Esselunga Group Financial Statements
Financial Year 2018

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 2018 of Esselunga S.p.A. (hereinafter also the "Parent Company"), prepared in compliance with the EU IFRS, reported a consolidated net profit of € 276.2 million compared to a net profit of € 298.8 million in 2017.

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 2018, 158 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio. In addition, the Group manages 93 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, Orofin S.p.A., which manages the majority of the real estate development projects, Atlantic Srl, EsserBella S.p.A. and Fìdaty S.p.A..

In 2018 the following stores were opened: Pistoia Porta Nuova (with simultaneous closure of the Viale Matteotti store), Vimercate (with simultaneous closure of the existing one) and Milano Famagosta. The Verona Corso Milano store was opened again after full renovation and expansion.

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 2018.

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

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

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 2018 and summary of operating performance

- **In 2018 GDP growth was 0.9%** (source:ISTAT).

- **The inflation rate was 1.2%** (Source: ISTAT).

- **Sales grew by 2.1% to € 7,914 million**. The reference market trend was negative.

- **Sales inflation** was nil.

- **Supplier inflation** was 1.4%. The increases in the price lists were therefore entirely absorbed and were not transferred to Customers.

- **Custormers received discounts for almost € 1.5 billion**, up by approximately 90 million on 2017.

- **The e-commerce continued to grow**, recording sales in excess of € 236 million (+28.3% on 2017).The Company is also expanding the range of products offered through "Drive stores" (**Clicca e vai**).

- **The company retained its leadership in terms of value for money** (sales prices) with 3 percentage points below market average (Source NRPS Nielsen, Trading Area).

- **In 2018 the following stores were opened: Pistoia Porta Nuova** (with simultaneous closure of the Viale Matteotti store), **Vimercate** (with simultaneous closure of the existing one) and **Milano Famagosta**. The **Verona Corso Milano** store was opened again after full renovation and expansion.

- **Capital expenditures** were € 320 million.

- **The average workforce was 23,560 people**, an increase of 451 on 2017.

- **Net debt** was € 435.7 million (it was € 847.5 million as at 31 December 2017).

On June 5, the rating agency Standard & Poor's confirmed Esselunga's rating as BBB-, stable outlook.

On October 23rd, the rating agency Moody's reviewed the outlook from negative to stable and confirmed the long-term rating of Esselunga at Baa2.
After exercising the right to purchase 30% of the Parent Company shares on 11 January 2019, the Board of independent Arbitrators are operating to calculate the purchase price.
Please note that after exercising the right to purchase had been communicated, on 15 January Standard & Poor's placed the Esselunga rating on negative watch and on 17 January Moody's placed the Esselunga rating under observation for a possible downgrade.
The process is expected to be finalised on the second half of 2019.

Adjusted income statement results

For a more uniform and meaningful comparison of performance in the two financial years, an adjusted income statement is shown below which incorporates some appropriate adjustments.

The adjusted income statement is shown below (amounts in millions of euros):

Income Statement	Financial Year 2018		Financial Year 2017	
	Amounts	%	Amounts	%
TOTAL SALES	**7,913.9**	**+2.1**	**7,753.8**	
Sales Adjustments	-170.8		-149.4	
NET REVENUE	**7,743.1**		**7,604.4**	
Net costs for goods and raw materials	-5,355.6		-5,247.5	
Other operating costs and other revenues	-705.2		-768.5	
ADDED VALUE	**1,682.3**	**21.3%**	**1,588.4**	**20.5%**
Personnel costs	-972.1	-12.3%	-940.5	-12.1%
GROSS OPERATING MARGIN	**710.2**	**9.0%**	**647.9**	**8.4%**
Amortisation and depreciation	-265.9		-226.9	
Write-downs	-21.1		-6.7	
Capital gains/losses on non current assets	-0.3		6.3	
OPERATING PROFIT	**422.9**	**5.3%**	**420.6**	**5.4%**
Net financial expense	-31.7		-18.1	
Income from investments accounted for using the equity met	0.0		3.4	
PROFIT BEFORE TAXES	**391.2**	**4.9%**	**405.9**	**5.2%**
Income taxes	-104.6		-100.1	
NET PROFIT FOR THE YEAR	**286.6**	**3.6%**	**305.8**	**3.9%**

These adjustments have an impact on EBITDA, on the operating and pre-tax profit t, neutralizing the effects of the fair value measurement of the prize-giving promotions for € 14.5 million in FY2018 and for € 9.7 million in FY2017.

Group sales in 2018 grew by 2.1% despite a negative market environment characterized by a drop in consumption especially in the second half of the year. Growth was achieved without increasing shelf prices despite an increase in costs by our suppliers. As a result Esselunga:

1. retained her leadership position in terms of value for money which it was achieved with over three percentage points below market average (Source NRPS Nielsen in our Trading Area);
2. continued to invest in promotional activities through which, in 2018, we were able to offer customers a discount of almost € 1,500 million, an increase of almost € 90 million compared to 2017. The average discount impact has now exceeded 16% of total sales.

In line with the trend of recent years, the large-scale retailing market was also affected by the competition of *Discount Stores* and by new purchasing patterns which combined with the drop in consumption experienced during the year. Suffice it to say that in the vicinity of our stores, around 60 discount stores were opened by competitors thereby affecting the performance of our stores.Considering the ever-increasing impact of Discount stores and the change in the range of products offered by some stores (fresh and very fresh products, brand name, etc), the comparison limited to solely "HYPER" + SUPER" may not be fully representative. In the *Trading Area* this contracted by 1.2%. If we expand the scope to include Discounts stores, Superettes and Drugstores, the aggregate records a -0.5% fall in the Trading Area (Source: Nielsen).

Adjusted EBITDA was € 710.2 million (9%) up compared to € 647.9 million (8.4%) in 2017. Growth was achieved despite a significant increase in labour costs due mainly to the effects of the signing of the National Collective Labour Agreement. EBITDA benefited from the consolidation of La Villata Immobiliare, formerly Villata Partecipazioni, which led to lower rents paid.

The **adjusted Operating Profit** came to € 422.9 million (5.3%) and was in line with € 420.6 million in FY2017 (5.4%) despite increased amortization and depreciation charges, in part due to the acquisition of La Villata Immobiliare (€ 265.9 million from € 226.9 million in 2017) and the higher write-downs and capital losses on fixed assets (€ 21.4 million compared to € 0.4 million).

Net **finance expense** amounted to approximately € 32 million (€ 18.1 million in 2017). The change of € 13 million compared to the previous year is attributable to the charges relating to the two bonds issued in October 2017 for the purchase of the majority stake in La Villata Immobiliare, previously Villata Partecipazioni.

Finally, the adjusted net profit decreased from € 305.8 million (3.9%) to € 286.6 million (3.6%) both due to the higher financial costs associated with the acquisition of La Villata Immobiliare and because FY2017 had benefited from lower taxes relating to previous years in part due to the application of EU IFRS in Esselunga's separate financial statements.

Non-Adjusted income statement results

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

Income Statement	Financial Year 2018		Financial Year 2017	
	Amounts	%	Amounts	%
TOTAL SALES	**7,913.9**	**+2.1**	**7,753.8**	
Sales Adjustments	-185.3		-159.1	
NET REVENUE	**7,728.6**		**7,594.7**	
Net costs for goods and raw materials	-5,355.6		-5,247.5	
Other operating costs and other revenues	-705.2		-768.5	
ADDED VALUE	**1,667.8**	**21.1%**	**1,578.7**	**20.4%**
Personnel costs	-972.1	-12.3%	-940.5	-12.1%
GROSS OPERATING MARGIN	**695.7**	**8.8%**	**638.2**	**8.2%**
Amortisation and depreciation	-265.9		-226.9	
Write-downs	-21.1		-6.7	
Capital gains/losses on non current assets	-0.3		6.3	
OPERATING PROFIT	**408.4**	**5.2%**	**410.9**	**5.3%**
Net financial expense	-31.7		-18.1	
Income from investments accounted for using the equity met	0.0		3.4	
PROFIT BEFORE TAXES	**376.7**	**4.8%**	**396.2**	**5.1%**
Income taxes	-100.5		-97.4	
NET PROFIT FOR THE YEAR	**276.2**	**3.5%**	**298.8**	**3.9%**
Net profit for the year attributable to non-controlling interest	12.8		3.1	

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 2018	As of 31 December 2017	Change
Property, plant and equipment	4,258.4	4,226.7	31.7
Intangible assets	166.4	165.0	1.4
Goodwill	6.6	6.6	0.0
Other non-current assets and liabilities	140.5	161.6	-21.1
Working capital	-902.1	-763.5	-138.6
NET INVESTED CAPITAL	**3,669.8**	**3,796.4**	**-126.6**
Shareholders' Equity	3,097.3	2,819.8	277.5
Provision for employee severance indemnity (T.F.R.) and provisions for risks and charges	136.8	129.1	7.7
Net debt	435.7	847.5	-411.8
TOTAL SOURCES OF FUNDS	**3,669.8**	**3,796.4**	**-126.6**

Capex reached € 319.5 million in 2018, of which € 290.4 million in property, plant and equipment, € 28.1 million in software and commercial licenses, € 1 million for other real estate investments.

In 2018, the start of development activities for some projects was postponed due longer than expected administrative procedures and consequent non-issuance of the necessary permits.

Property, plant and equipment

The change of € 31.7 million refers to:

- Capex of € 290.4 million;
- Disposals of € 15.6 million;
- Depreciation for the year of € 240.2 million;
- assets obtained from the acquisition of a real estate company for € 13 million;
- Write-downs of € 0.7 million;
- and for the difference to reclassifications.

Capex of € 290.4 million comprises:

- € 110.9 million for the set up of new stores opened in 2018: Vimercate (MB), Pistoia Porta Nuova, Milano Viale Famagosta and the renovation of the Verona, Corso Milano store.
- € 49.5 million for the purchase, modernisation and maintenance of the logistic hubs and the headquarters;
- € 48.9 million for the modernisation and maintenance of existing stores;
- € 81.1 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 € 28.1 million, amortisation for the year for € 22.6 million and reclassifications for the difference. Additions essentially refer to the purchase of software for the improvement of the Group's IT infrastructure.

Other non-current assets and liabilities

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

Description	**As of 31 December 2018**	**As of 31 December 2017**	**Change**
Investment property	169.1	161.7	7.4
Equity investments	0.1	0.2	-0.1
Deferred tax liabilities net of deferred tax assets	-42.3	-49.6	7.3
Deferred revenue for prize-giving promotions (non-current portion)	-61.4	-46.8	-14.6
Other non-current assets (liabilities)	75.0	96.1	-21.1
TOTAL	**140.5**	**161.6**	**-21.1**

The item investment property refers to land or buildings that are not intended for use in the Group's ordinary activities. The item includes investments for € 1 million, increases of € 10.1 million as a result of the acquisition of a real estate company, depreciation of € 3 million and net write-downs of € 20.4 million. Moreover, the item decreased by € 6.6 million following disposals and increased by € 26.3 million following the reclassification of some properties from property, plant and equipment and from assets held for sale, the latter due to the expiry of a preliminary sales contract.

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

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 deductibility rules for tax depreciation purposes compared to those recognised for in the income statement.

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 2018 mainly refers to tax receivables (VAT) for € 42.9 million, to receivables related to an IRES refund application filed by the parent company Supermarkets Italiani S.p.A. for € 25.3 million;please note that, on 2 May 2019, that receivable was transferred without recourse to a primary bank and collected.

Working capital

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

Description	As of 31 December 2018	As of 31 December 2017	Change
Closing inventories	423.7	409.2	14.5
Trade receivables	418.7	383.6	35.1
Tax receivables	11.0	72.7	-61.7
Other receivables	26.4	30.0	-3.6
Assets held for sale	0.0	6.6	-6.6
Trade payables	-1,341.7	-1,286.2	-55.5
Tax payables	-25.3	-0.1	-25.2
Current deferred revenue for prize-giving promotions	-129.4	-94.2	-35.2
Current tax payables	-105.6	-110.9	5.3
Current payables to social security institutions	-60.0	-56.4	-3.6
Payables to employees	-81.4	-79.6	-1.8
Other current liabilities	-38.5	-38.2	-0.3
TOTAL	**-902.1**	**-763.5**	**-138.6**

The increase in final inventories compared to December 2017 (€ 14.5 million) is attributable to new stores and confirms the Group's ability to manage and optimise the logistics for re-ordering.

Tax receivables decreased mainly as a result of the use in the year of the IRES receivable accured in the previous year

The assets held for sale in 2017 mainly referred to the selling value of an area for which a preliminary contract had already been signed. In 2018 the value of this area was reclassified to investment property.

Current tax payables mainly refer to payables to the tax authorities for VAT (€ 84.2 million) and for IRPEF (personal income taxes) (€ 17.5 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 mainly to the "Bergamo" catalogue launched in May 2016.

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

Shareholders' Equity

The change of € 277.5 million in shareholders' equity is due to:

- the increase of € 276.2 million in profit for the year attributable to owners of the parent;
- the increase of € 0.3 million for the direct recognition in equity of actuarial gains on employees' pension plans (TFR) net of the related tax effect;

- the increase of € 1 million due to the reclassification of the negative cash flow hedge reserve to losses for the period;
- the recording of a reserve of € 4.1 million following the effects of the simplified retrospective application of IFRS 15 on revenues, on the opening balances as at 1 January 2018 (for more details, see "Note 4 - First application of new accounting standards" of the Group's consolidated financial statements).
- the decrease of € 4 million for the distribution of dividends to the parent company Supermarkets Italiani SpA in 2018.

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

The provisions for employee severance indemnity decreased by € 5.7 million for payments made in the year and increased by € 0.9 million in application of IAS 19.

Provisions for risks and charges increase by € 12.5 million for allocations of € 15.6 million and use for € 3.1 million.

Net debt

The net debt was € 435.7 million, an improvement of € 411.8 million from 31 December 2017.

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	**31 December 2018**	**31 December 2017**
Cash flow from operating activities	735.5	659.8
Cash flow used in investing activities	-287.9	-1,409.5
Cash flow used in financing activities	-29.4	-24.8
Dividends distributed	-4.0	-3.0
Taxation	-2.4	-106.1
Change in the scope of consolidation	0.0	91.6
TOTAL NET CASH FLOW FOR THE YEAR	**411.8**	**-792.0**
NET DEBT AT BEGINNING OF PERIOD	**-847.5**	**-55.5**
TOTAL NET CASH FLOW FOR THE YEAR	**411.8**	**-792.0**
NET DEBT AT END OF PERIOD	**-435.7**	**-847.5**
Cash and cash equivalents	882.3	490.8
Receivables from Fidaty Oro payment card users	61.5	63.5
Current and non-current financial receivables	0.0	10.0
Corporate bond	-982.9	-980.0
Current and non-current financial payables (leases)	-396.6	-431.8
NET DEBT	**-435.7**	**-847.5**

The **strong cash generation** is due to various factors including the improvement in operational management, the postponement of some capital expenditures (as previously described) and the lower payment of taxes due to excess advances paid in 2017.

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

Description	31 December 2018				
	Less than 1 year	Between 1 and	Between 2 and	Over 5 years	Total
Bonds	0.0	0.0	-491.5	-491.4	-982.9
Current and non-current financial payables (leases)	-33.7	-34.1	-88.0	-240.8	-396.6
TOTAL FINANCIAL PAYABLES	**-33.7**	**-34.1**	**-579.5**	**-732.2**	**-1,379.5**

Financial ratios

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

Description	Year ended 31 December 2018	Year ended 31 December 2017
Operating profit	408.4	410.9
Invested capital (average)	6,311.7	5,451.3
ROI	**6.5%**	**7.5%**

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

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

Description	Year ended 31 December 2018	Year ended 31 December 2017
Net debt	435.7	847.5
EBITDA	695.7	638.2
Leverage	**0.63**	**1.33**
EBITDA	695.7	638.2
Net financial expense	31.7	18.1
Coverage	**21.95**	**35.26**

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. It should be noted that the impact of financial charges relating to the purchase of La Villata Immobiliare S.p.A. (previously Villata Partecipazioni S.p.A.) on FY 2017 only affected six months.

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 2017, no significant changes have occurred in the Group's risk profile or in the procedures adopted by the Group's management to manage the risks to which the Group is exposed.

The main risk categories are described below.

Credit risk

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

The Group's maximum exposure to credit risk as at 31 December 2018 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 2018	31 December 2017	Change
Other receivables and other non-current financial assets	75.7	107.5	-31.8
Trade receivables	482.8	447.6	35.2
Current tax receivables	1.6	65.2	-63.6
Other receivables and other current financial assets	42.8	42.5	0.3
Total gross amount	602.9	662.8	-59.9
Provision for doubtful receivables	-8.8	-16.5	7.7
Total	**594.1**	**646.3**	**-52.2**

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.

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 financial 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 2018 by category and by number of days past due (amounts in millions of euros):

Description	31 December 2018					
	Not yet due	Days past due				
		0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current financial assets	75.1	0.0	0.0	0.0	0.5	75.6
Trade receivables	400.2	1.9	46.2	21.0	13.5	482.8
Current tax receivables	1.6	0.0	0.0	0.0	0.0	1.6
Other receivables and other current financial assets	36.8	0.2	0.0	0.0	5.8	42.8
Total gross amount	513.7	2.1	46.2	21.0	19.8	602.8
Provision for doubtful receivables	0.0	0.0	0.0	0.0	-8.8	-8.8
Total net amount	**513.7**	**2.1**	**46.2**	**21.0**	**11.0**	**594.0**

As shown in the table above, receivables overdue 31 December 2018 amounted to € 89.1 million, while the allowance for doubtful receivables was estimated at € 8.8 million.

Liquidity risk

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

Liquidity risk is centrally managed by the Group, which conducts periodic monitoring of the financial position through appropriate forecast and actual cash flow reporting.
Through its centralised Treasury, the Parent Company manages the liquidity of its subsidiaries to optimise cash flows. There are no *cash pooling* agreements in place.
Moreover, on 3 August 2017, Esselunga entered into three agreements with three Italian banks for three non revocable credit lines for a total amount of € 300 million, expiring after 5 years. As at 31 December 2018 the above credit lines had not been used.

The following table provides a breakdown of liabilities by maturity as at 31 December 2018. Maturity ranges are determined based on the period between the reporting date and the contractual maturity of the obligations including accrued interest at 31 December. Interest has been calculated according to the contractual terms of the loans (amounts in millions of euros):

Description	31 December 2018				
	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)	45.7	45.7	116.5	281.6	489.5
Corporate bond	13.8	13.8	541.3	537.4	1,106.3
Other payables and other non-current liabilities	0.0	0.0	0.0	0.2	0.2
Trade payables	1,341.7	0.0	0.0	0.0	1,341.7
Current tax payables	26.4	0.0	0.0	0.0	26.4
Other payables and other current liabilities	285.5	0.0	0.0	0.0	285.5
Total	**1,713.1**	**59.5**	**657.8**	**819.2**	**3,249.6**

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 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 6.8% of total debt as at 31 December 2018.
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 2018 and 31 December 2017 is shown in the following table (amounts in millions of euros):

Description	**31 December 2018**	**31 December 2017**
Cash and cash equivalents	882.3	500.8
Receivables from Fìdaty Oro payment card users	61.5	63.5
Financial payables (current and non-current)	-1,379.5	-1,411.8
Net debt	**-435.7**	**-847.5**
Shareholders' equity	**3,097.3**	**2,819.8**
Net invested capital	**3,533.0**	**3,667.3**
Net debt to net invested capital ratio (Gearing ratio)	**-12.3%**	**-23.1%**

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 2018 shows that net invested capital is 87.7% financed by own funds, much better than 2017. This indicates the Group's strong capital structure and high solvency level.

Management of business risks

Regulatory risk

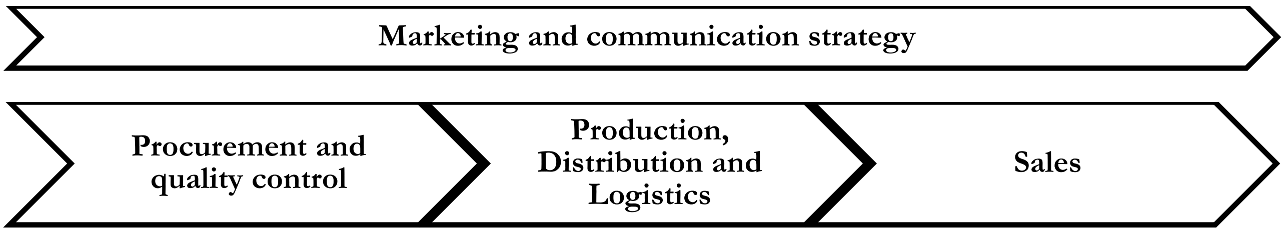
Regulatory risk consists of bureaucratic delays in obtaining permits for the opening of new stores or the expansion of existing ones. This essentially translates into lack of sales revenue while capital expenditures have already been made.

Risk for product quality

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

Esselunga Group Business model

The Group's business model is 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;
- **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 in 2013 (*Made in Parma - Food Valley)* that identifies all the products made in the heart of the *Italian Food Valley*, inspired by a constant search for excellence, careful selection of raw materials and the location of the production site.

The Esselunga Top line combines superior quality products that use top quality raw materials with traditional and artisanal processing methods. The Esselunga Equilibrio line is dedicated to nutritional and health balance through a wide range of products.

To provide our customers with a product that is unique for its fragrance and freshness, but at the same time with uniform quality standards across all geographic areas, in 2016 we launched the centralised production of fresh pastries. To this end, a special department was set up at the Limito di Pioltello (MI) facility, supported by the advice of a well-known group with specific expertise in this field. To date, 35 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 Bisenzio (FI), via delle Cicogne 7 Parma, via della Cooperazione 25/A

Sales network
The Group's sales network consists of 158 Esselunga stores, 38 EsserBella perfume shops and 93 Atlantic bars.

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

Sales network	Geographic area	Number
Esselunga Stores	Lombardy	95
	Tuscany	28
	Piedmont	17
	Emilia Romagna	12
	Veneto	3
	Liguria	1
	Lazio	2
Total		**158**
EsserBella perfume ships	Lombardy	24
	Tuscany	7
	Emilia Romagna	4
	Piedmont	3
Total		**38**
Bar Atlantic	Lombardy	55
	Piedmont	14
	Tuscany	11
	Emilia Romagna	8
	Lazio	2
	Liguria	1
	Veneto	2
Total		**93**

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;
b) did not purchase treasury shares or shares of parent companies in 2018, 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 2018 and 2017 took place at arm's length and mainly concerned:

- business relations mainly concerning administrative services and leases;
- financial relations;
- 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, including a set of rules, tools and practices that are designed to establish within the Company an effective organisational and management system to identify and prevent the offences envisaged by the Decree.
The Code of Ethics is an integral part of the Model and sets out the general principles and the specific rules that must be complied with by all those who act in the name and on behalf of the Company.
Esselunga Model establishes control measures that are implemented in the relevant corporate procedures.

By resolution dated 11 September 2018 Esselunga updated its Organisation, Management and Control Model, by updating the General Section as a result of the incorporation into the Decree of "Provisions for the protection of whistleblowers reporting crimes or irregularities which they have come to know as part of a public or private employment relationship" ("*whistleblowing*"); the Special Parts were also updated following changes in the company's organizational structure and activities.

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 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. and Atlantic S.r.l. have updated their Organization, Management and Control Models on 6 September 2018 while La Villata Immobiliare S.p.A. on 28 June 2018.
An Extract of the Models and the Code of Ethics of the Companies is published on the Esselunga institutional website, in the Company - Organisational Model section.

Internal control system and Management of Risk Factors

In 2018, the main task of the Internal Audit Department was assessment of the Internal Control System and Management of Risk Factors. Audits conducted led to assessments and recommendations on operations and the total control systems, highlighting possible areas for improvement.
As at 31 December 2018, the Internal Audit department had 7 resources.
Internal Audit also performs supervisory activities for the Supervisory Bodies appointed by Esselunga and by the other group Companies pursuant to Legislative Decree 231/2001.
During the year, audits were conducted on operations and processes, compliance and integrated (conducted combining the previous types).
At the date of this Report, no circumstances emerged from the audits that could imply that the Internal Control System and Risk Management as a whole were not adequate, even considering actions in progress.

Other information

<u>Nordiconad</u>
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.
After the hearing for clarification of the conclusions, the case was postponed to 21 January 2020. 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.

2018 Consolidated non-financial report

Contents

1. Methodological note

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 market disclosure of the Esselunga Group Consolidated Non-Financial Report (henceforth also "NFR"). This 2018 NFR has been drafted pursuant to Italian Legislative Decree 2454/2016. The reporting standard used is the "*GRI Sustainability Reporting Standards*[1]", Core option[2], published by the Global Reporting Initiative in 2016 (henceforth also "GRI"). 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.

1.2 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" or "Esselunga" 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].

1.3 Reporting process

The Esselunga Group's NFR for 2018 was drafted using a reporting process that involved all company departments in charge of the areas covered by the Report. They were asked to identify and assess the material topics, projects and the most significant initiatives to be included in the Report in accordance with GRI provisions, and to collect, analyse and consolidate data, with the task of verifying and validating the information contained in the Report.
The data and information included in the Report derive from the collection and reporting on non-financial data such as to meet the requirements of Italian Legislative Decree 254/2016 and the GRI Standards.

2. GRI content index

GRI Standard	Indicator	Page	Notes (comments and omissions)
GRI 101: Foundation 2017			
GRI 102: General Disclosure			
GRI 102	102 - 1 Name of the Organization	Pages 1, 23	Ref. "Introductory letter" and "1.2 Scope"
General	102 - 2 Activities, main brands, products and / or services	Page 15	Ref. "Esselunga Group Business model"

[1] The precise reference to the Standards used in the reporting is shown within the GRI Content Index reported at the end of the Report; furthermore the references to the Standards are reported as footnotes and 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. This NFR refers to the period from 1 January 2018 to 31 December 2018 and constitutes the second reporting year pursuant to Italian Legislative Decree 254/2016. Since a structured reporting of non-financial information was not in place in previous years, a comparison with the information relating to previous years is not available.

GRI Standard	Indicator	Page	Notes (comments and omissions)
Disclosure - Organization profile		Page 17	Ref. "Research and development and private label"
	102 - 3 Location of headquarters	Page 17	Ref. "Offices and sales network"
	102 - 4 Number of countries in which the organization has operations	-	Italy
	102 - 5 Ownership and legal form	-	The Esselunga Group is 100% controlled by Supermarkets Italiani; the Parent Company is not subject to management and coordination.
	102 - 6 Markets served (including breakdown by geographical areas, sectors, types of customers and beneficiaries)	Page 1 Page 17	Ref. "Introductory letter" Ref. "Offices and sales network"
	102 - 7 Size of the organization	Pages 3-4	Ref. "Macroeconomic scenario in 2018 and summary of operating performance"
	102 - 8 Information on employees and other workers	Page 43-45	Ref. "6.3.1. Workforce"
	102 - 9 Description of the supply chain	Page 50	Chapter "7. Social aspect - Responsible supply chain management"
	102 - 10 Significant changes during the reporting period	Pages 1- 4	Ref. "Introductory letter" and Ref. "Macroeconomic scenario in 2018 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 35- 37	Ref. "3.5 Management and Control Systems and main risks"
	102 - 12 Endorsement of external codes of conduct, principles or initiatives	Page 30-31 Pages 37 - 38 Page 43	Ref. "3.4.1 Policies in the CSR area" Ref. "4.1 Policy implemented by the organisation" Ref. "More favourable Company Collective Bargaining Agreement adopted than the national collective bargaining agreement (CCNL)"
	102 - 13 Membership in national and/or international trade associations	-	Unlike other Italian retail groups, Esselunga has no purchasing centres. The Group only holds Governance positions 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	Ref. "Introductory letter"
	102 - 15 Key impacts and risks	Pages 12 - 15 Pages 35 - 37 Pages 38 Pages 40 Pages 42-43 Page 51-52 Pages 54-55 Page 61	Ref. "Financial risk management" Ref. "3.5 Management and Control Systems and main risks" Ref. "4.2 Fight against corruption- Main risks and opportunities"; Ref. "5.2 Human Rights - main risks and opportunities"; Ref. "6.2 The Esselunga Group's people - main risks and opportunities"; Ref. "7.2 Customer care - Main risks and opportunities" Ref. "7.5 Supply chain - main risks and opportunities"; Ref. "8.2 Environment - main risks and opportunities";
GRI 102 General Disclosure - Ethics and Integrity	102 - 16 Values, principles, standards and rules of conduct	Page 30	Ref. "3.4 Policies and objectives in the Corporate Social Responsibility area (CSR)"
GRI 102 General disclosure - Governance	102 - 18 Corporate governance structure	Page 147	Ref. "Company information"
GRI 102 General disclosure - stakeholder engagement	102 - 40 List of stakeholder groups engaged by the organization	Pages 28–29	Ref. "3.2 Stakeholders: identification and engagement"
	102 - 41 Collective bargaining agreements	Page 49	Ref. "6.3.4 Collective agreements, parental leave and operational changes"
	102 - 42 Process of identification and selection of stakeholders to be involved	Pages 28–29	Ref. "3.2 Stakeholders: identification and engagement"
	102 - 43 Approach to stakeholder engagement, specifying frequency by type of activity and stakeholder group	Pages 28–29	Ref. "3.2 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. "3.3 Materiality"
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 130	Ref. "Annex 1 - List of companies included in the scope of consolidation"
	102 - 46 Defining report content and topic boundaries	Page 23	Ref. "1. Methodological note"
	102 - 47 List of material topics in defining the NFR content	Pages 29–30	Ref. "3.3 Materiality"
	102 - 48 Explanation of the effects of any restatements of information given in previous financial statements and reasons for such restatements	-	There are no significant changes compared to the financial statements published in 2017.
	102 - 49 Significant changes compared to the previous reporting period		
	102 - 50 Reporting period	Page 23	Ref. "1. Methodological note"
	102 - 51 Date of publication of the most recent report	Page 23	Ref. "1. Methodological note"
	102 - 52 Reporting cycle	Page 23	Ref. "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 23	Ref. "1. Methodological note"
	102 - 55 GRI Index	Pages 23–27	Ref. "2. GRI content index "
	102 - 56 External Assurance	Pages 66-69	Ref. "9 Letter of Audit Firm "
201 - Economic Performance			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Page 71	Ref. "Consolidated statement of financial position"
	201 - 1 Direct economic value generated and distributed	Page 73	Ref. "Consolidated statement of comprehensive income"
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: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 37 - 39	Ref. "4. Fight against corruption"

GRI Standard	Indicator	Page	Notes (comments and omissions)
GRI 205 - Specific disclosure	205 - 1 Percentage and total number of areas / departments / processes / activities assessed on risks related to corruption	Page 38	Ref. "4.2 Fight against corruption - Main risks and opportunities";
	205 - 2 - Communication and training on policies and procedures to prevent and combat corruption	Page 39	Rif. "4.3 Fight against corruption – management procedures and KPI"
	205 - 3 Confirmed corruption incidents and corrective actions taken	Page 39	Rif. "4.3 Fight against corruption – management procedures and KPI"
GRI 206: Anti - competitive behaviour - this topic is not considered material by the Group			
301 - Materials			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60-65	Ref. "8. Environment"
GRI 301 - Materials	301 - 1 Materials used by weight and volume broken down by renewable and non-renewable	Pages 62-64	Ref. "8.3.2 Consumption of materials"
302 - Energy			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60-65	Ref. "8. Environment"
GRI 302 - Energy	302 - 1 Consumption of fuel, electricity and thermal energy for offices and facilities broken down between renewable / non-renewable sources	Page 62	Ref. "8.3.1 Energy consumption"
	302 - 2 Indirect energy consumption	Page 62	Ref. "8.3.1 Energy consumption"
	302 - 4 Reduction of energy consumption obtained through specific activities and initiatives (e.g. photovoltaic systems, heater replacement, etc.)	Page 62	Ref. "8.3.1 Energy consumption"
303 - Water Resources			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60–65	Ref. "8. Environment"
GRI 303 - Water resources	303 - 1 Water withdrawals for offices and buildings	Page 64-65	Ref. "8.3.4 Management of waste and water resources"
GRI 304 - Biodiversity - this topic is not considered material by the Group			
GRI 305 - Emissions			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60-65	Ref. "8. Environment"
GRI 305 - Emissions	305 - 1 Emissions generated by the consumption of fuel for offices and facilities (scope1) + for company cars	Page 64	Ref. "8.3.3 Atmospheric emissions"
	305 - 2 Emissions generated by the consumption of electricity and thermal energy for offices and facilities (scope2)	Page 64	Ref. "8.3.3 Atmospheric emissions"
	305 - 5 Reduction of emissions as a direct consequence of specific activities and initiatives (such as installation of photovoltaic systems, etc.)	Page 64	Ref. "8.3.3 Atmospheric emissions"
GRI 306 - Discharges and Waste			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60-65	Ref. "8. Environment"
GRI 306 - Waste	306 - 2 Waste produced by type and disposal methods (paper and technological waste, pulping, annexes, etc.)	Page 64-65	Ref. "8.3.4 Management of waste and water resources"
GRI 307 - Compliance with environmental regulations			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 60-65	Ref. "8. 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 2018 Esselunga received no significant environmental sanction
GRI 308 - Environmental management of suppliers			
GRI 308 - Environmental management of suppliers	308 - 1 Suppliers screened using environmental criteria	Pages 54-55	Ref. "7.5 Supply chain - main risks and opportunities"
GRI 400 – Employment			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 41-50	Ref. "6. 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).	Page 43	Ref. "6.3.1. Workforce"
	401 - 2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by main activities	Page 46-47	Ref. "6.3.3 Remuneration and benefits"
	401 - 3 Return to work and retention rate following parental leave	Pages 47-48	Ref. "6.3.4 Collective agreements, parental leave and operational changes"
402 - Labour/ management relations			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 41-50	Ref. "6. 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 47	Ref. "6.3.4 Collective agreements, parental leave and operational changes"
403 - Workers' health and safety			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 41-50	Ref. "6. 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	Page 49	There are no Group health and safety committees where occupational safety programmes are shared, but, as described, the organizational system adopted by Esselunga is consistent with all the

GRI Standard	Indicator	Page	Notes (comments and omissions)
	safety programs.		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.	Pages 48-55	Ref. "6.3.5 Health and Safety at Work"
404 - Training and education			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 41-50	Ref. "6. The Esselunga Group's people"
GRI 404 - Training and education	404 - 1 Average annual training hours per employee, by gender and category	Page 45	Ref. "6.3.2 Training activities"
405 - Diversity and equal opportunities			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 41-50	Ref. "6. The Esselunga Group's people"
GRI 405 - Diversity and equal opportunities	405 - 1 Diversity of governing bodies and employees	Pages 43-45	Ref. "6.3.1. Workforce" Diversity of governing bodies: following assessments by the Company, the issue of gender diversity of the Governing and Control Bodies has not been considered at this time.
406 - Non-discrimination			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. Respect for human rights"
GRI 406 - Non-discrimination	406 - 1 Confirmed incidents of discrimination and corrective actions taken	Page 41	Ref. "5.3 Human rights – Management procedures and KPI"
407 - Freedom of association and collective bargaining			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. 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 41	Ref. "5.3 Human rights – Management procedures and KPI"
408 - Child labour			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. 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 41	Ref. "5.3 Human rights – Management procedures and KPI"
GRI 409 - Forced or compulsory labour			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. Respect for human rights"
GRI 409 - Forced labor	409 - 1 Operations at significant risk for incidents of forced or compulsory labour and measures taken to contribute to their abolition	Page 41	Ref. "5.3 Human rights – Management procedures and KPI"
410 - Security practices			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. Respect for human rights"
GRI 410 - Security 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 41	Ref. "5.3 Human rights – Management procedures and KPI"
GR 411 - Rights of indigenous peoples - this topic is not considered material as all the Group companies operate in Italy only			
412 - Human Rights assessment			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41	Ref. "5. Respect for human rights"
GRI 412 - Human rights assessment	412 - 3 Percentage and total number of significant contracts and investments that include human rights clauses or are subject to human rights screening	Page 54-55	Ref. "7.5 Supply chain - main risks and opportunities"
GRI 413 - Local communities - this theme is not considered material by the Group			
414 - Social assessment of suppliers			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 39-41 Pages 50-59	Ref. "5. Respect for human rights" Ref. "7. Social aspect - Responsible supply chain management"
GRI 414 - Assessment of local suppliers	414 - 1 Percentage of new suppliers that have been assessed according to human rights and social criteria	Page 40 Page 54 Page 55	Ref. "5.2 Human Rights - main risks and opportunities"; Ref. "7.5 Supply chain - main risks and opportunities" Ref. "7.6 Supply chain - management procedures and KPI"
415 - Public policy			
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 year of reference
416 - Customer Health and safety			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 50-59	Ref. "7. Social aspect - Responsible supply chain management"
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)	Page 52	Ref. "7.3 Customer care - Management procedures and KPI"
417 - Marketing and labelling			
GRI 103: 2018	103 - 1; 103 - 2; 103 – 3	Pages 50-59	Ref. "7. Social aspect - Responsible supply chain management"

GRI Standard	Indicator	Page	Notes (comments and omissions)
management approach			
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	Page 52	Ref. "7.3 Customer care - Management procedures and KPI" Please note that on 13/12/2018 the Guardia di Finanza (Italian Tax Police) sized 49 Bluetooth headsets at the Florence point of sale, SBS TWS Light Earphones model, sold by the company SBS Spa, present at the point of sale and reproducing the model called "AirPods", as well as its case. On 19/12/2018 the seizure was validated. The alleged offence is that of "Introduction into the State and trade in products bearing false signs" governed by art. 474 Italian Criminal Code. This offence falls within the crimes provided for by article 25-bis.1 and article 25-bis, f-bis) of Italian Legislative Decree no. 231/2001, included in the Decree by article 15, paragraph 7, (b) and (a), 2), of Law no. 99, intended to fight commercial and industrial frauds and counterfeiting of industrial property rights.
	417 - 3 Total number of incidents of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship		
418 - Customer privacy			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 50-59	Ref. "7. Social aspect - Responsible supply chain management"
GRI 418 - Customer privacy	418 - 1 Number of documented complaints regarding privacy breaches and loss of consumer data	Page 51	Ref. "7.2 Customer care - Main risks and opportunities"
419 - Compliance with socio-economic standards			
GRI 103: 2018 management approach	103 - 1; 103 - 2; 103 – 3	Pages 50-59	Ref. "7. Social aspect - Responsible supply chain management"
GRI 419 - Socio-economic compliance	419 - 1 Monetary value of significant penalties for non-compliance with laws or regulations, products and services	Page 55	Ref. "7.6 Supply chain - Management procedures and KPI"

Esselunga KPI			
Innovation	Innovation within the Esselunga Group	Pages 27-28	Ref. "3.1 Esselunga Group - Innovation and creation of sustainable value over time"
Customers	Number of complaints received during the year	Page 55	Ref. "7.3 Customer care - Management procedures and KPI"

3. Introduction

3.1 Esselunga Group - Innovation and creation of sustainable value over time

Since it was founded in 1957 by Bernardo Caprotti and Nelson Rockefeller - the Esselunga Group has always considered **innovation** as one of its main drivers of development and value creation, from both an economic and social standpoint, a belief it has shared over time with its main *stakeholders*.

Over time Esselunga has addressed the theme of innovation in all its facets: **product, assortment, store architecture, purchase methods, production and distribution channels, logistics and communication**, as described below:

1957	Opening of the first international style supermarket in Italy.
1980	Introduction for the first time in Italy of the barcode reader at the cash register, marking a revolution in the management of the store and products.
1987	First automated warehouse in Pioltello (just outside Milan).
1995	Birth of the brand "*Esselunga per chi ama la natura*", a product line to clean the house, whose origin of the surfactants is renewable because vegetable.
1996	*Naturama* is a line of fresh products like fruits, vegetables, meat, chicken and fish, that are controlled in every time of their preparation, following strict Esselunga's rules governing the supply chain and traceability.
1999	Esselunga creates its first line of organic farming products branded Esselunga.
2001	Esselunga creates its grocery e-commerce website "*Esselunga a casa*".
2005	Collaboration with *Banco Alimentare* to donate food surpluses to those in need.
2007	Fish processing plant in Biandrate (Piedmont, North Western Italy), among the largest fresh fish processing plants in Italy (20.000 mq).
2013	Opening of the new plant in Parma (Emilia Romagna, North Italy) for the production of pasta and launch of the Made in Parma brand.
2014	Through the "*Amici di Scuola*" association, Esselunga donated educational tools for a value of over € 67 million to 13,000 Italian schools.
2016	Adoption, implementation and obtaining of the certification of compliance with the requirements of the UNI EN ISO 14001: 2015 standard of the Environmental Management System (EMS).
2018	• Launch of the E-Commerce service to reach new customers in areas not covered by Esselunga stores (Livorno and Roma); • Donation the unsold bread, produced in the 129 bakeries inside Esselunga stores; • Creation of a coworking space inside the new Famagosta store's Bar Atlantic.

3.2 *Stakeholders*: identification and engagement

For Esselunga, **innovating means improving the customer's everyday life by offering high quality services and products at competitive prices through a superior purchasing experience.** In the daily pursuit of this goal, Esselunga applies its Business Model which has enabled it to adapt to the sweeping changes occurred in the regulatory, production, technological and customer consumption framework, and which rests on its openness to, and close contact with the social, environmental and economic context in which the Group is rooted.

Our ongoing dialogue and communication with all stakeholders (*stakeholder engagement*) is exemplified by the following table which summarizes how Esselunga implements stakeholder engagement.

Categories of stakeholders[4]	How we listen and engage[5]
Customers	Presence of structured and widespread Customer Relationship Management (CRM) systems ranging from the single point of sale to online platforms. Market surveys on *food design* issues.
Suppliers	Collaborations and cooperation with the Sales and Product Development and Quality Management Departments (development of new products and concepts, food safety audits, qualification processes). *One-to-one* meetings and launch of *Life Cycle Assessment* initiatives with Esselunga brand suppliers.
Bondholders	Management of requests through the *Investor Relations* function.
Personnel	Dialogue and dedicated meetings with specific functions within Human Resources and HSE and Relations with Trade Associations. *Employee engagement* surveys ("*Pulsetip*"). Setting up the *Whistleblowing* system.
Trade unions and trade associations	
Public administration	Presence of specific procedures and control protocols defined by the Organisation, Management and Control Model adopted by the Group and by Group Companies pursuant to Italian Legislative Decree 231/01 and which involves, based on the specific requests and the entity, both the senior and other levels of *management* according to the various specializations and skills.

During the year the Group launched **3 major listening and engagement initiatives**:

— **employee engagement survey** for personnel on issues of organizational well-being, welfare, communication and innovation (so-called "*Pulsetip*")[6];

— organization of training events aimed at understanding how **personnel** perceive environmental sustainability issues[7], through the launch of **joint LCA projects** with **suppliers of Esselunga brand products**[8];

— **customer engagement *surveys*** in collaboration with the Cattolica University of Piacenza Food Marketing faculty aimed at gathering information on how the Esselunga Brand *food design* and environmental sustainability topics are perceived by the consumers.

3.3 Materiality

In 2018, in keeping with the previous reporting year, the process of identifying and prioritizing material issues was conducted internally and externally including through the three initiatives described in the previous paragraph.

Based in part on the results of these initiatives, according to a precautionary and regulatory-compliant approach, the Departments involved in *stakeholder engagement* activities confirmed the following 15 material issues for 2018[9]:

[4]GRI No. 102 - 40 List of Group Stakeholders.
[5] 102 - 43 Approach to stakeholder engagement activities, specifying frequency by type of activity and stakeholder group
[6]For details see the *Policy implemented by the organization* paragraph
[7]For details see the *"Training activities"* paragraph
[8]For details see the *"Supply chain - Management procedures and KPI"* paragraph

Scope of Legislative Decree 254/2016	Material issue
Fight against corruption	1) Fight against active and passive corruption
Human rights	2) Protection and promotion of Human Rights
Personnel Management	3) Employees' working conditions and social dialogue 4) Diversity and equal opportunities 5) Employee health and safety
Social aspects	6) Customer Satisfaction 7) Consumer Health and Safety 8) Responsible marketing 9) Responsible supply chain
Environment	10) Energy consumption 11) Waste management 12) Emissions management 13) Water consumption management 14) Packaging life cycle
Other aspects	15) Product innovation

Esselunga is aware that dialogue with all the *stakeholders* is essential for our awareness of how the Group and its strategies are perceived by the stakeholders, especially in the CSR sphere; for this reason, we are committed to continue or implement listening and dialogue initiatives in 2019.[10]

3.4 Policies and objectives in the *Corporate Social Responsibility area* (CSR)

3.4.1 Policies in the CSR area[11]

In 2018 the internal process of formalizing the **Sustainability Policy** was completed; the policy was notified to personnel, including through the company intranet, and is available for anyone upon request. The policy addresses four main areas and is also intended for all parties who engage in direct and indirect relationships with Esselunga.

[9] The approval of material topics by the Board of Directors took place concurrently with the approval of this NFR.
[10] GRI No.102 - 44 - Key issues and critical issues emerging from stakeholder engagement activities
[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.

The following figure summarizes the main contents and aspects of the policy

Esselunga Group Sustainability Policy

Corruption & Community	Human rights	Supply chain	Environment
Ethics and responsibility: fight against corruption and help to the	**Human rights, diversity, inclusion and equal opportunities**	**Responsible supply chain management**	**Environment**
- No tolerance for actions directly or indirectly linked to active or passive corruption. - Adoption of the Organisation, Management and Control Model (MOGC) in line with the provisions of Italian Legislative Decree 231/2001 for the management of company activities. - Development of a self-assessment and authorization system for receiving and making gifts. - Development of control systems and safeguards in the supplier qualification process. - Support to local communities through sourcing an increasing share of *Made in Italy* products, the enhancement of small local and regional players, sponsorships and solidarity initiatives.	- Commitment by everyone to respect, protect and promote rights. - Preventing child or forced labour in any form as well as the exploitation of any situtaion of need or of physical or psychological inferiority. - Protecting everyone's safety and health in their workplaces. - Development of a positive work environment, in which wages and benefits, work hours, freedom of association and ethical standards are ensured. - Zero tolerance for discrimination of any kind. - Enhancement of diversity, considered as a company advantage and a key strength of human capital.	- Promotion of all forms of collaboration, based on the principles of integrity, fairness and transparency. - Development of a careful and rigorous procurement policy, designed to create value for customers and suppliers. - Prohibition of Dutch auctions and guarantee of fair payment conditions. - Adoption of special policies for animal welfare in both the fish, fresh and transformed, and meat supply chain. - Offering customers high quality and safe products, ensuring traceability and transparency.	- Respect for the environment, combating climate change and sustainable development are considered as strategic factors to be preserved. - Effective management of energy and resources. - Direct commitment - as of the planning and implementation stage of activities - to preventing and reducing our environmental footprint. - Improvement of environmental performance by defining measurable objectives and related KPIs. - Incentive to the proactive participation of all personnel in the system improvement process.

3.4.2 CSR objectives

In 2015, 193 UN member countries approved **the Global Agenda for Sustainable Development**. The programme consists of 17 common sustainable development goals - the Sustainable Development Goals (or SDGs) - and 169 different targets to be reached by the year 2030. This agenda aims to motivate and encourage all member countries, their economic operators and individuals to play an active part in the sustainable development of the planet.

On the basis of these assumptions, in 2018 Esselunga launched a **first initiative aimed at planning a number of CSR goals that are part of the SDGs,** with a view to also understand the Group's actual contribution to the Italian economic and social environment, while thus laying the foundations for the continuous self-improvement of its own *performance*. More specifically, some of the main identified objectives and implemented initiatives are presented below:

FIGHTING HUNGER

Incorporating ethical and social aspects into our strategic objectives in order to contribute to reducing hunger, ensuring food security and promoting sustainable agriculture

1,165 tonnes of goods donated in 2018

ACTIVITIES CARRIED OUT IN 2018:

- Initiatives to combat food waste through collaboration with the Food Bank since 2005 and the implementation of the new project on unsold bread from Esselunga ovens.
- Supporting the development of local economies (*Made in Italy and small local operators*).
- Launch of supplier Protocol analysis to verify suppliers' commitment in ESG matters (e.g. fight against illegal employment, actions in the animal welfare field).

PROMOTING HEALTH AND WELL-BEING
Ensuring health and well-being for all and for all ages

in 2018 we listened to the opinion of 4,800 employees on organizational well-being, welfare and innovation issues

ACTIVITIES CARRIED OUT IN 2018:

- *Employee engagement* initiative (*Pulsetip*).
- Implementation of prevention and protection measures on an ongoing basis in order to ensure top health and safety standards and minimize occupational risks.
- Strengthening of welfare instruments, by expanding dedicated agreements and services made available to Esselunga employees, according to international benchmarks.
- Commitment in work-life balance, with the introduction of flexible working hours and a reduction of working hours to 37.5 hours per week, and in the health area, by supplementing remuneration up to 100% in the event of illness or accident and paid leave for medical examinations.
- 105 product lines that respond to the need to promote a healthy lifestyle.
- 21 "*gluten free*" product lines created for customers with specific dietary needs, all certified with the Spiga Barrata brand of the Italian Celiac Association and refundable by the NHS.

INCLUSION, EDUCATION AND CHILDHOOD
Promoting inclusive education and fair and quality learning opportunities

13,000 schools benefiting from the "Amici di Scuola" project

ACTIVITIES CARRIED OUT IN 2018:

- Increasing focus on young graduates and young professionals through the *Internship program*.
- *Push to Open* programme to offer vocational guidance to Esselunga employees' children.
- Intercultura Project, which provides Esselunga employees' children with 15 full scholarships for periods of study abroad 2,300 people involved in the "Insieme per capire" (Together we can understand) activity, in collaboration with the Corriere della Sera Foundation, in order to provide young people with the opportunity to expand their knowledge of history and current affairs through the experience shared by experts and journalists.
- Kids Park, an outdoor event of *educational engagement* addressed to school-age children and their parents.
- "Spazio gioco" (Play area) project, created in collaboration with the Associazione L'Abilità Onlus, which provides innovative services and projects for children with disabilities and their families.
- Donations to contribute to the "Giocando si impara" (learning by playing) initiative promoted by the Italian Organisation for the Fight against Muscular Dystrophy (UILDM) Onlus to equip some Italian parks with rides that are also accessible to children with disabilities.
- School-work exchange commitment, through collaboration and partnership with higher secondary schools, professional training centres, private institutes and training bodies, to meet young students interested in working with us after graduating and to concretely contribute to the training of future specialists, promoting their growth in our organisation.
- In 2018, 463,662 training hours were provided to 24.5 thousand employees.
- 2,022 people joined the workforce in 2018

RESPONSIBLE PRODUCTION AND CONSUMPTION
Ensuring sustainable production and consumption patterns

-700 t of non recyclable material compared to 2017

ACTIVITIES CARRIED OUT IN 2018:
- Conversion of ready meal packaging from virgin plastic material to 50% recycled.
- Identification of packaging materials for organic fruit and vegetables that are at the same time more environmentally friendly and equally comparable to conventional ones both in the production and marketing stages.
- Launch of *Life Cycle Assessment* studies on private label products including analysis of packaging.
- Continual recovery of polystyrene through recycling plants.

RENEWABLE AND ACCESSIBLE ENERGY
Ensuring balanced and sustainable energy supply designed to fight climate change

ACT FOR THE CLIMATE
Promote actions, at all levels, to fight climate change

31 photovoltaic plants in 2018

ACTIVITIES CARRIED OUT IN 2018:
- Constant commitment to energy efficiency in lighting systems inside retail outlets (lighting rescheduling and dimming, LED Relighting).
- Constant commitment to managing photovoltaic, cogeneration and solar thermal systems.
- Installation of electric car charger columns in all new stores.

LIFE UNDERWATER
Preserve and use oceans, seas and marine resources in a lasting way for sustainable growth

The "Sustainable Fish" brand is created

ACTIONS TAKEN IN 2018: to check the fish species
- Constant commitment to choose national productions with special attention for local fishing produce with the brands "Fish from the Tirreno" and "Tuscan Fish".
- Constant attention for water quality and the care of fish in fish breeding areas.
- Constant commitment and protection of the Sea through fishing in ways that do not harm dolphins, turtles and other sensitive marine species.
- Constant controls of DNA to check fish species.

On the basis of these and further initiatives, a correlation matrix was developed for the various CSR activities in which Esselunga has invested and which it considers crucial for its sustainable development:

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
High product quality and **food safety**			●					●	●			●					●
Responsible, traceable and transparent **supply chain**			●					●				●		●	●		●
Development of **organic, healthy** and **animal-welfare-oriented** products			●	●				●				●	●	●	●		●
Insights and development of innovative initiatives for the reduction of ***food waste***	●	●										●	●				
Support to the community through solidarity activities (sponsorships, donations, fundraising)	●	●	●	●							●					●	●
Promotion and development of **employee** health and well-being	●		●	●				●									
Promotion and support of **diversity and inclusion**					●					●	●					●	
Protection and promotion of **human rights**	●				●			●		●	●					●	
Careful **energy and material consumption and careful waste and emissions production**						●	●		●		●	●	●				
Culture and Innovation **to support the Group and the community**				●				●			●					●	●

3.5 Management and Control Systems and main risks[12]

The following section shows how management models and control measures contribute to the prevention and mitigation of the main risks associated with the areas covered by the Decree:

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

Fight against corruption

Potential risks:

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

Main control measures:

- There is a Code of Ethics and Conduct and a Sustainability Policy in place that set out the principles and policies for fighting corruption.
- Adoption by the Company of a 231/01 Organisation, management and control model which defines control standards in the field of active and passive corruption.
- Supplier selection and setting out of contractual restrictions, and monitoring of supplier activities.
- Transparency and traceability of transactions.
- Rules regulating the giving/ receipt of gifts.
- Rules regulating personnel selection and development processes.
- Internal communication and training activities in this field.

Human rights

Potential risks:

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

Main control measures:

- There is a Code of Ethics and Conduct and a Sustainability Policy in place that establish the principles and policies on the matter and a 231/01 Organisation, management and control model setting out control standards for the defence of fundamental rights.
- Specific control measures (HR manager) for constant field monitoring.
- Adoption of an ISO 45001/OHSAS 18001 management system and launch of level 2 audits on contractors in the logistics field.
- Raising awareness on issues regarding the defence of Human Rights.
- Top Employers certification.

Personnel

Potential risks:

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

Main control measures:

- There is a Code of Ethics and Conduct and a Sustainability Policy in place that establish the principles and policies on the matter and a 231/01 Organisation, management and control model setting out OSH control standards.
- Adoption of an ISO 45001/OHSAS 18001 management system and integrated organizational controls (HSE and Human Resources Department) dedicated to the management and monitoring of personnel issues.
- Periodic updates of the Risk Assessment Documents of Group companies and constant adoption of specific PPE.
- Adoption of work layouts aimed at reducing or eliminating OSH risks and development of specific ergonomic projects for optimal load handling.
- Periodic assessment and monitoring of legislative compliance with new OSH and labour laws.
- Adoption of personnel management, remuneration and development policies.
- Top Employers certification.

Social aspects - Customers

Potential risks:

- Inadequate complaint handling with repercussions on the Group's reputation and decline in market appeal.
- False information and news on media and social networks.
- Changes in customers' social and economic conditions.

Main control measures:

- Set up of a specific organizational control and of a process for the timely and adequate handling of all complaints according to a multi-channel approach (website, app, call centre, emails)
- Listening to stakeholders through different platforms.
- Consolidation of the Privacy Management Model in accordance with GDPR 679/16.
- FSSC 22000 certification in the Health and Food Safety field.

Social aspects – supply chain

Potential risks:

- Inadequacy of suppliers from a technical - professional and ethical standpoint(e.g. food counterfeiting).

Main control measures:

- Adoption by the Company of a 231/01 Organisation, management and control model which defines control standards for the prevention of market fraud
- Adoption of a qualification process that attests the ability for responsible management and the adequacy of the standards adopted by the supplier.
- Inspection activities by the Quality Assurance Department and by external bodies according to specific procedures and timelines.
- FSSC 22000 certifications (Health and Food Safety).
- Control measures in place designed to identify and assess the risks of fraud (counterfeiting of food raw materials) and to implement anti-fraud plans (measurement tools and criteria, prevention and mitigation initiatives).

Environment

Potential risks:

- *Compliance risk* associated with regulatory changes
- Pollution risk.

Main control measures:

- Performing specific risk assessments and constant monitoring.
- Responsible design combined with continuous monitoring and measurement of environmental impacts.
- Execution of audit activities by certification bodies and relevant authorities.
- ISO 14001 certification.

In 2018 the Group has updated its Health and Safety Management System and its Environmental Management System under a combined certification in accordance with ***ISO 45001: 2018 and 14001: 2015***. To ensure increasing workers' health and safety protection, the environmental and safety management system covers all the Group's stores, offices and plants. In particular, the mentioned update concerned Esselunga S.p.A., while for Atlantic S.r.l., EsserBella S.p.A and La Villata S.p.A. the BS OHSAS 18001: 2007 standard applies[13].

The ISO 14001:2015 Environmental Management System certifications [14]were obtained by Esselunga S.p.A. in 2016, by Atlantic S.r.l. and Esserbella S.p.A. in 2017 and by La Villata SpA in 2018.

In 2018 Esselunga S.p.A. started implementing its Energy Management System, in order to obtain UNI CEI EN ISO 50001:2018 certification.

In the two-year 2017-18 period, Esselunga S.p.A. obtained the Top Employers certification on its own human resource management model, granted by the Institute that bears the same name. This certification is the result of objective analysis and independent audits conducted by the institute, which enabled the certification body to acknowledge Esselunga as an example of excellence in the Italian market in the field of personnel management models.

For the details on:
— the **Organisation, Management and Control Model pursuant to Italian Legislative Decree 231/2001**, see the “Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001” paragraph of this Directors' Report;
— the new Health and Food Safety **FSSC 22000** (*Food Safety System Certification*) certifications, see "The social aspect - Responsible management of the supply chain” paragraph;
— the ***Governance*** model, see the “Company information” section of this Directors' Report.

Furthermore, a **Crisis Committee** was set up in 2018 to supervise the entire management process of reputational risks related to *Business Continuity*.

4. Fight against corruption

4.1 Policy implemented by the organisation

The Esselunga Group is aware that corruption has significant negative economic, social and environmental impacts. For this reason the organization has no tolerance for actions that are directly or indirectly related to corruption, whether active or passive. As required by the **Code of Ethics and Conduct** and by the Group's **Sustainability Policy**[15] and by the **Organisation, management and control model** pursuant to Italian Legislative Decree 231, as adopted by the individual [16]companies, all personnel and external collaborators [17]are

[13]The OHSAS 18001 model will be updated with the ISO 14001 certificate upon expiry of the certificates.
[14] They include all the activities carried out by the various sites without exclusion (shops, production sites, supervision, logistics and transport, site maintenance and supervision, management of authorised non-hazardous waste treatment plants).
[15]In particular, reference is made to the "Ethics and Responsibility: *fight against corruption and help to the communities"* section.
[16]In particular Esselunga S.p.A. and the subsidiaries: EsserBella S.p.A., Atlantic S.r.l., La Villata S.p.A...
[17]GRI No.102 - 16 - Group values, principles and standards.

required to act in accordance with the values of integrity, transparency, fairness and loyalty as well as in full compliance with all applicable anti-corruption laws and regulations.

The consolidation of compliance models and organisational controls, as well as the updating and issuing of procedures and control protocols in line with best practices in the sector are all initiatives intended to consolidate a single corporate culture inspired by the highest principles of Business Ethics, i.e.: "**behave with integrity** and being **aware of the risks and non conformities**"[18].

Following the adoption in 2010 of the Organisation, management and control model pursuant to Italian Legislative Decree 231 as updated, including the last update in 2018, the Group intends to:

1. **ensure** that the employees and all those who work in the name and on behalf of any of the Group companies, 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;

2. **reiterate** that any conduct that is 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;

3. **monitor** the activities at risk in order to prevent or combat the commission of offences.

4.2 Main risks and opportunities

The *Risk Assessment* activities carried out in the various Group companies in 2018 revealed that their is a potential risk of commission of:

— **active corruption** with respect to the Public Administration during real estate development activities, during inspections and with reference to applications for authorisations and permits;
— both **passive and active corruption** in dealings with private parties during procurement activities.

Corruption risks can have different economic and reputational impacts on individual companies, but above all at Group level. During the *Risk Assessment* carried out on 4 Group[19] Companies, **110 "sensitive" activities** were identified, of which 54 (about 49%) potentially at risk of corruption offence.[20] In order to improve and consolidate control measures and, therefore, activities for the prevention of and fight against corruption, in accordance with the amendment to art. 6 of Italian Legislative Decree no. 231[21], the Group defined the new **Whistleblowing** *process in 2018*. In 2019, following the updating of the Model, a new *Whistleblowing* procedure is also expected to be released. It will govern, in more detail, the process activities, the roles and responsibilities of the main players involved (Head of *Whistleblowing*, Head of Legal and Corporate Affairs, Supervisory Body). Furthermore, *risk assessment* activities are underway to define and implement a 231/01 Organisation, management and control model also for Orofin S.p.A.

[18]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.
[19]Esselunga S.p.A. and its subsidiaries: EsserBella S.p.A., Atlantic S.r.l., La Villata S.p.A.
[20]GRI No.205 - 1 - Sensitive activities assessed on the basis of anti-corruption risks Figures are different from 2017 due to some updates of the Model and to changes in the Index calculation and consolidation method.
[21]Amendment introduced in December 2017 by law no. 179/2017.

4.3 Management procedures and KPI

The Code of Ethics and Conduct, the Organisation, management and control model pursuant to Italian Legislative Decree 231/01 together with the Sustainability Policy are the main pillars of the "fight against corruption" management model. The Supervisory Body (SB), the Human Resources and Organisation Department and Internal Audit continued to act as main control units also in 2018.

In detail, the **SB** oversees the effectiveness and observance of the Model, assesses its adequacy and effectiveness and carries out analyses on the continued satisfaction of requirements over time, ensuring its updating. To effectively perform its functions, the SB has a series of powers and prerogatives; for details see the Group's website.

The **Human Resources and Organisation Department**, supervised by the SB, ensures the **communication and training** on the contents and principles of the Model through specific initiatives. Communication and training activities are diversified according to the recipients, and are **inspired by the principles of completeness, clarity**, **accessibility and continuity.** The following should be noted in particular with regard to communication and training: i) all the members of the Board of Directors, as involved in the respective approval processes, had an active role in 2018 and participated in issuing the Sustainability Policy and updating of the 231/01 Organisation, management and control model;[22] ii) upon hiring, **all new employees** are informed that the Company has adopted the Model and the Code of Ethics and Conduct. iii) **training is provided** both in classroom and through *e-learning* and participation in training courses is mandatory and is verified through an attendance monitoring system[23]. The content of training activities is updated to reflect changes in regulations and the Model.

Finally, **Internal Audit**, as third level of control, carries out periodic audits to verify the application of procedures and rules pursuant to Legislative Decree 231/01;

With regard to external collaborators and consultants, they are assessed for qualification based on principles of ethics, integrity and transparency; subsequently, for the purpose of awarding contracts, they are required to comply with the Code and the Model through specific contractual clauses. In the two-year period 2017-18, **no corruption cases occurred** nor were legal proceedings brought in this regard[24], which confirms that the 231 Model is functioning properly.

5. Respect for human rights

5.1 Policy implemented by the organisation

As established in the **Group Sustainability Policy**[25], Esselunga people are aware that respect, protection and promotion of human rights, both within and outside their value chain, are essential in developing and keeping social well-being in the long-term. Esselunga's

[22]GRI No.205 - 2 - Communication and training on policies and procedures to prevent and combat potential corruption-related activities
[23]For further details see the Training Activities paragraph in "*The people of the Esselunga Group*" section.
[24]GRI No.205 - 3 - Reported and ascertained corruption incidents and improvement actions taken.
[25]In particular, reference is made to the *"Human rights, diversity, inclusion and equal opportunities" section.*

commitment to Human Rights issues is reflected in all categories of people who directly or indirectly engage with the Group (employees, suppliers, customers). In particular, Esselunga requires the various parties with whom it collaborates to adhere to the fundamental principles underpinning its Code of Ethics and Conduct, i.e.:

— prevention of any form of child exploitation or exploitation of situations of need, physical and psychological inferiority, forced labour or labour performed in slavery or servitude conditions;
— protection of safety and health in the workplace.

Furthermore, the Group undertakes to and believes:

— in developing a positive work environment, in which wages and benefits, work hours, freedom of association and ethical standards are ensured;
— ensuring zero tolerance for discrimination of any kind;
— preserving decent working conditions;

and has zero tolerance for any discrimination, psychological and/or sexual abuse or failure to respect other types of diversity.

5.2 Main risks and opportunities[26]

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

— the qualification stages, the Security Office assesses ethical reliability, while the HSE Office evaluates OSH elements;
— the formalization of the contract, Esselunga requires its suppliers and internal personnel, upon hiring/signing of the contract, to read the Code of Ethics and to "*conform their conduct to the fundamental ethical principles that guide all company's activities*"[27], and to undertake to "*respect the fundamental human rights and the dignity of each person*".[28]

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**.[29] For this reason, to prevent any possible infringements of these rights, the Company has implemented:

— contractual obligations for contractors;
— organizational controls;
— initiatives aimed at gradually raising the level of responsibility and management by the contracted companies (e.g. for logistics companies one of the qualifying requirements is the implementation of SSL management systems and for each contract, the contractor is required to disclose its ethical code);
— accountability of Departments involved in the qualification process, in the control and monitoring of all contracted activities;
— independent audits on logistics contractors.

[26]GRI No. 102 - 15 risks releated to anti-corruption.
[27]*"Diligence, honesty, transparency, competence, compliance with the law, good faith, utmost fairness and integrity".*
[28]GRI No.414 - 1 Percentage of new suppliers that have been assessed according to human rights and social criteria.
[29]GRI No.409 - 1 - Group companies / branches / offices / production sites / warehouses considered to be at high risk of situations of forced labour

5.3 Management procedures and KPI

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

In the two-year period 2017-18, **no incidents of discrimination or child labour were recorded**, and the Group also believes that the[30] **right to free association cannot be infringed** in [31]**any way as part of its activities** [32]. Training in this area continued in 2018 too for all the personnel in charge of shop safety. Total training coverage is ensured for all security guards and *loss prevention* employees, both internally, by the relevant training plan provided by Esselunga, and externally by the Supervisory Institutes which are subject to specific regulations and are specifically and mandatorily authorized by prefectural decrees [33].

To support these policies Esselunga:	
	adhered to the "**Libellula Project**", the first Italian network of companies that combat violence against women, whose initiatives aim to prevent all forms of women maltreatment and encourage cultural change, starting from the workplace.
	is consolidating its commitment to **work-life balance** (flexible hours at the head office, reduction in working hours to 37.5 hours per week, *lockers* at the office to pick up shopping bags), **health** (supplementing remuneration up to 100% in the event of illness or accident and paid leave for medical examinations) and **support for families** (possibility of converting company bonuses into services such as school transport, school canteen, reimbursement for carers, health care costs for the elderly or dependent persons). Furthermore, the following initiatives were implemented for the children of Group employees: - push to open ***programme***, i.e. guidance services for the pursuit of further education or for accessing the working world; - **15 free scholarships** were granted through Intercultura for periods of study abroad.

6. The Esselunga Group's people

6.1 Policy implemented by the organisation

In 2018, over 23 thousand people, with their skills, competence, experience and *know-how*, contributed to making **Esselunga's Human Capital** an increasingly distinctive factor of the organisation, a unique and essential element that helps the Group achieve its goals in the short, medium and especially long term. Esselunga is aware that company *performance* is largely dependent on HR management policies that ensure the wellbeing of people through individual recognition and the promotion of a healthy, safe and non-discriminatory work environment where each person is encouraged to express their potential and develop their skills.

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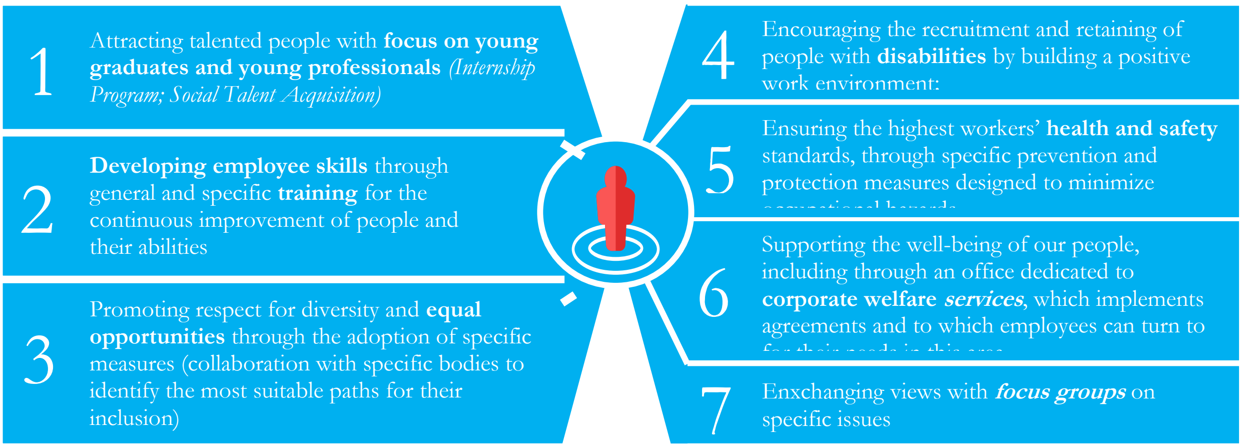
[30]GRI No.406 - 1 - Registered discrimination incidents in the reporting year.
[31]GRI No.408 - 1 - Companies, operating offices or shops that may be at risk of child labour
[32]GRI No.407 - 1 - Companies, operating offices or shops that may be at risk of severe infringement of the freedom to association
[33]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.

As confirmation of the above, in 2018 the Group launched an important **Listening and *Engagement*** project with our main internal stakeholders, namely our employees. To date, around 4,800 employees in 28 different sites have been involved in the stakeholder engagement project called "Pulsetip". People were engaged by sending them short questions, via app and/or interactive kiosks in the refreshment areas, on topics such as organisational well-being, welfare, communication and innovation. Survey results are aggregated weekly and made available to all employees, while any comments and suggestions are analysed and shared anonymously with the main Departments involved in order to define improvement programmes.

Furthermore, in keeping with the previous year, HR management initiatives were undertaken with a view to:



6.2 Main risks and opportunities[34]

The potential risks generated by the company's operations may concern failure to fully comply with international regulations and standards on Health and Safety in the workplace, with potential impact on personnel and 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 in the updating of its management systems[35] and organisational controls, in specialized skills and associated certifications, in plant renovation and in production and operating *lay-out* re-engineering, in periodic or ad hoc medical examinations, in training of and information to personnel, in supplying 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**. This risk is under constant monitoring and its management includes specific research focused on the introduction of additional automatic aids to make lifting and handling of loads increasingly simple and less tiring. For that purpose, in 2018 collaboration continued with Milan Polytechnic and the University of Brescia on the **"Ergonomics project"**[36], to consider as a priority employee related to aspects linked to manual handling of loads and shop activities to limit the impact.

[34] GRI No.102 - 15 - Risks related to personnel
[35] Management Systems Migration from OHSAS 18001 standard to the more modern ISO 45001: 2018 standard, only for Esselunga S.p.A.
[36] GRI No. 102-15 Risks related to health and safety.

The potential risks generated by the labour market refer to changes in applicable legislation and management ***of staff turnover.*** For both risks, the Company pays extreme attention to the entire human resource management process, from selection on to remuneration and development policies. The mitigation of these risks relies on our people's strong attitude towards *compliance* when managing relationships with employees and in the various obligations, as well as on the implementation of remuneration and *retention* policies and *welfare* development according to international *benchmarks*.Our Human Resources and Organisation function is especially focused on labour relations management in cases of maternity, sickness, accidents or other absences from work for which the law provides special safeguards, while multi-disciplinary approaches are adopted for the management of occupational health and safety.

6.3 Management procedures and KPI

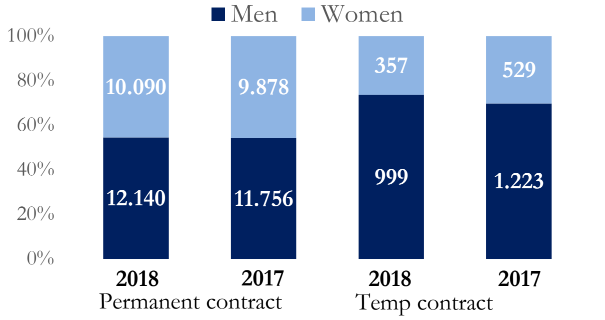
The corporate model for Human Resources management is primarily governed by the Human Resources and Organisation Department which comprises the more generic Group HSE function. The Department is therefore responsible for the implementation of monitoring and management processes and systems designed according to the principles of the Code of Ethics and Conduct and the Sustainability Policy[37], the legislation in force as well as the 231/01 Model and the OSH Management System (ISO 45001 and OHSAS 18001). Through its *top management*, Esselunga has adopted an approach of constant exchange and dialogue with trade union representatives, which is why a **collective company agreement** has been adopted for all Esselunga S.p.A. employees which offers better conditions than the National Labour Collective Agreement ("CCNL")[38]. As mentioned above, the entire Esselunga human resource management model has been certified by the international *Top Employers Institute*.

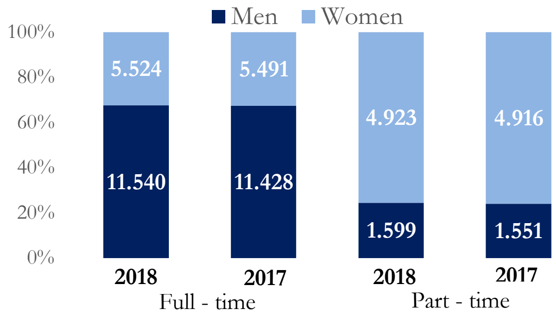
6.3.1. Workforce

As previously noted, the Esselunga Group has **23,586 employees** (+ 1% compared to 2017), with **women accounting for 44% of total workforce**. In terms of contract, **94%** of the workforce had a **permanent contract** (+3% than reported in the previous NFR) and 28% a part-time contract.

[37]In particular, reference is made to the *"Human rights, diversity, inclusion and equal opportunities" section.*
[38]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.

More than three quarters of part-time contracts are stipulated with the Group female employees.[39]





Employees by type of employment	2018			2017		
	Men	Women	Total	Men	Women	Total
Managers	64	8	**72**	59	7	**66**
aged less than 30	*0*	*0*	*0*	*0*	*0*	*0*
between 30 and 50 years old	*29*	*5*	*34*	*26*	*6*	*32*
older than 50	*35*	*3*	*38*	*33*	*1*	*34*
Middle managers	397	35	**432**	391	36	**427**
aged less than 30	*2*	*1*	*3*	*1*	*0*	*1*
between 30 and 50 years old	*267*	*24*	*291*	*268*	*26*	*294*
older than 50	*128*	*10*	*138*	*122*	*10*	*132*
White-collars	6,950	8,068	**15,018**	6,759	8,051	**14,810**
aged less than 30	*1,364*	*800*	*2,164*	*1,341*	*881*	*2,222*
between 30 and 50 years old	*4,657*	*5,841*	*10,498*	*4,571*	*5,917*	*10488*
older than 50	*929*	*1,427*	*2,356*	*847*	*1,253*	*2100*
Blue-collars	5,728	2,336	**8,064**	5,770	2,313	**8,083**
aged less than 30	*1,658*	*533*	*2,191*	*1,735*	*537*	*2,272*
between 30 and 50 years old	*3,204*	*1,535*	*4,739*	*3,217*	*1,546*	*4,763*
older than 50	*866*	*268*	*1,134*	*818*	*230*	*1,048*
Total	**13,139**	**10,447**	**23,586**	**12,979**	**10,407**	**23,386**

In accordance with the laws in force, the Group employed a **total of 1,322 people who are classified in protected categories**[40].

On the subject of diversity, in 2018 the Human Resources and Organisation Department collected and aggregated information that is in addition to the indicators presented in the previous report, such as:

- employee average age;
- number of employees by length of service;
- number of employees by education.[41]

The **average age** of the company population is around 40 and service seniority exceeded 10 years for 55% of employees. The remaining 45% has a service seniority of less than 10 years [42].

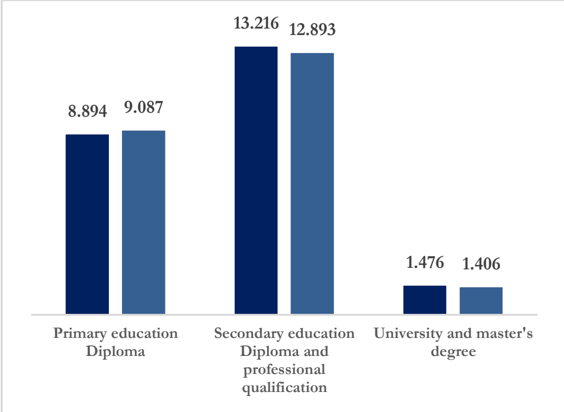
[39] GRI No. 102 - 8 - Employees by type of contract and gender. Leased staff, mainly employed in the shops and in production departments, decreased from 663 to 442 (-30.2% compared to 2017). The 15 employees of La Villata S.p.A. (14 men and 1 woman, with an average age of 51) are not included in the overall workforce calculation nor in the following indicators. Although the mentioned company has been included in the general Group calculation from 21/09/17, to date the HR Management Model and the related systems are not yet fully integrated. Its personnel administration is currently outsourced.

[40] GRI No.405 - 1 - Employees by type of contract, gender, age and classification as protected categories The personnel classified in protected categories grew by 89 or + 7% compared to 2017.

[41] GRI No.405 - 1 - Employees by type of contract, gender, age and classification as protected categories

[42] In particular, 4% had over 30 years of service, 9% between 21 and 30 years, 43% between 11 and 20 years. The remaining 44% break down into 20% between 6 and 10 years and the remaining 24% under 5 years.

As previously seen and considering the peculiarity of the business, 34% of the company population is made up of blue collars and more than 64% of white collars, it follows that 38% of employees have a **primary education diploma** and 56% a **secondary education diploma** or **professional qualification**. 6% of the population has a higher education degree (**university degree, Master, PhD**).[43]



As in the previous year and also considering fixed-term contracts, a **turnover rate** of just under 7.6% was confirmed in 2018 (see tables)[44].

Number of new hires	2018			2017		
	Men	Women	Total	Men	Women	Total
aged less than 30	*1,114*	*369*	*1,483*	*920*	*343*	*1,263*
between 30 and 50 years old	*333*	*182*	*515*	*246*	*171*	*417*
older than 50	*7*	*15*	*22*	*3*	*7*	*10*
Total	**1,454**	**566**	**2,020**	**1,169**	**521**	**1,690**

Employees who left the company	2018			2017		
	Men	Women	Total	Men	Women	Total
aged less than 30	*721*	*229*	*950*	*689*	*227*	*916*
between 30 and 50 years old	*454*	*235*	*689*	*429*	*211*	*640*
older than 50	*98*	*51*	*149*	*141*	*69*	*210*
Total	**1,273**	**515**	**1,788**	**1,259**	**507**	**1,766**

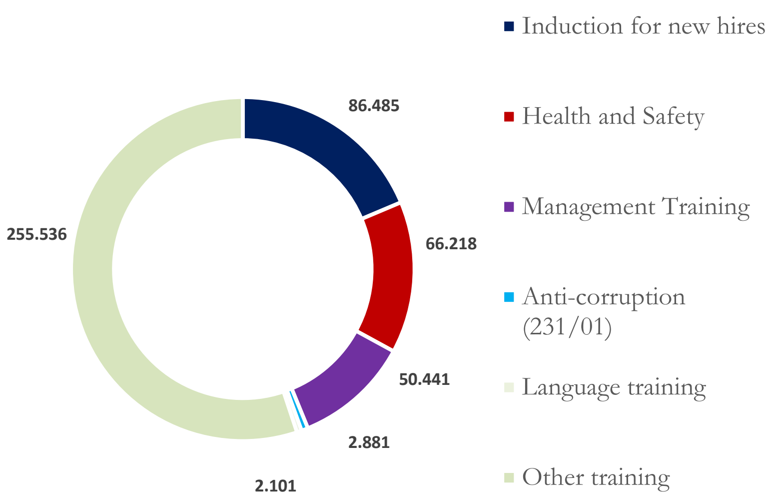
6.3.2 Training activities

In 2018, **463,662 training hours** [45]were provided to 24.5 thousand employees. The increase in new hires in 2018 was less than in 2017, which is why the average hours of training decreased from 21 to 19.

Average hours of training by gender and level	2018			2017		
	Men	Women	Total	Men	Women	Total
Managers	43	60	45	27	44	28
Middle managers	29	41	30	23	29	24
White-collars	27	7	16	26	7	15
Blue-collars	27	13	23	35	23	32
Total	27	9	19	30	10	21

[43] Primary education diplomas also include those from primary schools (91), undergraduate students (151) are included in secondary education diplomas, and last-year university students are included in university degrees (71).
[44] GRI No. 401 - 1 - Total number and rate of new hires and turnover
[45] GRI No. 404 - 1 - Average hours of training by type of employee and gender. Increase in training hours compared to 2017 2%

The 5 main training areas were confirmed in 2018. In particular, managerial training (+ 10%) and Health and Safety (+ 11%) recorded a *double-digit* increase compared to the previous year, while specific training on the 231/01 Organisation, management and control model which was delivered to new employees on a one-off basis and/or in relation to specific updates of the Model, of the reference legislation and/or protocols recorded 2,881 hours compared to 4,497 hours in 2017[46], which was offset by a + 6% in *induction* training for new employees.[47]



Since 2017, training on environmental issues has been provided to employees of the Commercial Department in order to increase awareness in these areas.[48] In 2018, in addition to training in stores and head office, a course on environmental sustainability was provided to about 200 employees belonging to the various departments to sensitise them and stimulate discussion on new environmental projects.

6.3.3 Remuneration and benefits

The Group's Human Capital is one of the key drivers of Esselunga's competitiveness, enabling it to manage and monitor its complex business model - which integrates the production of food, large-scale distribution and the construction of shops - on a daily basis. A progressive, balanced and incentive-based remuneration policy is one of the Company’s main element for motivating people, as well as an important lever for *retaining* and attracting people and talents essential for the organization's functioning and integration. For this

[46] Training on the 231 Organisation, management and control model is not provided on an annual basis to all personnel, unless the Model has been materially updated. In 2017, training was provided to all employees, including shop employees, while in 2018 it only involved new employees and those who had not yet followed the training course in 2017.

[47] GRI No. 205-2 - Personnel trained in the anti - corruption area and training processes in this area

[48] 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”

reason, the Esselunga Group's remuneration policies aim to maintain a **strong link between remuneration, merit and performance sustainability** through the development of remuneration packages that: are effective, aligned with market *benchmarks* and such as to enable employees to pursue continuous improvement goals with respect to their professional *performance* and the entire organisation, ensuring strong motivation and *engagement*.[49]

The same policies are adopted for full-time and part-time personnel with respect to benefits and allowances. 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[50].

6.3.4 Collective agreements, parental leave and operational changes

As part of HR management processes, it is certified that, as in 2017, **100% of Group employees were covered by collective bargaining agreements in 2018**.[51]
According to a process of continuous improvement, in 2018 the Human Resources Department collected and reported information on **parental leave** with a view, inter alia, to understand the *trends* in work-resumption rates and subsequent job permanence for those who made use of this right[52]. Based on collected data, we can certify that:

— almost all those who made use of the benefit, regularly returned to work;
— more than 95% was still at Esselunga one year after returning from leave.

Parental leave annual calculation	2018			2017		
	Men	Women	Total	Men	Women	Total
Employees entitled to the right[53]	1,958	4,097	**6,055**	1,714	4,120	**5,834**
Employees who made use of the benefit[54]	348	1,816	**2,164**	293	1,767	**2,060**
% Returned to work	*85%*	*81%*	*82%*	*73%*	*81%*	*82%*
Return to work rate in the reference year	95%	98%	**97%**	96%	98%	**97%**

Parental leave calculation for the two-year period 17-18 (based on 2017 data)	Men	Women	Total
Total Users in 2017 (net of those who left the company)	284	1,736	**2,020**
Leave in progress + absent for other post-leave reasons	28	199	**227**
Tot. returned to work in the 2017-2018 period and still employed	237	1,491	1,728
Return to work rate in the two-year period[55]	93%	97%	**96%**

With reference to collective events, such as **operational changes referring to Esselunga S.p.A.**, these are notified to the employees concerned and to trade union representatives (i) normally by notice sent 3 to 6 months in advance for closures (including temporary) of a shop / factory and in the event of transfer of the entire personnel of a store/factory, (ii) by

[49] GRI No. 102 - 36 - Processes that determine remuneration.
[50] GRI No.402 – 1 - Benefits provided to full-time employees that are not provided to part-time employees. As stated "Benefits and allowances for employees are granted equally to full - time and part - time personnel, without discrimination".
[51] GRI No. 102 - 41 - Percentage of personnel covered by collective bargaining agreements
[52] GRI No.401 - 3 Return to work and return rate following parental leave.
[53] The optional leave may be requested for each child until they are 12 years old. Employees with a child aged 12 or under in the reference year are therefore considered eligible.
[54] All those entitled who took advantage of at least one optional day of leave in the reference year were considered as users of the benefit.
[55] The *retention* rate shows the percentage of employees remaining in the company after they made use of the parental leave. This figure is calculated taking into consideration the employees who benefited from at least one day of parental leave and who have returned to work and are still working at the company at the end of the reference year and the following year.

advance notice of about 15/30 days in relation to changes in working hours affecting an entire store/factory. That communication model was fixed in the collective company agreement which foresees information related to company management. 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. Further operational changes are managed both for Esselunga S.p.A. and the other Group companies according to trade union agreements and in compliance with the laws and regulations in force[56].

6.3.5 Health and Safety at Work

Protecting health and safety in all workplaces is a fundamental Group value, as well as a driver of competitiveness and growth. This is why Esselunga sees it as a priority to actively engage in the definition and implementation of technical and organisational initiatives designed to effectively prevent and manage all professional risks associated with company activities. As evidence of this, in 2018 the Group:

2

Strengthened its organizational structure, moving from a function dedicated to managing and monitoring the Group's Hygiene, Health and Safety, to an **EHS function** dedicated to overseeing the new Integrated OSH and Environmental Management System (EHS);

3

Updated its Policies, which were communicated to the entire workforce, displayed in the main premises and made available to third parties.

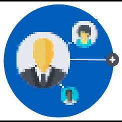
With regard to policies and principles, all employees in the Group companies are responsible for their correct implementation. Each is responsible for (i) being aware of and complying with legal requirements, (ii) identifying and being aware of the risks associated with their activities, (iii) promoting responsible behaviour; iv) implementing preventive actions aimed at minimizing 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 **the ongoing update of Risk Assessment Documents ("DVR")**.

These objectives led to the implementation of initiatives which enabled the Group to:

- **reduce the occurrence of occupational diseases** (from 5 events in 2017 to 3 in 2018, bringing the rate of occupational diseases from 0.025 to 0.014);
- **reduce the occurrence of injuries net of those in progress** (from 1,150 events in 2017 to 1,061 in 2018, bringing the rate of injuries from 29.7 to 27.2);
- **keep the absentee rate at 4.9% despite the increase in personnel;**

[56] GRI No. 402 - 1 - Minimum notice period for operational changes

These objectives led to the implementation of initiatives which enabled the Group to:



- implement new appropriate monitoring, protection and prevention tools and measures to **reduce risks**;
- develop new **training programmes** that meet personnel needs;
- increase the **level of personnel involvement** and **awareness**.

	2018			2017		
Injuries[57]	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related	*543*	*257*	***800***	*615*	*248*	***863***
Ongoing	*135*	*126*	***261***	*178*	*109*	***287***
Total	**678**	**383**	**1,061**	**793**	**357**	**1,150**
Fatalities	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Work-related	-	-	**-**	-	-	**-**
Ongoing	1	-	**1**	1	-	**1**
Recognized occupational disease cases[58]	3	2	**5**	2	3	**5**
Number of hours of absence due to injuries*	78,020	45,503	**123,523**	98,138	45,826	**143,964**
Lost work hours rate	4.1	6.2	**5**	4.0	3.1	**3.7**
Occupational disease rate (ODR)[59]	0.0249	0.0270	**0.0257**	0.016	0.040	**0.025**
Injury rate (IR)[60]	**28**	**25.8**	**27.2**	**32.7**	**23.9**	**29.3**
Work-related	*22.4*	*17.3*	*20.5*	*25.3*	*16.6*	*22.0*
Ongoing	*5.6*	*8.5*	*6.7*	*7.4*	*7.3*	*7.3*
Absentee rate (AR)[61]	**4.1%**	**6.2%**	**4.9%**	**4.2%**	**6.0%**	**4.9%**

* 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.

Within the HSE function, the units dedicated to *Health* and *Safety* deal with the OSH management model in keeping with prior years. The **Health and Safety Service** ("SPP"), the **Central** and **Area** Head of the H&S service ("RSPP") are also part of the same unit. To date, the HSE function comprises different specializations including managers and experts of integrated systems, field safety technicians, environmental technicians, ergonomics specialists, staff in charge of management reporting. At Group level, approx. **60 people in charge of the H&S Service ("ASPP")**[62] and **102 workers' representatives ("RLS")**[63] have been designated, or almost one for each organisational unit, in support of company prevention and protection activities, such as surveillance and field inspections. The RLS are consulted in the cases provided for by the relevant legislation, participate in the periodic meetings referred to in art. 35 of Italian Legislative Decree 81/2008 and in the periodic joint inspections with Area RSPPs; Each RLS is informed on the DVR and is provided with a specific e-mail address for communications with the Health & Safety Service. The organizational structure finally includes several **Company Doctors**[64] who carry out periodic health surveillance activities.

Again in keeping with previous years, all OSH initiatives envisage:

[57] 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. In 2018 the new *business intelligence* system came into operation which updates daily and supplements data on HSE, personnel and INAIL. Depending on injury recognition by INAIL, the number of injuries reported could change when updating the statistics. If an injury is not recognized by INAIL, it will be converted into an illness. The total calculation of 2017 data comprises data relating to the 15 employees of La Villata S.p.A. which were included in the general calculation of the Group following the transaction dated 21/09/2017

[58] The number of occupational diseases to 2017 changed because cases of occupational diseases can change following further controls, so the 2017 figure has changed compared to the DNF of that year.

[59] Occupational disease rate (ODR): (total number of occupational diseases / total hours worked) * 200,000

[60] Injury rate (IR) ((total number of injuries + total number of fatalities) / total hours worked) * 1,000,000

[61] Absentee rate (AR): (total number of days lost in the period / total number of work days in the period) * 200,000

[62] Employees in charge of the H&S Service (SPP).

[63] Workers' H&S representatives +33 compared to 2017.

[64] 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 programmes. There are no Group health and safety committees where occupational safety programmes are shared, but, as described, the organizational system adopted by Esselunga is consistent with all the specified regulations.

Again in keeping with previous years, all OSH initiatives envisage:
constant **training, information and awareness-raising** activities in order to strengthen the **corporate culture** on the subject;
improvement of performance monitoring systems, in order to promote responsible actions consistent with defined policies and objectives;
greater focus on, and integration of Environment and OSH issues, as of the **design** stage of **new stores** and the purchase of new machinery;
a consolidation of the **WHP programme** "Workplaces that promote health" [65]
launch of a training project on the machines and equipment present in the Esselunga Store processing areas

7. Social aspect - Responsible supply chain management

Each 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**.
Considering the high number and diversity of business interactions inherent in its operations, the Company, as defined in its Sustainability Policy[66], is aware that rigorous and responsible management of the entire *Supply Chain* is an essential requisite for the regular distribution of the economic and social value it creates.

7.1 Customer focus - Policy implemented by the organization

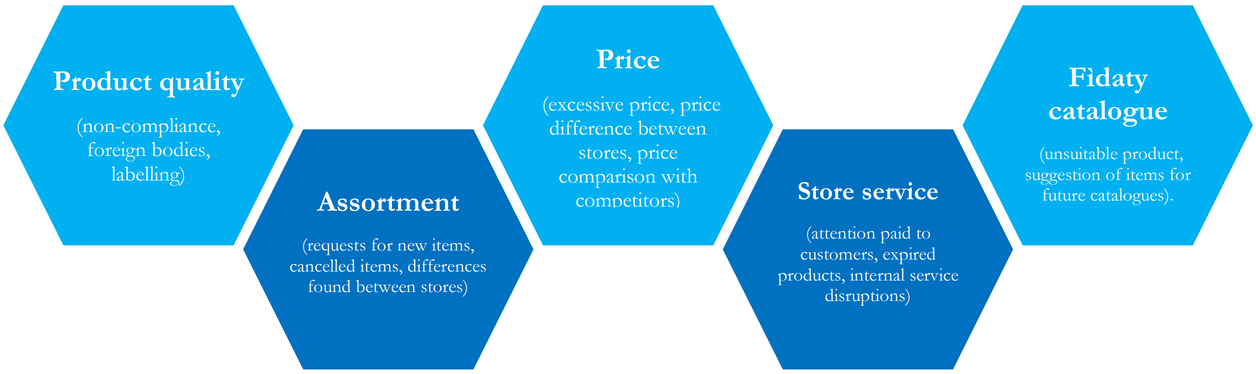
In 2018 more than approx. **5 million customers** activated and/or used the Esselunga loyalty card, which means that each of them, following one or more shopping experiences at the Group's stores or E-*Commerce* platform, has decided to repeat their *customer experience*. Constantly satisfying customers with one's products and services and keeping their buy-back intentions alive are just two of the main objectives that each retailer pursues, especially in such a dynamic and constantly evolving environment as is that of large retail chains. New products and new promotions, new technologies and digital transformations, new regulations and new "green" purchasing trends are just some of the drivers that push market developments, constantly calling into question the degree of satisfaction perceived by consumers. It is on this basis that customers and their feedback have always been the centre of attention in Esselunga, which is well aware that listening to and processing their needs and expectations means ensuring high satisfaction and long-term loyalty. The Company's focus on customer does not end in the individual point of contact (store or e-

[65]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". please note that the WHP program is not extended to all Esselunga S.p.A.
[66]In particular, in the "*Responsible supply chain management*" section.

commerce platform) but extends to all company processes and areas (from Customer Service and Quality Department up to, if necessary, the Sales Department and its suppliers).

At the helm of this indispensable stakeholder engagement activity is the **Customer Service** made up of over 120 people (in 2018, 15 additional people were hired on a temporary basis to meet the requests linked to the Esselunga Grand Competition) [67] supported by an advanced CRM model and by external call centres during peak periods. The Customer Service uses a multi-channel approach to **manage 100% of both positive reports and complaints**, regardless of the degree of customer loyalty or the type of business relationship with the reporting party[68], in the belief that each input can inspire innovative, corrective and/or improvement actions.

Based on these policies, Esselunga gives priority to reports relating to:



7.2 Customer care - Main risks and opportunities[69]

Inadequate customer management and inadequate handling of customer reports and expectations can have reputational repercussions on the Group.

The untimely and disorganized handling 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)

[67] In December 2018 in conjunction with the Christmas Contest: "Un Concorso da Favola" the Customer Service was supported by an External Call Centre to ensure more effective and faster handling of each reporting and complaint concerning the contest.
[68] E.g. customer, employee, supplier, consultant, associations, lawyers, etc.
[69] GRI No.102 - 15 - Risks related to customers

are the potential risks that are dealt with on a daily basis by Customer Service, the Quality Assurance Department and the Commercial Departments.

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, including completion and consolidation of the Privacy Management model in compliance with the GDPR 679/2016; through this approach, the Group recorded zero breaches of its customer privacy and/or loss of personal data in the 2017-2018 period[70]. Furthermore, in 2018, the risks inherent in data security and the associated mitigation activities were supervised by the newly established Crisis Committee and by the internal cybersecurity team.

7.3 Customer care - Management procedures and KPI

The Group Management Model which pursues the highest standards of satisfaction and customer care is made up of: (i) the Customer Service department, (ii) a centralized CRM system, (iii) structured information flows to the various Group Departments, (iv) monitoring and tracking systems of activities and related customer feedback.
As evidence of how the issue of adequate and timely management of customer reports and complaints is relevant for management purposes and continuous improvement, an additional process for classifying the **102 thousand complaints** received was implemented by Customer Service in 2018.

Based on all the data collected, we can say that **87.7% has already been processed** in the year, only **38.7% was well-founded** and most of the complaints opened by customers (67%) did not concern products but the services provided[71].

Complaints received and managed	2018		
	Received and managed	% Processed out of total	% Well-founded out of total
Tot. Complaints	**102,057**	87.7%	38.7%
Tot. Complaints on products	**33,215** (or 33%)	29.7%	14.8%
Tot. Complaints on services	**68,842** (or 67%)	58.1 %%	23.9%

In order to continuously improve relationships with customers, in 2018, in addition to the daily management of reports, the Management Model provided for completion of specific investigations, and in particular:

- **on customers' overall satisfaction** with physical and online sales channels;
- on **brand perception** with focus on intangible aspects including *Corporate Social Responsibility*, business climate and value returned to the local community;
- **on customer satisfaction with some brand products** (e.g. semolina pasta, cold pressed juices and ragù) or industrial products;
- **on customer satisfaction with respect to some projects** (eg "Amici di Scuola" project).

[70] GRI No.418 - 1 - Data loss and privacy incidents.
[71] The system for the classification of complaints as Well-founded and Groundless has been active since 1 July 2018. Therefore, the Group does not have data for 2017 and with respect to data for the first half of 2018 the breakdown is an estimate. Lastly, please note that the number of complaints managed in the year is not final as the Group is still processing notifications received in November and December 2018.

In line with the activities launched in 2017 and also in relation to market trends, the Group continued to pursue ethical and social initiatives in 2018, through:

- **the promotion of a healthy lifestyle** through: (i) ongoing development of the **"Equilibrio" product line**, which includes products that meet health requirements in terms of fiber, fats, sodium and sugar consumption (from 85 product lines in 2017 to 105 in 2018); (ii) **"Esselunga Bio" line**, created in 1999 and now including 250 organic products; (ii) **reformulation of the recipes** of branded products favouring a reduction in salt, sugar and fat content;

- **support for customers with specific dietary needs** by consolidating a **"gluten-free" product line**, registered in the National Register of products for special diets, which can be purchased and benefit from full reimbursement through the Regional Service Card. It should be emphasized that the number of product lines increased from 16 in 2017 to 21 in 2018, all certified with the Spiga Barrata brand of the Italian Celiac Association, which distinguishes products that can be safely consumed by people with gluten intolerance and affected by celiac disease;
- the production of **low-end price products** in order to offer customers a wide assortment in terms of price on more than **337 items**;
- commitment to "**kids**" with development of a **Disney**-**branded product line**, attentive to nutritional values, with low fat and sugar content, which will be marketed in 2019[72].

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.**[73]

7.4 Supply chain - Policy implemented by the organization

In order to guarantee the daily and consistent quality of products and services within the various **physical** sales channels (**158 Esselunga stores, 38 EsserBella perfume shops and 93 Atlantic bars**) and ***E-commerce channels*** ("**Clicca e vai"** and "**Esselunga a casa"**), over time the Group has implemented and maintained a rigorous and responsible management policy for its supply chain. This policy, based on principles of **integrity**, **fairness** and **transparency**, regulates and promotes all forms of collaboration and cooperation, with a view to creating and redistributing the economic and social value created. Esselunga is aware that the responsible management of the supply chain in a

[72] GRI No.416-1 - Assessment of the health and safety of products.
[73] GRI No.417 - 3 Total number (divided by type) of cases of non-compliance with regulations or voluntary codes concerning marketing activities, including advertising, promotion and sponsorship.

rigorous and responsible way is: a **strategic advantage** and a **management tool** to timely prevent or mitigate situations that could undermine the Group's reputation; ii) an instrument for the long-term consolidation of virtuous and trusted **collaborative relationships** between the various stakeholders.

158 Shops	**38** EsserBella perfume ships	**93** Bar Atlantic

In order to increase awareness and accountability of its approx. **3000 suppliers** with respect to its own policies and company choices and especially on critical supply chain management issues, such as: (i) **product safety**; (ii) **respect for human rights** and **working conditions**; (iii) **respect for the environment**; (iv) **transparency with institutions and the community**, Esselunga requires its suppliers to view its Organisation, management and control model pursuant to Italian Legislative Decree 231/01 and its Code of Ethics and Conduct, upon qualification or renewal. In addition, when awarding contracts and sharing commercial documents, the Group companies require their suppliers to **guarantee that all activities are carried out according to fairness and lawfulness principles and in compliance** with the legislation in force and the provisions set forth in the Model and in the Code of Ethics.

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

7.5 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, **integrity and transparency** and capable of directly affecting the quality and safety of distributed products, supply continuity and/or the Group reputation. The qualification of suppliers is in itself a risk prevention system. Esselunga assesses a potential supplier's ability to meet the Group's required standards in terms of financial soundness, ethical reliability, compliance with food safety and OSH requirements as well as technical and organizational skills.[74]

In the two-year period 2017-2018, **100% of suppliers reviewed** the contents of the **Code of Ethics and Conduct and of the 231/01 Model**[75]. Each framework agreement includes

[74] The Management Control Office assesses the supplier's ability to meet contractual commitments; the Security Office assesses ethical reliability; the HSE function assesses OSH-related aspects for non-commercial suppliers; the Quality Assurance Department assesses the food safety requirements and certifications (if any) of commercial suppliers of products intended for sale and consumables; the Sales Department's role is to complete the assessment process after the other Departments have completed their analysis.

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

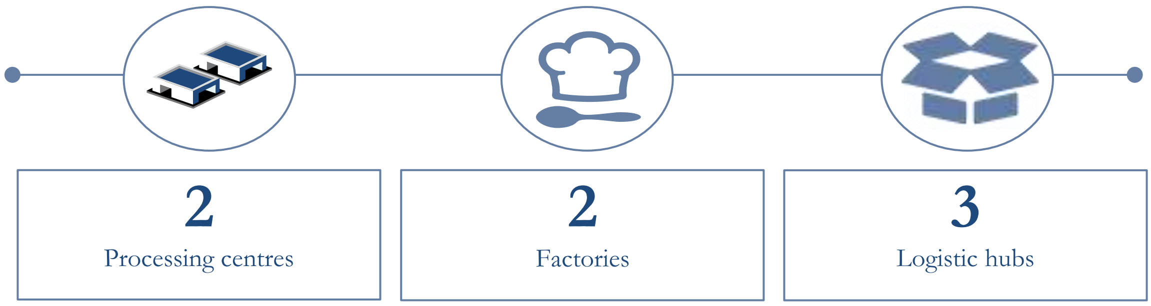
specific ethical compliance clauses[76]. Lastly, following the qualification and contract formalization process, the Quality Assurance Department carries out sampling quality checks and audits at the supplier, using both its own technicians and the support of external bodies.

In 2018, according to a continuous improvement logic, the Sales Department launched a review of the procurement process, with a view to introduce new criteria for examining and monitoring commercial suppliers in the Environmental, Social & Governance (ESG) area. We are currently considering the possibility of assessing commercial suppliers according to criteria of (i) **environmental sustainability and/or animal welfare,** (ii) **occupational safety and health** (iii) **anti-corruption and ethics**, (iv) **security and protection of electronic data**.[77]

Furthermore, in relation to the ethical standards of suppliers of raw materials and private label products, Esselunga pays attention to anti-fraud issues. For this reason, the Quality Assurance Department has put in place organizational controls and procedures to identify and assess the risks of fraud, especially food counterfeiting of raw materials. Anti-fraud initiatives included: the continuous improvement of tools and measurement criteria against food counterfeiting, the launch of a project with public authorities for the joint development of strategies against food fraud in the fish sector and prevention plans against the misappropriation of raw materials used in Esselunga production sites.

7.6 Supply chain - Management procedures and KPI

The entire management model deals with evaluating, verifying and ensuring the daily supply of about **130 product categories** in the **3 logistics hubs, 2 meat and fish processing centres and 2 production centres (Parma and Pioltello)**. This model is governed by different departments: The Sales Department and its buyers and the Quality Assurance Department, the Production Department and the Logistics Department; it is also governed by a strict external and internal regulatory system that regulates responsibilities and duties, operating procedures and control protocols, monitoring and reporting processes.



[76]GRI No.412-3 - Inclusion of human rights clauses in contracts.
[77]GRI No. 308 - 1 Suppliers screened using environmental criteria, as well as consolidation of GRI No. 414 - 1.

The Quality Assurance Department - composed of over 50 experts including agronomists, veterinarians, technologists and microbiologists - uses 3 internal laboratories to maintain the highest quality standards and pursues compliance goals to ensure food safety as well as annual management objectives. In 2018, the **FSCC 22000** certification was successfully achieved and the process for the **organic certification** of all Esselunga production sites (factories in Parma and Pioltello, Pioltello production site and Biandrate processing centre) was completed. Furthermore, the Department plays an active role in:

— ensuring compliance with the legislation on **organic production**, both at its own sites and outsourced, through product and supply chain controls;
— supporting its suppliers with respect to *labelling* **compliance**;
— promoting compliance with stringent quality and safety requirements for 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 and Customer Service in managing assorted products for which critical issues have been raised following a complaint or report;
— in checking food safety requirements and principles in cooperation with the units linked to the "***Banco Alimentare***", through audits conducted at their facilities.

In order to pursue continuous improvement targets in its supply chain, Esselunga promotes:	
	fruitful and long-term collaborations with suppliers through procurement policies that prohibit Dutch auctions and guarantee 30-day payment terms;
	the **short supply** chain principles, undertaking to reduce the number of companies and steps "*from the farm to the table*";
	the local economic growth by (i) increasingly sourcing *Made in Italy* products, also supporting smaller local undertakings, (ii) promoting regional products and production processes;
	the **fight against the gang-master system** by signing the Code of Ethics envisaged by the agreement between Federdistribuzione and MIPAAFT with respect to the purchase of agricultural and agri-food products and by promoting membership of its suppliers in the Agricultural Quality Network
	greater **traceability and transparency** of product information by obtaining **the meat voluntary Labelling Regulation authorization** from **MIPAAFT**, which provides for verification of labelling information by an independent Certification Body

In order to pursue continuous improvement targets in its supply chain, Esselunga promotes:

Animal welfare[78] policies; Esselunga has always paid special attention to animal welfare in both the fish and meat sectors.

<u>Some of the initiatives promoted in the meat sector are presented below:</u>

- ✓ adoption by the Group of the standard of the National Standard Centre for Animal Welfare (CReNBA) regarding the **Naturama beef** (veal, beef and scottona) bred in Italy;
- ✓ elimination from Esselunga assortment of **fresh eggs** from **caged hens** and exclusive use of Italian barn eggs produced without antibiotics for all the products prepared in its own factories: fresh pastas, bakery products and pastries, delicatessens;
- ✓ no use of antibiotics in **Naturama chicken** farms;
- ✓ introduction in 2018 of the Naturama **pork** product line, bred according to strict animal welfare rules and responsible use of antibiotics;
- ✓ elimination of *Fois Gras* obtained from force-fed **geese**.

<u>Some of the initiatives promoted in the fish sector are presented below:</u>

- ✓ for the **Irideae and Salmonino Trouts** 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.

In 2018, the **Sustainable Fishing** brand was introduced to increase consumer awareess of the range of fish products (fresh or preserved, caught or farmed) that comply with more stringent eco-sustainability protocols.

In 2018, numerous inspections were carried out at Group's facilities by the authorities responsible for[79] monitoring compliance with regulations on: i) food, production, storage or commercial sites; ii) promotional sales (eg "Sottocosto"); iii) and environmental best practices (e.g. waste disposal procedures and monitoring of air emissions)[80].

For reporting purposes, in 2018 over **830 inspections and audits** were carried out (+31% compared to 2017), and more than **760 samples of products** were taken (+26% compared to 2017). These analyses generated a **limited number of prescriptions** (less than 35, in 2017 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 considered negligible[81].

7.7 Aid to the Communities: solidarity by Esselunga and by our suppliers and customers

Esselunga has always supported the local communities where it performs its activities, through **cash donations** (direct contribution), **fundraising** and activities to raise customer awareness (indirect contribution) or through the **donation of food products**, including solidarity initiatives by its suppliers (contribution of goods).[82]

[78] For more information click <u>here</u>
[79]For example, Local Health Authorities (ATS); checks on 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.
[80]GRI No.102 - 9 Description of the supply chain.
[81]GRI No.419 - 1 - Infringement of laws or rules in the socio-economic area.
[82]GRI No.203-1 - Group investments that had an impact on the community including donations and social initiatives.

Solidarity initiatives in 2018 were especially targeted to **redistributing food surpluses**; **promoting inclusion and education**; **supporting children and promoting culture.**

Food Surpluses

Food surpluses: Banco Alimentare

Since 2005 Esselunga has been collaborating with the"*Banco Alimentare*" in order to donate supermarket food surpluses to the neediest. Products close to expiration, but still perfectly fit for consumption are donated free of charge to people and families who need them, through the associations and charitable organizations in the area affiliated with the Food Bank. In 2018 a new project consolidated the cooperation involving the donation of unsold bread.
In 2018, Esselunga and its suppliers donated goods for an amount of € 5.6 million (1,165.5 tonnes).

Furthermore Esselunga directly supported the **National Food Collection Day** of 24 November 2018 donating € 20,000.

Inclusion, Education and Childhood

The **Associazione L'Abilità Onlus** (non-profit organisation), founded in 1998 in Milan, develops and manages innovative services and projects for children with disabilities and their families in the ambit of play, education, schooling, residentially and, in general, for people with disabilities in the areas of accessibility and inclusion. It provides an area without barriers, where colours, materials, arrangement of furnishings, all is designed to create an atmosphere where children with disabilities can play, learn and grow together. It is on this backdrop that "**Spazio Gioco**" (Play area) was inaugurated in November 2018 in the Isola-Porta Nuova area of Milan. Esselunga's contribution helped complete the kitchen area.

Kids Park

In Spring 2018, spanning over three week-ends, some Milanese parks become the venue of Kids Park, an outdoor event of *educational engagement* addressed to school-age children and their parents.
At **dedicated workshops**, young guests had the opportunity to have fun and playfully learn good practices in the fields of road, food, music and motor education thanks to the contribution of Esselunga.

La Scala Philharmonic

Esselunga is a partner of La Scala Philarmonic
After contributing to the organisation of the Big Concert for Milan 2018, Esselunga became a **sponsor of the 2018-2019 musical season** and a supporter of **"Prove Aperte**" (open rehearsals) together with UniCredit.
This initiative gives people the opportunity to attend the rehearsals of major concerts at reasonable prices while proceeds are donated to non-profit associations dedicated to children and young people in difficulty.

BookCity 2018

Esselunga was a partner in BookCity 2018, a cultural event that turned Milan into a venue where events dedicated to books and reading were hosted from the 15th to the 18th November 2018.
Usual or unusual locations were the backdrop of presentations, readings, shows and multiple initiatives, with citizens and the cultural vivacity of the city acting as leading players of the events. Esselunga choose to participate in BookCity, embracing the values of accessible culture and for the occasion **offered its customers a selection of authors' quotes broadcast by radio in the shops.**

Inclusion, Education and Childhood

Design Pride

Design Pride is the Milan Design Week event showcasing the creativity of young designers.
In 2018 Esselunga supported the initiative and many young people paraded through the streets of the city of Milan pushing trolleys decorated with **design objects** following one of the iconic *E-commerce* pickup trucks animated by the music of a young deejay.

The Viareggio Carnival

Esselunga has been supporting the Viareggio Carnival for 10 years, a traditional event recognized in Italy and worldwide, involving thousands of tourists every year. For the occasion, **some shops in Tuscany display statues representing the Carnival** and Esselunga shopping vouchers are given away to guests together with the event tickets.

Nazionale Italiana Cantanti (italian singers national soccer team)

Esselunga is the *main* sponsor of *NazionaleItaliana Cantanti*, which takes the field to raise funds for research.

In 2018, **€ 1,160,500** were raised through the "*partita del cuore*"; the funds were donated to the "Giannina Gaslini" Institute in Genoa, a paediatric polyclinic, at the forefront in Italy, and to AIRC, the Italian Cancer Research Association, the main independent entity that supports cancer research in Italy.

Inclusion, Education and Childhood: Projects supported by customers

Italian Union Fighting Muscular Dystrophy (UILDM) Onlus (non-profit organisation)

From 16 April to 14 October 2018
Founded in August 1961 by Federico Milcovich, UILDM is the national leading association for people suffering from dystrophies and other neuromuscular diseases. Customers' donations (500 "punti fragola" = 10 euros) enabled Esselunga to donate 10 euros to UILDM to contribute to the "Giocando si impara" (learning by playing) initiative and to equip some Italian parks with rides accessible to children with disabilities.

Total funds raised by Esselunga and its customers: €85,820

Diabetes - Aid for research

From 16 October 2017 to 15 April 2018.
Every day 4,000,000 Italians struggle with diabetes relying on research and on all of us for help. Through this initiative Esselunga helped finance the experimentation conducted by 500 researchers on artificial pancreas, stem cells, genetics and disease mechanisms.

Total funds raised by Esselunga and its customers: € 131,380, of which € 75,970 collected in 2018.

Amici di scuola

Amici di scuola is an initiative for the collection of vouchers to be donated to nursery schools, primary and secondary schools and crèches, which can be redeemed against IT equipment and educational material for free. Over 4 editions Esselunga donated educational tools worth over € 67 million to about 13,000 Italian schools. In addition, in October 2018, in collaboration with the Corriere della Sera Foundation, a series of meetings was launched to provide opportunities for children in middle and high schools to gain greater insight in major history and current affairs topics through the narration and exclusive personal experiences of journalists and experts. To date these meetings have already involved 2,300 people and will continue to be held also in 2019.

8. Environment

8.1 Policy implemented by the organisation

As part of its business, Esselunga has developed its own **environmental philosophy** over a span of more than thirty years, through:

— **land redevelopment** as part of the construction of its points of sale;
— **plant design and/or redesign** in order to pursue energy efficiency and consumption reduction objectives;
— **development of branded** non-food products (eg "Esselunga "*per chi ama la natura*")[83];
— **development of branded food *products*** (eg "Bio and Naturama")[84].

As part of its Integrated "**Health and Safety at Work and Environment**" Management System[85], and in line with its Sustainability Policy, Esselunga periodically updates its environmental policy where the Group confirms its commitment to:

Act **in compliance with all applicable legal provisions**

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

Pursue the reduction of its environmental footprint and, where possible, **use renewable sources** and the best available techniques through an **eco-sustainable approach** that ensures benefits in terms of environmental performance;

Ensure the **improvement of environmental performance** by defining suitable performance indicators that help achieve company objectives

Plan and implement its work activities according to criteria that help **prevent and reduce the environmental impact;**

Improve the efficiency of the management system, including through ongoing **training, information and consultation of internal and external staff.**

Promote the **involvement and cooperation of the staff** to achieve an **effectively implemented and monitored management system**

The commitment to environmental matters can be seen in the **strategic, centralised guidelines on efficiency and energy savings** of the Production Centres, Logistics and stores. 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 Distribution Centres; (ii) management of contracts for the supply of electricity, natural gas, district heating and water for buildings.

In order to raise **awareness of environmental issues**, in 2018 Esselunga developed projects that saw an extensive **involvement of its stakeholders**:

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[83] A line of household products with plant-based renewable surfactants with as many as 42 branded products of which 24 bearing the Ecolabel certificate and 18 the Natura certificate.
[84] For additional information, see chapters *"5.3 Customer care - Management procedures and KPIs"* and *"5.6 Supply chain - Management procedures and KPIs"*
[85] ISO 14001:2015 certification covering all Esselunga sites without exclusion. For details see "*Management and Control Systems*" section.

Stakeholders	Engagement initiative
Suppliers	***Life Cycle Assessment*** [86]- Following a pilot project conducted in 2017, Esselunga launched a project in collaboration with suppliers for an **assessment of all the life cycle stages of products from the Parma plant and of 13 food products bearing the Esselung brand** (Naturama and TOP). The study analysed product impact dividing them into raw materials, packaging, process, distribution and use stages, to identify areas of possible improvement, involving and raising awareness in suppliers.
Personnel	**Sustainable mobility** - since 2016 the Group has been developing an increasing number of initiatives for sustainable mobility, based on employee needs and designed to help their mobility; these initiatives include **shuttles** as well as an increase in **bicycle racks** and the installation of **electric vehicle charging points**.

8.2 Main risks and opportunities[87]

The main risks arising from company operation are potentially of two types: first, the ***compliance risk*** linked to changes and/or complexity of the legislation, including local laws and regulations; second, a **pollution risk** linked essentially to external events and causes (eg catastrophic events), which could specifically **affect some environmental matrices** such as air, soil and water. Both risks may even have limited sanctions and reputational effects that cannot be underestimated. The entire business management model and legal obligations lead the Group to ensure: periodic *risk assessments*; constant monitoring of the regulatory framework; 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.**

8.3 Management procedures and KPI

The Group's environmental management model is governed by:

- the **HSE 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, as well as with the management and monitoring of waste, discharges and emissions;
- the **Technical Department** which, through its two functions in the construction and plant engineering sectors and on the basis of Group and corporate environmental policies, centrally defines strategic guidelines, initiatives and operating methods in the following areas: (i) energy efficiency and management of renewable sources; (ii) reduction in consumption; (iii) plant engineering initiatives.

[86] According to the ISO 14040 standard.
[87] GRI No. 102 - 5 Risks related to the environment

8.3.1 Energy consumption

The monitoring of energy consumption is a key component for the achievement of the objectives of reducing the Group's environmental footprint and consequently increase the energy efficiency of its stores and logistics centres.

Total consumption of energy[88] from renewable and non-renewable sources was approx. **3,131 million GJ**in 2018. Compared to the prior year, consumption **increased by 49 thousand GJ** due to the opening of two new stores.

Total energy consumption in Gj	2018		2017	
	Direct[89]	Indirect[90]	Direct	Indirect
From renewable sources	15,764,62	-	14,824.57	165,377.52
From non-renewable sources	822,402.78	2,341,642.77	821,103.15	2,178,601.56
Total energy consumption	**3,130,903.92**		**3,179,906.8**	

In keeping with previous years, the following store initiatives were undertaken to reduce energy consumption:

Initiatives	Sites involved in 2018		Sites involved in 2017	
	Total Sites	New sites	Total Sites	New sites
Hourly lighting schedule	113 stores	3	110 stores	5
Light dimerization	65 stores[91]	-	65 stores	5
LED Relighting	41 stores[92]	6	35 stores	16
Photovoltaic systems	31 systems	-	31 systems[93]	2

These initiatives and structural measures led to energy savings of **20,947 MWh**[94] in 2018 alone, avoiding the emission of **15,102 tCO_{2e} / year**[95].

8.3.2 Consumption of materials

In 2018, Esselunga's engagement in the assessment of the *Packaging Lifecycle* continued, driven by its awareness of the environmental impact of these materials. Despite the opening of 2 new stores, the Group consumed **33,035.42 tonnes of materials**[96] for the packaging and advertising of its products, or about **3.8 thousand tonnes less than in 2017.** This result has a two-fold implication considering that two initiatives have been pursued:

— **reduction of non-recyclable material:** -9.5% (-420 t) compared to 2017;

[88] GRI No.302 - 1 andGRI No. 302 - 2 Direct and indirect consumption of energy.
[89] From the direct consumption of fuels (e.g. natural gas, diesel oil, owned vehicles)
[90] From the consumption of electricity.
[91] Sixty-nine stores were involved in the "Dimmering" project; for 4 of these it is not yet possible to integrate the MWh and tCO_{2e} savings data, as a process for the integration of calculation methods and systems is underway. This calculation will be possible as of 2019.
[92] Forty-four stores were involved in the "LED Relighting" project; for 3 of these it is not yet possible to integrate the MWh consumption and tCO_{2e} emission data, as a process for the integration of calculation methods and systems is underway. This calculation will be possible as of 2019.
[93] The 2017 figure has been updated by one unit. This change did not result in changes in tCO_{2e} savings.
[94] GRI No.302 - 4 Reduction of energy consumption obtained through specific activities and initiatives in offices and facilities. The 9 initiatives alone contributed for 1,582 MWh.
[95] 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. The 9 initiatives alone contributed for 670 TCO2e/year.
[96] GRI No.301 - 1 Materials used / consumed in the production and packaging of the main products of the Company, broken down by weight.

— **increase in compostable material:** +78% (+277 t) compared to 2017.

Packaging Materials[97]	2018			2017		
	Recyclable	Not recyclable	Compostable	Recyclable	Not recyclable	Compostable
Plastic	5,772.68	3,014.92	-	5,709.93	3,593.30	-
Paper and cardboard	3,579.01	-	-	2,654.31	-	-
Laminated paper	-	277.47	-	-	398.73	-
Aluminum	167.27	-	-	157	-	-
Bioplastics	-	-	634.55	-	-	342.75
Adhesive thermal labels	-	663.16	-	-	447.92	13.98
Total	**9,158.96**	**3,955.55**	**634.55**	**8,521.23**	**4,439.95**	**356.73**

In order to increase the percentage of 100% recyclable material by minimizing mixed materials that are difficult to dispose of and reuse, in 2018 Esselunga launched a series of analyses and research designed to implement the following as early as in 2019:

— **packaging materials** for **organic fruit and vegetables** that are at the same time more environmentally friendly and comparable to conventional ones both in the production and marketing stages;

— **conversion** of **ready meal packaging from** virgin plastic material to 50% recycled.

To this end, Esselunga managed to achieve the following objectives as early as this year:

— **reduction of non-recyclable plastic material:** -16% (-580 t) compared to 2017;

— **reduction of laminated material:** -30.5% (-121 t) compared to 2017.

The consumption of paper used for leaflets and catalogues is currently 100% PEFC. The **significant decrease** in paper consumption **(approximately -4.6 thousand tonnes)** is due to a planned reduction in weight [98]as well as to a rationalization of leaflet formats. New promotional initiatives or new activities involving the use of paper material will be increasingly diverted towards PEFC or FSC certified materials.[99]

Graphic materials	2018		2017	
	Recyclable	Not recyclable	Recyclable	Not recyclable
Plastic	13.07	0.14	-	-
Paper and cardboard	6,469.93	61.02	23,569.16[100]	-
Recycled paper	12,379.45	-	-	-
Adhesive labels	-	2.70	-	-
Total	**18,862.45**	**63.86**	**23,569.16**	**-**

The *ecolabel* certifications on the monthly "Da Noi" magazine and "Fidaty Catalogue" have been confirmed for 2018.

Esselunga pursues its strategy of **reusing pallets** to meet its logistic needs through the "***pooling* CHEP**" solution. This is an immediately sustainable solution as, in addition to reusing the product, the pallets are made of wood from controlled forests and is both FSC and PEFC certified. On average, approx. 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

[97]The figures shown only refer to the quantity of packaging used to preserve the branded products as this is the only packaging for which the Group has control over the quantities.
[98]The weight changed from 65g per sheet to 60g.
[99] Programme for the Endorsement of Forest Certification scheme and Forest Stewardship Council.
[100]Following a change in the data collection process, the quantity of material used for graphic material in 2017 was aggregated under a single item.

CO_2 emissions; (ii) 80% of waste production. In 2018, the initiative led to wood savings of 1,595 m^3, a reduction of 1,239 t of CO_2e and the elimination of 171.8 t of waste[101].

8.3.3 Atmospheric emissions

The Group's **energy consumption** and operations involve direct and indirect atmospheric CO_2 emissions, which in the two-year period 2017-2018 were as follows:

Atmospheric emissions[102]	2018	2017
Direct CO_2 emissions (Scope 1)	42,479.73 tCO_2	42,742.55 tCO_2
Indirect di CO_2 emissions (Scope 2)	225,471.87 tCO_2	209,878.86 tCO_2

Esselunga is aware of the environmental impact linked to the **distribution chain** (indirect emissions *scope 3*), especially that originating from polluting emissions, induced traffic and road congestion related to the transport of goods. For this reason, Esselunga's pursues the following logistic strategy: i) **optimization of loading areas** and **vehicle routes**; ii) use of a **fleet that is almost 100% made up of "Euro 5 and 6" vehicles**[103]; (iii) rationalization of the **waste collection system** which 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.

According to an improvement logic, the Group has also implemented a reporting flow for collecting data on emissions from journeys carried for the transport of goods. In particular, estimated emissions from road journeys by vehicles (refrigerated or otherwise) amounted to approx. **22,520 tCO_2**.

8.3.4 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 estimated water consumption in 2018 was **7,124,933 m^3** (+ 9%

[101]GRI No. 302 - 2 Indirect energy consumption. 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.
[102]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 cogenerator. GRI No.305 - 2 Emissions originating from indirect energy consumption, for example the consumption of electricity and thermal energy.
[103]Fleet means both Esselunga vehicles and vehicles used by all direct contractors.

compared to 2017)[104]. 41% of water withdrawals were from **public water services** and 59% from **groundwater** (wells)[105].

Waste management recorded notable improvements in 2018, i.e. reductions compared to 2017, both for hazardous waste (-57 t) and for non-hazardous waste (-800 t). For its waste treatment, the Group uses specific authorized facilities that store the conferred waste for future re-use or disposal. The following table shows the **quantities of waste produced and delivered to these plants** broken down by type[106]:

Hazardous waste - Tonnes (stores, distribution centres, offices[107])	Recovery / Disposal	2018	2017
Electronic equipment	R13	24.15	98.60
Non-edible oils	R13, D15	14.00	10.75
Detergents	R13	21.34	17.52
Other (batteries, lamps and neon, packaging, antifreeze liquid, insulating materials, etc.)		42.49	31.25
Total hazardous waste		**102.42**	**158.12**
Non-hazardous waste - Tonnes (stores, distribution centres, offices)			
Paper and cardboard including packaging	R3, R13	64,950.33	62,966.59
Wood	R2, R3, R12. R13, D13	15,846.59	15,683.54
Packaging	R13, D13	7,407.93	9,480.86
Plastic	R3, R13	3,988.00	4,042.12
Other (including glass, polystyrene, sludge, edible oils, toner, etc.)		5,880.60	6,985.22
Total non-hazardous waste		**98,075.08**	**99,158.33**

[104]This change is linked to the implementation of reporting also for the regions under the Florence Technical Department.

[105]303 - 1 Water withdrawals for offices and buildings

[106]306 - 2 Internally produced waste, by type and disposal method. The type of disposal or recovery is notified to Esselunga by the relevant suppliers according to the waste processing codes defined by Italian Legislative Decree 152/06. Specifically *R2: solvent regeneration / recovery; R3: recycling / recovery of organic substances not used as solvents. R12: waste exchange for subsequent treatment according to one of the processing specified in R1 to R11. R13: storage of waste for subsequent treatment according to one of the processing specified in R1 to R12 (excluding temporary storage, before collection, in the place of production). D13: Preliminary grouping before one of the processing specified in D1 to D12*

[107]These figures do not include the disposal activities relating to reclaming 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 as this is not related to its core activities.

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 of January 2018

To the Board of Directors Esselunga SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Esselunga SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree, presented in the specific section of the report on operations and approved by the Board of Directors on 21 May 2019 (hereafter the "NFS").

Responsibilities of Directors and 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 GRI - Global Reporting Initiative, hereafter the "GRI Standards", identified as the reporting standards.

Directors are also responsible, in the terms prescribed by law, for such internal control as they determine 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

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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Auditor's Independence and Quality Control

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

Auditor's responsibilities

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

In particular, we performed the following procedures:

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

   With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;
4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular,

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

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

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

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Esselunga Group as of 31 December 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Milan, 7 June 2019

PricewaterhouseCoopers S.p.A.

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

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

Business outlook

In the first quarter of the year GDP rose 0.2% compared to the three previous months. The economy has therefore emerged from the technical recession due to two consecutive drops in GDP recorded in the last two quarters of 2018.

However, according to an important observatory that analyses the Italian economy, growth was not driven by internal demand but by the net foreign component, stressing substantial stability in the internal consumption trend which also affects our sector.

The stagnant consumption trend is also due to the impact had by new food habits, liking eating out, the growth of local markets and the continuing growth of the discount channel where we are seeing many stores open close to our existing ones.

So the Group will carry on investing in product quality and price competitiveness to maintain its decade-longer leadership position even if those actions could affect margins. The offer of new products to promote a health lifestyle will continue; to support customers with specific food needs and by creating a "first price" product line with a greater assortment than in the past. All these actions are controlled by the commercial and marketing structures to support sales and benefit our customers.

E-commerce channel development will continue also opening new warehouses to serve areas that are currently not covered.

The Chairman
of the Board of Directors

(Vincenzo Mariconda)

Consolidated statement of financial position (thousands of Euro)

Statement of financial position	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	12.1	4,258,392	4,226,685
Investment property	12.2	169,087	161,692
Goodwill	12.3	6,586	6,586
Intangible assets	12.4	166,356	165,023
Equity investments	12.5	130	196
Deferred tax assets	12.6	0	0
Other receivables and other non-current financial assets	12.7	75,165	96,282
Total non-current assets		**4,675,716**	**4,656,464**
Current assets			
Inventories	12.8	423,674	409,182
Trade receivables	12.9	480,228	447,087
Current tax receivables	12.10	1,582	65,188
Other receivables and other current financial assets	12.11	37,080	37,588
Cash and cash equivalents	12.12	882,278	500,796
Total current assets		**1,824,842**	**1,459,841**
Assets held for sale	12.13	**0**	**6,628**
TOTAL ASSETS		**6,500,558**	**6,122,933**
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	2,449,504	2,184,808
Equity attributable to owners of the parent	12.14	**2,763,283**	**2,498,587**
Non-controlling interests	12.14	334,061	321,228
Total Shareholders' equity	12.14	**3,097,344**	**2,819,815**
Non-current liabilities			
Non-current financial payables	12.15	1,345,731	1,378,198
Employee severance indemnities (TFR) and other staff-related pr	12.16	95,431	100,276
Deferred tax liabilities	12.6	42,321	49,579
Provisions for risks and charges	12.17	41,355	28,828
Non-current deferred revenue for prize-giving promotions	12.18	61,418	46,847
Other payables and other non-current liabilities	12.19	236	186
Total non-current liabilities		**1,586,492**	**1,603,914**
Current liabilities			
Current financial payables	12.15	33,729	33,677
Trade payables	12.20	1,341,656	1,286,194
Current deferred revenue for prize-giving promotions	12.18	129,414	94,063
Current tax payables	12.21	26,425	130
Other payables and other current liabilities	12.22	285,498	285,140
Total current liabilities		**1,816,722**	**1,699,204**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,500,558**	**6,122,933**

Consolidated income statement (thousands of Euro)

Income Statement	Notes	Year ended 31 December 2018	2017
Total sales	13.1	7,913,925	7,753,761
Other sales adjustments		-185,360	-159,020
Net revenue		7,728,565	7,594,741
Net costs for goods and raw materials	13.2	-5,355,631	-5,247,543
Other revenues and income	13.3	44,356	51,892
Costs for services	13.4	-708,517	-750,692
Personnel costs	13.5	-972,127	-940,490
Amortisation and depreciation	13.6	-265,886	-226,915
Provisions for risks and property write-downs	13.7	-22,796	-6,880
Net write-downs of financial assets	13.8	7,241	-12,808
Other operating costs	13.9	-46,912	-50,384
Operating profit		**408,293**	**410,921**
Income from investments measured using the equity method	13.10	0	3,449
Finance income	13.11	830	829
Financial expense	13.12	-32,488	-18,907
Profit before taxes		**376,635**	**396,292**
Taxes	13.13	-100,470	-97,441
Net profit for the year		**276,165**	**298,851**
Net profit (loss) for the year attributable to owners of the parent		263,332	295,721
Net profit (loss) for the year attributable to non-controlling interests		12,833	3,130

Consolidated statement of comprehensive income (thousands of Euro)

Income Statement	Year ended 31 December	
	2018	2017
Net profit for the year	**276,165**	**298,851**
Other comprehensive income		
Components that will subsequently be reclassified to profit or loss		
Cash flow hedge	994	-6,796
Components that will not subsequently be reclassified to profit or loss		
Actuarial gain (loss) on defined benefit pension plans, net of tax effect	315	-204
Total other comprehensive income / (loss)	**1,309**	**-7,000**
Net comprehensive income for the year	**277,474**	**291,851**
Net comprehensive income for the year attributable to owners of the parent	264,641	288,721
Net comprehensive income for the year attributable to non-controlling interests	12,833	3,130

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 2018**	**Year ended 31 December 2017**
Cash flow from operating activities		
Collections customers	7,913,925	7,753,761
Other receipts	49,671	51,236
Payments to suppliers (excluding collections from promotional activities)	-6,175,415	-6,004,937
Payments to employees	-960,205	-944,414
Rent and rental expenses	-45,317	-143,054
Other payments	-47,101	-52,772
Cash flow of ordinary operations	**735,558**	**659,820**
Income tax paid	-2,395	-106,146
A) CASH FLOW FROM OPERATING ACTIVITIES	**733,163**	**553,674**
Cash Flow from investing activities		
Capex on tangible and intangible assets	-307,158	-454,053
Disposals of tangible and intangible assets	19,288	13,528
Equity investments	0	-968,995
Interest collected	469	952
Other	-3	-3
B) CASH FLOW USED IN INVESTING ACTIVITIES	**-287,404**	**-1,408,571**
Cash flow from financing activities		
Financing received Bonds	0	979,975
Other financing received / given	0	816
Other proceeds (Fidaty Oro customers)	2,006	-103
Reimbursed financing (leasing)	-34,842	-26,328
Payment of interest	-27,441	-25,733
Distribution of dividends	-4,000	-3,000
C) CASH FLOW USED IN FINANCING ACTIVITIES	**-64,277**	**925,627**
Change in the scope of consolidation		
Villata Partecipazioni	0	135,479
Other companies	0	-10,884
D) CASH FLOW FROM CHANGE IN SCOPE OF CONSOLIDATION	**0**	**124,595**
NET CASH FLOW OF THE PERIOD (A + B + C)	**381,482**	**195,326**
Cash and cash equivalents at the beginning of the period and current account overdrafts	**500,796**	**305,470**
Cash and cash equivalents at the end of the period and current account overdrafts	**882,278**	**500,796**

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

	Share capital	Share premium reserve	Revaluation reserve	Other reserves	Retained earnings	**Shareholders' equity attributable to owners of the parent**	Non-controlling interest	**Total shareholders' equity**
As of 31 December 2017	**100,000**	**164,510**	**25,975**	**23,294**	**2,184,808**	**2,498,587**	**321,228**	**2,819,815**
Other movements:								
Actuarial loss on defined benefit pension plans	0	0	0	0	315	315	0	315
Profit for the period	0	0	0	0	263,332	263,332	12,833	276,165
FTA Reserve - IFRS 15 Revenue	0	0	0	0	4,055	4,055	0	4,055
Dividends	0	0	0	0	-4,000	-4,000	0	-4,000
Cash flow hedge reserve	0	0	0	0	994	994	0	994
As of 31 December 2018	**100,000**	**164,510**	**25,975**	**23,294**	**2,449,504**	**2,763,283**	**334,061**	**3,097,344**

Notes to the Consolidated Financial Statements as at 31 December 2018

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 2018, 158 stores located in Lombardy, Liguria, Veneto, Piedmont, Emilia Romagna, Tuscany and Lazio. In addition, in the main stores the Esselunga Group manages 93 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, Orofin S.p.A., which manages the majority of the real estate development projects, Atlantic Srl, EsserBella S.p.A. and Fìdaty S.p.A..

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 2018 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 income statement and the consolidated statement of comprehensive income show a classification of costs and revenues by kind;
- 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 2018 of the Parent Company Esselunga S.p.A. prepared by the Board of Directors and the draft financial statements for the year ended 31 December 2018 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 2018 and the changes in the scope of consolidation compared to 31 December 2017 are listed in Appendix 1.

2.4 Consolidation policies and methods

Subsidiaries

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

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

- The assets and liabilities, expenses and income are consolidated on a line-by-line basis, and, where applicable, non-controlling interests are attributed the share of equity and net profit for the period, 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, the depreciation is calculated separately for each of those elements.

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

Assets held under finance leases, through which all risks and benefits associated with ownership of the asset are substantially transferred to the Company, are initially recognized at fair value or, if lower, at the current value of minimum lease payments, including any sum to be paid for the exercise of the purchase option. The corresponding liability to the lessor is recognised as financial liability.

Lease payments are broken down into the interest component (recognized in the income statement) and principal (recorded as a reduction to liability). This allocation is determined in such a way as to obtain a constant interest rate on the residual balance of the liability.

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 is the same as the term of the lease.

Capital gains realized in connection with the sale and lease-back of assets are recorded under liabilities and deferred over the term of the lease.

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 represents 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 each *cash-generating unit* ("*CGU*") to which the asset belongs. In determining the value in use, the expected future cash flows are discounted at a discount rate that reflects the current market assessment of the cost of money, relative to the investment period and the specific risks of the asset.
An impairment loss is recognised in the income statement when the carrying amount of the asset is higher than the recoverable amount. If the reasons for a previously recognised write-down no longer apply, the carrying amount of the asset is restored through the income statement in an amount that shall not exceed the net carrying amount the asset would have had if the write-down had not been recognised and depreciation or amortisation had been recorded.

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

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

When investments are not listed and their fair value cannot be reliably determined, they are valued at cost adjusted for impairment which is recorded through profit or loss, in accordance with IAS 39 (Financial Instruments: Recognition and measurement).
The impairment losses recognized through profit or loss of the investments in other companies classified as "financial assets available for sale" cannot subsequently be reversed.
In compliance with adoption of IFRS 9, in 2018 "Equity investments in other companies" have been reclassified from the item "Equity investments" to the item "Other receivables and other non-current financial assets".

<u>Financial assets (other current and non-current assets, trade receivables and other receivables and other current assets)</u>
1) Classification and measurement
On initial recognition, financial assets are measured at *fair value* and then classified in one of the following categories:

a) financial assets measured at amortised cost;
b) financial assets measured at *fair value* with effects attributed to shareholders' equity, hence under components or the statement of comprehensive income ("other comprehensive income", hereinafter also "OCI");
c) financial assets measured at *fair value* with effects attributed to the income statement.

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

- the financial asset is owned in a business model framework aimed at possession of financial assets for the collection of contractual financial flows (*business model hold to collect*);
- the contractual terms of the financial asset foresee, at certain dates, financial flows represented solely by payments of capital and interest in the capital amount to be returned.

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

b) Financial assets measured at fair value with effects attributed to the statement of comprehensive income.
Financial assets are measured at *fair value* with effects attributed amongst the other components of the statement of comprehensive income if both the following conditions are met:

- the financial asset is owned in a business model framework aimed at both the collection of contractual financial flows and the sale of financial assets (*business model hold to collect and sell*);
- the contractual terms of the financial asset foresee, at certain dates, financial flows represented solely by payments of capital and interest in the capital amount to be returned.

This category includes share interest, not qualified as control, connection and joint control, not held for trading purposes, for which the designation to *fair value* was chosen with impact on comprehensive profitability.
When first recognised, assets are booked at *fair value*, inclusive of transaction costs or revenue directly attributable to the instrument itself. After initial entry, share interest that is not of control, connection and joint control, is measured at *fair value*; the changes in value of those equity investments are entered in a shareholders' equity reserve by allocating them to other comprehensive income (Reserve to the change in the *fair value* of financial assets). Amounts recognised as a shareholders' equity counter item (Statement of total profitability) need not then be transferred to the income statement, even when disposed of. The only component referable to the equity instruments in question that is entered in the income statement are the relative dividends.
For the equity instruments included in this category, not listed on an active market, the cost criterion is only residually used as an estimate of *fair value*, limited to just a few circumstances, that is when the most recent *fair value* measurement information is not sufficient, or there is a wide range of possible *fair value* measurements and the cost is the best *fair value* estimate in that range of values.

c) Financial assets at fair value through profit or loss.
Financial assets that are not measured at amortised cost or *fair value* with attribution of effects to other comprehensive income, based on what was said above, are measured at *fair value* with effects attributed to the income statement.

2) Presentation
Financial assets are included under current assets, except for those with contractual maturity that exceeds twelve months compared to the balance sheet date which are classified in non-current assets.
Purchases and sales of financial assets are recognised at the date of the transaction.
Financial assets are derecognised from the balance sheet when the right to receive cash flows from the instrument has expired and the Company has substantially transferred all the risks and benefits of, and control over the instrument.

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

Assets held for sale

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

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

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents include cash, deposits with banks and other lending institutions, post office current accounts and other equivalent instruments and investments with maturity within three months from the end of the reporting period. The items included in cash and cash equivalents are measured at amortised cost and the related changes are recognised 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 Group 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 year. 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
This item reflects the nominal value of contributions made by shareholders for such purpose.

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

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

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

Financial liabilities

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

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

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*" prize-giving promotion is the institutional prize-giving promotion of the Group, through which loyal customers who carry out purchases in the Esselunga, Atlantic and EsserBella brand stores receive "*punti Fìdaty*" on their cards which enable them to collect prizes from the catalogue (also with cash contribution) or, alternatively, shopping vouchers; the promotion is also open to Customers of selected trading partners.

The adoption of IFRS 15 entailed the recognition of deferred revenue for prize-giving promotions, as part of the loyalty plans granted by the Group in favour of its customers (*Fìdaty* prize-giving promotions), based on the fair value of the payment received from the initial sale attributed pro-rata to the bonus points and to the goods and finished products sold based on their respective fair values ("fair value method").

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

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

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

As of 1 January 2007, the "Budget Law" and the related implementing decrees introduced significant changes to the regulation of severance indemnities, including workers' possibility to choose how to allocate the severance indemnities they will accrue. More specifically, workers can either allocate the new flows of severance indemnities to pre-selected pension schemes or keep them in the company. If allocated to external pension plans, the Company is only subject to the payment of a defined contribution to the chosen fund, and starting from that date the newly accrued employee severance indemnities are considered, according to IAS 19, as defined contribution plans.

According to IAS 19 the liability for employee severance indemnities accrued before the reform 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).

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

Provisions for risks and charges

Provisions for risks and charges are recognised for losses and charges the nature of which is certain or probable, but the timing and/or amount of which are uncertain at the statement of financial position date.
They are recognised only if there is a current (legal or constructive) obligation to make payments as a result of past events and it is likely that the payment will be necessary to settle the obligation. This amount is the best estimate of the expenditure required to settle the obligation.
Possible risks that may result in a liability are disclosed in the notes under the section on commitments and risks, and no provision is made for them.

Transactions in currencies other than the functional currency

Revenues and costs relating to transactions in currencies other than the functional currency are recorded at the exchange rate prevailing on the date of the transaction.
Monetary assets and liabilities denominated in currencies other than the functional currency are converted in Euros at the balance sheet exchange rate and any adjustments are recognised in the income statement.
Non-monetary assets and liabilities in currencies other than the functional currency measured at cost are recognised at the initial recognition exchange rate. When these assets are measured at *fair value* or at their recoverable or realisable value, the exchange rate prevailing at the date of determination of that value is applied.

Interest-free loans from the parent company

Interest-free loans from the parent company fall within the scope covered by OPI 9 "Accounting for intercompany loans and guarantees in separate financial statements". In such cases, the difference between 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 for the sale of finished goods and products are recognised in the income statement when the company fulfils its obligation to do, by transferring the finished goods or products promised to the purchaser; the asset is transferred when the customer acquires control, normally coinciding with delivery or shipment of the finished goods and products to the customer.

Revenues for provision of services are recognised when the service is supplied to the customer, referred to completion of the service supplied and related to the total of services still to be supplied.

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 "Net costs for goods and raw materials".

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

Public grants

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

Recognition of costs

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

Dividends received

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

Dividends distributed

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

Taxes

Current taxes are calculated based on the assessable income for the year, by applying the tax rates in force at the statement of financial position date.
Deferred taxes are calculated on all differences arising between the tax base of an asset or liability and the corresponding book value. Deferred tax assets, including those arising from

previous tax losses, for the portion not offset by deferred tax liabilities, are recognised to the extent that it is probable that future taxable income will be available for such assets to be recovered. Deferred taxes are calculated using the tax rates that are expected to apply in the years in which the differences will be realised or settled, based on the tax rates in force or substantially enacted at the reporting date.
~~Current and~~ deferred taxes are recognised in the income statement, except for items that are directly charged or credited to equity, in which case the related tax effect is also directly recognised in equity. Taxes are offset when income taxes are applied by the same tax authority and the entity has a legal right to settle on a net basis.

3. Recently issued accounting standards

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

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

Accounting standard	***Endorsed by the EU***	***Effective date***
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
Amendments to References to the Conceptual Framework in IFRS Standards	No	Periods beginning on 1 January 2020
Amendment to IFRS 3 Business Combinations	No	Periods beginning on 1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	No	Periods beginning on 1 January 2020
IFRS 17 Insurance Contracts	No	Periods beginning on 1 January 2021

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

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

Accounting standard	**Description**
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 as of 1 January 2019. Please note that the Group did not opt for the early adoption of the standard in question The Group has chosen to apply the new IFRS 16 provisions as of 1 January 2019 using the full retrospective approach. That approach requires that the comparative information related to 2018 be

	restated and recognition of the accumulated effect linked to application of the new standard as an adjutsment to equity as at 1 January 2018. With reference to the Group, the new accounting standard IFRS 16 will mainly affect the accounting of operating leases. At the reporting date, the Group had operating lease commitments mainly concerning the lease of the premises and the company fleet for a total amount of € 499 million, as reported in Notes 15.3 and 15.4. Referred to the operating leases in force as at 31 December 2018, the Company expects to take over a right of use asset for about €310 -340 million and a lease liability for about €320 -340 million at the date of first application of the standard (1 January 2019). The positive effect expected for the Group's EBITDA is estimated at around € 29.1 million. The differences between the amount of commitments reported in Notes 15.3 and 15.4 and liabilities for leases estimated applying IFRS 16 are justified by the following factors: - liabilities for estimated leases do not include those linked to contracts lasting for 12 months or less and liabilities linked to leases for modest assets. For both the types, leases will be recognised at constant percentages as an income statement cost; - contractual durations established pursuant to IFRS 16 can differ to the contractual durations used to calculate commitments (for example due to renewal options, not considered when calculating commitments); and - the value of commitments does not reflect the impact of actualisation incorporated when calculating lease liabilities. The actualisation rate applied to calculate lease liabilities is the incremental loan rate for the Group. That rate was defined where possible based on loans that for type and duration of assets acquired were considered homogeneous with contracts where IFRS 16 was applied.
Amendments to IFRS 9: Prepayment Features with Negative Compensation	The changes to IFRS 9 are effective beginning on 1 January 2019. It is believed that the entry into force of this standard will have no financial impact on the Group.
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	On 12 October 2017, the IASB issued the amendment to IAS 28 to clarify the application of IFRS 9 "Financial Instruments" to long-term receivables from an associated company or joint venture which, in substance, form part of the net investment in the associated company or joint venture. The changes to IAS 28 are effective beginning on 1 January 2019. It is believed that the entry into force of this standard will have no financial impact on the Group.
IFRIC 23 Uncertainty over Income Tax Treatments	On 7 June 2017, the IASB issued IFRIC 23 "*Uncertainty over Income Tax Treatments*". The interpretation clarifies how to apply IAS 12 recognition and measurement requirements when there is uncertainty about income tax treatments.. In this case, the entity must recognize and assess its current or deferred tax asset or liability by applying IAS 12 requirements based on taxable income (tax loss), values for tax purposed, unused tax losses, unused tax credits and tax rates determined by applying IFRIC 23. IFRIC 23 is effective from 1 January 2019. It is believed that the entry into force of this standard will have no financial impact on the Group.

4. First application of new accounting standards

This section contains a description of the impacts arising from adoption of the new accounting standards IFRS 9 - Financial Instruments and IFRS 15 - Revenues from contracts with customers on these financial statements, applicable as of 1 January 2018.

a) IFRS 9 – Financial instruments

Following application of IFRS 9, share interest, not qualifying from control, connection and joint control, previously classified under "Equity investments" in the financial statements closed as of 31 December 2017, were reclassified under "Other receivables and other non current financial assets" as of 31 December 2018.
Application of IFRS 9 did not involve further adjustments and reclassifications referred to the Company.

b) IFRS 15 - Revenues from contracts with customers

IFRS 15 regulates the time profile and amount of recognition of revenues from contracts with customers, including contracts for works to order. 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) calculation 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;
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 adoption of IFRS 15 entailed the recognition of deferred revenue for prize-giving promotions, as part of the loyalty plans granted by the Group in favour of its customers (Fìdaty prize-giving promotions), based on the fair value of the payment received from the initial sale attributed pro-rata to the bonus points and to the goods and finished products sold based on their respective fair values ("fair value method") instead of the fair value previously calculated on the bonus points according to the "residual fair value method" in accordance with the provisions of IFRIC 13 - Customer Loyalty Programs
IFRS 15 was adopted as of 1 January 2018, by taking advantage of the transitional provisions envisaged by the accounting standard which enable the entity to recognize the effect associated with the retroactive re-statement of shareholders' equity as of 1 January 2018, without restating the previous comparison years, therefore using the modified retrospective approach.

In particular, the adoption of IFRS 15, as part of the loyalty plans granted by the Group to its customers ("*Fìdaty*" prize-giving promotions), resulted in an increase in shareholders' equity as at 1 January 2018 of € 4,055 thousand, with a corresponding reduction in liabilities for deferred revenue for prize-giving promotions of € 2,636 thousand and in non-current liabilities of € 1,419 thousand.

Referred to 2018, application of the previous provisions in capital terms would have led to greater liabilities for current deferred revenues for € 3,843 thousand and for non current deferred revenues for € 2,070 thousand, countered by lower revenues recognised in the income statement totalling € 5,913 thousand.

5. Estimates and assumptions

The preparation of financial statements requires the Directors to apply accounting principles and methods that, in some circumstances, are based on difficult and subjective valuations

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

a) Impairment of assets
Tangible and intangible assets with a definite useful life are tested for impairment, to be recognised by writing down the asset to the extent that there is evidence that the net book value of the asset may be difficult to recover. To verify the presence of those indicators, 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.

6. Group taxation

In 2016, the Company and some of its subsidiaries renewed their participation, as consolidated entities, in the group taxation scheme governed by Articles 117 to 129 of the Italian Consolidated Income Tax Code (TUIR), in which the parent company Supermarkets Italiani S.p.A. is the consolidating entity.

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

- the tax losses arisen as of the first consolidated tax period and transferred to the consolidating entity are definitively recognised by the latter at the IRES rate in force;
- the tax effects arising from the transfer of the losses or of the taxable profits are settled at the time the overall IRES tax due by the consolidating entity is paid;
- the company undertakes to provide Supermarkets Italiani Group with its surplus of non-deductible interest expense or of EBIT, so that the consolidating entity can make the necessary adjustments to the Group taxable income in application of the provisions of art. 96, paragraph 7, of the TUIR. On the other hand, the consolidating entity agrees to pay, on an exclusive basis, to the company transferring the ACE (Aid to economic growth) and the non-deductible interest expense surplus used to adjust the consolidated income, an amount equal to the product of the then current IRES rate and the amount of the above surpluses in the manner described in the paragraph above;
- the effects of deferred taxation are individually determined and accounted for by the company in its financial statements.

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

7. Financial risk management

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

Compared to 31 December 2017, no significant changes have occurred in the Group's risk profile or in the procedures adopted by the Group's management to manage the risks to which the Group is exposed.

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

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

7.1 Credit risk

Credit risk represents the Company's exposure to potential losses arising from business and financial counterparties failing to meet their obligations.
The Group's maximum exposure to credit risk at 31 December 2018 and 2017 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 2018	31 December 2017	Change
Other receivables and other non-current financial assets	75,659	107,476	-31,817
Trade receivables	482,827	447,560	35,267
Current tax receivables	1,582	65,188	-63,606
Other receivables and other current financial assets	42,785	42,461	324
Total gross amount	602,853	662,685	-59,832
Provision for doubtful receivables	-8,798	-16,540	7,742
Total net amount	**594,055**	**646,145**	**-52,090**

For the Group, credit risk is substantially limited to existing credit relationships with commercial suppliers, arising from the provision of promotional services in their favour. The Group has adequate policies in place for the selection of its suppliers designed to measure their financial and capital strength in addition to typically commercial aspects (quality, purchase prices and delivery terms). Therefore, it is considered that the Group is not exposed to any appreciable credit risks.

These items are accounted for net of a provision for doubtful receivables, for a total of € 8,798 thousand as at 31 December 2018 and € 16,540 thousand as at 31 December 2017, respectively. This provision is calculated by analysing the individual debtor accounts and takes into account the expected losses (Expected Credit Losses) according to the *impairment* model introduced by IFRS 9.
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 2018 and 31 December 2017 by category and by number of days past due (amounts in thousands of euros).

Description	31 December 2018					
	Not yet due	Days past due				
		0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current financial assets	75,159	0	0	0	500	75,659
Trade receivables	400,200	1,911	46,179	21,006	13,531	482,827
Current tax receivables	1,582	0	0	0	0	1,582
Other receivables and other current financial assets	36,710	201	21	10	5,843	42,785
Total gross amount	513,651	2,112	46,200	21,016	19,874	602,853
Provision for doubtful receivables	0	-29	-18	-13	-8,738	-8,798
Total net amount	**513,651**	**2,083**	**46,182**	**21,003**	**11,136**	**594,055**

Description	31 December 2017					
	Not yet due	Days past due				
		0 - 30	31 - 60	61 - 90	> 90	Total
Other receivables and other non-current financial 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 financial 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**

As shown in the table above, receivables expired as at 31 December 2018 amounted to € 89,202 thousand, while the allowance for doubtful receivables amounted to € 8,798 thousand.
Past-due receivables that are not covered by the provision refer to situations that are inherent in the Group's activities.

7.2 Liquidity risk

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

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

The following tables provide a breakdown of liabilities by maturity as at 31 December 2018 and 31 December 2017 (amounts in thousands of euros). The various maturity ranges are determined based on the period between the reporting date and the contractual maturity of the obligations including accrued interest at 31 December. Interest has been calculated according to the contractual terms of the loans.

	31 December 2018				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Bonds	13,750	13,788	541,250	537,525	1,106,313
Finance lease payables (current and non-current)	45,685	45,684	116,533	281,574	489,476
Other payables and other non-current liabilities	0	0	0	236	236
Trade payables	1,341,656	0	0	0	1,341,656
Current tax payables	26,425	0	0	0	26,425
Other payables and other current liabilities	285,498	0	0	0	285,498
Total	**1,713,014**	**59,472**	**657,783**	**819,335**	**3,249,604**

	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**

Moreover, on 3 August 2017, Esselunga entered into three agreements with three Italian banks for three non revocable credit lines for a total amount of € 300 million, expiring after 5 years. As at 31 December 2018 the above credit lines had not been used.

7.3 Market Risk

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

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

These risks are essentially managed centrally by the Parent Company.

Risk of price fluctuations

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

Risk of exchange rate fluctuations

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

Risk of interest rate fluctuations

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

The Group's floating rate debt exposes it to a *cash flow* risk stemming from interest rate volatility.

The Group's financial debt consists of bonds and finance lease payables. Financial payables at floating rates accounted for 6.8% of total debt as at 31 December 2018.

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 2018 and 31 December 2017 of a positive or negative 0.5% change in interest rates, all other variables being unchanged:

Description	**31 December 2018**		**31 December 2017**	
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	-373	373	-1402	1402

7.4 Capital Risk

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

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

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

The 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 2018 and 2017 (amounts in thousands of euros):

Description	**31 December 2018**	**31 December 2017**
Cash and cash equivalents	882,278	500,796
Financial receivables (current and non-current)	0	0
Receivables from Fìdaty Oro payment card users	61,521	63,527
Financial payables (current and non-current)	-1,379,460	-1,411,874
Net debt	**-435,661**	**-847,551**
Shareholders' Equity	**3,097,344**	**2,819,815**
Net Invested Capital	**3,533,005**	**3,667,366**
Gearing ratio	**-12.3%**	**-23.1%**

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 2018 shows that net invested capital is 87.7% financed by own funds, much better than 2017. This indicates the Group's strong capital structure and high solvency level.

8. Financial assets and liabilities by category

The following table provides a breakdown of financial assets and liabilities by category, with the corresponding *fair value* for the Group's consolidated financial statements as at 31 December 2018 and 31 December 2017 (amounts in thousands of euros):

	31 December 2018				
	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at amortised cost	Total	*Fair value*
Equity investments in other companies	130	0	0	130	130
Other receivables and other non-current financial assets	0	0	75,165	75,165	75,165
Trade receivables	0	0	480,228	480,228	480,228
Other receivables and other current financial assets	0	0	37,080	37,080	37,080
Cash and cash equivalents	0	0	882,278	882,278	882,278
Total	**130**	**0**	**1,474,751**	**1,474,881**	**1,474,881**
Financial payables (current and non-current) excluding leases	0	0	982,884	982,884	971,770
Lease payables (current and non-current)	0	0	396,576	396,576	418,683
Deferred revenue for prize-giving promotions (current and non-current)	190,832	0	0	190,832	190,832
Other payables and other non-current liabilities	0	0	236	236	236
Trade payables	0	0	1,341,656	1,341,656	1,341,656
Other payables and other current liabilities	0	0	285,498	285,498	285,498
Total	**190,832**	**0**	**3,006,850**	**3,197,682**	**3,208,675**

	31 December 2017				
	Financial assets and liabilities at fair value through profit and loss	Financial assets and liabilities at fair value through other comprehensive income	Financial assets and liabilities at amortised cost	Total	*Fair value*
Equity investments in other companies	196	0	0	196	196
Other receivables and other non-current financial assets	0	0	96.282	96.282	96.282
Trade receivables	0	0	447.087	447.087	447.087
Other receivables and other current financial assets	0	0	37.588	37.588	37.588
Cash and cash equivalents	0	0	500.796	500.796	500.796
Total	**196**	**0**	**1.081.753**	**1.081.949**	**1.081.949**
Financial payables (current and non-current) excluding leases	0	0	979.975	979.975	1.012.010
Lease payables (current and non-current)	0	0	431.900	431.900	454.795
Deferred revenue for prize-giving promotions (current and non-	140.910	0	0	140.910	140.910
Other payables and other non-current liabilities	0	0	186	186	186
Trade payables	0	0	1.286.194	1.286.194	1.286.194
Other payables and other current liabilities	0	0	285.140	285.140	285.140
Total	**140.910**	**0**	**2.983.395**	**3.124.305**	**3.179.235**

9. Information on *fair value*

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

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

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;

(b) the ability to carry out a transaction with the asset or liability at that market price at the measurement date.

Level 2: *Fair value* calculated using valuation techniques that make use of inputs that are observable on active markets. *Inputs* for this level include:

(a) quoted prices for similar assets or liabilities in active markets;

(b) quoted prices for identical or similar assets or liabilities in markets that are not active;

(c) inputs other than quoted prices that are observable for the asset or liability, for example:

   i. interest rates and yield curves observable at commonly quoted intervals;
   ii. implied volatilities;
   iii. credit *spreads*;

(d) market-corroborated *inputs*.

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

10. Operating Segments

An operating segment is an entity's component:

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

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

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

11. Seasonal events

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

12. Notes to the Consolidated Statement of Financial Position

12.1 Property, plant and equipment

During 2018, the Company opened the stores in Pistoia Porta Nuova (closing the Viale Matteotti one at the same time), Vimercate (closing the existing one at the same time) and Milano Famagosta. The Verona Corso Milano store was opened again after full renovation and expansion.

The details and movements of property, plant and equipment for the year ended 31 December 2018 are shown in the following table (amounts in thousands of euros):

Description	31 December 2017	Change in the scope of consolidation	Increases	Decreases	Reclassifications and transfers	31 December 2018
Land and buildings						
Historical cost	4,622,354	0	114,237	-14,071	217,515	4,940,035
Accumulated depreciation	-1,462,199	0	-106,203	192	26,486	-1,541,724
Provision for impairment	-11,062	0	0	0	8,843	-2,219
Net amount	**3,149,093**	**0**	**8,034**	**-13,879**	**252,844**	**3,396,092**
Plant and machinery						
Historical cost	1,439,334	0	77,659	-6,210	48,842	1,559,625
Accumulated depreciation	-943,035	0	-98,015	5,711	3,192	-1,032,147
Provision for impairment	0	0	-147	3	-1,600	-1,744
Net amount	**496,299**	**0**	**-20,503**	**-496**	**50,434**	**525,734**
Industrial and commercial equipment						
Historical cost	1,768	0	61	-7	0	1,822
Accumulated depreciation	-1,684	0	-34	7	0	-1,711
Net amount	**84**	**0**	**27**	**0**	**0**	**111**
Others						
Historical cost	503,301	0	32,682	-7,966	4,364	532,381
Accumulated depreciation	-373,527	0	-35,974	7,474	131	-401,896
Provision for impairment	0	0	-569	212	0	-357
Net amount	**129,774**	**0**	**-3,861**	**-280**	**4,495**	**130,128**
Intangibles in progress and advances						
Historical cost	451,437	12,978	65,765	-907	-322,946	206,327
Provision for impairment	-2	0	0	0	2	0
Net amount	**451,435**	**12,978**	**65,765**	**-907**	**-322,944**	**206,327**
Total						
Historical cost	7,018,194	12,978	290,404	-29,161	-52,225	7,240,190
Accumulated depreciation	-2,780,445	0	-240,226	13,384	29,809	-2,977,478
Provision for impairment	-11,064	0	-716	215	7,245	-4,320
Net amount	**4,226,685**	**12,978**	**49,462**	**-15,562**	**-15,171**	**4,258,392**

The "change in the scope of consolidation" column refers to assets obtained from the acquisition of Immobiliare Torino 2018 S.r.l.

The increase in item Land and buildings includes € 56,249 thousand of capital expenditures incurred for the construction of new stores opened by Esselunga S.p.A. in 2018: Vimercate (MB), Pistoia Porta Nuova, Milano Viale Famagosta and the renovation of the Verona, Corso Milano store. In addition, capital expenditures of € 6,421 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 € 9,871 thousand and the Group's commercial development for € 41,696 thousand.
The decrease in Land and buildings mainly refers to two security deposits that were reimbursed in respect of areas no longer considered of interest for the Group's commercial development. The reclassifications and transfers columns mainly include the reclassification of investments made in previous years in relation to new stores opened in the current year and the transfer of some excess volumes to the investment property item.

The increase in Plant and machinery includes € 34,524 thousand for new stores, € 20,194 thousand for capex incurred for the logistics hubs, production facilities and the headquarters. Finally, € 22,643 thousand concerned the maintenance of the sales network and € 298

thousand capital expenditures for the Group's commercial development. The decrease in the item in question refers to the normal replacement of the Group's tangible assets.
The reclassifications and transfers columns mainly include the reclassification of investments made in 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 € 8,534 thousand of capex incurred for the construction of new stores; € 13,309 thousand refer to capital expenditures for the logistic hubs, production facilities and headquarters. Additional capital expenditures concerned the maintenance of the sales network for € 10,809 thousand and the Group's commercial development for € 30 thousand.
The decrease in the item in question refers to the normal replacement of the Group's tangible assets. 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 of € 9,603 thousand and for commercial development of € 56,162 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 2018 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 2018**	**31 December 2017**
Motor vehicles, cars and vehicles for internal use	6,049	6,743
Office furniture and equipment	79,030	81,690
Electronic office equipment	34,220	30,491
Niche perfumery furniture and furnishings	1,310	1,740
Bar furniture and furnishings	9,519	9,110
Total	**130,128**	**129,774**

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	120	53	173
Total	**3,376**	**17,062**	**20,438**

As at 31 December 2018, 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 € 459,607 thousand and € 478,872 thousand at 31 December 2018 and 31 December 2017, respectively.

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 2018 are shown in the following table (amounts in thousands of euros):

Description	Historical cost	Accumulated depreciation	Provision for impairment	Total
Balances as of 1 January 2018	**393,153**	**-40,026**	**-191,435**	**161,692**
Change in the scope of consolidation	10,100	0	0	10,100
Increases	1,042	-2,951	-28,035	-29,944
Decreases	-11,275	2,674	9,593	992
Reclassifications	57,435	-3,726	-27,462	26,247
Balances as of 31 December 2018	**450,455**	**-44,029**	**-237,339**	**169,087**

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

The decreases mainly refer to the sale of an area that is no longer of interest for the Group and to the demolition of the old store in Monza, Via Lecco.

The reclassifications refer to a change in the intended use of some areas which are no longer used to carry out the Esselunga Group's activities and which have been reclassified from items “property, plant and equipment” and "assets held for sale".

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

Description	Historical cost Net	Accumulated depreciation	Total
Emilia Romagna	35,135	-15,628	19,507
Lombardy	213,394	-112,726	100,668
Piedmont	49,375	-31,005	18,370
Tuscany	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	**353,127**	**-191,435**	**161,692**
Emilia Romagna	34,853	-15,165	19,688
Lombardy	235,598	-142,441	93,157
Piedmont	59,350	-36,814	22,536
Tuscany	36,076	-22,256	13,820
Veneto	10,129	-5,640	4,489
Liguria	20,523	-7,106	13,417
Lazio	9,897	-7,917	1,980
Balances as of 31 December 2018	**406,426**	**-237,339**	**169,087**

As at December 31, 2018, 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 2018	31 December 2017
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 S.p.A..
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 sector and the geographic area, was estimated at 7.23% in 2017 and 6,88% in 2018.
A sensitivity analysis was performed on the *impairment test* results to assess their variability to changes in the main assumptions underlying the estimate.
Two different scenarios were assumed for this purpose:

- Scenario 1: Discount rate = 7,38%, with an increase of 50 basis points over the baseline scenario;
- Scenario 2: Discount rate = 7,88%, 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 2018 are shown in the table below (amounts in thousands of euros):

Description	**31 December 2017**	**Increases**	**Decreases**	**Reclassifications and transfers**	**31 December 2018**
Software					
Historical cost	196,053	20,814	-34	17,070	233,903
Accumulated amortisation	-158,719	-18,716	26	-2	-177,411
Net amount	**37,334**	**2,098**	**-8**	**17,068**	**56,492**
Trademarks, concessions and similar rights					
Historical cost	70,492	40	0	0	70,532
Accumulated amortisation	-17,001	-1,798	0	0	-18,798
Net amount	**53,491**	**-1,758**	**0**	**0**	**51,734**
Commercial licenses					
Historical cost	74,693	0	0	0	74,693
Accumulated amortisation	-20,816	-1,762	0	0	-22,578
Provision for impairment	-3,255	0	0	0	-3,255
Net amount	**50,622**	**-1,762**	**0**	**0**	**48,860**
Assets under construction and advances					
Historical cost	23,012	7,213	0	-21,162	9,063
Net amount	**23,012**	**7,213**	**0**	**-21,162**	**9,063**
Others					
Historical cost	3,430	0	0	0	3,429
Accumulated depreciation	-2,866	-356	0	0	-3,222
Net amount	**564**	**-356**	**0**	**0**	**207**
Total					
Historical cost	367,680	28,067	-34	-4,092	391,620
Accumulated amortisation	-199,402	-22,632	26	-2	-222,009
Provision for impairment	-3,255	0	0	0	-3,255
Net amount	**165,023**	**5,435**	**-8**	**-4,094**	**166,356**

Additions in the year 2018 amounted to € 28,067 thousand and mainly refer to the purchase of software for the improvement of the Group's IT infrastructure.

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

The total decrease shown in the reclassification column is attributable to the reclassification to property, plant and equipment of some capex previously classified as intangible assets.

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 2018	31 December 2017
Investments in associated companies	130	130
Equity investments in other companies	0	66
Total	**130**	**196**

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

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 2018 are shown in the following table (amounts in thousands of euros):

Description	Balances 31/12/2017	Effect Income Statement	Effect Statement of financial position	Balances 31/12/2018
Deferred tax assets and liabilities				
Timing difference cost deductibility	1,174	-450	-1	723
Deferred revenue for prize-giving promotions	5,676	-3,287	0	2,389
Costs for bond issue	-2,159	275	0	-1,884
Inventories and inventory write-downs	4,158	-553	358	3,963
TFR IAS 19	1,807	-123	-122	1,562
Provision for impairment and provision for risks with deferred deductibility	9,646	1,048	141	10,835
Property, plant and equipment (excluding leases)	45,902	8,777	-5,721	48,958
Capital gain on lease-back	38	-12	0	26
Finance leases IAS 17	-107,909	112	9,673	-98,124
Intangible Assets	-5,813	-1,250	-1,779	-8,842
Capital gains subject to deferred taxes	-2,632	861	-39	-1,810
Others	533	53	-703	-117
Total deferred tax assets and liabilities	**-49,579**	**5,451**	**1,807**	**-42,321**
Non-recognised deferred tax assets				
Tax losses from prior years	764	-86	0	678
Total non-recognised deferred tax assets	**764**	**-86**	**0**	**678**

Deferred tax assets and liabilities as of 31 December 2018 were recorded with reference to the period in which the temporary differences that generated them will be recovered and by applying the IRES (24.0%) and IRAP (4.05%) rates.

12.7 Other receivables and other non-current financial assets

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

Description	31 December 2018	31 December 2017
Tax receivables	42,875	52,962
IRES tax receivable from parent companies	25,262	25,262
Security deposits	2,942	3,052
Financial investments	66	0
Other non-current receivables	4,020	15,006
Total	**75,165**	**96,282**

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 201/2011 for deductibility for IRES tax purposes of non-deducted IRAP tax on staff costs for the years 2007 to 2011.please note that, on 2 May 2019, that receivable was transferred without recourse to a primary bank and collected.

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

The item other non-current receivables, in 2017, included the credit for € 21,700 thousand from the company Amteco&Maiora (now an indirect subsidiary of Immobiliare Torino 2018

S.r.l.), for an advance paid to purchase a building area; a credit that was written down for € 10,700 thousand. In 2018, the receivable was fully repaid and the provision for doubtful receivables was released.
To adopt IFRS 9, in 2018 the "Investments in other companies" were reclassified from the item "Investments" to the item "Other receivables and other non-current financial assets", specifically under financial investments.

12.8 Inventories

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

Description	31 December 2018	31 December 2017
Raw materials, supplies and consumables	52,756	58,030
Finished products and goods	370,918	351,152
Total	**423,674**	**409,182**

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

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

Description	31 December 2018	31 December 2017
Balance at the beginning of the year	**17,320**	**21,274**
Allocations	16,508	17,320
Use	-17,320	-21,274
Balance at the end of the financial year	**16,508**	**17,320**

As at 31 December 2018, 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 2018	31 December 2017
Receivables from suppliers for promotional activities	421,353	383,987
Receivables from customers for use of Fidaty Oro card	61,360	63,462
Receivables from cust. for use of Fidaty Oro card - non-performin	97	79
Receivables from parent companies	17	32
Provision for doubtful receivables	-2,599	-473
Total	**480,228**	**447,087**

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 € 2,599 thousand as at 31 December 2018 (€ 473 thousand as at 31 December 2017).

12.10 Current tax receivables

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

Description	31 December 2018	31 December 2017
IRES tax receivable from parent companies	1,288	58,255
IRES tax receivable from the tax authorities	119	3,094
IRAP tax receivable from the tax authorities	162	3,820
Receivables from the tax authorities for tax refunds	13	19
Total	**1,582**	**65,188**

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.

12.11 Other receivables and other current financial assets

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

Description	31 December 2018	31 December 2017
Tax receivables (mainly VAT)	10,280	7,490
Receivables from parent companies (VAT)	408	0
Accrued income and prepaid expenses	18,292	20,977
Receivables from other debtors	13,805	13,994
Provision for impairment of other receivables	-5,705	-4,873
Total	**37,080**	**37,588**

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

Description	31 December 2018	31 December 2017
Balance at the beginning of the period	**4,873**	**3,825**
Accruals	1,121	1,237
Use	-289	0
Reclassification	0	-189
Balance at the end of the period	**5,705**	**4,873**

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 2018**	**31 December 2017**
Deposits with banks and post-office	874,945	492,618
Cheques	38	15
Cash and cash equivalents on hand	7,295	8,163
Total	**882,278**	**500,796**

Please note that on 3 August 2017, the Company entered into three agreements with three major Italian banks for three non-revocable credit lines, for a total of € 300 million and with 5 year maturity. As at 31 December 2018 the above credit lines had not been used.

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 depreciation**	**Provision impairment**	**Total**
Balances as of 1 January 2018	**26,847**	**0**	**-20,219**	**6,628**
Increases	0	0	0	0
Decreases	0	0	0	0
Reclassifications	-26,847	0	20,219	-6,628
Balances as of 31 December 2018	**0**	**0**	**0**	**0**

The reclassification refers to the area located in Sesto Calende (VA) for an amount of € 6,461 thousand, following the cancellation of the preliminary sales agreement, and to the value of some plants included in the Ospitaletto business unit for an amount of € 167 thousand. They were respectively reclassified to investment property and to property, plant and equipment.

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 2018	31 December 2017
Share capital	100,000	100,000
Share premium reserve	164,510	164,510
Retained earnings	2,449,504	2,184,808
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	**2,763,283**	**2,498,587**
Non-controlling interest	**334,061**	**321,228**
Total Shareholders' equity	**3,097,344**	**2,819,815**

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

The change of € 277,529 thousand in shareholders' equity is due to:

- the increase of € 276,165 thousand in profit for the year attributable to owners of the parent and to non-controlling interests;
- the increase of € 315 thousand for the direct recognition in equity of actuarial gains on employees' pension plans (TFR) net of the related tax effect;
- the increase of € 994 thousand due to the reclassification of the negative cash flow hedge reserve to losses for the period;
- the recording of a reserve of € 4,055 thousand following the effects of the application of the IFRS 15 on revenues, on the opening balances as at 1 January 2018 (for more details, see Note 4 - First application of new accounting standards).
- the decrease of € 4,000 thousand for the distribution of dividends to the parent company Supermarkets Italiani S.p.A. in 2018.

12.15 Current and non-current financial payables

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

Description	31 December 2018		31 December 2017	
	Current	Non-current	Current	Non-current
Bonds	0	982,884	0	979,975
Finance lease payables and other	32,977	362,847	32,441	398,223
Accrued interest expense on leases	752	0	1,236	0
Total	**33,729**	**1,345,731**	**33,677**	**1,378,198**

The breakdown of financial payables by maturity is shown below:

Description	31 December 2018	31 December 2017
Less than 1 year	33,729	33,677
Between 2 and 5 years	613,647	127,419
Over 5 years	732,084	1,250,779
Total financial payables	**1,379,460**	**1,411,875**

The following is a description of the main items that make up the Group's financial debts.

Debenture loans

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.

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

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

Finance lease payables

In 2018, the weighted average rate of finance lease contracts was 3.19% compared to 3.17% in 2017. Floating-rate finance leases accounted for 23.6% of payables as at 31 December 2018.

The table below shows the reconciliation between the finance lease payable and the lease payments outstanding at 31 December 2018 (amounts in thousands of euros):

Description	31 December 2018
Future lease payments until contract maturity	489,476
Implied interest	-93,652
Outstanding debt (principal)	**395,824**

In 2018 the Group made finance lease payments (principal) of € 32,442 thousand (€ 30,041 thousand Esselunga S.p.A. and € 2,401 thousand La Villata S.p.A.).

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 2018 and 2017 are shown in the following table (amounts in thousands of euros):

Description	31 December 2018	31 December 2017
Balance at the beginning of the period	**100,276**	**106,751**
Interest cost	1,265	1,341
Payments and transfers	-5,710	-7,683
Actuarial gains / (losses)	-436	285
Other movements	36	-418
Balance at the end of the period	**95,431**	**100,276**

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

	31 December	
	2018	**2017**
Financial Assumptions		
Inflation rate (annual)	1.5%	1.5%
Discount Rate (Annual)	1.6%	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)	
Expected disability rate	INPS tables broken down by age and gender	
Time of retirement	100% upon meeting the AGO requirements	
Turnover	2.50%	
@Advances	2.00%	

12.17 Provisions for risks and charges

Movements in the provisions for risks and charges for the years ended 31 December 2018 and 2017 are shown in the table below (amounts in thousands of euros):

Description	31 December 2018	31 December 2017
Balance at the beginning of the year	**28,828**	**30,861**
Allocations	15,607	3,387
Uses / Releases	-3,080	-8,985
Change in the scope of consolidation	0	10
Reclassification	0	3,555
Balance at the end of the financial year	**41,355**	**28,828**

The provisions set aside refer to future charges and to the risks associated with various disputes pending as at 31 December 2018.

Uses / releases as at 31 December 2018 mainly included the use of provisions for personnel costs (amounting to € 2,231 thousand) and for miscellaneous risks.

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 reporting date.
The movements in the item for the year ended 31 December 2018, broken down by campaign, are shown in the following table (amounts in thousands of euros):

	Fidaty	Amici di scuola (school friends)	Christmas competition	Total current amount	Fidaty	Total not current
As of 1 January 2018	**87,002**	**6,918**	**143**	**94,063**	**46,847**	**46,847**
Application of IFRS 15	-2,636	0	0	-2,636	-1,419	-1,419
As of 1 January 2018 with application of IFRS 15	**84,366**	**6,918**	**143**	**91,427**	**45,428**	**45,428**
Bonus points earned	84,995	10,943	4,409	100,347	45,766	45,766
Use of bonus points	-55,299	-6,918	-143	-62,360	-29,776	-29,776
As of 31 December 2018	**114,062**	**10,943**	**4,409**	**129,414**	**61,418**	**61,418**

The opening balance as at 1 January 2018 was amended in order to reflect the effects of the new IFRS 15 accounting standard (for more details, see Note 4 - First application of new accounting standards).

The "Fìdaty" gift with purchase promotion is the Group's institutional promotion for customer loyalty. Customers who shop in Esselunga, Atlantic, and EsserBella stores earn "*punti Fìdaty*" 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 2018	31 December 2017
Security deposits	236	186
Total	**236**	**186**

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 2018 the item amounted to € 1,341,656 thousand (€ 1,286,194 thousand as at 31 December 2017) 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 2018	31 December 2017
IRES tax payable to parent companies	21,834	0
IRES tax payable to the tax authorities	188	115
IRAP tax payable to the tax authorities	4,403	15
Total	**26,425**	**130**

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 2018	31 December 2017
Payables to employees and other staff	81,374	79,594
VAT payable to the tax authorities	84,243	87,915
IRPEF payable to the tax authorities	17,468	18,429
Other payables to the tax authorities:	3,785	4,590
Payables to social security institutions	60,028	56,415
Advances	0	4,631
Other payables	36,341	31,208
Accrued expenses and deferred income	2,259	2,358
Total	**285,498**	**285,140**

The item advances in 2017 only included a deposit received in relation to preliminary agreements for the sale of an area located in Lombardy.

Other payables include commissions payable to credit institutions for use of electronic collections for € 2,318 thousand and amounts due for the sale of prepaid cards for € 24,966 thousand.

Accrued expenses and deferred income as at 31 December 2018 included € 1,734 thousand of lease payments invoiced but not related to the year and € 167 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 2018 and 2017 is as follows (amounts in thousands of euros):

Description	**Financial Year 2018**	**Financial Year 2017**	**Difference**
Total sales	7,913,925	7,753,761	160,164
Other sales adjustments:			
costs for the purchase of newspapers and phone cards and related services	-127,628	-115,568	-12,060
Net (Deferral)/Recognition of fair value for prize-giving promotions	-54,059	-44,156	-9,903
other minor adjustments	-3,673	704	-4,377
Total other sales adjustments	-185,360	-159,020	-26,340
Total net revenues	**7,728,565**	**7,594,741**	**133,824**

Total sales for the year 2018 increased by € 160,164 thousand compared to the previous year. The increase in percentage terms was 2.1%.

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

The net deferral of revenues for prize-giving promotions of € 54,059 thousand for the year ended 31 December 2018 results from recognition in 2017 of € 92,055 thousand, as consideration for obligations to be considered settled when prizes are collected, and from deferral of considerations of € 146,114 thousand for future obligations. These considerations are measured based on the *fair value* of the prizes, as received by the end customer.

Net revenues in 2018 increased by € 133,824 thousand compared to those in 2017, up by 1.8%.

13.2 Net costs for goods and raw materials

The net costs for goods and raw materials in 2018 amounted to € 5,355,631 thousand compared to € 5,247,543 thousand in 2017.
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 2018 and 2017 is as follows (amounts in thousands of euros):

Description	**Financial Year 2018**	**Financial Year 2017**	**Difference**
Rental income and recovery of common charges	9,021	8,607	414
Other sales	7,366	7,568	-202
Rent of supports for the transport of perishable products	12,659	12,841	-182
Points charged that do not represent goods ("Fragola" points)	1,465	1,311	154
Sale of customer profiling data	4,610	3,346	1,264
Capital gains on disposal	1,307	8,862	-7,555
Insurance reimbursements and damages charged back	2,268	2,549	-281
Recharge of costs for quality control analysis	719	615	104
Spreads and commissions	876	747	129
Other	4,065	5,446	-1,381
Total	**44,356**	**51,892**	**-7,536**

The other sales for € 7,366 thousand in 2018 mainly refers to the sale to third parties of scrap, scrap paper, pallets and production waste.

The item points charged that do not represent goods includes the proceeds from the sale of "*punti Fìdaty*" 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 capital gains on disposal in 2017 included the capital gains realized on the sale of two areas classified as property investments.

The item "other" mainly refers to 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 2018	Financial Year 2017
Transport, handling and parking	230,246	211,194
Rent expense	30,191	100,720
Common charges	9,359	8,992
Rentals	5,328	3,357
Utilities, consumption and data transmission expenses	108,144	100,886
Repairs and maintenance	89,773	88,487
Cleaning	44,815	43,988
Advertising and marketing	60,907	75,002
Internal and external processing of goods and products	24,068	22,770
Insurance	11,219	9,894
Other services	25,881	26,979
Bank collection fees	21,597	20,225
Consulting and professional services	27,050	17,773
Security, surveillance and transportation of valuables	19,939	20,425
Total	**708,517**	**750,692**

The costs for services decreased in absolute terms and amounted to 9% of total sales (9.7% in 2017); the decrease was due to a reduction in rents payable following the consolidation of La Villata Immobiliare, previously Villata Partecipazioni.

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. As was said above, 2017 included rentals for property owned by La Villata which was consolidated from 21 September 2017.

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 2018	Financial Year 2017
Wages and Salaries	707,630	689,970
Social security charges	209,682	199,795
Employee severance indemnity	46,741	44,585
Gifts to employees	1,194	1,184
Cost for temporary employees	2,421	3,401
Corporate welfare	2,379	1,555
Other personnel costs	2,080	0
Total	**972,127**	**940,490**

Personnel costs were driven up by the increase in the average workforce of about 451 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.

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

Description	Financial Year 2018	Financial Year 2017
Managers	73	68
White-collars	15,475	15,255
Blue-collars	8,012	7,786
Total	**23,560**	**23,109**

13.6 Amortisation and depreciation

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

Description	Financial Year 2018	Financial Year 2017
Property, plant and equipment	240,226	203,976
Investment property	3,028	2,282
Intangible assets	22,632	20,657
Total	**265,886**	**226,915**

The increase in depreciation of property, plant and equipment is mainly attributable to the consolidation of La Villata as well as to the depreciation of stores that were opened or renovated in 2018 and 2017.

The increase in amortisation of intangible assets is mainly attributable to the software that came into use in 2018 and 2017.

13.7 Provisions for risks and property write-downs

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

Description	Financial Year 2018	Financial Year 2017
Accruals to the provisions for risks and charges	1,687	225
Write-downs of non-current assets	21,109	6,655
Total	**22,796**	**6,880**

Provisions were made in relation to probable liabilities related to various kinds of disputes pending at the end of the financial year.

Net write-downs of property, plant and equipment and intangible assets mainly include the recognition of property write-downs to align the carrying amount to their estimated realizable value, based on appraisals carried out by a third party company. This item is expressed net of purchase cost reversal when the reasons for the write-downs made in previous years no longer apply.

13.8 Net write-downs of financial assets

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

Description	Financial Year 2018	Financial Year 2017
Accrual to the provision for doubtful receivables	-7,241	12,808
Total	**-7,241**	**12,808**

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

13.9 Other operating costs

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

Description	Financial Year 2018	Financial Year 2017
Municipal Property Tax - IMU	22,049	15,744
Municipal solid waste disposal fee - TARSU	9,725	10,313
Taxes related to prize-giving promotions	4,517	9,973
Other taxes and duties	4,540	4,389
Capital losses on property, plant and equipment	1,605	2,612
Rights, authorisations and concessions	1,514	1,252
Subscriptions, printing, etc.	579	586
Losses on receivables	274	87
Other operating costs	2,109	5,428
Total	**46,912**	**50,384**

The increase in the municipal property tax - IMU is mainly attributable to the consolidation of La Villata Immobiliare.

13.10 Income from investments measured using the equity method

In 2017, the item, amounting to € 3,449 thousand, referred 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).

13.11 Finance income

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

Description	Financial Year 2018	Financial Year 2017
Bank interest income	746	324
Income from equity investments	3	5
Foreign exchange gains	8	13
Other financial income	73	487
Total	**830**	**829**

Other finance income as at December 2017 included interest on tax collection notices and the recovery of interest on reimbursement requests of 10% Irap deductible for the years from 2004 to 2007.

13.12 Finance expense

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

Description	Financial Year 2018	Financial Year 2017
Interest expense on bonds (BOND)	17,652	3,238
Interest expense on finance lease contracts	13,031	12,609
Employee severance indemnity - discounting to PV	1,259	1,343
Other finance expenses with parent companies (use of credit lines)	155	64
Foreign exchange losses	19	10
Bank interest expense	2	33
Interest expense on Bridge financing	0	1,336
Other finance expenses	370	274
Total	**32,488**	**18,907**

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.

The increase in interest expense on finance lease contracts is attributable to the interest accrued on lease contracts entered into by La Villata, following its consolidation in the Esselunga Group.

In December 2017 interest expenses on Bridge term loans included interest expenses for a loan. This interest 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.p.A. credit *rating*.

13.13 Income tax expense

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

Description	Financial Year 2018	Financial Year 2017
Current income taxes	106,712	55,603
Income from tax consolidation	-791	-471
Net deferred tax income (expense)	-5,451	42,309
Total	**100,470**	**97,441**

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 2018	Year ended 31 December 2017
Applicable ordinary tax rate	28,05%	28,05%
Increases (decreases) compared to ordinary rate:		
- permanent differences	2,31%	2,05%
- different IRAP base	0,75%	0,63%
- effect of reduction in taxable A.C.E.	-1,74%	-1,50%
- IRAP deductibility for IRES purposes	-0,23%	-0,20%
- income taxes of prior years	-0,99%	-3,98%
- "super" and "iper" amortisation and depreciation	-1,42%	-0,76%
-other changes	-0,05%	0,29%
Actual tax rate	**26,68%**	**24,58%**

The effective tax charge for 2018 was 26.68% (24.58% in 2017) of the pre-tax profit, compared to the theoretical tax rate of 28.05%.

The difference between the theoretical tax rate and the effective tax rate is mainly due to:

- **benefit attributable to ACE** (Aid to Economic Growth) for € 6,542 thousand (1.74% change) in 2018 and € 5,946 thousand in 2017 (1.50% change in 2017);
- **extra-depreciation and hyper-depreciation** that permit companies investing in capital goods to depreciate 140/ 130 per cent (depending on the purchase date) and 250 percent of the asset cost respectively for tax purposes. This provision resulted in a benefit of € 5,347 thousand (1.42% change) in 2018 and € 3,020 thousand in 2017 (0.76% change);
- **permanent differences** that led to an increase in the tax burden of € 8,690 thousand and € 8,142 thousand respectively (2.31% change in 2018 and 2.05% change in 2017); they mainly refer to the non-deductible IMU tax (municipal property tax) (€ 4,897 thousand in 2018 and € 4,755 thousand in 2017), the withholding taxes on prize-giving competitions not charged back (€ 585 thousand in 2018 and € 2,315 thousand in 2017);
- **different IRAP tax base**, that increased the tax expense for 2018 and 2017 respectively by € 2,834 thousand and € 2,503 thousand (0.75% change in 2018, 0.63% change in 2017).

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 2018 and 2017 mainly concerned:

- business relations mainly relating to administrative services and leases;
- financial transactions;
- transactions regarding the management of the IRES tax consolidation and Group VAT;
- employment and collaboration contracts with executives with strategic responsibilities including Board of Directors' members (the "Senior Management").
- commercial transactions mainly relating to 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 2018 and 31 December 2017 (amounts in thousands of Euros):

	Supermarkets Italiani S.p.A.	Dom 2000 S.p.A.	Centomilacandele S.c.p.a.	Senior Management	Others	Total	Total balance sheet item	As % of balance sheet item
Other receivables and other non-current financial assets								
As of 31 December 2018	25,262	0	0	0	0	**25,262**	**75,165**	**33.61%**
As of 31 December 2017	25,262	0	0	0	0	**25,262**	**96,282**	**26.24%**
Trade receivables								
As of 31 December 2018	17	0	0	0	0	**17**	**480,228**	**0.00%**
As of 31 December 2017	32	0	0	0	0	**32**	**447,087**	**0.01%**
Other receivables and other current financial assets								
As of 31 December 2018	0	0	0	0	0	**0**	**37,080**	**0.00%**
As of 31 December 2017	0	0	0	0	0	**0**	**37,588**	**0.00%**
Current tax receivables								
As of 31 December 2018	1,288	0	0	0	0	**1,288**	**1,582**	**81.42%**
As of 31 December 2017	58,255	0	0	0	0	**58,255**	**65,188**	**89.36%**
Trade payables								
As of 31 December 2018	0	-3,455	-3,431	0	-980	**-7,866**	**1,341,656**	**-0.59%**
As of 31 December 2017	0	-2,644	-4,595	0	-486	**-7,725**	**1,286,194**	**-0.60%**
Employee severance indemnities (TFR) and other staff-related provisions								
As of 31 December 2018	0	0	0	-309	0	**-309**	**95,431**	**0.00%**
As of 31 December 2017	0	0	0	-441	0	**-441**	**100,276**	**-0.44%**
Current tax payables								
As of 31 December 2018	21,834	0	0	0	0	**21,834**	**26,425**	**82.63%**
As of 31 December 2017	0	0	0	0	0	**0**	**130**	**0.00%**
Other payables and other current liabilities								
As of 31 December 2018	0	0	0	-798	0	**-798**	**285,498**	**0.00%**
As of 31 December 2017	0	0	0	-596	0	**-596**	**285,140**	**-0.21%**

The following table shows the income statement amounts arising from transactions carried out by the Group with related parties in FY2018 and FY2017 (amounts in thousands of euros):

	Supermarkets Italiani S.p.A.	Dom 2000 S.p.A.	Centomilacandele S.c.p.a.	Senior Management	Others	Total	Total balance sheet item	As % of balance sheet item
Other revenue and income								
Financial Year 2018	39	0	0	0	0	**39**	**44,356**	**0.09%**
Financial Year 2017	33	0	0	0	0	**33**	**51,892**	**0.06%**
Costs for services								
Financial Year 2018	0	-15,611	-37,323	0	-980	**-53,914**	**-708,517**	**7.61%**
Financial Year 2017	0	-15,809	-36,934	0	-779	**-53,522**	**-750,692**	**7.13%**
Personnel costs								
Financial Year 2018	0	0	0	-4,591	0	**-4,591**	**-972,127**	**0.47%**
Financial Year 2017	0	0	0	-8,971	0	**-8,971**	**-940,490**	**0.95%**

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

Personnel costs refer to the emoluments and remuneration granted in any form and for any reason to the Senior Management, including members of the Parent Company's Board of Directors, and recorded in the financial statements in each of the two financial years ended 31 June 2018 and 2017, including accruals and regardless of whether such costs have already been paid.

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 2018 for capex amounted to € 103,736 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 were no commitments to this effect as at 31 December 2018 and 31 December 2017.

15.3 Lease commitments

As at 31 December 2018 and 2017, 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**	**31 December 2018**	**31 December 2017**
Sales network	Within 12 months	21,863	21,895
	From one to five years	85,120	76,447
	Over five years	332,953	325,941
Total		**439,936**	**424,283**
Warehouses	Within 12 months	5,541	4,612
	From one to five years	23,659	15,541
	Over five years	18,146	8,813
Total		**47,346**	**28,966**
Peripheral offices	Within 12 months	529	477
	From one to five years	1,893	1,791
	Over five years	2,330	2,554
Total		**4,752**	**4,822**
Grand Total		**492,034**	**458,071**

The commitments listed in the detail table were quantified on the basis of the contractual terms in effect on 31 December 2018, 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 2018, the Company had long-term rental agreements in force relating to the company car fleet for an amount of € 6,967 thousand.

15.5 Guarantees given

The guarantees given by the Esselunga Group amounted to € 89,504 thousand as at 31 December 2018, including bank guarantees of € 73,735 thousand and insurance guarantees of € 15,769 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.

After the hearing to state conclusions, the suit was postponed until 21 January 2020. According to the legal advisers assisting the Company in these proceedings and also considering the judgment of the first instance, no provision for potential liabilities was deemed necessary by the Company.

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

During the year ended 31 December 2018, no atypical and/or unusual transactions were carried out which, due to their nature, size, or effect, may affect the Group's assets, liabilities, equity, net result or cash flows.

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

Please note that the obligations established by the annual market and competition law 124/2017 do not apply to the Esselunga Group as the subsidies, contributions or any economic benefits received are part of its activities and are referred to facilitation measures generally referred to most companies.

18. Remuneration of the Board of Statutory Auditors

The fees paid to the Board of Statutory Auditors for the year ended 31 December 2018 amounted to € 94 thousand (€ 113 thousand in 2017).

19. Independent auditors' fees

Pursuant to the applicable laws, the total fees for the 2018 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 (amounts in thousands of euro).

Description	Entity that provided the service	Recipient	Total fees
Auditing services	PricewaterhouseCoopers S.p.A.	Esselunga S.p.A.	639
		Subsidiaries	136
Services other than auditing	PricewaterhouseCoopers S.p.A.	Esselunga S.p.A.	40
		Subsidiaries	85
	PricewaterhouseCoopers Network	Esselunga S.p.A.	383
		Totals	**1,283**

The Chairman
of the Board of Directors

(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 2018	Line-by-line consolidation As of 31 December 2017	Notes
Esselunga S.p.A.	Milan	100,000	100	Yes	Yes	
Albria S.r.l.	Milan	16	100	Yes	Yes	
Atlantic S.r.l.	Milan	90	100	Yes	Yes	
Fidaty S.p.A.	Milan	600	100	Yes	Yes	
EsserBella S.p.A.	Milan	500	100	Yes	Yes	
Orofin S.p.A.	Milan	100,000	100	Yes	Yes	
Villata Partecipazioni SpA	Milan	48,000	67.5	No	Yes	merged into La Villata S.p.A. Immobiliare di Investimento e Sviluppo
La Villata S.p.A. Immobiliare di Investimento e Sviluppo	Milan	45,000	67.5	Yes	Yes	acquired in 2017
Immobiliare Torino 2018 S.r.l.	Milan	100	100	Yes	No	acquired in 2018
I.A.M. Immobiliare Alba Mediterranea S.r.l.	Rome	10	100	Yes	Yes	
Lanterna S.r.l.	Milan	10	100	Yes	Yes	
Immobiliare di Levante S.r.l.	Genoa	10	100	Yes	Yes	
Ganesa S.r.l.	Genoa	10	100	Yes	Yes	
Commerciale Ducale S.r.l.	Modena	10	100	Yes	Yes	
Commerciale Ostiense S.r.l.	Rome	10	100	Yes	Yes	
Commerciale Dora S.r.l.	Vercelli	10	100	Yes	Yes	
Immobiliare Colombo 2015 S.r.l.	Rome	10	100	Yes	Yes	
Immobiliare Sella S.r.l.	Milan	10	100	Yes	Yes	
Nocellara S.r.l.	Milan	10	100	Yes	Yes	
Magenta Due S.r.l.	Milan	10	100	Yes	Yes	
Iris S.r.l.	Milan	15	100	No	Yes	merged in 2018
Reale Immobiliare S.r.l.	Milan	10	100	No	Yes	merged in 2018
Other (*)				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. (Single shareholder)
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 Rea no. 1063068

BOARD OF STATUTORY AUDITORS REPORT TO THE CONSOLIDATED FINANCIAL STATEMENTS CLOSED AS AT 31.12.2018

To the sole Shareholder
The Board of Statutory Auditors has performed the supervisory tasks established by art. 2403 of the Italian civil code and has drawn up this report pursuant to art. 2429 of the Italian civil code; the independent auditing procedure is carried out by the Auditing Company PricewaterhouseCoopers S.p.A.
During the year closed as at 31 December 2018, our activities were inspired by laws and the Rules of conduct applicable to the Board of Statutory Auditors issued by the National Board of Auditors and Certified Public Accountants, based on which we have performed the self- assessment, with positive results, for each board member.

Supervisory activities pursuant to art. 2403 et seq. Italian Civil Code.
During the year in question, we supervised compliance with the law and the articles of association, and compliance with the principles of correct administration.
Using the information acquired from company managers and during the periodical meetings with the Independent Auditors, we assessed and supervised the adequacy of the organisational structure, of the administrative and accounting system, and the reliability of the latter to correctly present management occurrences. On that point, we have no specific comments to make.
During 2018, we held 20 meetings, of which 6 to issue opinions for assignments to the Independent Auditors; we took part in all Shareholders' Meetings and those of the Board of Directors, held in compliance with regulations in the articles of association and laws regulating their operations; we received periodical, detailed information from managers on the management trend and on its foreseeable evolution; Directors provided us with suitable information on activities carried out and on the main transactions of financial, economic and capital relevance decided during the year.

We acquired information on compliance with correct administrative conduct by talking to managers appointed to prepare accounts and corporate financial statements, and to those of the Internal Audit function and with the Independent Auditors.
Periodical meetings were held with the Auditors of PWC, as established by Legislative Decrees 39/2010 and 135/2016, to supervise their independence and to control how their activities were carried out and to exchange information on respective supervisory and auditing results.
Following those activities, we were able to ascertain organisation and administrative and control system adequacy.
We also performed periodical self-assessment of the independence of members of the Board of Statutory Auditors.

Related to what emerged during activities performed in the year, the Board of Statutory Auditors can declare that:

- decisions made by the Shareholders' Meeting and by the Board of Directors complied with the Law and with the Articles of Association and were not atypical, unusual, evidently imprudent, risky, in potential conflict of interest or such as to compromise shareholders' equity, also considering infra-group transactions;
- the Directors' management choices appeared to comply with general economic rationality criteria;
- transactions implemented also complied with the Law and the Articles of Association and were not in potential contrast with Shareholders' Meeting resolutions or such as to compromise shareholders' equity.

During the year, the Board of Statutory Auditors did not receive any reports pursuant to art. 2408 of the Italian Civil Code. The Board of Statutory Auditors issued - when requested to do so - opinions established by law.
During its supervisory activity, as described above, no significant facts emerged that need to be mentioned in this report.
The Supervisory Body established by Legislative Decree 231/2001 regularly performed the activities it is responsible for, as certified in the periodical information submitted to the Board of Directors and to the Board of Statutory Auditors. No critical aspects emerged related to the Model adopted which need to be highlighted in this Report.

Comments on the consolidated financial statement of the Esselunga Group.

On 29 March 2019, the Board of Directors resolved to avail itself of the longer term of 180 days to approve the financial statements for the year closed as at 31 December 2018 and, as a result, the consolidated financial statements as at 31 December 2018.

- The consolidated financial statements of the Esselunga Group closed as at December 31 2018 declare a consolidated net profit of Euro 276,165 thousand ; they include the Statement of consolidated financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow report, the Statement of changes to consolidated equity and the Notes to the consolidated financial statements as at 31 December 2018.
- The Board of Directors has also prepared a Directors' report pursuant to art. 2428 Italian civil code, including the Non-financial Statement drafted pursuant to Legislative Decree 254/2016; pursuant to paragraph 2-bis of art. 40 of Legislative Decree 127/91, the Company has availed itself of the right to present the directors' report on the financial statements for the year and the consolidated financial statements in a single document, including the Non-financial Statement.

Those documents were submitted to the Board of Statutory Auditors in time to be deposited in the registered office of the Company, together with this report, as set forth in the Italian Civil Code.

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

- On 7 June 2019, the Independent Auditors appointed to audit accounts issued their report drafted pursuant to Legislative Decree 39 of 27/01/2010. In this, they declare that the consolidated financial statements of the Esselunga Group closed as at 31 December 2018 present the financial position of the company truly and correctly, as well as the economic result for the year; the report issued by the Independent Auditors also expresses an opinion that the directors' report is consistent with the consolidated financial statements as at 31 December;
- on 7 June 2019, the Independent Auditors sent the Board of Statutory Auditors the report set forth in art.11 of EU Regulation 537/2014;

- the consolidation area, criteria and consolidation methods, as well as the assessment criteria adopted by Directors, described in the Notes to the consolidated financial statements as at 31 December 2018, comply with laws in force;
- the subsidiaries are consolidated applying the full consolidation method; Investments in associates are measured using the equity method;
- Through direct audits and information obtained from the heads of the various departments, the Board of Statutory Auditors ascertained the general compliance of the financial statements with laws in force related to drafting and structure;
- The Board of Statutory Auditors was able to ascertain the general compliance of the financial statements with information collected, documents examined and facts that emerged during periodical audits and interviews;
- The Board of Statutory Auditors acknowledges that the Directors' Report inclusive of the Non-financial statement prepared by Directors provides a faithful, balanced and exhaustive analysis of all aspects of company management.

Supervision of the Parent pursuant to the "Consolidation Act on Auditing accounts".

As Esselunga S.p.A. has obtained the status of Body of Public Interest, the Board of Statutory Auditors - pursuant to art. 19 of Legislative Decree 39/2010 - also takes on the role of "Committee for internal control and Auditing" for the Parent, attributed the following supervisory functions:

- on the financial information process;
- on the effectiveness of the internal control and risk management systems;
- on the Independent Auditing of annual and consolidated accounts;
- on the independence of the Independent Auditor, with specific reference to the supply of non-auditing services.

Supervision of the financial information process

The Board of Statutory Auditors has checked for the presence of adequate procedures to control the preparation and circulation of financial information. Specifically, it received and examined the contents of procedures related to drafting the company's financial statements.

It also received confirmation that, based on actions carried out as part of the independent audit, no shortcomings emerged in the internal control system related to the financial information process.

On this point, the Board of Statutory Auditors expresses an assessment on the adequacy of financial information creation process and feels that there are no findings to be reported to the Shareholders' Meeting

Supervision of the effectiveness of the internal control and risk management systems

During 2018 and in the first part of 2019, the Board of Statutory Auditors related and coordinated with the head of the Internal Audit department to acquire information on auditing carried out and on the Audit plan for 2019, approved by the Board of Directors on 26 March 2019.

The Board of Statutory Auditors also acquired periodical information on actions carried out by the company's Crisis Committee.

Supervision of the independent auditing of annual accounts

Supervision of the independent auditing pursuant to article19 of Legislative Decree 39/2010 was carried out by the Board of Statutory Auditors in meetings held with the Independent Auditor appointed, which illustrated results of audits conducted, the auditing strategy, and the fundamental questions handled during its audits. No critical aspects emerged from those meetings that could have an effect on the Company's financial statements.

Supervision of the independence of the Independent Auditor, with specific reference to the supply of non-auditing services.

The Board of Statutory Auditors supervised the independence of the Auditing Company PricewaterhouseCoopers S.p.A., appointed by Esselunga S.p.A. in 2017 to carry out the independent auditing service for the nine-year period 2017 – 2025 pursuant to Legislative Decree 39/2010; on this point, please note that during 2018 the Board of Statutory Auditors, in its role as Committee for internal control and auditing, having checked effective independence, approved the 7 tasks for non-auditing services assigned to PricewaterhouseCoopers S.p.A.

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

In consideration of what was declared above and considering the results of the Independent Auditor's report prepared pursuant to art. 14 of Legislative Decree 39/2010, the Board of Statutory Auditors believes that the consolidated financial statements of the Group closed as at 31 December 2018 were drafted in compliance with laws in force and correctly express the financial position and the economic result for the year.

Milan, 7 June 2019

The Board of Statutory Auditors

Mr Enzo Moggio

Mr Marco Sabella

Mr Stefano Angheben

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 2018, 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 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

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 timeframe for obtaining construction approvals and the gradual contraction of the real estate market resulted in increased uncertainty about the ways of completion of projects and increased price volatility, with a consequent reduction of the number of comparable transactions that could be used for valuation purposes. This involves the need to make assumptions about the development of approval processes and future market developments, and the possibility that actual results may differ from estimates, which would entail adjustments, which could be significant, to the carrying amounts of financial statements line items. Investment property amounted to Euro 169 million as of 31 December 2018.	We examined and assessed the procedures adopted by the Group to measure real estate development projects and investment property; we understood and analysed the information flows between the Group and third party experts. We conducted our analysis also through detailed interviews of the personnel of the parent company Esselunga SpA involved in the measurement process. We carried out analysis to ascertain the independence, competence, skills and objectivity of third party experts engaged by the Group. We selected a sample of real estate development projects and investment properties and we analysed the appraisals prepared by the experts engaged by the Group. We met and discussed with both the personnel of the parent company Esselunga SpA and third party experts engaged by the Group, to understand the criteria and valuation methods applied, and we performed a critical analysis of the methods and assumptions applied. We obtained the information and sources used by third party experts engaged by the Group and performed on a sample basis cross-checks, also comparing the technical information reported in the appraisals with the Group's technical information. With the support of independent experts engaged by us, whose competence, skills and objectivity we assessed, we retraced the valuations performed by the experts engaged by the Group. Specifically, we performed a

Key Audit Matters	***Auditing procedures performed in response to key audit matters***
Land held for real estate development projects where construction has not yet started amounted to Euro 174 million as of 31 December 2018 and is included in 'Property, plant and equipment'. A residual portion of this land could be used for construction of new investment properties. At least once a year, management of the parent company Esselunga SpA estimates the recoverable value, by determining the fair value less costs of disposal, of properties classified in 'Investment property' and of development projects that show indicators of risk, both for the purpose of impairment testing provided by IAS 36 "Impairment of assets" and to comply with the disclosure obligations of IAS 40 "Investment Property". The process of estimating the recoverable amount also includes the use of appraisals prepared by third party experts. Management's valuations include estimates, the most significant ones are applied rates to discount future cash flows, capitalisation rates, the rates of growth of rent and the selling prices of property. In relation to real estate development projects, other estimates involve development costs, risk premiums and the impact of specific circumstances, including regulatory matters, of the land being valued. Determining the recoverable amount of development projects and investment property was a key audit matter considering of the magnitude of the balances, the timeframe needed to obtain approvals to build, the gradual contraction of the real estate market and estimates by management, including the discount and capitalisation rates used in the related valuation models.	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.
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	We understood and assessed the procedures adopted by the Group to manage and account

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
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, included among 'Net costs for goods and raw materials' when the conditions for earning them, defined by the trade agreements with the individual suppliers, have been fulfilled at the reporting date or during the year if it is reasonably probable that they will be reached on annual basis. The conditions for earning the allowances and rebates are dependant upon the type of trade agreement: - Volume rebates are granted when contractually agreed sales volumes targets are met; - Allowances in exchange for promotional activities may be granted on different terms depending on the nature and timing of the service provided. The allowance is defined on the basis of generally written agreements with suppliers that specify the amount and timing of the service. In certain instances the allowance is fixed or variable based on sales volumes. As part of our audit of the consolidated financial statements as of 31 December 2018, the analysis of rebates and allowances was a key audit matter due to the significance of the balance and its materiality relative to the Group's operating profit, and in consideration of the number and complexity of agreements with suppliers and the number of "out-of contract" allowances/rebates, typical of the Group's business, agreed during the year.	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/or internal evidence and the correct inout of contractual terms in the software used by the Company to calculate the trade allowances earned at the reporting date; - Data in the software used to calculate the trade allowances earned at the reporting date matched those recorded in the general ledger; - The reconciliation of allowances and rebates calculated by the software to the data in the general ledger, and the periodical analysis and clearance of any reconciling items; - The existence of documentary evidence supporting the promotional, marketing and advertising activities performed in the reporting period; - The amount of goods purchased, used as the basis for the calculation of volume rebates and promotional allowances by the Company, by obtaining written confirmations from individual suppliers. This audit procedure was performed for the Company's main suppliers. Furthermore, we obtained the trade agreements for a sample of suppliers and performed the following auditing procedures: - We met the procurement managers to obtain an appropriate understanding of certain contractual provisions; - We verified that received allowances were accurate and recorded in the correct period, in accordance with the accrual basis of accounting, by checking volume

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	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.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

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

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Esselunga SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

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

The directors of Esselunga SpA are responsible for preparing a report on operations of the Esselunga Group as of 31 December 2018, 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 2018 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the consolidated financial statements of Esselunga SpA as of 31 December 2018 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.

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

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

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

Milan, 7 June 2019

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