation of the financial statements for the year ended 31 December 2017.

The Board of Statutory Auditors received the annual independence confirmation letter from the Independent Auditors pursuant to art. 6, paragraph 2, a) of European Regulation 537/2014 and pursuant to paragraph 17 of ISA Italia 260.

Given the foregoing and also in view of the Independent Auditors' report prepared pursuant to art. 14 of Legislative Decree 39/2010, the Board of Statutory Auditors believes that the Group's consolidated financial statements for the year ended 31 December 2017 were drawn up in compliance with the current legislation and provide a fair view of the financial position and operating result for the year.

Milan, 7 April 2018

Board of Statutory Auditors

Enzo Moggio

Marco Sabella

Stefano Anghebcn

Independent Auditors' Report

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of Esselunga SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of ABC SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Measurement of real estate development projects and investment property *Note 12.1 "Property, plant and equipment" and note 12.2 "Investment property"* Real estate development projects primaly involve the construction of stores. Given the complexity of the applicable regulations and the timeframe needed to obtain approvals to build commercial properties, the completion of real estate development projects is a complex process that may last several years. Consequently, the Group may decide to dismiss certain ongoing development projects because it concludes they are too complex or too costly to complete, or it no longer considers them commercially strategic. In those circumstances, the components related to land and related development costs are reclassified in the line item 'Investment property' because they are held for rental income or for subsequent sale, and they are measured at cost. Also the area of land exceeding the portions occupied by the new stores is classified as 'Investment property'. On some of these areas the Group has built, or holds approvals to build, investment properties. The recoverable amount, which is the higher between the value in use and fair value, of certain of these assets that are not directly related to Group's operations could be lower than the cost incurred. The timeframe for obtaining construction approvals and the gradual contraction of the real estate market resulted in increased uncertainty about the ways of completion of projects and increased price volatility, with a consequent reduction of the number of comparable transactions that could be used for valuation purposes. This involves the need to make assumptions about the development of approval processes and future market developments, and the possibility that actual results may differ from estimates,	We examined and assessed the procedures adopted by the Group to measure real estate development projects and investment property; we understood and analysed the information flows between the Group and third party experts. We conducted our analysis also through detailed interviews of the personnel of the parent company Esselunga SpA involved in the measurement process and by examining the documentary evidence prepared by the Group and made available to the third party experts. We carried out analysis to ascertain the independence, competence, skills and objectivity of third party experts engaged by the Group, through critical discussions with them, and we analysed the contents of their contractual agreements with the Group. We selected a sample of real estate development projects and investment properties and we analysed the appraisals prepared by the experts engaged by the by the Group. When selecting the sample, we took into consideration materiality in terms of unit values, and the riskiness and complexity of the valuation, also taking into account the specific stage of development, the homogeneity of the estimated value to the carrying amount and the identification of impairment indicators, if any. We met and discussed with both the personnel of the parent company Esselunga SpA and third party experts engaged by the Group, to understand the criteria and valuation methods applied, and we performed a critical analysis of the methods and assumptions applied. We obtained the information and sources

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
which would entail adjustments, which could be significant, to the carrying amounts of financial statements line items. Investment property amounted to Euro 161 million as of 31 December 2017. Land held for real estate development projects where construction has not yet started amounted to Euro 185 million as of 31 December 2017 and is included in 'Property, plant and equipment'. A residual portion of this land could be used for construction of new investment properties. At least once a year, management of the parent company Esselunga SpA estimates the fair value of properties classified in 'Investment property' and of development projects that show indicators of risk, both for the purpose of impairment testing and to comply with the disclosure obligations of IFRS. The process of estimating the recoverable amount also includes the use of appraisals prepared by third party experts. Management's valuations include estimates, the most significant ones are applied rates to discount future cash flows, capitalisation rates, the rates of growth of rent and the selling prices of property. In relation to real estate development projects, other estimates involve development costs, risk premiums and the impact of specific circumstances, including regulatory matters, of the land being valued. Determining the recoverable amount of development projects and investment property was a key audit matter considering of the magnitude of the balances, the timeframe needed to obtain approvals to build, the gradual contraction of the real estate market and estimates by management, including the discount and capitalisation rates used in the related valuation models.	used by third party experts engaged by the Group and performed cross-checks, also comparing the technical information reported in the appraisals with the Group's technical information. With the support of independent experts engaged by us, whose competence, skills and objectivity we assessed, we retraced the valuations performed by the experts engaged by the Group. Specifically, we performed a comparative analysis with previous valuations, where available, we considered the assumptions adopted in the appraisals based on available external market data, and valuation best practice and we analysed the comparability and consistency of the valuations also with past and/or ongoing transactions, and in this case we analysed the related documentary evidence. For real estate development projects where construction has not yet started or is not complete we then also sought information about master plans of land use and about the existence of any litigation with local authorities.

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Trade agreements with suppliers *Note 13.2 "Net costs for goods and raw materials"* The Group has entered into trade agreements with suppliers under which it obtains volume rebates and allowances in exchange for promotional activities, such as for instance preferential product displays and distribution of advertising flyers in Group's stores. In accordance with IFRS, these allowances and rebates are recognised as a reduction of the purchase cost of the goods when the conditions for earning them, defined by the trade agreements with the individual suppliers, have been fulfilled at the reporting date. Allowances and rebates originating from promotional activities agreed with suppliers and recognised as a reduction of purchase costs for goods amounted to Euro 1.852 million for the year ended 31 December 2017 and are included among 'Costs for goods and raw materials'. The conditions for earning the allowances and rebates are dependant upont the type of trade agreement: - Volume rebates are granted when contractually agreed sales volumes targets are met; - Allowances in exchange for promotional activities may be granted on different terms depending on the nature and timing of the service provided. The allowance is defined on the basis of generally written agreements with suppliers that specify the amount and timing of the service. In certain instances the allowance is fixed or variable based on sales volumes. As part of our audit of the consolidated financial statements as of 31 December 2017, the analysis of rebates and allowances was a key audit matter due to the significance of the balance and its materiality relative to the Group's operating	We understood and assessed the procedures adopted by the Group to manage and account for trade agreements with suppliers. We conducted detailed interviews of the personnel involved in the process and examined the controls implemented by the Group. We carried out procedures to verify the actual existence and effectiveness of controls over the process that we considered relevant, also using the support of experts belonging to the PwC network, in order to verify: - The existence of trade agreements and/or written communications with suppliers and the correct application of contractual terms; - The correct inout of contractual terms in the software used by the Company to calculate the trade allowances earned at the reporting date; - Data in the software used to calculate the trade allowances earned at the reporting date matched those recorded in the general ledger; - The reconciliation of allowances and rebates calculated by the software to the data in the general ledger, and the periodical analysis and clearance of any reconciling items; - The correct matching of credit notes from suppliers recorded in the general ledger to the corresponding accruals calculated by the software; - The existence of documentary evidence supporting the promotional, marketing and advertising activities performed in the reporting period; - The amount of goods purchased, used as the basis for the calculation of volume rebates and promotional allowances by the Company, by obtaining written confirmations from individual suppliers. This audit procedure was performed for the Company's main suppliers. Furthermore, we obtained the trade

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
profit, and in consideration of the number and complexity of agreements with suppliers and the number of "out-of contract" allowances/rebates, typical of the Group's business, agreed during the year.	agreements for a sample of suppliers and performed the following auditing procedures: - We met the procurement managers to obtain an appropriate understanding of certain contractual provisions; - We verified that received allowances were accurate and recorded in the correct period, in accordance with the accrual basis of accounting, by checking volume rebates earned and the documentary evidence supporting allowances recognised for promotional campaigns and marketing and advertising activities performed by the Group. For a sample of credit notes from suppliers that were received after the reporting date, we verified the existence and accuracy of the accruals posted by the Group in accordance with the accrual basis of accounting. For a sample of transactions included in invoices to be issued for services rendered by the Group we verified that the invoice had actually been issued for an amount corresponding to the related accrual and, if already collected, that the invoice had actually been collected or offset against the balance payable to the supplier. For a sample of accruals posted in the previous year's consolidated financial statements we verified that they had been closed correctly with receipt of the credit note from the supplier.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Esselunga SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 26 September 2017, the shareholders of Esselunga SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

Management of Esselunga SpA is responsible for preparing a report on operations of the Esselunga Group as of 31 December 2017, including its consistency with the relevant consolidated financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of the Esselunga Group as of 31 December 2017 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

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In our opinion, the report on operations mentioned above is consistent with the consolidated financia statements of Esselunga SpA as of 31 December 2017 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of Esselunga SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 7 April 2018

PricewaterhouseCoopers SpA

Signed by

Andrea Rizzardi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Company information

Giuliana Albera Caprotti	Honorary President

Board of Directors

Vincenzo Mariconda	Chairman
Marina Sylvia Caprotti	Vice Chairman
Carlo Salza	Chief Executive Office
Carlo Gualdi	Director
Francesco Moncada	Director
Stefano Tronconi	Director
Gabriele Villa	Director

Board of Statutory Auditors

Enzo Moggio	Chairman
Stefano Angheben	Regular Auditor
Marco Sabella	Regular Auditor
Franco Chesani	Alternate Auditor
Claudio Clementel	Alternate Auditor

Independent auditors

PricewaterhouseCoopers S.p.A.

Supervisory Body

Alessandro Cortesi	Chairman
Alberto Gaudio	Member
PierMario Barzaghi	Member