



One of the elements characterising 2017 was undoubtedly growing awareness that technological innovation – like digitalisation, Big Data and Industry 4.0 – will have an ever greater influence on people's lives, and the consequent growing attention given to this aspect by the Group, in procurement, production and distribution.



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LETTER TO STAKEHOLDERS THE FUTURE IS NOW

...with a clear approach, aware that it stands on the threshold of a new era, rich in challenges and opportunities, which must be identified and faced together with its stakeholders, to continue to create shared value all along the value creation chain.
The future is now!

“

2017 was an important year in many respects.

In various areas of the world, after the long years of crisis, the macroeconomic data revealed a strengthening recovery and the election season involving many countries where Sofidel operates (including the United States, France, Great Britain and Germany) came to an end.

Within this general context Sofidel continued to pursue its development policy with, among other things, the activation of new and more modern converting lines, the introduction of new paper mill capacity and the launch of a new growth phase for the Regina brand.

Specifically, the year saw a tripling of paper mill production capacity at the Ciechanów plant, in Poland, the start-up of new converting lines at Buñuel, in Spain (where new paper mill production capacity will be activated by the last quarter of 2018, tripling current production) and the assembly of converting plant and paper mill machinery at Circleville, in Ohio, in what will be the biggest and most modern plant in the Group.

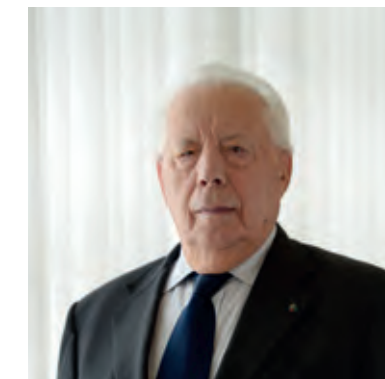
In parallel, the Regina brand has been renewed and strengthened with a new, more coherent pan-European positioning and the launch, for the first time, of a common advertising campaign, planned in several countries (United Kingdom, Eire, Italy and Poland), while in the United States Sofidel has established important contacts to ensure the growth of its market presence in the coming months.

Within this positive scenario, the year was, however, also marked by less favourable economic events that had a negative impact on Group trends. These included the significant increase in the cost of the main raw material (cellulose), which made achieving our margins much more of a challenge, and the weakening of the pound which caused a contraction – given the importance of the UK market to the Group – in terms of consolidation of the UK results.

One of the elements characterising 2017 was undoubtedly growing awareness that technological innovation – like digitalisation, Big Data and Industry 4.0 – will have an ever greater influence on people's lives, and the consequent growing attention given to this aspect by the Group, in procurement, production and distribution. At the social level, in particular within the European context, the phenomenon of transmigration made its first definitive entry onto the public agenda 2017, fuelled by the rapid growth in the number of inhabitants sharing the planet and the movement of large numbers of people from developing countries or war zones to the more developed countries. A development which places the problem of integrating these flows, which may in part also represent a new work force and a new source of demand, at the top of today's agenda.

This is the context within which Sofidel is looking to the future. And, with its vision focused on sustainable and responsible growth, it does so with the UN 2030 Agenda and its “17 Sustainable Development Goals” as its reference point.

With a clear approach, aware that it stands on the threshold of a new era, rich in challenges and opportunities, which must be identified and faced together with its stakeholders, all along the value creation chain. The future is now!



Emi Stefani



Luigi Lazzareschi



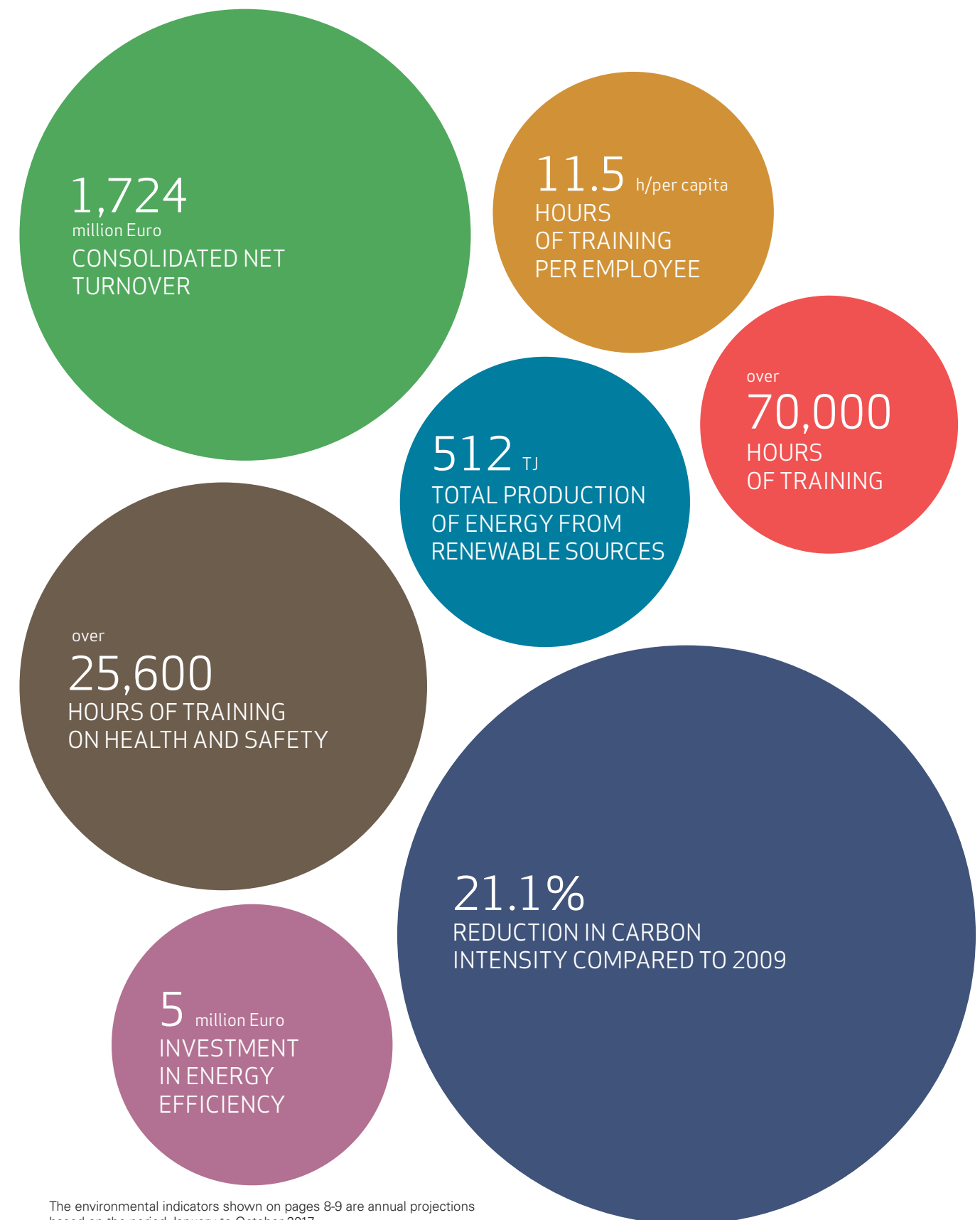
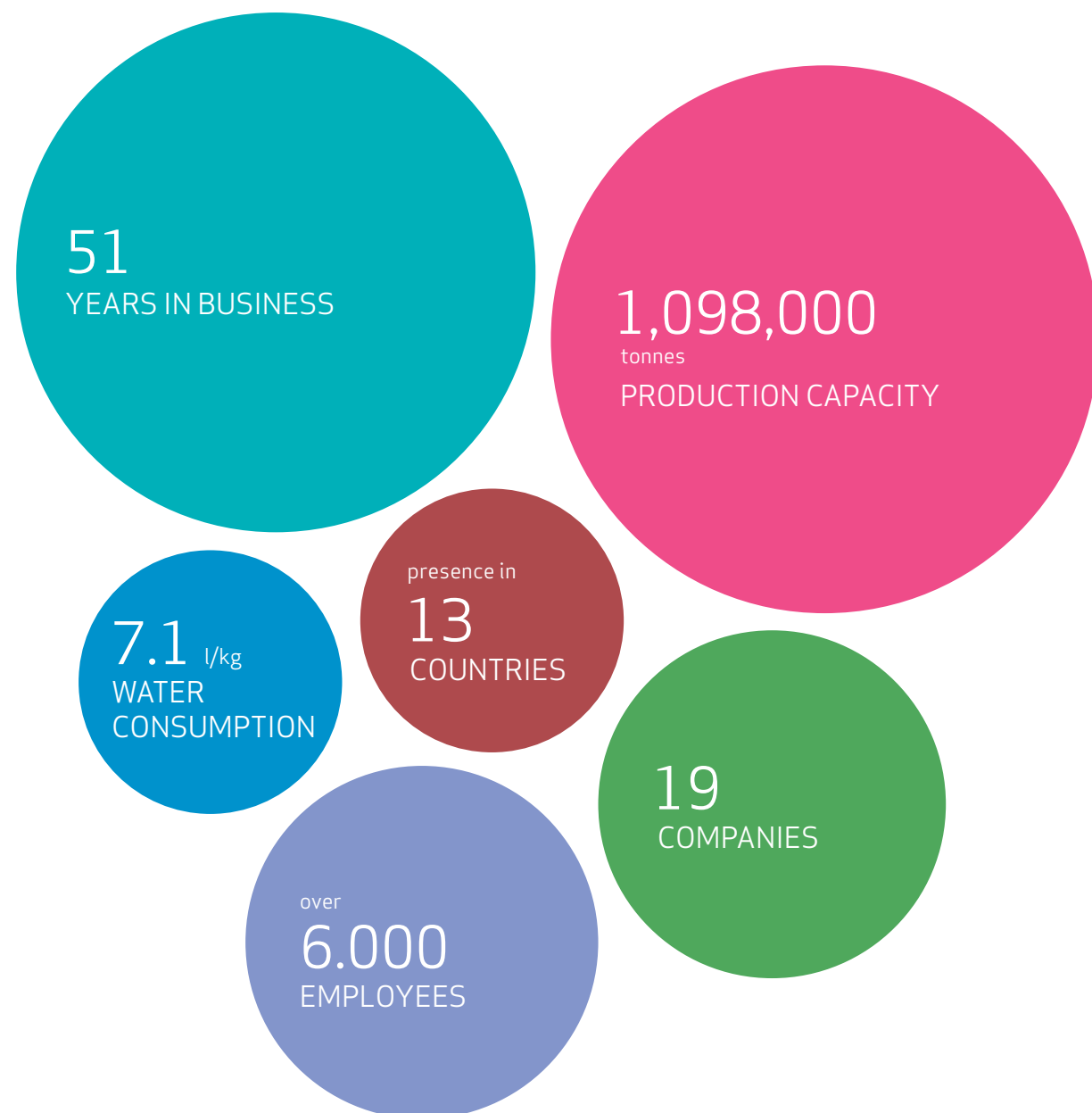
1 | GROUP PROFILE

Sofidel Group in figures
Mission and vision
Culture, ethics and values

SOFIDEL GROUP IN FIGURES

From its headquarters in Porcari (Lucca), Sofidel co-ordinates the work of 19 companies in Europe and the United States. It has more than 6,000 employees, production capacity of 1,098,000 tonnes and a consolidated net turnover of € 1,724 million compared to € 1,705 million in 2016.(*)

(*) The Group, unlike in previous years, has decided to show the net consolidated turnover to provide greater comparability with the data shown in the Report on Operations.



The environmental indicators shown on pages 8-9 are annual projections based on the period January to October 2017.

MISSION

Making everyday life tidier, cleaner, safer,
more practical and pleasant

by investing in

people and innovation and promoting
conduct based on sustainability,
commercial transparency and respect
for regulations,

with the aim of

creating value for customers, employees,
partners, shareholders and the community.

VISION

Increase comfort and hygiene for all,
reducing our impact on the world
around us.

CULTURE, ETHICS AND VALUES

The modus operandi of Sofidel is based on tradition, values and hard work, with a strict regard for ethics. Management has implemented a new managerial model, Management by Values, whose construction and development is supported by three pillars: ethical values, basic objectives of the company and the managerial philosophy underlying the business as a whole.

Operating in compliance with ethical values represents a value added for Sofidel in terms of its operations, fully compatible with its profitability. Sofidel has therefore adopted an Ethical Code, which contains the Group's values, the principles of its behaviour and the principles of its conduct towards stakeholders, as well as a Sustainability Charter which summarises all its commitments regarding sustainability, which for Sofidel is a fundamental lever for the value creation process. During this process, the social strategy and the competitive strategy have merged, and now social and environmental responsibility are an integral part of the business objectives. Corporate Social Responsibility is fully integrated within company decision-making, governance and daily operations. Sofidel has obtained and maintains numerous product, process and system certifications, which it considers to have strategic value. All of this forms the basis for the wider strat-

egy of the organization: the creation of shared value and enhancing relations with stakeholders throughout the value chain.

It is fundamental for Sofidel to work with stakeholders in a healthy and constructive way, and also to take part in initiatives to promote and enhance the social and environmental fabric within which the company lives and works.

One of the concepts which best explains and summarises the management philosophy and culture of the Sofidel Group is Less is more: aware of the finite and precarious nature of the resources required by both man and industrial production, the company's daily operations are marked by an attitude focused on reducing waste and inefficiencies, aiming to continually improve production methods and reduce consumption. Since the early years, attention to detail, order and precision have formed the basis for the tagline of the corporate brand: "Endless care, innovative life", with the promise of great attention to the well-being of consumers, providing them with high quality, innovative products. Sofidel's ultimate goal is to offer a different type of value to customers, guaranteeing them practical and hygienic products designed to improve their quality of life, starting from both explicit and implicit daily needs.



2 | SIGNIFICANT EVENTS DURING THE YEAR

2017 was a year of significant changes and events, which bear witness to the Group's desire to operate dynamically in an increasingly competitive market, maintaining and improving its links with all its stakeholders and society as a whole.

“

THE PARTNERSHIP WITH WATERAID

Sofidel entered a three-year partnership WaterAid – an international nonprofit association that works to guarantee access to drinking water and sanitation in some of the poorest countries in the world. Through this partnership the Group is committed both

to supporting projects aimed at guaranteeing access to water in developing countries where the organization operates, and to raising awareness among its own stakeholders. The partnership is in line with the sixth UN Sustainable Development Goal, guaranteeing water and sanitation for all.



AWARDS FOR THE MOST INNOVATIVE PRODUCTS

Sofidel products have won numerous awards. In Spain, Regina Blitz won the “Innovative product of the Year 2017” award for its texture, effectiveness and price-quality relationship. In Belgium, Nalys Derm’Active tissues and Nalys Easy & Clean kitchen towel received two Golden Archers Awards, given by the Royal Belgian Committee of Distribution through its magazine *Distribution Today* to highlight excellence in terms of innovation. Overseas, the Papernet brand was one of the winners of the Sanitary Maintenance Distributor Choice Award 2017, the award given for the year’s most innovative and useful sanitary products. Finally BATP, the active ingredient in Papernet Bio Tech toilet paper, assessed as “highly-developed” in terms of performance, safety and environmental sustainability, won the Innovation Award during the ISSA Cleaning & Hygiene Expo in Melbourne.

REGINA: BRAND RENEWAL

Sofidel has renewed its Regina brand. The strategy aims to give the historic brand a Pan European identity with a new advertising campaign planned in 4 countries (Italy, Poland, the United Kingdom and Eire), a new positioning, and the launch of Paper for people, the brand payoff that explains its dual objective. On the one hand, to develop increasingly innovative, sustainable and high-performance products, and on the other to help people with their little everyday challenges in the house. A position summed up in the new Brand Manifesto which summarizes all the values of Regina.

The brand renewal includes a slight retouch of the original logo and, from 2018, a new packaging design and a rationalisation of the information included, to make the benefits on offer more immediately obvious and help the consumer with their choice of product.



SUSTAINABILITY AWARD FOR CEO LUIGI LAZZARESCHI

The Toscana-USA Association has given the Chief Executive Officer of Sofidel Luigi Lazzareschi an award “for his work as Italian Ambassador for the WWF – whose international Climate Savers programme Sofidel was the first to join – and for his significant contribution to the creation of jobs in the United States through Sofidel America”. The CEO was also awarded the 2017 Capo d’Orlando Award for the Science and Industry section “for uniting, with the adoption of the most modern production technology, industrial management with a rare environmental sensitivity, whose value is supplemented by brilliant educational initiatives with the younger generation”.



GROWING PRODUCT SUSTAINABILITY

One of the main novelties of 2017 was Regina Wish kitchen towel, which is marked out from the others by its small size: the sheets have been designed to be “hand-sized” to allow the right amount of paper to be used according to need, thus reducing waste.

For the AFH (Away From Home) segment, the Papernet Full Tech toilet paper was presented at the Pulire trade fair in Verona: 100 metres long, this space-saving innovation is guaranteed, with minimum bulk, to last longer than a Mini Jumbo roll. Because it has no core, Full Tech helps to reduce environmental impact (no cardboard to dispose of) and, thanks to the compactness of the rolls, allows reduced use of packaging and means of transport.

A MANIFESTO AND A DECLARATION: TOGETHER WITH WWF AND FSC® FOR A MORE SUSTAINABLE FUTURE

Sofidel is one of the first signatories of the WWF manifesto “An SOS (Safe Operating Space) for a sustainable human future and the Vancouver Declaration, issued at the General Meeting of the FSC® (Forest Stewardship Council), held in the Canadian city. Two important documents with whose signature the Group confirmed its commitment to achievement of the 17 Sustainable Development Goals of the UN Agenda 2030. The signatories of the WWF manifesto undertake to implement the Paris agreements on climate change. The Vancouver Declaration instead underlines the importance of responsible forest management for the creation of products capable of meeting consumers’ demands for functionality, quality and sustainability.



IN FRANCE, A PARTNERSHIP WITH THE WWF TO PROMOTE RESPONSIBLE FOREST MANAGEMENT

A three year partnership was signed with WWF Francia to promote FSC® certification on the French markets with the brand products Sopalin and LeTrèfle.

Sofidel will also take measures to raise awareness of this issue among both consumers and its own internal workforce, in order to increase knowledge concerning responsible forest management and encourage and assist the spread of more responsible consumption through certified products.

TOWARDS SUSTAINABLE TRANSPORT

Sofidel intends to decommission from its vehicle fleet all diesel vehicles by 2021 (fork lift trucks, company cars and lease cars). Meanwhile, by means of an agreement on electric transport signed with Nissan, it has purchased in Italy the first four 100% electric vehicles and has installed 8 recharging points, half of which are available for employees’ private cars, with the aim of also providing an incentive for sustainable transport to and from the workplace.

The agreement with Nissan also means that Sofidel workers can enjoy specific reductions on the purchase cost of electric vehicles from the same company, together with the possibility of recharging the vehicle free for a year within Group plants.

SOFIDEL AT THE ITALIAN PARLIAMENT TO REPORT ON ITS MEASURES TO PROTECT WATER RESOURCES

The CEO Luigi Lazzareschi was invited to the House of Deputies of the Italian Parliament to take part in the conference “The Water Factor: Hygiene, Environment, Ethics, Economics”. A moment for discussion and reflection on the theme of water and its many implications, inspired by the publication of the eBook of the same name, fruit of a partnership between Sofidel and the Giangiacomo Feltrinelli Foundation. The initiative called for action to identify models to promote socially and environmentally management of water resources.



SOFIDEL WINS PPI AWARD FOR WATER EFFICIENCY

Sofidel has received the PPI (Pulp & Paper International) award for the Water Efficiency category. Given by RISI, the information provider of worldwide repute in the paper sector, the award recognizes and rewards the work done to limit water use in the Soffass Paper Mill Via Giuseppe Lazzareschi, Porcari (Lucca).

The Waste Water Reuse system is operating in the production site with three treatment phases, which enables reuse of the waste water for production purposes, saving about 250,000 m³ of water a year.



IMPROVED TRANSPARENCY AND ENVIRONMENTAL RESULTS ACCORDING TO THE WWF ENVIRONMENTAL PAPER COMPANY INDEX

According to the Environmental Paper Company Index, produced every two years by the WWF to promote transparency and continuous improvement in the paper industry, Sofidel has improved its results. In the 2017 version Sofidel obtained an overall score of 76.6 out of 100, an improvement of 10.4 points on the score given in the last review, in 2015. The Group has improved its score in all three of the subcategories monitored: 72% (compared to the 68% recorded in 2015) with regard to responsible procurement of cellulose; 79% (compared to 72%) in the clean manufacturing category and 79% (compared to 58%) in the Reporting & EMS (Environmental Management System) section.



3 | OUR IDEA OF SUSTAINABILITY

Strategy and corporate responsibility governance

- Sustainability strategy
- Main inspirations of the Group sustainability model
- Our main sustainability partners

Materiality analysis and dialogue with stakeholders

- Key stakeholders
- Methods of engagement
- Materiality analysis
- Initiatives to promote dialogue with stakeholders

STRATEGY AND CORPORATE RESPONSIBILITY GOVERNANCE

SUSTAINABILITY STRATEGY

The Sofidel Group's sustainable business model sees sustainability and innovation as inseparable, an essential combination in terms of creating value for the company and all its stakeholders and enabling it to seize new opportunities. Sofidel incorporates sustainability in every aspect of its business, in order to continually find new solutions to reduce its environmental impact, satisfy customer and local community needs and improve relations with employees and suppliers, putting safety first. By listening to and actively involving all of its stakeholders and making rational use of resources, it promotes synergy between social and economic progress, with a shared value approach.

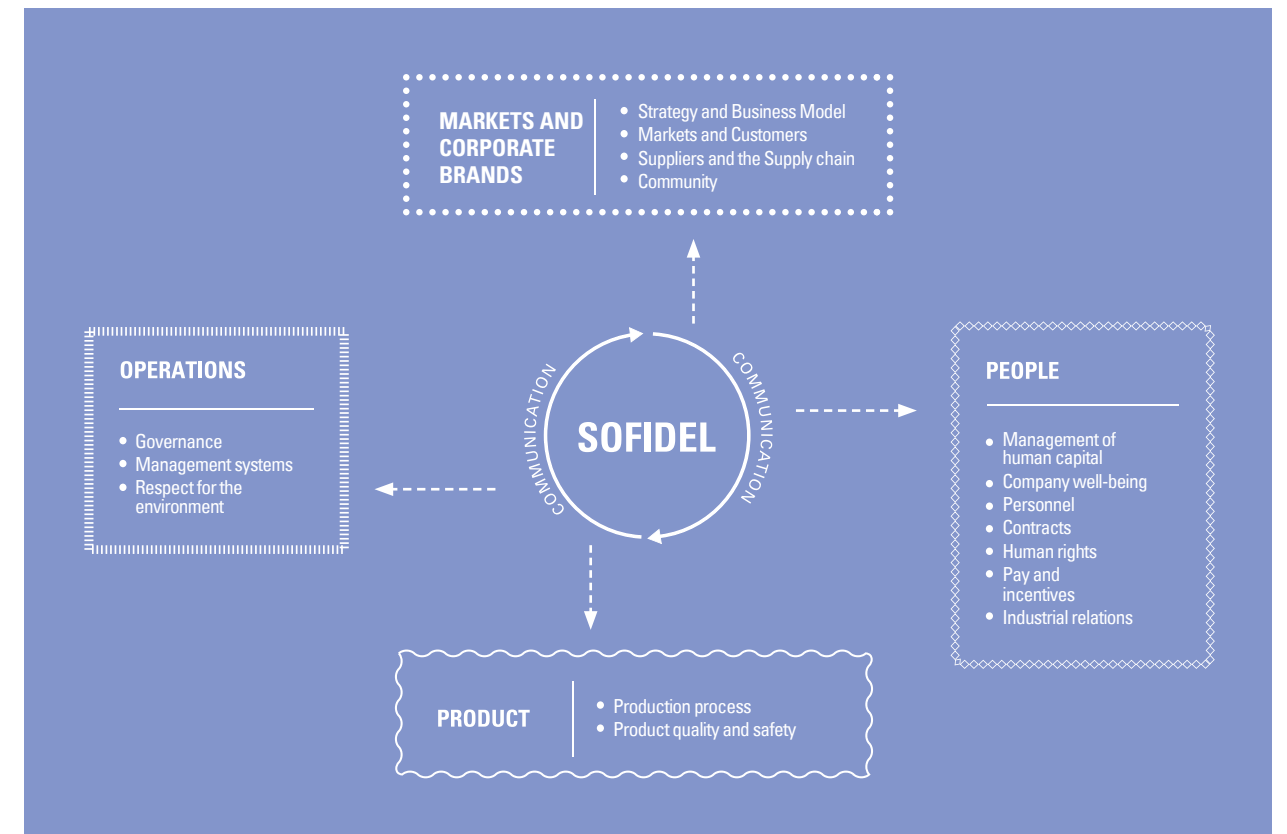
The framework for the entire process is given by the principles of ethical and transparent behaviour, anti-corruption, respect for human rights and attention to safety, which have always characterised Sofidel's way of working and which are reflected in the policies and codes of conduct applying to the whole Group.

The key element of this approach is the use of ESG (Environmental, Social and Governance) sustainability indicators throughout the entire value chain, not only for ex post evaluation but also and above all to anticipate decisions and encourage proactive rather than reactive behaviour. Sofidel wants to lead the change process and prepare itself in advance to seize new market opportunities, knowing that the starting point for doing so is awareness of its operating context.

From the definition of the strategic guidelines, through business development, plant engineering design and construction up to daily operation, our method of operation has been rethought to create and add shared and inclusive value in the medium to long term. The efficiency and effectiveness of business processes, both at the development stage and during operations, largely depend on stable and constructive relationships with the different stakeholders and the ability to operate in synergy with the local area, preventing and managing any risks and social and environmental impacts. The Group pays special attention to methods for monitoring and managing financial and non-financial risks. A specific section is dedicated to these in the Integrated Report 2017 (for further information see the paragraph on "Risk monitoring and management" on page 53), where the risks associated with the various companies and the business are identified and the methods for managing them described.

Sofidel's sustainability strategy is based on the following strategic pillars: *Product, Operations, People, Markets & Corporate Brands*, which represent the business areas and means with which the Group operates. This strategic framework allows a wide range of internal actions to be covered, and all the initiatives and projects which have an impact in terms of sustainability to be included. The 2017 Integrated Report was structured along the same lines.

SUSTAINABILITY STRATEGY



Strategic sustainability tools

To ensure its principles and values are consistently translated into daily practice, the Sofidel Group has a set of documents/

tools that define the reference ethical-social behaviour for each participant in the organisation: Code of Ethics, Sofidel's Sustainability Charter and Sofidel's Sustainability Decalogue.



MAIN INSPIRATIONS OF THE GROUP SUSTAINABILITY MODEL

Sofidel's sustainable growth strategy is fully in tune with the aim of "building an inclusive, sustainable and resilient future" for the planet and its population, pursued by the United Nations (UN) through the 17 Sustainable Development Goals included in its 2030 Agenda, the action plan for people, planet and prosperity signed in September 2015 by the governments of 193 member countries. Sofidel implements policies to limit environmental impacts



Sofidel is committed, as a member of the WWF Climate Savers programme, to the reduction of climate-altering emissions (-21.1% in carbon intensity between 2009 and 2017 per kg of paper produced). It also implements strict policies for the procurement of cellulose certified by independent third parties under forestry certification schemes (100% in 2017, FSC®, PEFC™, FSC®-CW) and works for the safeguarding of water resources, limiting water consumption within its production processes. In particular the Group's water consumption is clearly lower than the industry benchmark¹: 7.1 l/kg against 15-25 l/kg). On the latter front, aware of the importance that water has for the equilibrium of the planet and the well-being and hygiene of its occupants, Sofidel is also committed, through its partnership with WaterAid, an international nonprofit organization, to raising awareness among its stakeholders and supporting work to guarantee access to water and improve sanitary conditions in developing countries. This partnership represents a concrete effort by the Group to address the problem of access to water at a worldwide level (for further information, see the "Community" section on page 123).

and maximise social benefits all along the value creation chain: procurement, production processes, products and logistics.

Within the **Sustainable Development Goals**, Sofidel is particularly intent on assisting, with its contribution, pursuit of the following goals: Climate action (goal 13); Affordable and clean energy (goal 7); Good health and well-being (goal 3); Clean water and sanitation (goal 6); Responsible consumption and production (goal 12); Life on land (goal 15); Partnerships for the goals (goal 17).

Global Compact – Communication on Progress (COP)

Since 2010 the Sofidel Group has been a member of Global Compact, the agreement linking companies committed to aligning their businesses and strategies to the ten universally accepted principles on human rights, work, environment and the fight against corruption.

Sofidel's commitment to respecting and promoting the principles of Global Compact is highlighted in the final part of the Report (Appendix page 129). The Sofidel Group is a Founding and Promoting member of GCNI.



1. The benchmark value is taken from the reference document Best Available Techniques (BAT): Reference Document for the Production of Pulp, Paper and Board. Industrial Emissions Directive 2010/75/EU (Integrated Pollution Prescription and Control); 2015, par. 73.1.

OUR MAIN SUSTAINABILITY PARTNERS

Sofidel works to integrate sustainability at every level of its business. This is a basic strategic direction, followed in the belief that, in the medium to long term, this choice will sustain a positive process of continuous improve-

ment capable of guaranteeing a competitive advantage and raising the quality of the life of all our stakeholders. An approach which also implies a constant search for partnerships based on specific environmental and social aims with multistakeholder networks and recognized nonprofit organisations with a good reputation.



MATERIALITY ANALYSIS AND DIALOGUE WITH STAKEHOLDERS

KEY STAKEHOLDERS

In the last quarter of 2017 the following activities were carried out:

- stakeholder mapping, involving the various company functions;
- identification of the aspects monitored and/or to be monitored for each stakeholder;
- launch of a review of the communication channels already in place in the company to assess their effective capacity

to capture and monitor critical areas (as well as strategic opportunities) in terms of company-stakeholder relations.

The table below maps out the stakeholders and the areas considered important for each one: the latter represent in part Sofidel's perception in relation to individual stakeholders and, in part, the expectations revealed by the engagement measures already in place. This tool is continually being developed.

CATEGORY	STAKEHOLDER	RELEVANT ASPECTS
SHAREHOLDERS		<ul style="list-style-type: none">· Remuneration from investments· Transparency· Change management
FINANCIAL COMMUNITY	<ul style="list-style-type: none">· Banks· Investors (institutional, private, etc.)· Financial analysts	<ul style="list-style-type: none">· Transparency towards the market· Financial solidity and sustainability· Relationship with investors· Corporate governance
SOFIDEL GROUP PEOPLE	<ul style="list-style-type: none">· Employees· External partners/collaborators· Trade union organisations and representatives	<ul style="list-style-type: none">· Identities and values· Enhancement of human capital, motivation and development· Stability of work contract· Internal communication· Training· Health and safety at work· Quality of life· Equal opportunities
CONSUMERS AND CONSUMER ASSOCIATIONS	<ul style="list-style-type: none">· Final consumers· Consumer associations	<ul style="list-style-type: none">· Anticipation and identification of consumer expectations and needs· Product quality and safety· Transparency· Convenience and simplicity in terms of product use· Rewards for loyalty
BUSINESS SUPPLIERS AND PARTNERS	<ul style="list-style-type: none">· Suppliers of goods and products· Service providers· Sales network· Large scale retail distribution· Retailers· Business partners	<ul style="list-style-type: none">· Continuity· Qualification and assessment process· Negotiating conditions· Payment terms· Partnership development
INSTITUTIONS	<ul style="list-style-type: none">· Regulatory Bodies· National and local government administrations· Public Administration· European Community Work Groups	<ul style="list-style-type: none">· Respect for laws and regulations and industry standards· Transparent communication· Socially responsible corporate management· Development of partnerships on common projects· Contribution to the development of countries in which Sofidel operates· Social contributions and charges

CATEGORY	STAKEHOLDER	RELEVANT ASPECTS
COMMUNITY	<ul style="list-style-type: none">· Local area/region· Charitable associations (nonprofit organisations, charities, etc.)· Universities and the world of research· Media and opinion leaders	<ul style="list-style-type: none">· Protection of the territory· Research and development partnerships with the academic world· Consumer protection and safety· Innovation· Support for social initiatives
ENVIRONMENT	<ul style="list-style-type: none">· Ecosystem· Ministry for the Environment· Environmental organizations· European working groups· Future generations	<ul style="list-style-type: none">· Attention to possible environmental impacts· Reduction in consumption of natural resources· Energy efficiency· Sorted collection· Sustainable transport

METHODS OF ENGAGEMENT

For the aspects identified, the next step is to identify the methods of engagement already in place with the different stakeholders.

The table below shows the various tools and procedures used by the Sofidel Group to engage its stakeholders.

CATEGORY	INFORM	LISTEN	CONSULT	INVOLVE	WORK WITH
SHAREHOLDERS	<ul style="list-style-type: none">· Consolidated Financial Statements and Report on Operations· Integrated Report· Corporate website· Financial solidity and sustainability	<ul style="list-style-type: none">· Shareholders' Meeting· Board Meetings· Quarterly/Six-monthly· Specific meetings			
FINANCIAL COMMUNITY	<ul style="list-style-type: none">· Consolidated Financial Statements and Report on Operations· Integrated Report· Corporate website· Bank Meetings· Information on request· Press releases	<ul style="list-style-type: none">· Conference calls· One-to-one meetings· International events			
SOFIDEL GROUP PEOPLE	<ul style="list-style-type: none">· Intranet Portal· Communications from top management· Integrated Report· Group organizational communications· House Organ People&Paper· Sofidel Informa/News· Distribution of HR guidelines, policy and procedures	<ul style="list-style-type: none">· Specific meetings	<ul style="list-style-type: none">· Focus groups· Workshops· Internal survey (Sofidel People)	<ul style="list-style-type: none">· Company events· International Human Resources Meeting· Meetings with Trade Unions· Meetings with Workers' Safety Representatives· (RLS) - Health & safety	<ul style="list-style-type: none">· Partnerships with schools, universities and specific Masters programmes (e.g. Celsius)
CONSUMERS AND CUSTOMERS	<ul style="list-style-type: none">· Newsletter· Corporate website· Commercial and service sites· Social Media· Sofidel Shop· Sales documentation· Communication campaigns· Integrated Report	<ul style="list-style-type: none">· Customer satisfaction surveys· Complaints management (Free-phone numbers)· Monitoring of all business communication channels· E-commerce Sofidelshop	<ul style="list-style-type: none">· European Marketing & Sales Meeting· ETO Group	<ul style="list-style-type: none">· Periodic interviews· International meetings	<ul style="list-style-type: none">· Multitopic working parties· Specific interviews

CATEGORY	INFORM	LISTEN	CONSULT	INVOLVE	WORK WITH
TRADE SUPPLIERS AND PARTNERS	<div><div>Corporate website</div><div>Supplier guidelines</div><div>Integrated Report</div></div>	<div><div>Specific meetings</div></div>	<div><div>Specific meetings</div><div>Desktop Audit</div><div>Eco-Sustainability Policy</div></div>	<div><div>Sustainable Supply Chain Self-Assessment Platform TenP</div><div>Sofidel Suppliers Sustainability Award</div></div>	
INSTITUTIONS	<div><div>Corporate website</div><div>Integrated Report</div></div>	<div><div>Specific meetings</div></div>	<div><div>Meetings with Local Authorities</div><div>Relationship with Regulatory Bodies</div></div>	<div><div>Technical roundtables with government bodies</div></div>	
COMMUNITY	<div><div>Corporate website</div><div>Integrated Report</div><div>Fondazione Giuseppe Lazzareschi website</div></div>	<div><div>Specific meetings</div></div>	<div><div>Specific meetings with Local Authorities</div></div>	<div><div>Relationship with regional institutions</div><div>Social projects and initiatives</div><div>Initiatives with NGOs</div></div>	<div><div>Partnerships with universities and the world of research</div><div>Partnerships with NGOs</div></div>
ENVIRONMENT	<div><div>Voluntary disclosure initiatives</div><div>Product environmental information</div><div>Adhesion to stakeholder initiatives to collect information</div><div>Corporate website</div><div>Certification bodies</div><div>Sofidel internal committees</div></div>	<div><div>Specific meetings with customers</div><div>Events/initiatives organized by NGOs</div><div>Specific meetings with environmental authorities</div><div>Specific meetings with trade associations</div><div>Certification bodies</div><div>Sofidel internal committees</div></div>	<div><div>Specific meetings with customers</div><div>Events/initiatives organized by NGOs</div><div>Specific meetings with environmental authorities</div><div>Specific meetings with trade associations</div><div>Certification bodies</div><div>Sofidel internal committees</div></div>	<div><div>Specific meetings with customers</div><div>Events/initiatives organized by NGOs</div><div>Specific meetings with environmental authorities</div><div>Specific meetings with trade associations</div><div>Certification bodies</div><div>Sofidel internal committees</div></div>	<div><div>Specific meetings with customers</div><div>Events/initiatives organized by NGOs</div><div>Specific meetings with environmental authorities</div><div>Specific meetings with trade associations</div><div>Certification bodies</div><div>Sofidel internal committees</div></div>

The choice of the best method to engage the various stakeholders depends on a series of factors including, *in primis*, the specific objectives to be met, the complexity and nature of the topics involved, the type of stakeholder, the frequency and intensity of relations, and prior knowledge of the topics under discussion.

MATERIALITY ANALYSIS

In order to improve its sustainability policies, perfect the reporting process and better focus the topics to be included in the sustainability report, the Sofidel Group established, in 2015, a process for constructive and fruitful dialogue with key stakeholders, i.e. the people and entities that have an interest in the company and therefore the capacity to influence it. The Group has following this path involving dialogue and discussion once again in 2017, with the aim of improving its capacity to capture emerging trends in national and international markets and include them in its reporting. In order to define the list of material aspects, the following activities were carried out:

- recognition of the current situation through analysis of various internal public and non public sources (internal analysis);
- analysis of sector benchmarks, conducted on a selected sample of competitors operating at a national and international level (external analysis);
- identification of other potential issues relevant to the tissue industry, through media research, industry studies and other external sources.

In addition to the above analysis of internal and external sources and industry benchmarks, in order to further enrich and strengthen the market viewpoint, a **representative sample of customers** was identified, in the large-scale retail distribution category, both at a national and European level. The criteria applied for the selection of the stakeholders were based on **strategic variables** (customers that, based on the Group’s strategic choices, are considered key stakeholders), **influence** (customers that, currently or in the future, could be in a position to influence the decision-making processes of the Sofidel Group), **proximity** (customers with which the Sofidel Group has established long-term relationships:

those on which the Group depends for its daily operations and which operate close to its plants). They were sent a communication containing the list of material aspects and a range of scores (from 1 to 4) to be assigned to each aspect. The stakeholders were asked to evaluate each topic based on their level of interest and its potential impact on their expectations of the Sofidel Group.

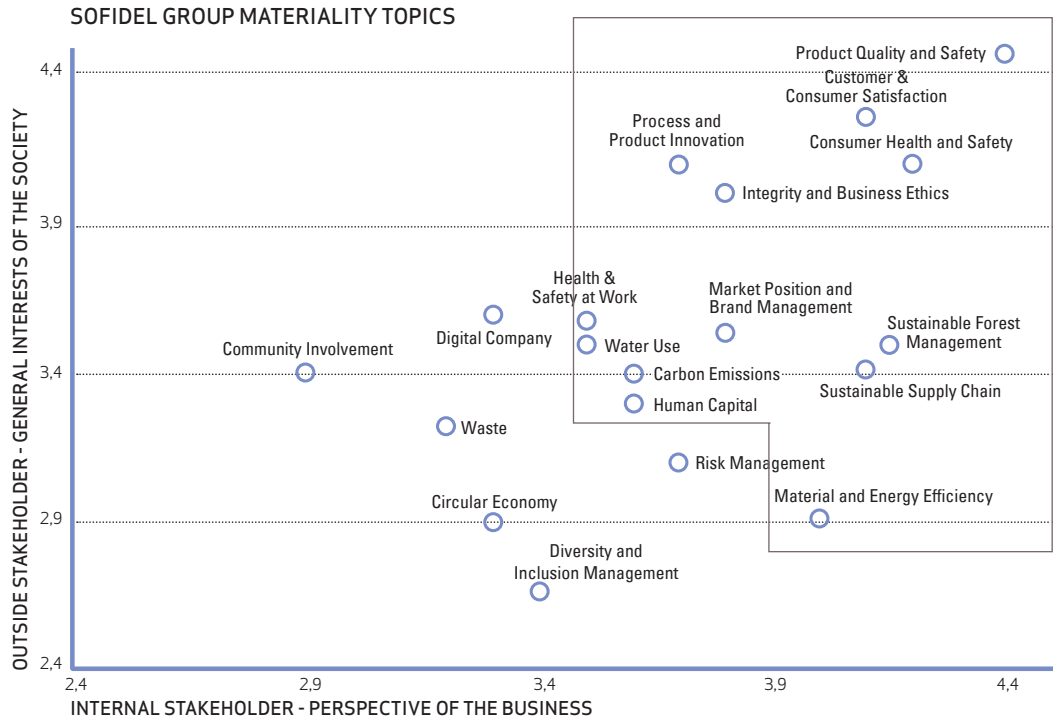
Results of the analysis

The results were analysed and used to draw up the materiality matrix in which:

- each point represents one of the topics covered by the survey;

- the position of the material aspects is the result of the importance attributed to each topic in terms of:
 - internal business organization and outlook (impact for the company);
 - external stakeholders involved and market perception (impact on stakeholders and society as a whole);
- the material aspects are shown in the top right corner.

In order to better identify the area to be considered in terms of materiality, two material thresholds were defined. Specifically, 3.5 was chosen as the threshold value for the internal company viewpoint and 3 as the value for the market and external stakeholder viewpoint.



HIGH IMPORTANCE
Product Quality and Safety
Customer and Consumer Satisfaction
Consumer Health and Safety
Process and Product Innovation
Integrity and Business Ethics
Market Position and Brand Mgmt
Sustainable Forest Management
Water Use
Carbon Emissions
Health and Safety at Work
Sustainable Supply Chain
Human Capital
Material and Energy Efficiency

MEDIUM IMPORTANCE
Waste
Risk Management
Digital Company

LOW IMPORTANCE
Community Involvement
Circular Economy
Diversity and Inclusion Management

Based on their position within the materiality matrix, the aspects were therefore classified into three bands of importance (high, average and low). The “high importance” band includes aspects that are traditionally very important for the market and the company: *Product Quality and Safety, Customer and Consumer Satisfaction, Consumer Health and Safety, Process and Product Innovation, Integrity and Business Ethics, Market Position and Brand Management, Sustainable Forest Management, Water Use, Carbon Emissions, Health and Safety at Work, Sustainable Supply Chain, Human Capital, Material and Energy Efficiency.*

Market Position and Brand Management includes all the economic and financial aspects (for further information see “Group economic and financial performance” on page 33), as well as market position and brand management.

The “medium importance” band includes, alongside Waste and Risk Management, both areas which the company is paying increasing attention to, the new aspect Digital Company, for which the Group is undertaking a series of activities to digitalise various areas, such as methods of communication with its commercial partners and suppliers, technological innovations within production processes and communication via Social Media.

Finally the “low importance” band includes the new Circular Economy theme, an area in which the Sofidel Group has defined a series of activities and objectives to increase the circularity of its business (for further information see “Sofidel’s strategy within the Circular Economy” on page 104). This band also includes the two themes *Community Involvement* and *Diversity and Inclusion Management* which the company is very interested in and intends to do further work on.

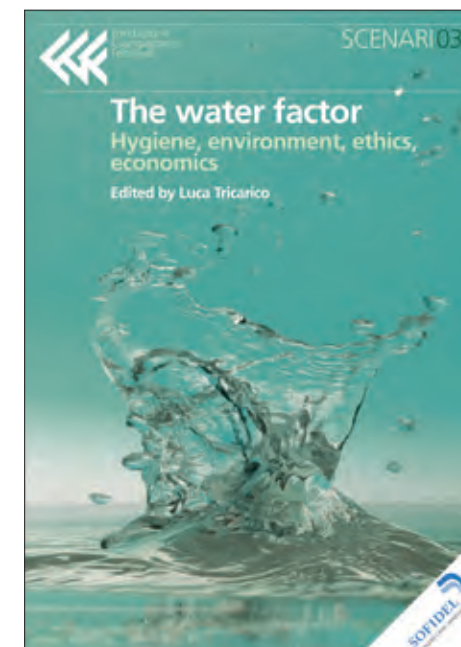


INITIATIVES TO PROMOTE DIALOGUE WITH STAKEHOLDERS

E-book entitled “The Water Factor” published

Sofidel, in collaboration with the Giangiacomo Feltrinelli Foundation, published the e-book entitled “Water Factor”: Hygiene, Environment, Ethics, Economics”.

Available on the Feltrinelli Foundation website in both Italian and English, this publication collects together the contributions made by the experts invited by Sofidel to Milan on 22 March 2017, on World Water Day. Thanks to the contributions included, the e-book enables the reader to reach an informed opinion on the impacts that this fundamental resource has (or can have) on hygiene, human health, climate change and the economy.



A handbook for good hand hygiene

As part of World Hand Hygiene Day, Sofidel presented the handbook: “A day in the life of your hands”: Ten rules (plus one) to remind us how important hygiene is at various times in the day and in the different places we pass through in 24 hours. The handbook was produced with scientific advice from Prof. Fabrizio Pregliasco, virologist at the University of Milan and Medical Director of IRCCS Galeazzi (Scientific Institute for Research, Hospitalisation and Health Care) in Milan.



A day for families

In the various Group countries a Family Day was organized to bring families closer to the world of the plants and encourage social interaction. Employees’ families were able to visit the production areas, find out about the tissue production process and find out more about other activities which the Group is involved in, including Sofidel’s commitment to sustainability, the partnership with WaterAid and the Running Team project.



Together with EU-OSHA for safety at work

Sofidel hosted at its headquarters in Porcari the partners of EU-OSHA, the European Agency for Health and Safety at Work active in promoting risk prevention in the workplace. The aim of the event was to share good practices to improve health and safety. During the meeting Sofidel presented its own project “Advanced Collision Avoidance Solutions”, designed to reduce the risk of collisions between fork lifts/elevator trucks and pedestrians and other vehicles.



The Sofidel Running Team

The Sofidel Running Team is the group that brings together all running enthusiasts, expert or not, from the Sofidel workforce. Those taking part can contribute to a common objective: running all the way round an imaginary equator, a distance of 40,075 km (24,901 miles).

The progress of individual companies, and the whole team, can be tracked on the dedicated portal (www.sofidelrunningteam.com) where training plans and advice on running are also available. It's all for a good cause: supporting WaterAid with a form of collective fundraising (for further information on WaterAid, see the "Community" section on page 123).

The Sofidel Running Team finally represents another way for the Group to promote the culture of well-being and a healthy lifestyle, as well as stimulating active participation by all employees.



The corporate campaign to promote the new partnership with WaterAid

Sofidel's 2017 corporate campaign once again features the roll of paper that unwinds to draw out a picture of our planet. Thus helping Sofidel to communicate its latest commitment: to promote hygiene and well-being for all. The reference is to the partnership with WaterAid, an organization whose mission, in line with the sixth UN Sustainable Development Goal, is to guarantee access to safe water and sanitation in some of the poorest communities in the world (for further information on WaterAid see the "Community" section on page 123).

Host for the second meeting of the Italian Business & SDGs Annual Forum

Sofidel hosted the second meeting of the Italian Business & SDGs Annual Forum, the event promoted by Global Compact Network Italy Foundation, for which the Group is a founder member and sponsor, with the aim of giving a boost in Italy to the United Nations Agenda 2030 for Sustainable Development. The Forum brought together in Lucca over 100 representatives from large companies, SMEs, civil society organizations, institutions, universities and research bodies. The agenda for the day, entitled "From words to action" was focused on planning "Collective Actions" to support implementation of the 17 UN Sustainable Development Goals.



Local Public Relations launched in four countries

Sofidel has launched a media relations programme and plans to involve its main stakeholders in four European countries – the United Kingdom, France, Poland and Sweden – with the aim of building a strong corporate brand and consolidate its reputation. The communication action will place leverage on the company's keynote values (including the continuous search for qualitative excellence, rigour, sense of responsibility, humility and spirit of cooperation) and on sustainability, making the most of and highlighting in each individual national context the initiatives undertaken at a global and local level. The challenge for Sofidel, which is making use of the support of the international company Hill+Knowlton Strategies, concerns implementation of an important cultural change: being perceived less as a "cross-country Italian company" and more as a "multinational company" under a single banner, Sofidel.

European Marketing & Sales Meeting 2017

At the end of November 2017, Sofidel organized the sixth European Marketing & Sales Meeting in Warsaw, an occasion to share plans and future objectives with customers and partners from all over Europe.

The focus of the meeting: Sustainability and Innovation, in line with the title (Sustainability&Innovation, Hand in Hand), the concept underlying both the new production processes and the most recent product launches.

There were numerous contributions from Group managers, who illustrated their market objectives and operating efficiency targets. A large number of interesting points were also raised by customers and key partners.



3S AWARD

The award ceremony for the second edition of the Sofidel Suppliers Sustainability Award, the annual award given by the Group to suppliers who have distinguished themselves with their social and environmental sustainability initiatives, was held in November at the East Wintergarden in London. Almost 400 supplier firms from Europe and North America took part, 60 more than in the previous year.

The award is based on the "TenP - Sustainable Supply Chain Self-Assessment Platform," created and promoted by the Global Compact Network Italy (GCNI) Foundation. It is a performance self-assessment tool, built around the UN Global Compact's Ten Principles ("TenP"), which takes into account the areas of human rights, working conditions, the environment and the fight against corruption, with the aim of identifying common challenges and solutions to improve sustainability within the supply chain.





4 | GROUP ECONOMIC AND FINANCIAL PERFORMANCE

2017 Highlights
Significant post balance sheet events
Outlook for Group economic and financial performance
Economic and financial performance
Investments
Calculation and distribution of global added value

2017 HIGHLIGHTS

Net sales € 1,724 /m
Adjusted Ebitda € 201 /m
Adjusted Ebitda Margin 11.68%

Organic net sales € 1,754 /m
Organic net sales growth +2.83% (2017 vs 2016)

Net operating cash flow € 301 /m
Medium/long-term loans taken out € 529 /m

Values and amounts at 31 December 2017.
For calculation methods see the specific sections of the 2017 Consolidated Financial Statements.

Adjusted EBITDA	This is EBITDA adjusted for all the costs that affect its comparability over time.
Organic net sales	This is Net sales without taking into account the effect of the annual variation in exchange rates.
Net sales	This relates to the characteristic revenues of the Group ("Revenues from sales and services" in the income statement) net of promotional costs, which have been reclassified under Services in the income statement.
Net operating cash flow	This is the equivalent, in financial terms, of the operating profit in the income statement.

SIGNIFICANT
POST BALANCE SHEET EVENTS

There are no events which require mention in this report.

OUTLOOK FOR GROUP ECONOMIC
AND FINANCIAL PERFORMANCE

A MACROECONOMIC SCENARIO
WITH SIGNS OF RECOVERY

During 2017 the world economy recorded a significant recovery which also included the main markets that Sofidel is active in. In the euro area, although to varying degrees in different countries, private consumption was stimulated by a renewed rise in employment and company investment rose due to favourable borrowing conditions and rising profits.

In the United States the increase in national income, boosted by advantageous financial conditions and a positive climate, led to a significant expansion and the rate of unemployment fell to very low level. Against this background the US government passed a tax reform "Tax Cuts and Jobs Act", which came into force on 1 January 2018 – reducing, among other things, corporate taxation and creating a new potential stimulus for investment (source: "BCE bulletins").

GROUP ECONOMIC AND FINANCIAL PERFORMANCE

The main aspects relating to the economic and financial performance of the Group are as follows:

Sales prices

Sales prices for finished products were generally stable compared to the levels for the previous year, although with increased variability between different lines of business and countries.

Operating costs

In general, the Group continued to pursue strategies aimed at optimizing the procurement and consumption of goods and services.

Cellulose and energy

Purchase costs of cellulose, the main raw material for the production process, continue to grow steadily throughout the year. Nevertheless our objectives concerning the mix of fibre used in the production process were fully met, thus mitigating the overall economic effect.

The percentage of product cost accounted for by energy was substantially in line with the previous year, in spite of an increase in the average commodity price, demonstrating that the investment in new technologies and renewable energy sources is a winning strategy for Sofidel, one that it has now been pursuing for several years.

Transport

The presence of the company's production sites in the location of its main markets has once again significantly contributed to the optimization of transport costs for the year.

Promotional activity

The level of promotional pressure to support marketing strategies and build loyalty among final consumers is substantially in line with the previous year

For further detail on the trend in sales prices, supply markets and Group operating performance, see the relevant paragraphs in this document.

ECONOMIC AND FINANCIAL PERFORMANCE

CONSOLIDATED BALANCE SHEET

DESCRIPTION (thousands of Euro)	31/12/2017	31/12/2016
ASSETS		
Non-current assets		
Property, plant and equipment	1,556,282	1,293,791
Investment property	7,639	7,415
Goodwill	78,429	88,726
Trademarks and other intangible assets	46,224	48,493
Investments in associates	2,162	1,597
Other non-current financial assets	6,722	5,752
Deferred tax assets	48,035	49,709
TOTAL NON-CURRENT ASSETS	1,745,493	1,495,483
Current assets		
Inventories	319,735	318,383
Trade receivables	99,338	170,651
Other current assets	59,263	9,904
Tax receivables	13,795	11,504
Current financial receivables	174,628	3,908
Cash and cash equivalents	97,130	33,583
TOTAL CURRENT ASSETS	763,888	547,934
TOTAL ASSETS	2,509,381	2,043,417

DESCRIPTION (thousands of Euro)	31/12/2017	31/12/2016
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	33,000	33,000
Share premium reserve	1,500	1,500
Legal reserve	7,159	7,159
Other reserves	647,258	594,946
Profit (loss) for the year	29,689	83,114
TOTAL GROUP SHAREHOLDERS' EQUITY	718,606	737,968
Share capital pertaining to minority interests	72	72
Profit attributable to minority interests	(1)	1
TOTAL MINORITY SHAREHOLDERS' EQUITY	72	73
TOTAL SHAREHOLDERS' EQUITY	718,678	738,041
Non-current liabilities		
Employee severance fund and other benefits	18,801	17,957
Deferred taxes	38,287	45,721
Provisions for risks and charges	10,962	7,953
Non-current financial liabilities	983,878	540,763
Deferred revenues from capital grants	32,420	37,553
Other non-current liabilities	41	41
TOTAL NON-CURRENT LIABILITIES	1,084,389	649,987
Current liabilities		
Trade payables	479,997	406,781
Current financial liabilities	70,025	81,727
Current portion of medium/long-term borrowings	92,190	93,959
Other current liabilities	43,754	45,711
Due to tax authorities	20,349	27,211
TOTAL CURRENT LIABILITIES	706,314	655,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,509,381	2,043,417

CONSOLIDATED INCOME STATEMENT

DESCRIPTION (thousands of Euro)	31/12/2017	31/12/2016
REVENUES		
Revenues from sales and services	1,844,297	1,842,467
Other revenues and income	24,210	28,861
TOTAL REVENUES	1,868,506	1,871,327
Operating costs		
Purchase of raw materials, finished products and changes in inventories	(802,389)	(763,569)
Services	(531,192)	(527,189)
Leases and rentals	(32,053)	(33,070)
Other operating expenses	(29,125)	(29,014)
Payroll costs	(291,616)	(281,627)
GROSS OPERATING MARGIN	182,132	236,859
Amortisation of intangible fixed assets	(2,777)	(3,109)
Depreciation of tangible fixed assets	(120,489)	(114,049)
Write-downs of current receivables	(70)	(348)
Total amortisation, depreciation and write-downs	(123,336)	(117,506)
Provision for risks and charges	(4,364)	(2,410)
OPERATING PROFIT	54,432	116,943
Financial income	644	145
Financial expenses	(7,194)	(9,368)
Foreign exchange gains and losses	(4,872)	(2,491)
Total financial income and expenses	(11,422)	(11,713)
PROFIT (LOSS) BEFORE TAX	43,010	105,229
Current taxes	(21,298)	(28,540)
Deferred/(prepaid) taxes	7,977	6,426
PROFIT (LOSS) FOR THE YEAR	29,689	83,115
Attributable to:		
Minority interests	(1)	(1)
GROUP	29,689	83,114

*The data for 2016 have been amended to provide a better comparison. For further detail please see the tables in the Notes to the 2017 Consolidated Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

DESCRIPTION (THOUSANDS OF EURO)	31/12/2017	31/12/2016
Profit (loss) for the year	29,689	83,115
Income taxes	13,321	22,114
Financial income and expenses	6,550	11,136
Foreign exchange gains and losses	4,872	578
1. Profit/(loss) for the year before income taxes, interest, dividends and capital gains/losses from sale	54,432	116,943
Adjustment of non-monetary revenues	(11,582)	(10,550)
Amortisation/depreciation	123,266	117,158
Provisions	4,434	2,758
2. Cash flow before changes in net working capital	170,550	226,309
Change in trade receivables	71,313	23,756
Change in inventories	(1,352)	(4,137)
Change in trade payables	73,216	53,129
Change in short-term assets/liabilities	(7,254)	6,373
3. Cash flow after changes in net working capital	306,473	305,430
Change in other provisions	(5,529)	8,932
Income taxes (paid)	(13,321)	(28,540)
Other changes*	30,133	(20,728)
Cash flow from operating activities (A)	317,756	265,094
Investments in intangible assets (net of disinvestments)	(2,499)	(3,422)
Investments in tangible assets (net of disinvestments)	(434,427)	(282,835)
Purchase (transfer) of other financial fixed assets	(565)	(202)
Grants received during the year	-	193
Business combinations net of cash acquired**	-	(15,230)
Cash flow from investing activities (B)	(437,491)	(301,496)
Opening of medium/long-term loans	529,481	316,518
Redemption of medium/long-term loans	(88,217)	(79,120)
Change in other medium/long-term loans	233	(6,120)
Purchase of government securities	(166,375)	-
Interest received/(paid)	(6,550)	(11,136)
Change in financial receivables	(53,049)	(3,032)
Dividends (and interim dividends) paid	(20,000)	(20,000)
Changes in capital and reserves	-	-
Cash flow from financing activities (C)	195,523	197,110
Increase (decrease) in net cash and cash equivalents (A+B+C)	75,788	160,708
Initial net cash and cash equivalents	(48,144)	(209,504)
Exchange rate differences	(389)	651
Final net cash and cash equivalents	27,255	(48,144)

* The “other changes” do not relate to cash flows but are due to the translation effect on individual balances.

** See the “Business Combinations” section in the 2017 Consolidated Financial Statements

INVESTMENTS

The investments for the year are shown in the table below.

DESCRIPTION (THOUSANDS OF EURO)	2017	2016
Goodwill	-	520
Rights, trademarks and brands	409	2,290
Intangible fixed assets in progress	2,082	1,109
Other intangible assets	8	1,104
Land and buildings	4,933	27,743
Plant and machinery	17,457	45,555
Industrial and commercial equipment	898	1,613
Other tangible assets	6,054	4,627
Tangible fixed assets in progress and payments on account	405,084	216,929

The investments for the year mainly related to:

- The installation and start-up in Ciechanov, Poland, of a continuous machine with Advantage NTT 200 Valmet technology for the production of parent reels.
- The expansion of the plant and start-up of new converting lines in Buñuel, Spain, where in 2018 a new continuous machine will be activated for the production of parent reels with the same technology as the Polish plant, leading to a tripling of current production capacity.
- Work to complete the construction of a plant in Circleville (Ohio), in the United States, which will house two paper machines with the same Valmet technology as the two new European plants and converting machines to transform the parent reels into finished product, in what is destined to become the biggest and most modern plant in the

Group. The installation of the machines has already been started and will be completed during 2018.

- In general, in all plants the Group's policy continues to be oriented towards the principles of Industry 4.0: automation, intelligent machines, information systems capable of continuous interaction with one another and the operating environment.

The term indicates the fourth industrial revolution following the mechanical, electrical and IT ones.

The other investments made bring significant improvements to production processes, in line with the Group's consolidation and growth strategies.

For further information on the economic and financial results, please refer to the 2017 Consolidated Financial Statements.

CALCULATION AND DISTRIBUTION OF GLOBAL ADDED VALUE

GLOBAL ADDED VALUE CALCULATION

Global Added Value is a form of social disclosure which measures the wealth produced by the company with reference to the stakeholders share in its distribution. Global Added Value is determined by subtracting from the

value of production, including revenues from sales and other revenues, the cost of services and consumption of materials, depreciation/amortisation provisions and other operating expenses. The Gross Characteristic Added Value is obtained by deducting extraordinary and accessory items.

(thousands of Euro)

A) Value of Production	2017	2016
Revenues from sales and services	1,844,297	1,842,467
Other revenues and income	24,210	28,861
Revenues from characteristic production	1,868,507	1,871,328
B) Intermediate costs of production	2017	2016
Consumption of raw material, consumables and goods for resale	802,389	763,569
Costs of services	531,192	527,189
Leases and rentals	32,053	33,070
Sundry operating charges	29,125	29,014
Costs of characteristic production	1,394,759	1,352,842
GROSS CHARACTERISTIC ADDED VALUE	473,748	518,486
C) Accessory and extraordinary items	2017	2016
12. +/- Accessory balance of operations	-9,236	-4,901
Accessory revenues	0	0
- Accessory costs	-9,236	-4,901
GLOBAL GROSS ADDED VALUE	464,512	513,585

DISTRIBUTION OF ADDED VALUE

(thousands of Euro)

	2017	2016
A) Human Resources remuneration	291,616	281,627
Personnel		
a) direct remuneration	240,033	230,217
b) indirect remuneration	51,583	51,410
B) Loan Capital remuneration	6,550	9,223
Charges for short or long-term capital	6,550	9,223
C) Public Administration remuneration	13,321	22,114
Direct and indirect taxes	13,321	22,114
D) Company remuneration	153,025	200,621
Profit (loss) for the period	29,689	83,115
Amortisation/depreciation	123,336	117,506
GLOBAL GROSS ADDED VALUE	464,512	513,585



5 | PRODUCT

Tissue production process

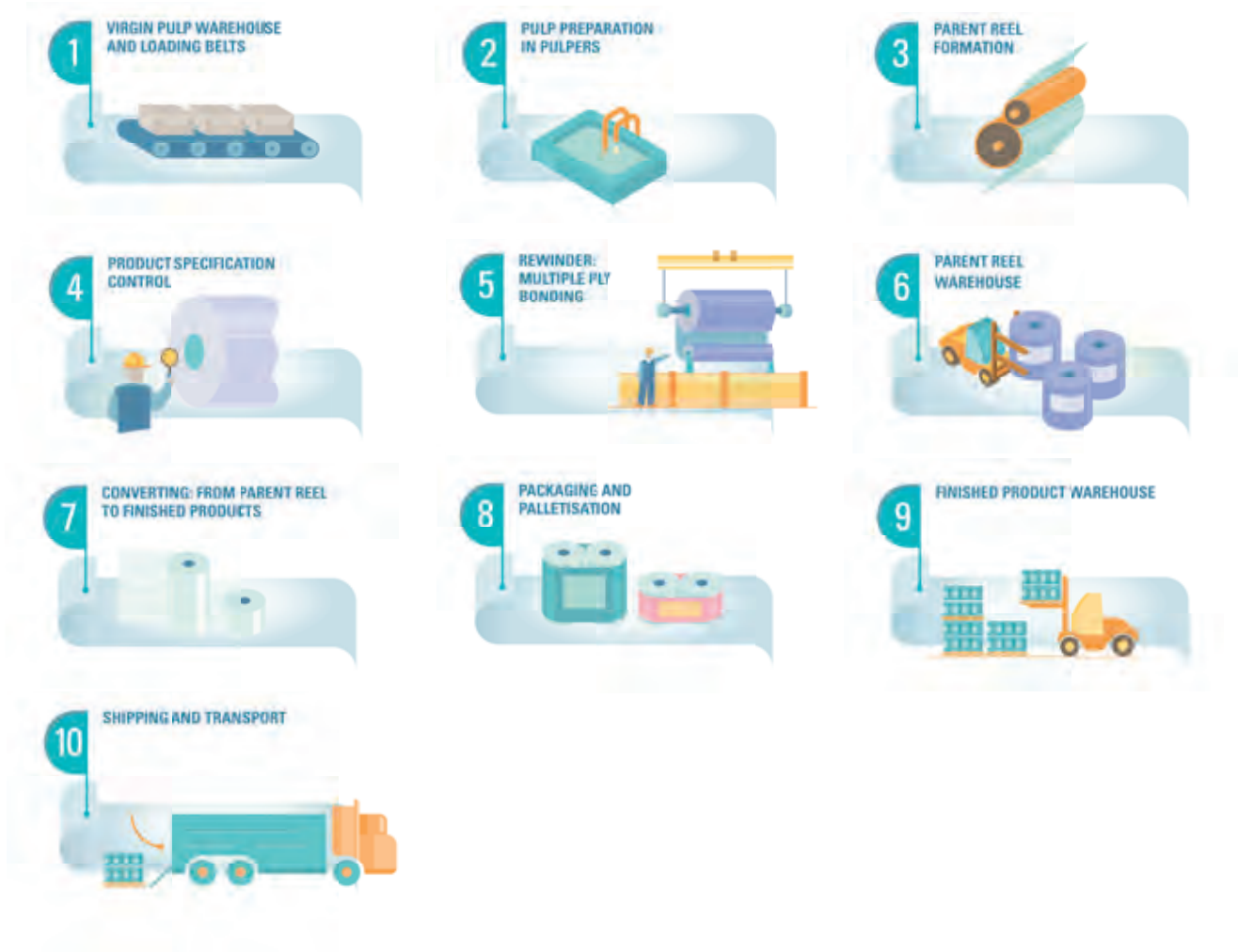
Product quality and safety

- Product quality
- Product safety

TISSUE PRODUCTION PROCESS

The Sofidel Group only produces and markets tissue paper, i.e. the paper used for hygiene and domestic purposes in and out of the home – toilet paper, all-purpose absorbent paper, paper napkins, paper handkerchiefs, facial tissue, etc. Group companies oversee the whole production process from man-

ufacture of the tissue to its processing through to the finished product. The whole production chain features constant respect for the principles of sustainability, the basis of the entire Sofidel value creation system.



PRODUCT QUALITY AND SAFETY

PRODUCT QUALITY

Product quality and its maintenance over time have always been indispensable objectives for the Sofidel Group, as already clearly set out in its company mission. To this end, since the end of 1990s, Quality Management Systems have been implemented to focus attention on product compliance and customer and consumer satisfaction. Specifically, the operational descriptions in the Quality Management Systems, the stimulus to continuous improvement, timely and careful training of the resources involved and con-

stant monitoring of processes mean that production quality is guaranteed over time and between production runs. A compliance indicator has also been prepared in which all the non-conformities found, i.e. the features of the articles produced which do not meet the requirements established in the relevant documentation (procedures, technical specifications, etc.), are weighted according to how serious they are and compared with total production. The graph below shows the values of the Product Compliance Index² in the Group production sites for the last 3 years.

PRODUCT COMPLIANCE INDEX

	Soffass Converting Via Lazzare- schi (ITA)	Soffass Via Fossanuova (ITA)	Soffass Monfalcone (ITA)	Soffass Tassignano (ITA)	Intertissue Baglan (UK)	Intertissue Horwich (UK)	Sofidel Benelux	Sofidel France Frouard	Sofidel France Ingrandes	Sofidel France Roanne
2017	98.13	98.30	99.69	92.83	96.30	99.14	97.70	96.02	97.53	95.72
2016	98.88	98.16	99.24	96.65	94.29	97.80	95.77	95.19	96.53	92.41
2015	97.51	97.41	98.98	95.14	96.45	91.76	93.42	96.16	99.19	90.90

	Sofidel Germany	Sofidel Greece	Sofidel Poland	Sofidel Romania	Sofidel Spain	Sofidel Sweden	Sofidel UK	Thüringer Hygiene Papier (GER)	Werra (Stab. Werra) (GER)	Werra (Stab. Omega) (GER)
2017	96.65	99.67	97.91	98.23	98.47	94.75	96.93	98.76	98.61	98.33
2016	97.73	98.83	99.36	98.10	98.80	90.70	95.41	99.06	97.75	98.90
2015	98.78	99.53	98.36	96.31	99.27	-	97.88	96.38	99.30	99.47

Considering that the maximum value that can be reached by the index is 100 and that this index is based on stricter criteria than the simple ratio between compliant products and total production, the trend in the three-year data shown below highlights satisfactory product compliance results in all companies.

2. There are no reports for Sofidel America, Sofidel Turkey and Sofidel Hungary because of the adoption of different calculation indices which are not comparable.

PRODUCT SAFETY

Given the growing importance given to product safety in Europe and the need to protect the health of our consumers, in 2017 a Product Safety Office was established within the Corporate Quality Department with the task of coordinating and supervising this process.

All the various plants in the Group are gradually adopting self-controlled health-hygiene systems which ensure the application of the principles established by the European voluntary standards British Retail Consortium (BRC) *Consumer Products Personal Care and Household* and International Food Standard (IFS) *Household and Personal Care Products*, the international regulations applicable to the tissue sector and the standards required by our main retailers.

The self-controlled systems comprise various documents, the most important of which is the risk assessment made using the Hazard Analysis Critical Control Point method, based on Severity times Probability, which enables the risks of microbiological, chemical and physical contamination to be determined and measured at every stage of the production cycle. Through specific analyses, improvement plans are drawn up and above all Good Manufactur-

ing Practices (GMP) to reduce to a minimum the potential risks for the product and therefore for consumer safety.

The various activities carried out within the company (cleaning and inspection plans, traceability and recall tests, hygiene rules) are flanked and supported by chemical and biological tests conducted by outside laboratories. These analyses are based on the applicable legislation and guidelines and consist, for example, of checks on suitability for food contact, release of colour, microbiological profile and absence of SVHC (Substances of Very High Concern) as required by EC Regulation 1907/2006 (Reach). The testing plan is constantly updated taking into account the development of the regulations and/or special requirements of the relevant market.

The main raw materials used by the Group are also constantly monitored, by requiring suppliers to provide specific declarations of compliance with the applicable legislation.

At the end of 2017, 18 production sites were BRC or IFS certified, covering 78.41% of total Sofidel Group production. With regard to uncertified plants, the self-controlled system implementation process is continuing and will involve, in 2018, the Sofidel Sweden and Sofidel Greece plants.





6 | OPERATIONS

Governance

- Company structure
- Organizational structure
- Internal control system

Risk management and monitoring

Management systems

Respect for the environment

- Energy efficiency
- Management of greenhouse gas emissions
- Protection of water resources
- Protection of forest resources
- Biodiversity
- Waste management
- Ecological products
- The organization's environmental management

GOVERNANCE

COMPANY STRUCTURE

Sofidel is governed by a Board of Directors (BOD) consisting of members of the controlling families elected by the Shareholders’ Meeting. The BOD currently consists of three men and three women. The members of the BOD are chosen by the shareholders; they are all executive and non-independent

and have the skills necessary for the responsible management of the business, in compliance with the sustainable development goals. The directors assume full responsibility for the financial, social and environmental performance of the Group, which is subject to approval by the Shareholders’ General Meeting on an annual basis.

BOARD OF DIRECTORS	In office for the 2015-2017 financial years	Chairman and Board Member	Emi Stefani
		Chief Executive Officer (CEO)	Luigi Lazzareschi
		Board Members	Edilio Stefani Lorenza Magazzini
		Board Members	Paola Stefani Cristina Lazzareschi
BOARD OF AUDITORS	In office for the 2016-2018 financial years	Chairman	Ugo Fava
		Permanent auditors	Gabriele Nencini Giulio Grossi
SUPERVISORY BOARD 231/01		Permanent members	Gianfranco Del Grande Simone Ferretti
INDEPENDENT AUDITING COMPANY	In office for the 2016-2018 financial years	EY S.p.a.	

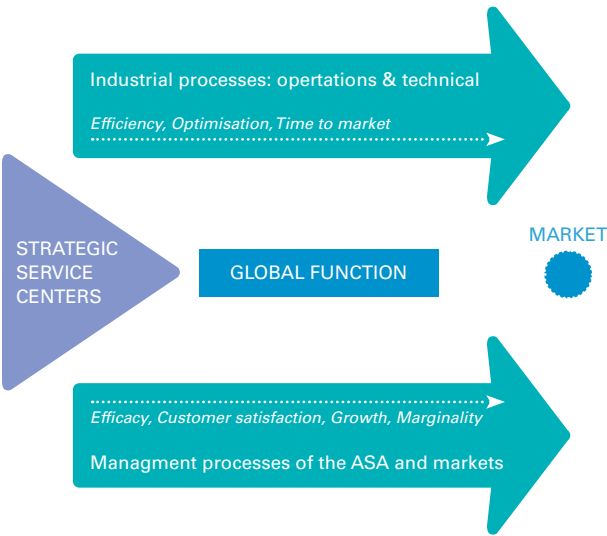
At present, there are no formal channels for the employees to send recommendations to the Board of Directors, but the constant presence of the Chairman and the CEO in the Group’s companies enables good interaction with staff. The Sofidel BOD is flanked by the Board of Auditors, composed of professionals and university lecturers.

This gives rise to the need to recompose the value creation processes into a unitary process, shifting the emphasis from individual activities to the overall flow, reconstructing the entire process and seeking to make it more streamlined and fluid, eliminating duplication.

ORGANIZATIONAL STRUCTURE

The organizational model adopted by the Group since January 2009 is based on three main requirements:

1. Distribution and allocation of responsibilities and authority between the managers working in the holding company and the ones in the production plants;
2. Grouping the units so as to enable the optimum use of resources and meet customer needs, differentiated by product and market, more efficiently and effectively;
3. Choice of the most appropriate mechanisms for integration and control, as well as the organizational culture best suited to ensuring the effective operation of the overall global structure.



The main lines of development of the new organizational model are based on 4 macro processes with are integrated with the final goal of meeting market needs.

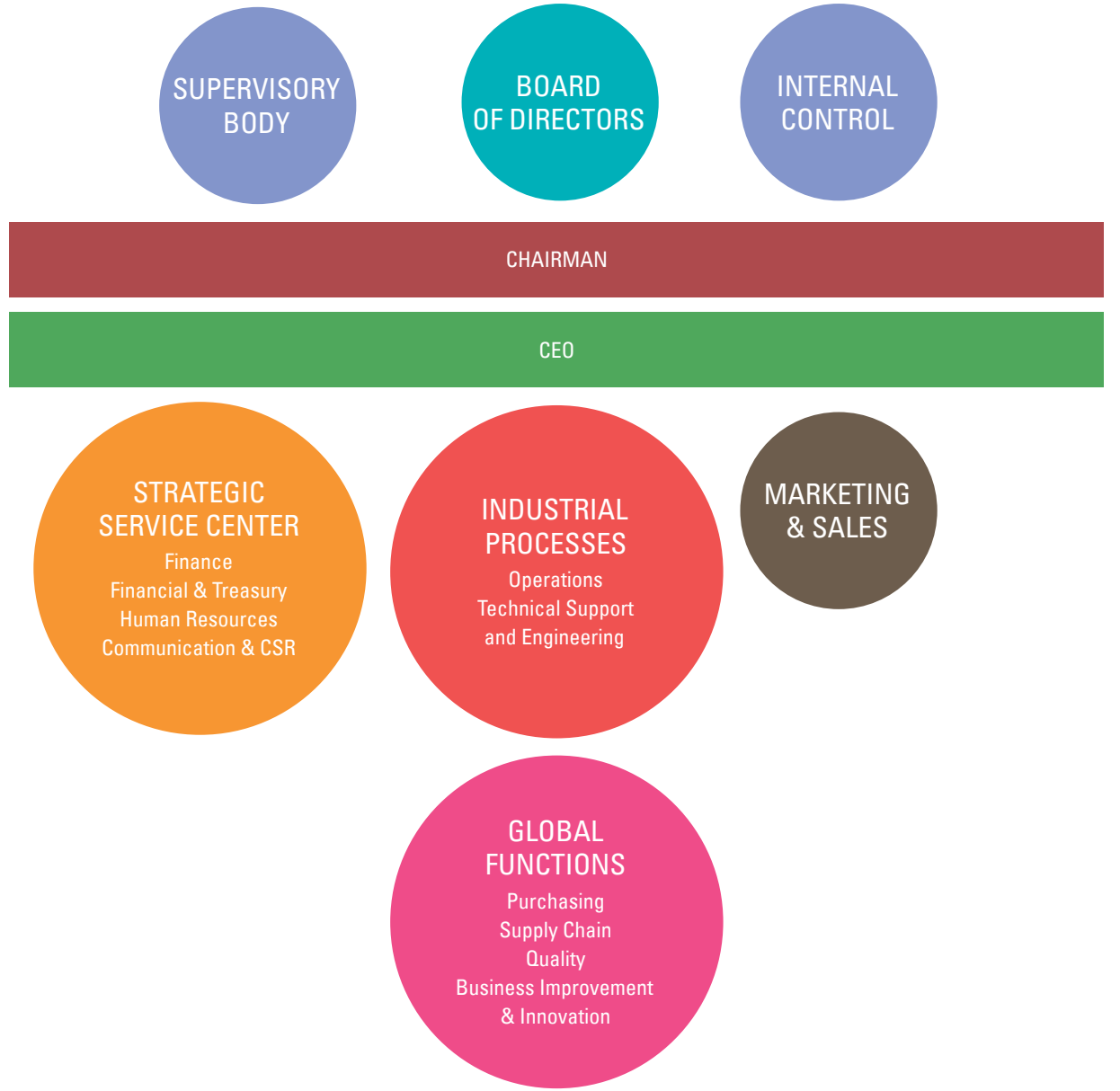
1. Industrial process characterized by a matrix organisation with two macro units, **operations** (COO) and technical support and engineering (CTO) with distinct objectives in terms of efficiency, optimization and time to market.
2. Management process for **Strategic Business Areas (ASA) and Markets** organized by line of business with distinct objectives in terms of efficiency, customer satis-

faction, growth and profit margins.

3. Central processes or central line functions (**Global Functions**) which oversee certain processes from the centre and ensure consistent integration between the industrial process and the management process for strategic business areas and markets.
4. Corporate **Strategic Service Centres** which oversee and supervise support processes and staff.

The organizational model therefore translates into an organizational structure, as shown below.

GROUP ORGANIZATIONAL MODEL



The industrial processes are overseen by the following organizational units:

- **Operations**, which ensures the development and dissemination throughout the group of best practices relating to the production process (**Sofidel Manufacturing System**) and the maximisation of production efficiency. The Operations manager is reported to by the **Country Operations Manager** who oversees the industrial process in the country in question;
- **Technical Support and Engineering**, which oversees the technical development of investments and engineering.

Marketing & Sales oversees the management processes for ASA and markets organized into 4 lines of business: Brand, Private Label, Away From Home and Parent Reels. Each line of business is managed by the **Line of Business** department, responsible for the relevant sales process, marketing and customer satisfaction and organized by geographical area/region.

Global Function comprises the following functions:

- **Supply Chain**, which oversees production planning and procurement of raw materials, management and traceability of raw materials and the finished product and organization of transport services and minimization of the relevant cost;
- **Purchasing**, which supervises the process for managing suppliers and the purchase of strategic raw materials (cellulose and pulp) in order to create economic and financial opportunities and respond to strategic market needs;
- **Quality**, which is responsible for proposing, disseminating and managing certifications, and ensuring quality as the Group develops and grows, in order to bring satisfying products to market;
- **Business Improvement & Innovation**, which coordinates the process for development and integration of the businesses in Europe and the United States, and manages the Group's research and development activities.

The **Strategic Service Centres** comprise the following functions:

- **Finance**, responsible for the administrative management of the Group, planning and control, credit management, Information & Communication Technology and Insurance;
- **Human Resources**, responsible for personnel management, training, Group organization, safety management and legal affairs;
- **Financial & Treasury**, responsible for the Group's financial management, treasury operations and relations with banks and other credit institutions;
- **Communication & CSR**, responsible for the Group's institutional communication, corporate sustainability and the development and improvement of Corporate Brand Equity.

Communications concerning organizational changes are made in compliance with the times and methods established by the individual national regulations or collective bargaining agreements applied.

INTERNAL CONTROL SYSTEM

The Sofidel Group adopts an integrated and shared internal control system, based on information tools and flows that, involving many people in the Group, finally arrive at the top management bodies of the company. All the Group's employees are required to comply the Ethical Code, which sets out the principles underlying fair and lawful business conduct, and internal procedures, issued in accordance with international best practice and local regulations, to ensure that company objectives are met. In addition, the Group's company rules set out organizational solutions in line with the principle of separation of duties between the people deciding, executing and controlling activities, avoiding conflicts of interest. Based on the Organizational, Management and Control Model adopted by Sofidel under Italian Legislative Decree 231/2001, updated by resolution of the Board to take into account regulatory and organisational changes, the Supervisory Body has put in place monitoring and control to check on the implementation, efficient operation and observance of the Model.

The Business Control Department carries out various types of check on company processes aimed at verifying observance of procedures and evaluating the suitability of the system to ensure compliance with company objectives and strategies.

An integral part of the internal control system is the Quarterly Report, composed of a dashboard and a descriptive report, prepared every three months by the Legal Representatives of the Group Companies. This report is a form of self assessment of the compliance of company processes and activities with the best practices adopted by the Group as well as the achievement of company objectives. During the year, the Supervisory Body and the Business Control Department supported company units in the design of controls, contributed to the assessment of their effectiveness and operation, developed a training and information approach to ensure employees understand their responsibility for compliance and provided assurance on the design and operation of the controls.

In order to further strengthen the fight against corruption and meet the increasingly stringent requirements of local legislators in the various countries in which the Sofidel Group operates, from 2018 onwards an implementation plan for the new international ISO 37001 standard will be adopted.

RISK MANAGEMENT AND MONITORING

ECONOMIC AND FINANCIAL STRATEGIES AND RISKS

From Integrated Finance Organization to Integrated Business Planning

Over the last few years, based on international best practices, the Group has launched a process for the integration and standardisation of the administrative/accounting and financial procedures and uses a unique, integrated ERP SAP management program at all Group companies.

The model underlying the Group's strategy is better known in international circles as the "Integrated Finance Organisation" (IFO). The proper functioning of the IFO is a requisite for implementation of the "Integrated Business Planning" (IBP), which is currently being implemented. This model is based

on the idea of viewing the company (or group of companies) as a whole and not as a sum of individual elements.

On a practical level, this means translating strategic Group planning into operating objectives to attain pre-established economic-financial performances.

In a nutshell, the functioning of the model is based on the following steps:

- the strategic planning dictates the guidelines;
- the operating planning represents the tool for implementing the strategic planning;
- the economic and financial planning is the result of the strategic plan.

Economic and financial sustainability is therefore pursued through the implementation and optimisation of IBP, via the integrated business planning, management and control model.



THE RISKS: PROTECTION OF ECONOMIC AND FINANCIAL ASSETS

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Credit risk	Credit risk represents the exposure to potential losses deriving from the non-fulfilment of the obligations assumed by business and financial counterparts. This risk mainly relates to the possibility that the economic or financial situation of a counterpart deteriorates, or, at worst, that the latter defaults.	<p>The Group protects itself vis-à-vis commercial counterparties by:</p> <ul style="list-style-type: none">· taking out insurance policies with leading international insurance companies;· diversifying companies from country to country, as well as from company to company and sales channel;· observing insurance thresholds;· providing for advance payments where there is no insurance coverage;· a policy to minimise credit concentrations;· quantifying the risk under analysis at budget level using the IFO model and subsequently sharing the budget data with insurance companies;· using the Grade issued and updated by the insurance companies as an indicator of short-term solvency for customers requesting credit lines credit-worthiness needs to be checked;· compliance with payment terms by suspension of orders for customers in arrears for more than 10 days;· compliance with extra credit ceilings assigned by Line of Business Region to monitor and mitigate uninsured credit risk. <p>As regards financial aspects, the Group is exposed to credit risk owing to relations in place with financial institutions. These risks are represented by:</p> <ul style="list-style-type: none">· partial or total revocation of uncommitted credit lines, which the Group manages:<ul style="list-style-type: none">- by having potential access to a wide range of sources of financing offered by a large number of financial institutions, which allows the Group to reduce the risk of exposure on a pro-quota basis- by developing the use of committed RCF lines with a duration exceeding one year which, thanks to their flexibility, can be used to stabilise the coverage of current requirements. <p>The Group continues to systematically monitor developments in the European banking system, highlighting that, as of today, those taking place (concentrations, mergers and acquisitions) has had no direct impact on Group operations.</p> <ul style="list-style-type: none">· forced withdrawals of bank funds (Bail-in operational from 1 January 2016), whose risk is mitigated by the policy of minimizing deposits by using credit lines for current account overdrafts;· further information is given in the notes to the 2017 Consolidated Financial Statements.
Price risk and cash flow risk	This is the risk that the fair value of a financial instrument or the future cash flows associated with it may fluctuate following variations in the market price (other than variations caused by interest rate or exchange rate risk), both for variations caused by factors specific to the individual financial instrument or its issuer, and for those due to factors that affect all similar financial instruments traded on the market.	<p>The risk of price variations in the commodities purchased (cellulose and energy) can have a significant impact on the Group's operating and financial results. In this regard, for the purchasing of cellulose, the Group implements a procurement plan which takes into account both production requirements and the trend in the market price of cellulose.</p> <p>The change in electricity and gas prices is mitigated:</p> <ul style="list-style-type: none">· by the constant search for suppliers able to offer the best price based on the same guarantees of continuity of supply;· by obtaining energy certificates for the individual plants in order to minimise the effects of unfavourable trends in energy prices.
Exchange rate risk	Exchange rate risk derives from the fact that the activities of the Group, which operates in an international context, are also conducted in currencies other than Euro.	<p>The purpose of the Group is to minimise the risk in question by stipulating financial instruments for hedging purposes and centralising the management of exchange rate risk, which it deals with by entering into currency forward contracts as a matter of priority.</p> <p>The items hedged mainly concern the procurement of raw materials (cellulose), plant and machinery (assets) and securities (US Treasury Bills and Notes). The adoption of FX-All as the single electronic third party trading platform, through which the forex transactions of all Group companies flow, has resulted in almost all transactions being managed fully automatically.</p> <p>Further information is given in the notes to the 2017 Consolidated Financial Statements.</p>

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Interest rate risk	Interest rate fluctuations in each country, as well as the different value of the rates in each currency in which the Group operates, affect the company's cash flows and the level of consolidated net financial expenses.	<p>The Group adopts an active policy of monitoring of the interest rate risk and regularly assesses its exposure to the risk of variation in interest rates.</p> <p>As regards medium/long-term transactions, the company strategy focused, in 2017, on continuing the taking out of new fixed-rate loans, taking advantage of the favourable opportunities offered by the market. In relation to current activities, also based on studies and consultancy, and having identified a stable average trend in interest rates, it was not considered necessary to make use of hedging instruments.</p> <p>Further information is given in the notes to the 2017 Consolidated Financial Statements.</p>
Liquidity risk	Liquidity risk is the risk that the Group is unable to meet its payment commitments due to the difficulty of procuring funds (funding liquidity risk) or promptly liquidating assets on the market (asset liquidity risk).	<p>To this end, through careful treasury planning, the Group pursues the fundamental objective of guaranteeing an adequate level of liquidity, minimising the associated opportunity cost and maintaining balance in terms of the duration and composition of the debt.</p> <p>As regards the assets that contribute to the calculation of the “Net financial position”, it should be noted that the Group's liquidity management is based on prudential criteria. Policy is therefore in line with that for previous years whereby cash surpluses are used to reduce current account overdrafts and/or other types of short-term bank loan or, alternatively, intercompany current accounts are used to meet the needs of the various Group companies.</p> <p>During 2017, because excess liquidity had reached a very high level due to the use of such prudential criteria, it was decided to buy and hold American government securities which, considering the high credit rating and level of liquidity, do not represent a significant risk.</p> <p>There are no other financial and/or trade payables other than those shown on the balance sheet, which will involve disbursements by the company under specific agreements.</p> <p>Further information is given in the notes to the 2017 Consolidated Financial Statements.</p>
Legal/compliance/ reputational risk (other than environmental)	Legal/compliance/reputational risks regard the possibility of incurring fines and/or financial losses due to infringements of the law, secondary legislation, rules, company standards and codes of conduct.	<p>The Group, in accordance with its principles, works at different levels to limit these risks which extend across different company processes. More specifically, the Group pursues these objectives through:</p> <ul style="list-style-type: none">· proactive management of intangible assets, targeted at creating and protecting its own credibility and maintaining the loyalty and cooperation of all stakeholders (from suppliers, to customers, to consumers);· the integration of sustainability in the business as a strategic line of development. <p>Through a dedicated function, the Group oversees the analysis of compliance risks at all companies; in addition, in the Italian Group companies organisational models were adopted for the prevention of the offences set forth in Italian Legislative Decree 231/2001 through the creation of a supervisory body.</p> <p>During the year just ended, the Group was not involved in any lawsuits relating to unfair competition or monopolistic practices in the market, nor has it been investigated by the antitrust bodies operating in the countries in which its companies are located.</p> <p>At the same time, no instances of non-compliance with regulations or codes of conduct concerning advertising material, promotions or the sponsorship of its own products were recorded.</p>

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Reporting risk	Concerns the reliability of the information provided by the internal and external reporting process relating to accounting and non-accounting information.	<p>To guard against this risk, the Group has implemented and is continuing to implement administrative, financial and management procedures to help minimise its occurrence. More specifically, the work underway aims to make economic and financial planning more integrated and efficient, to enable a better level of monitoring throughout the company.</p> <p>The tools used include SAP, Bw Sem, Piteco and Tagetik; in particular, the SAP management software has allowed total integration of the different business areas, which can now be constantly monitored on a group basis.</p> <p>The certification of the annual financial statements by a leading independent auditing firm is an additional way to check the process.</p> <p>The Group also introduced the Piteco and Piteco CBC (Corporate Banking Communication) applications a few years ago, for the fully secure handling of Company-Bank connectivity, by implementing management solutions in the treasury area to manage all payment instructions, the complete automation of authorisation workflows, their traceability and the secure management of instruction flows via mobile devices and digital signatures.</p> <p>The management of supplier payments, in particular, is a complex process that the Group focuses heavily on in terms of security and efficiency. The payment management system offered by Piteco allows the company, via a single platform, to govern the in-coming and outgoing instructions from the company to banks, including, inter alia, payments to suppliers, payment of taxes and salaries.</p> <p>It is especially significant that Piteco can be integrated with all the main ERPs. To make this platform even more efficient and cut costs, the Group has set up a connection to the Swift network.</p> <p>The main projects of an extraordinary nature, put in place for the 2017 year to reduce the risk in question are:</p> <ul style="list-style-type: none">· implementation of the SAP Hedge Accounting module to ensure correct management from an IFRS viewpoint of the impact of changes in the exchange rate on hedging instruments.· implementation of Sales Force for the planning and monitoring of retail outlets carried out by the Group sales force;· implementation of TNSJ Software in all companies outside Italy;· migration of the company Business Warehouse (SAP BW) to the new Hana database;· migration of SAP ECC to the new Hana database.
Integration risk	This refers to the risks connected with the integration of new acquisitions within existing procedures and information systems.	Following decades of experience, when acquisitions are made the different corporate functions make available suitably trained personnel for the implementation of the existing financial, administrative, management, operating and marketing procedures in the new company and, subsequently, the efficiency and effectiveness of these procedures are monitored by the Business Control office. Finally, the Information Technology department oversees the implementation of the existing information systems (SAP for all) in the new companies.
Risks connected with the use of IT tools	Risks related to the use of IT tools regard the protection and the integrity of IT data.	<p>The implementation of the SAP management software with disaster recovery provides adequate guarantees.</p> <p>An accurate and well-defined separation of roles – which is built into the IT system itself through preventive controls such as passwords and authorisations, also enables the risk of internal fraud to be minimized.</p>

STRATEGIES AND RISKS ASSOCIATED WITH PRODUCTS AND CUSTOMERS

The strategy: constant search for a sustainable product to serve the community in which the Group operates. Product safety: an essential value

The Group has been committed to product safety for many years, in order to ensure the maximum protection of consumer safety, anticipate market requirements and seize further opportunities to improve the qualitative performance of the products produced.

For further information please refer to the Product quality and safety on page 45.

Product quality depends on the quality of the company system

The Group has implemented quality management systems at companies from the middle of the 90's, further confirming its overriding interest in the quality of the products manufactured.

This is assured by compliance with quality management system procedures, the drive towards constant improvement, timely and careful training of the staff involved and constant monitoring of processes. A compliance indicator has also been prepared in which all the non-conformities found, i.e. the features of the articles produced which do not meet the requirements established in the relevant documentation (procedures, technical specifications, etc.), are weighted according to how serious they are and compared with total production.

THE RISKS: PROTECTION OF THE COMPETITIVE ADVANTAGE ACQUIRED OVER TIME

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Country risk	The economic, equity and financial situation of the Group is influenced above all the various political and economic factors that affect macro-economic trends, including, mainly: political and economic instability, the rate of unemployment, the level of consumer confidence, the trend in household disposable income and therefore of private consumption, interest rate and exchange rate trends and the cost of energy and non-energy raw materials.	The Group does not operate with countries that are socially, politically and economically unstable. In addition, the geographical distribution across different countries and continents makes it possible to offset the negative economic trends of one country with the positive trends of others. Distribution on a global scale also allows the company to be close to its main end markets, especially in Europe, thus benefiting from significant savings as well as the possibility of offering a “global” service. Lastly, the aforementioned proximity to markets allows the company to more closely understand consumers’ needs.
Sector-related risk	The economic, equity and financial position of the Group is affected by the economic trend in the reference sector: trend in competition, potential new entrants, threat of replacement products, etc.	To this end, the Group has diversified its activities across a number of sectors (Private Label, Brand and Away From Home and, from 2016 is also present in the e-commerce sector), seeking to offer increasingly high performance and innovative products and dedicating specific internal resources to each of these.
Operating risks associated with production	These are the risks of unexpected breakdowns or downtime, loss of plant efficiency, fire, flood and theft.	<p>The policy of planned maintenance implemented for years and the continuous technological upgrading of plants minimises the risk of unexpected breakdowns or downtime. By contrast, as regards risks connected with a loss of plant efficiency and performance quality, a specific corporate function constantly monitors specific KPIs identified for machines at the different plants, in order to take prompt action if needed. The various production plants, from the walls to the equipment inside them, are also insured against the main risks (fire, flood, theft, etc.) with leading international insurance companies whose levels of insurance cover are regularly reviewed.</p> <p>With regard to the production side, the recent implementation of procedures for the collection of process data should be noted, aimed at improving control of inefficiencies and planning of the measures to be taken to eliminate them, as well as the technological renewal of the converting production structure involving various Group plants, to be implemented through the installation of machines with “Constellation” technology.</p>

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risks associated with the services offered to customers	These are the risks of inefficiencies linked to distribution, which may lead to disputes with customers and therefore unpaid invoices.	In this area, the Group ensures: <ul style="list-style-type: none">· careful selection of transport firms, choosing those that provide the best guarantees in terms of continuity and fast deliveries;· precise logistic planning to reduce inefficiencies to a minimum, monitored through specific KPIs;· continuous monitoring of performance through specific KPIs (e.g. the service rate, which monitors the completeness and punctuality of deliveries and stock reduction, which aims to optimise stock levels);· constant attention to customer requirements through customer care policies. These actions aim to greatly mitigate the risks under review. During the year, no significant events occurred in this regard that require reporting.
Risks linked to customer dependency	These are the risks of customer dependency.	In this area, management policies aimed at consolidating and developing own brands – involving the consolidation and development of existing brands – and at consolidating relationships with the large-scale distribution chains – involving stakeholder engagement measures to create long-term partnerships and launch products that are always innovative, characterised by high turnover and profit margins – tend to lessen this category of risk. In any event, during the year, concentrations of supplies or situations that render these risks significant were not reported.

STRATEGIES AND RISKS ASSOCIATED WITH THE SUPPLY CHAIN

THE RISKS: SUSTAINABLE MANAGEMENT OF THE SUPPLY CHAIN

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risks of “unqualified” supplies	These are the risks of procuring non-compliant materials and services in terms of quality and environmental sustainability, ethics, etc.	The Group, in line with its strategy, has a policy to manage supplies which takes account of sustainability criteria. This policy is formalised in the “Guidelines for suppliers” mainly based on the principles and values in the Group’s Ethical Code, making it possible to engage with suppliers on the importance of sustainability. To this end, the Group carries out a careful assessment of suppliers, which also measures their social and environmental performance; this evaluation is performed in advance for new suppliers, while the assessment of existing suppliers is performed periodically, through the use of both performance indicators and through specific audits. The involvement of all suppliers regarding sustainability therefore allows the Group to further improve its performance, minimising environmental impacts and reducing “reputational” risk.
Risks of dependency on suppliers	These are the risks of dependency on suppliers of goods and services.	The fact that suppliers of goods and of services are interchangeable, because the company constantly diversifies its suppliers, at a national and international level, means that the risk of dependency is negligible.
Risks associated with greater digitalisation of systems	These are the risks of dependency on suppliers due to greater use of technology in factory systems and management systems.	The Group protects itself against this risk as follows: <ul style="list-style-type: none">· for the technologies used in Group management systems the Group, despite having an integrated ERP management system for all areas (SAP), employs, uses alternative suppliers for accessory programs which are, nonetheless, of primary importance (Tagetik, Sales Force, Piteco, etc.);· for the part connected with factory systems, the presence of different applications at the individual plants, interfaced at corporate level with the SAP management program, makes it possible to greatly reduce the risk under review.

STRATEGIES AND RISKS ASSOCIATED WITH PERSONNEL AND THE ENVIRONMENT

PERSONNEL AND ENVIRONMENTAL RISKS: PROTECTION OF RESOURCES TO GUARANTEE LONG-LASTING SOCIAL AND ENVIRONMENTAL BENEFITS

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Operating risks associated with employees and the workplace	These include the risks of workplace accidents, but also of pay demands and the transfer of company know-how outside the company, for example, due to high turnover of employees.	The protection of workers’ health is ensured by constant monitoring of working environments, with the implementation of the best safety standards for machines and equipment and by conducting training programmes and providing information. Moreover, following the risk assessment, regular health surveillance is carried out and specific health risk protocols are developed. Training has been further strengthened in the year with the support of new external consultants; particular attention has been paid to the relations with the external companies that carry out maintenance activities; priority has always been given, in the most constructive possible way, to constantly apply the most restrictive criteria to guarantee the application of safety standards for those carrying out particular activities and/or who are exposed to the specific risks typical of some production sectors. Specific health and safety training programmes were then drawn up for workers, managers, supervisors, safety representatives, Health and Safety Managers, maintenance electricians, and members of the first aid and fire-fighting teams. In particular, the workers were trained on departmental risks and the prevention and protection measures put in place, and for each specific job, on the job training was carried out. Careful attention is paid to the choice of personal protection equipment (PPE) in order to constantly check its efficiency and continually improve its effectiveness in order to ensure ever better levels of protection and comfort. The majority of Group sites are certified according to the OHSAS 18001 standard. The adoption of these measures has allowed the company to minimise risks, as confirmed by the reduced occurrence of similar events in the year; furthermore, no significant wage claims or actions were taken by employees and staff turnover levels were insignificant.
Operating risks associated with environmental legislation or accidents with environmental repercussions	These include the risk of fines or limits on production activity following breaches of legal requirements or authorisation conditions, or as a result of accidents due to natural causes or techniques that could lead to pollution or changes in the main environmental areas (fires, floods, failures or breakdowns).	The adoption of Environmental Management Systems certified in accordance with international standards (ISO 14001, EMAS) and frequent audits, both internal and by third parties, are the main forms of oversight to prevent the risk of legislative breaches or accidents with environmental consequences. Coverage of plants adopting such management systems has been completed in Europe. The uncertified plants are in any case protected by procedures and controls which guarantee updating in line with legislation, training and instruction, operating control and audit activities.
Operating risks associated with the availability of natural resources (water, wood and wood by-products, fuel)	These are the risks connected with the reduced availability of many natural resources, including some that are indispensable for paper production, such as freshwater and wood for the production of cellulose and for energy use, considering that climate change and the increase in global consumption is leading to significant changes in the availability of such resources.	The Group has made significant investments, reducing as much as is technically possible the amount of water required for the production process. As of today, the average water withdrawal of the Group is less than half the sector benchmark. In terms of forest resources, the purchase of products with Chain of Custody certification and the decision to give priority to material from countries with low forest risk are the main means of managing this potentially critical area.
Risks relating to non-compliance with product environmental standards	The market for products with environmental credentials, governed by appropriate standards, is growing rapidly, also for the tissue sector. These are therefore the risks of not satisfying the criteria of the product accreditation systems for such standards, with a potential loss of customers or market share.	The Group has implemented monitoring of the performance of the production chain, especially for suppliers of raw materials. In addition, it has invested in a reduction in environmental impacts (emissions into air and water) which contribute to the scoring for access to the main ecological quality marks. Where possible, the Group plays an active role, participating in the review of the criteria for the main ecological quality requirements for paper tissue products.

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risks associated with energy procurement	These include the risks associated with fluctuations in energy costs and the risks associated with possible unplanned interruptions of the energy supply.	<p>The risk of variations in the price of energy can have a significant impact on the Group's operating and financial results. In order to reduce these risks as far as possible, the Group:</p> <ul style="list-style-type: none">· selects highly reliable suppliers able to offer flexible energy supply services (indexed contracts with hedging options);· constantly monitors the energy markets and adopts hedging strategies for gas volumes and electricity;· monitors and participates in all possible opportunities for subsidies and reductions in energy costs. <p>The risk of unplanned interruptions in the energy supply is mitigated by the following actions:</p> <ul style="list-style-type: none">· continuous monitoring of the state of financial health of the energy suppliers;· maintenance and continual updating of its plant to technical standards in the energy field.

MANAGEMENT SYSTEMS

The voluntary adoption of management systems is considered a strategic element by Sofidel for the continuous improvement of the organisation's performance and a resource capable of giving timely responses to the needs of the different stakeholders.

ISO 9001:2008	for the Quality Management Systems
ISO 14001 and EMAS (Community Regulation 1221/2009)	for the Environmental Management Systems
BS OHSAS 18001:2007	for the workplace Health and Safety Management Systems
BRC Global Standard Consumer Products Personal Care and Household and IFS Household and Personal Care	for the Health-Hygiene Control Systems
FSC®-PEFC™	for the responsible, sustainable management of the forests that the products of wood origin, like pure cellulose, come from
ISO 50001: 2011	for the Energy Management Systems
Ecolabel, Der Blaue Engel and Swan Label	product certifications

SUMMARY OF THE CERTIFIED MANAGEMENT SYSTEMS AND PRODUCT CERTIFICATIONS IN GROUP COMPANIES

	Product safety		Quality	Health and safety	Environment							Energy
	BRC	IFS	ISO 9001	BS OHSAS 18001	ISO 14001	EMAS	Ecolabel	Der Blaue Engel	Swan Label	FSC®	PEFC™	ISO 50001
Intertissue Baglan	•		•	•	•					•		•
Intertissue Horwich	•		•	•	•					•		
Soffass Cartiera Via G. Lazzareschi			•	•	•	•	•			•	•	•
Soffass Converting Via G. Lazzareschi		•	•	•			•			•	•	
Soffass Monfalcone		•	•	•	•				◊	•	•	•
Soffass Tassignano		•	•	•			•			•	•	
Soffass Valdottavo			•	•	•				•	•	•	•
Soffass Val Fegana			•	•			•			•		•
Soffass Via Leccio			•	•	•		•			•		•
Soffass Via Fossanuova		•	•	•			•			•		
Sofidel			•	•						▲	▲	
Sofidel America Green Bay										•	•	
Sofidel America Haines City										•	•	
Sofidel America Henderson										•	•	
Sofidel America Hattiesburg										•	•	
Sofidel America Tulsa										•	•	
Sofidel Benelux	•		•	•	•					•	•	•
Sofidel France Frouard		•	•	•	•		•			•	•	•
Sofidel France Ingrandes		•	•	•			•			•	•	
Sofidel France Roanne		•	•	•	•		•			•	•	
Sofidel Germany		•	•		•				•	•	•	•
Sofidel Greece			•	•	•					•		
Sofidel Hungary			•							•	•	
Sofidel Poland		•	•	•	•				◻	•	•	
Sofidel Romania		•	•	•	•		•			•	•	
Sofidel Spain		•	•	•	•					•		
Sofidel Sweden			•		•		•		•	•	•	•
Sofidel Turkey			•									
Sofidel UK Hamilton, Leicester	•		•	•	•					•		•
Sofidel UK Lancaster			•		•					•		
Sofidel UK Rothley Lodge, Leicester	•		•	•	•					•		
Thüringer Hygiene Papier		•	•	•	•		•			•	•	•
Thüringer Hygiene Papier Logistik			•	•	•							•
Werra Papier (Omega Plant)		•	•	•	•		•	•		•		•
Werra Papier (Werra Plant)			•	•	•		•	•	•	•	▲	•

◊ Only for reels ◻ Only finished product Δ Only trading

RESPECT FOR THE ENVIRONMENT

In accordance with the sustainable development goals promoted by the United Nations, Sofidel’s sustainability strategy aspires to “build an inclusive, resilient and sustainable future” for people and the planet: an ambitious target that requires operational planning and principles to be aligned with efficient and sustainable use of energy, the reduction of climate-altering emissions into the environment and increasingly responsible use of natural resources, including essential resources such as wood and water.

It is in fact for the protection of water resources that Sofidel has struck up a new partnership this year: looking beyond the boundaries of its own plants, its partnership with WaterAid will allow Sofidel both to work on raising awareness among its own stakeholders and to support efforts to guarantee access to water and, thereby, the availability of better services and levels of hygiene in developing countries (for more information on WaterAid, see the Community section on p.123).

With regard to the reduction in climate-altering emissions, the Paris climate agreement, reached at the end of 2015, came into force last year, with more than 100 signatory countries taking responsibility for reducing planetary emissions by more than 55%. The agreement requires measures to keep the increase in the average temperature of the planet at less than 2 °C compared to the pre-industrial era. Sofidel contributed to the Paris event with its membership of the “We Mean Business” coalition and its commitment to formulating, by the end of 2017, new targets to reduce emissions in line with the “Science Based Target” standard. These goals are currently under evaluation.

In the meantime, Sofidel is moving ahead with its strategy to achieve the goals already agreed with the WWF Climate Savers programme: **at the end of 2017 in fact it recorded a reduction of 21.1% in CO₂ emissions compared to the baseline year, 2009.**

ENERGY EFFICIENCY

After the significant fall in price which took place in 2016, the main energy commodity prices resumed their upward trend throughout 2017.

The day-ahead price of gas TTF³ rose from 12 €/MWh in 2016 to over 20 €/MWh at the start of November; electricity prices showed a similar trend.

There were two main drivers behind the price recovery: the unexpected unavailability of various French nuclear power plants and the particularly hot summer throughout Europe. The first factor made it necessary to reopen gas-fuelled plants, with a consequent increase in consumption of this commodity, while the second was caused by exceptional electricity consumption caused by increased demand for air conditioning.

Finally, it is worth noting that the minimums reached in 2016 were the consequence of a collapse in the price of oil, a commodity which also returned to a pattern of rising prices in 2017.

Predicting ever higher energy costs in the future, Sofidel has taken preventive action, concluding a number of important investments: 2017 was in fact a year of considerable expansion for the company. Four new continuous machines were purchased (Valmet’s Advantage New Tissue Technology (NTT) model) with a total production capacity of 280,000 tonnes, almost 30% of Sofidel’s annual production in 2016. From an energy viewpoint, the NTT are state-of-the-art machines, which will allow energy efficiency to be further improved at production sites.

3. Natural gas prices calculated using the weighted average of all the daily deals with delivery the next day taking place at the Title Transfer Facility (TTF), virtual trading point for the natural gas distribution network in the Netherlands.

The reporting boundary for this section includes all Sofidel’s production sites, based on an operational control approach. The data shown, unless otherwise indicated, are based on an annual projection calculated from Sofidel’s performance from 1 January to 31 October 2017, based on the most up-to-date information available at the date of closure of the financial statements. The projections published in the 2016 Integrated Report, relating to previous years, have been updated based on the consolidated data and may, therefore, differ from the values published in the 2017 Integrated Report.

The first of these continuous machines, installed at the Sofidel Poland plant, has already been put into operation (in October), while the others will be operating during 2018 at the plants of Sofidel Spain and Sofidel America Circleville, in Ohio: the latter will host two machines which, once in operation, will make it the plant with the highest production capacity in the Sofidel Group.

Notwithstanding these important investments, the company has continued to invest in all its plants in order to maintain or even improve on the excellent results achieved last year. With the start-up of another endothermic motor for the simultaneous production of steam and electricity at the Soffass Monfalcone plant (commissioned in March 2017) the Italian plants are now all equipped with co-generation plant. The latest plant will also allow a share of the hot water produced to be used for heating of the production rooms and

warehouses, currently unheated or heated using traditional methods. The total investment amounts to € 3.5 m.

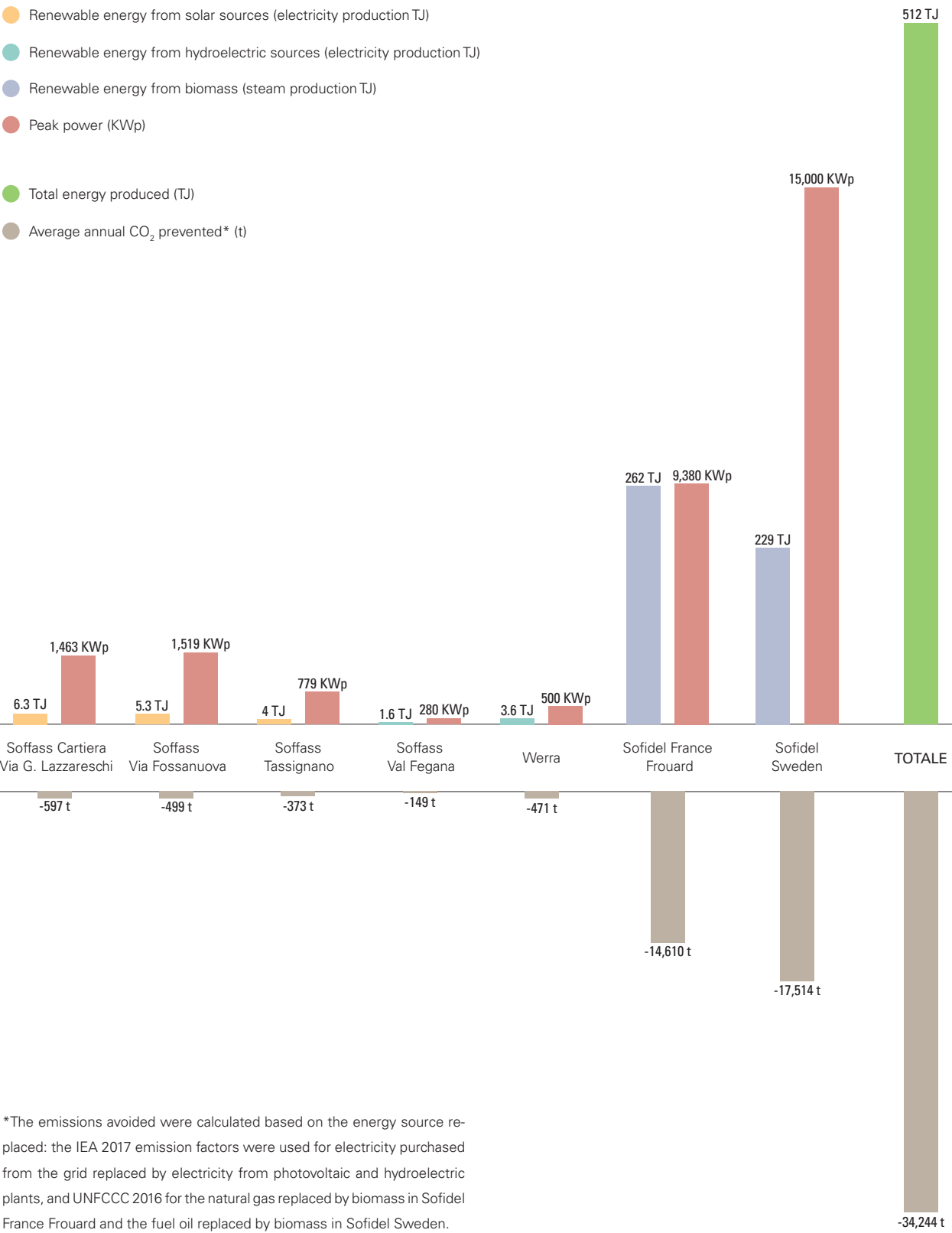
In terms of renewable energy, this year Sofidel has commissioned, at the Soffass Tassignano converting plant, a new solar concentration plant using mirrors, thus replacing the old fossil fuel-based heating system: the new investment, costing over € 300,000, combines thermal solar panels with a cooling system, providing both summer and winter air conditioning for an area of 1,100 m².

Many other measures have been taken to improve energy efficiency, reduce emissions and discharges into water at various plants, with a total cost of over € 1.5 m.

Alongside its investments in energy efficiency, Sofidel has invested in renewable resources, especially biomass, photovoltaic and hydroelectric power, with total annual production from renewable energy sources of 512 TJ.

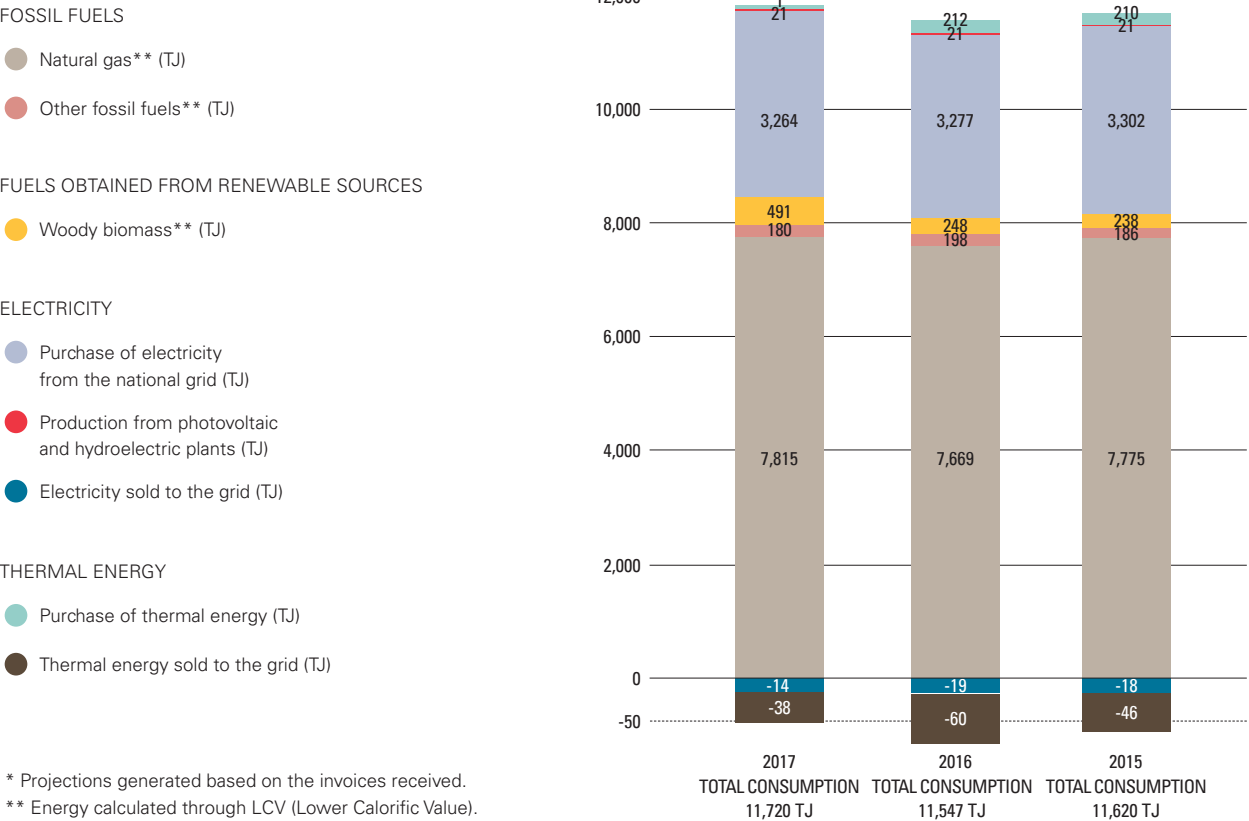


SELF-PRODUCTION OF ENERGY FROM RENEWABLE SOURCES



*The emissions avoided were calculated based on the energy source replaced: the IEA 2017 emission factors were used for electricity purchased from the grid replaced by electricity from photovoltaic and hydroelectric plants, and UNFCCC 2016 for the natural gas replaced by biomass in Sofidel France Frouard and the fuel oil replaced by biomass in Sofidel Sweden.

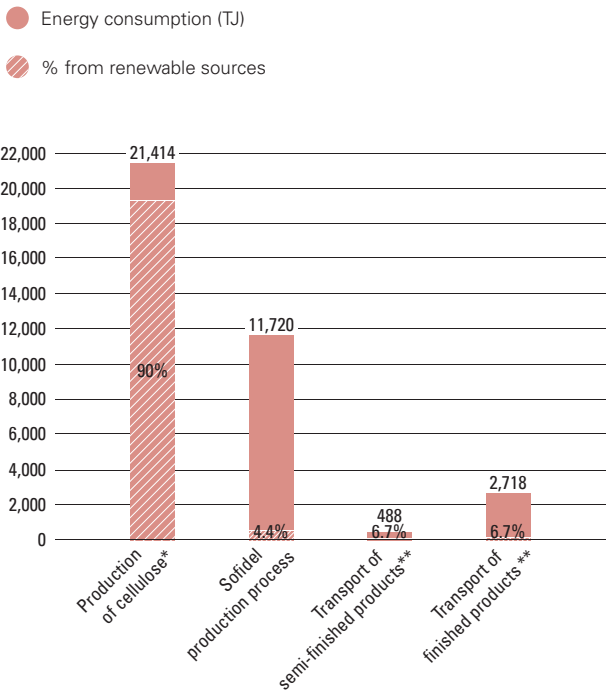
SOFIDEL GROUP ENERGY STATEMENT*



The total energy consumption of the production plants in 2017 was in line with that for 2016, amounting to 11.7 GJ/t compared to 11.6 GJ/t for the previous year. In addition to the investments in plant modifications to improve efficiency listed above, Sofidel also promotes the spread of an industrial culture and management systems focused on energy efficiency. The certification process for the ISO 50001 standard (energy management system), started in 2012 at the German and Swedish plants, was extended to Belgium in 2013 and then to the Italian paper mills, all of which have been certified. In 2016 it was the turn of the Sofidel France plant in Frouard, while during 2017 the English plants of

Sofidel UK Hamilton and Intertissue Baglan were certified. The objective of obtaining ISO 50001 certification for the main Group sites is in line with the European Directives on energy saving, in particular the EED (Energy Efficiency Directive) which requires all energy-intensive companies to perform energy audits every 4 years or, alternatively, to have energy management systems certified by third parties. Expanding the energy analysis to the production chain, it is possible to estimate the contributions of the main stages: cellulose production is the most energy-intensive process, but mainly uses renewable sources for the generation of the energy required.

ENERGY CONSUMPTION



* The data was obtained using the questionnaires completed by the suppliers (95% of the total, the remaining 5% was obtained using an average of the data possessed).

** Consumption coefficients obtained from the GHG Protocol - Mobile Guide v.1.3 (21/03/2005). Both the outward and return journeys were considered. The percentage of renewable energy was obtained from "Eurostat – Share of Energy from Renewable Source in Transport".

MANAGEMENT OF GREENHOUSE GAS EMISSIONS

With the accelerating increase in the average temperature each year, climate change cannot be reduced to a simple rise in the average temperature, but brings with it an increased probability of extreme weather phenomena. 2017 was characterized by multiple rain storms of great intensity, alternating with periods of drought, which increased both the likelihood and the impact of floods. The English plant in Lancaster, after having suffered a six month long stop production following the damage caused, in October 2015, when the nearby river Lune overflowed, was once again affected this year by the same problem, but to a minor extent, with damage limited by the additional precautions taken. The event however suspended for several hours the normal activities of the plant and damaged some of the parent reels kept in the warehouses.

The "Climate Savers" agreement



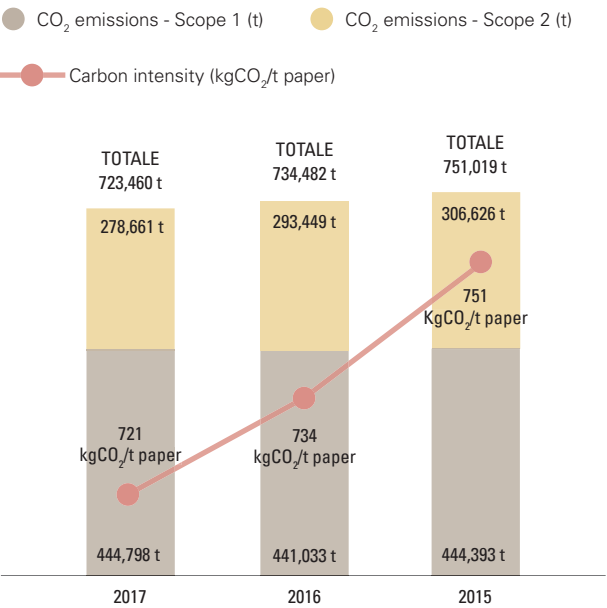
Sofidel is committed to reducing emissions – for every tonne of paper produced – by 23% compared to 2009, chosen as the baseline year for the initiative. In comparative terms, this corresponds to avoiding the emission of about 900,000 tonnes of CO₂, equal to the emissions of a fleet of 10,000 lorries travelling 10,000 km per year for 10 years.

Sofidel has not limited itself to analysing the emissions of greenhouse gases generated directly by its businesses but has also identified opportunities for reducing emissions caused by third parties along its value chain. By 2020, greenhouse gas emissions arising from the supply, packaging and transport of raw materials and finished products will have decreased by 13% for every tonne of paper produced compared to 2010. Lastly, it is expected that, by the end of 2020, 8% of annual fuel consumption will be from renewable sources.

This is a significant result for a company operating in a sector with high energy consumption like that of paper.

The graph below shows the results of the emissions reduction policy, confirming the positive trend of previous years, with a reduction of 21.1% in carbon intensity compared to the base year, 2009.

CO₂ EMISSIONS SCOPES 1 AND 2



For all the years shown, from 2015 to 2017, the emissions deriving from the purchase of grid electricity and heat (Scope 2) were calculated with an approach based on the geographic location of the production sites using the relevant average national emission coefficients for 2010-2012, 2011-2013 and 2012-2014 respectively⁴.

Direct emissions from combustion in the production sites (Scope 1) are calculated in accordance with the European Union Emissions Trading Scheme (EU ETS), which regulates CO₂ emissions in Europe for industrial sectors with higher emissions⁵.

As far as indirect CO₂ emissions are concerned, i.e. those not under Sofidel management control (e.g. those relating to the production of raw materials and accessories to production and transport), it was possible to report the most significant *downstream* components for 2017. Thus the emissions arising from the distribution of both semi-finished and finished products were calculated, totalling 225,598 t CO₂ corresponding to 219 kgCO₂/t paper⁶.

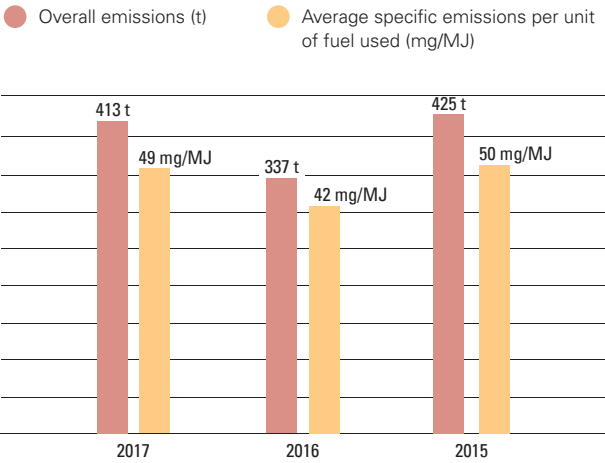
In addition, the impact of the use of the packaging (paper and plastic packaging) was assessed, and amounted to 118,831 t CO₂ (114 kgCO₂/t paper)⁷.

Other emissions into air

In addition to CO₂, other significant emissions arising from production are nitrogen oxide (NO_x). The calculation of nitrogen oxide is normally based on measurements made at chimneys in accordance with the methods required by current legislation in individual countries. Performance in other factories (Sofidel Benelux, Intertissue, Sofidel UK Hamilton, Sofidel UK Lancaster, Sofidel America Haines City, Sofidel France Roanne and Soffass Monfalcone) was calculated using the NAEI 2012 emission index for energy production via natural gas.

The specific data in the Table relates to consumption of the fuel that generates the emission (mainly natural gas).

TOTAL AND SPECIFIC NITROGEN OXIDE (NO_x) EMISSIONS OF FACTORIES IN THE SOFIDEL GROUP



4. International Energy Agency, "Statistics 2016 Edition – CO₂ Emissions from Fuel Combustion".

5. Except for the fuel used by elevator trucks, emissions not covered by the Emission Trading System were not taken into account, as they were considered de minimus.

6. The emission factors used were obtained using the DEFRA "2008 Guideline to DEFRA's GHG conversion Factors: Methodology paper for transport emission factors". The configuration adopted for the calculation includes the outward journey with a full load and the return journey empty.

7. The emission factors used are taken from the Ecoinvent 3.3 database.

Nitrogen oxide emissions arise from combustion processes in paper production, i.e. boilers and drying systems; these processes are generally stable with specific emissions that oscillate between 40 and 50 mg NO_x per MJ of energy produced.

Emissions of other greenhouse gases, such as leaks of fluorinated refrigerating gases equivalent to emissions of about 342⁸ tonnes of CO₂, were negligible, being extraneous to the Group's typical business.

PROTECTION OF WATER RESOURCES

The availability and quality of water is changing all over the plant as a result of anthropogenic factors, i.e. human activities. Just in the European continent, an increase in the frequency of periods of drought, involving 11% of the European population, has been seen in the last 15 years. Even traditionally water-rich areas, such as the Scandinavian peninsula and the United Kingdom, have had worrying shortages. Sofidel pursues the aim of a reduction in water consumption, both through management measures and investment. With regard to the latter, the creation of a system for the collection and re-use of rainwater at Intertissue, in the UK, and a waste water recycling plant at Soffass Paper Mill Via G. Lazzareschi in 2014 should be recalled.

8. Equivalent emissions calculated using the GWP (Global Warming Potential) coefficients described in European Regulation No 517/2014.

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PPI (Pulp and Paper International) Award – RISI

The efforts made to reduce water consumption have been repaid with recognition through the PPI (Pulp and Paper International) Award, organized by RISI, an internationally renowned information provider for the paper sector.

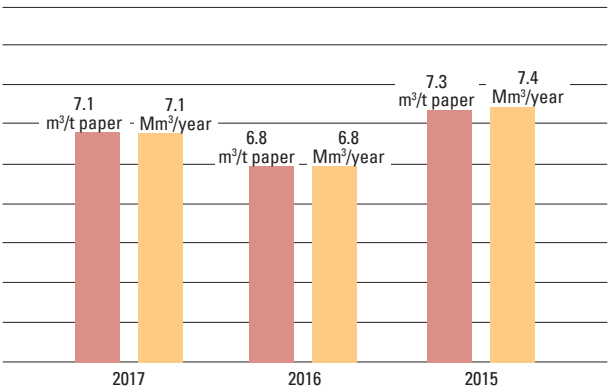
The award received for the Water Efficiency category reflects the work to reduce water use carried out by the Soffass Paper Mill Via Giuseppe Lazzareschi, Porcari (Lucca).

In particular, the production site installed a Waste Water Reuse plant for the reuse of waste water for production purposes. An investment that allows a saving of over 250,000 m³ of water every year. The plant has three different treatment phases: biological process for the elimination of the organic pollutants; use of ultra-filtering membrane batteries to separate solid matter from liquids; treatment in inverse osmosis system to eliminate the residual saline fraction.

Following the introduction of this recovery system, the use of water per kilogramme of paper produced is 3.9 l/kg, an excellent result.

WATER CONSUMPTION OF THE SOFIDEL GROUP

- Annual specific water consumption of the Sofidel Group factories (m³/t paper)
- Annual water consumption of the Sofidel Group factories (Mm³/year)

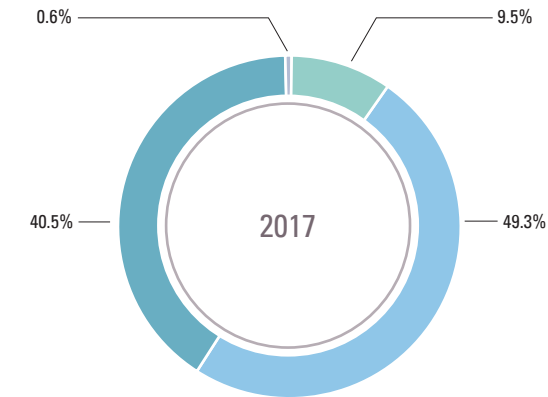


The data in the table are close to the excellent performance in 2016, considering the size of the Group and the variability of production.

The percentage of water recycled in Sofidel paper mills can be estimated as above 96%⁹.

WATER SUPPLY SOURCES 2017 (%)

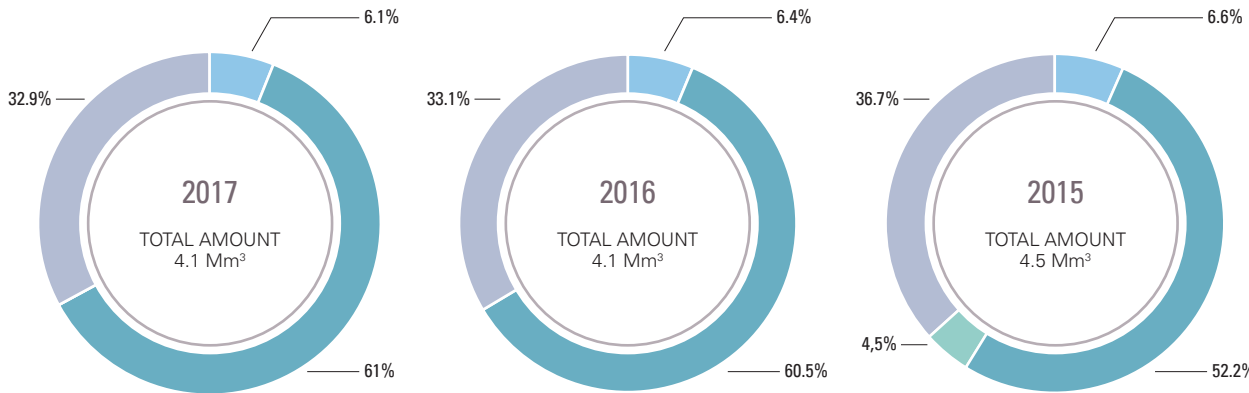
- Water mains
- Groundwater



9. The recycling rate has been calculating using the method given in the publication "Methods for measuring water recycling in paper mills" (Assocarta – Confindustria – Aticelca, February 2017).

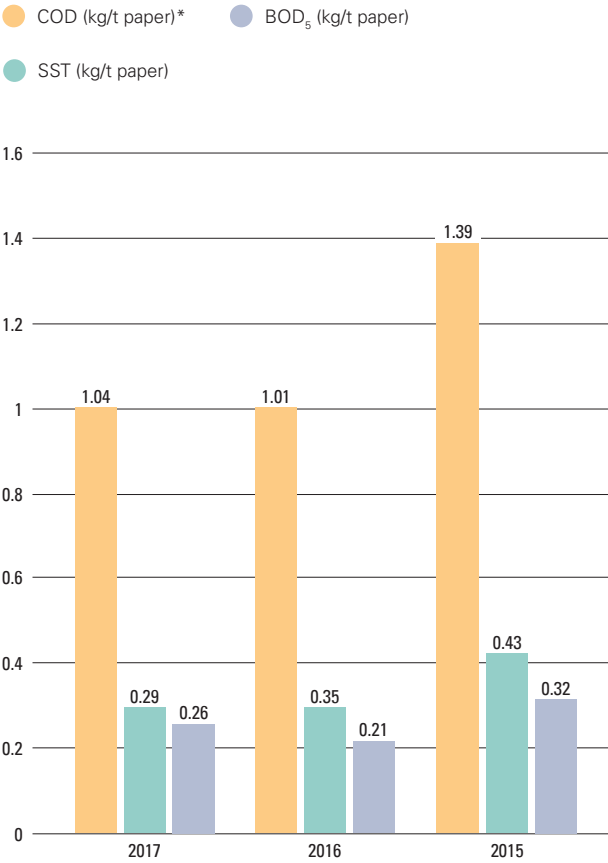
TOTAL AMOUNT OF WATER DISCHARGED, DESTINATION AND TREATMENT OF THE WASTE WATER

- Sea (biological treatment)
- River (biological treatment)
- River (chemical-physical treatment)
- Public treatment plant



The specific emissions, calculated on the basis of the results of the chemical analyses made, confirm that, generally, the qualitative trend in emissions in water reflects levels of excellence due both to the exclusive use of biological treatment plants and the predominant use of virgin cellulose as raw material.

SPECIFIC EMISSIONS OF POLLUTANTS INTO WATER



*Does not include Sofidel America

PROTECTION OF FOREST RESOURCES

As the second most important European producer of tissue paper and the sixth in the world, Sofidel carefully assesses its supplies of fibrous raw material and monitors its suppliers through an analytical questionnaire on both the performance of the factories producing pulp and the origin of the wood used for the extraction of cellulose.

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Fibrous raw material procurement policy

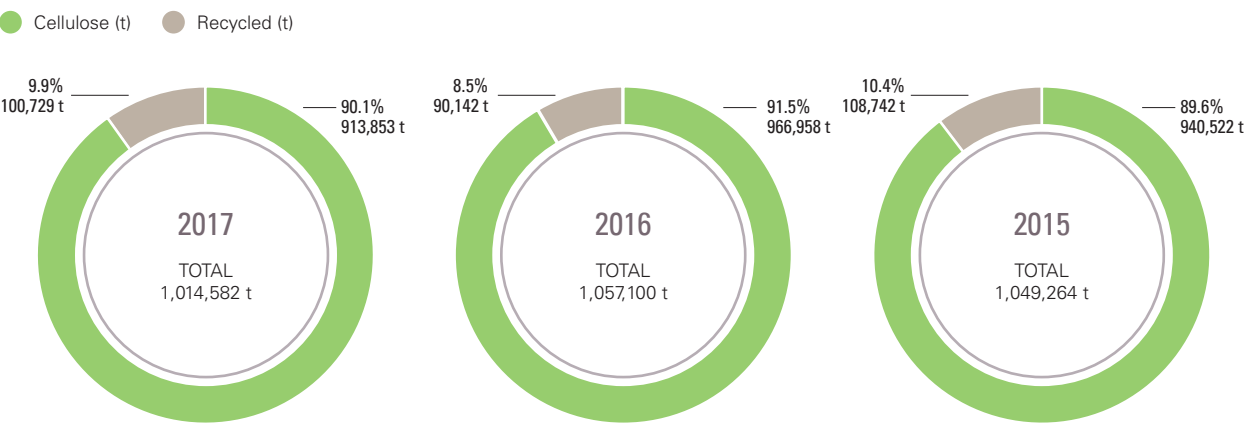
- The Sofidel Group condemns the practice of illegal felling, the conversion of natural forests into plantations and takes measures to ensure that its suppliers can prove the source of the timber used to produce pulp.
- Sofidel is committed to checking, as far as possible, for the existence of social conflicts in the locations from which the wood originates, avoiding purchases from areas subject to conflict, from protected zones or from genetically modified organisms.
- Sofidel believes in use of sustainable forest management systems, certified in accordance with recognized, credible schemes and based on verification by independent third parties.
- Sofidel encourages its suppliers to certify the source of their forestry resources and gives precedence to suppliers who can produce certificates of good forestry management.

The predominant use of raw material composed of virgin wood fibre and knowledge of the role that the forests play in protecting the global environment and maintaining and enriching biodiversity have driven the Sofidel Group to adopt a precise policy for purchasing of fibrous raw materials. In 2017, Sofidel purchased 913,853 ADMT (Air Dry Metric Tons) of virgin fibre and confirmed the seriousness of its commitment to a responsible supply of raw materials, purchases of which were **100% certified by independent third parties with forestry certification schemes**. There is also a strong orientation to choosing geographic areas that give full guarantees of legality and sustainability – the predominance of European material (55.5%) confirms this.

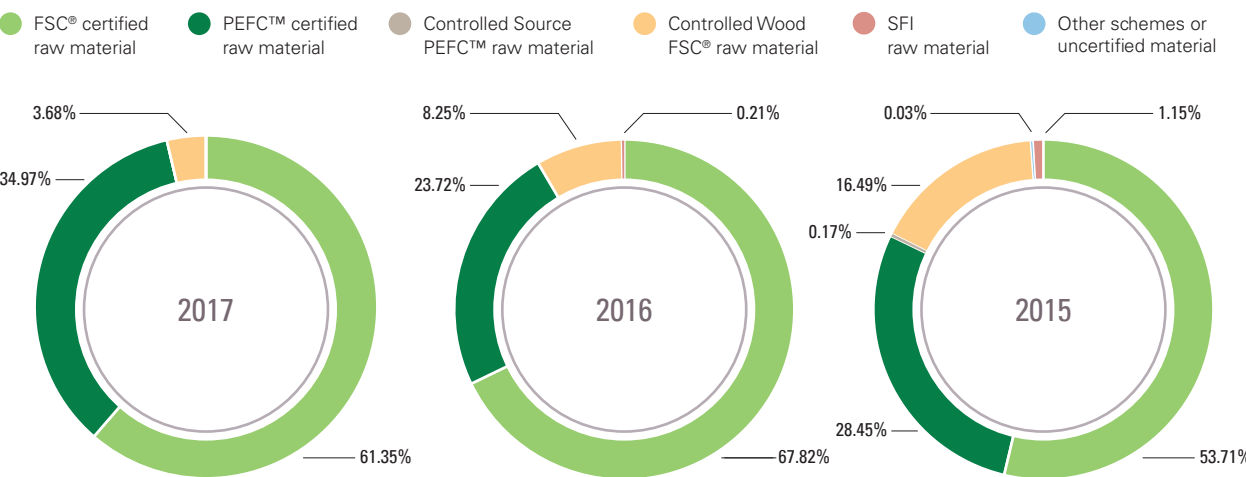
As regards the commercial use of the FSC® (Forest Stewardship Council) and (FSC®) and PEFC™ (Program for Endorsement of Forest Certification) quality forestry brands, in 2017 further companies were added to the already numerous list of companies certified as in accordance with these chain of custody forestry schemes. The Sofidel Greece and Sofidel America factories are now able to produce and market tissue products with the FSC® brand and Sofidel Hungary for the PEFC™ brand. These new certifications will allow greater production flexibility and the possibility of responding more effectively to the demands of customers and consumers who want guarantees of forestry sustainability for their products.



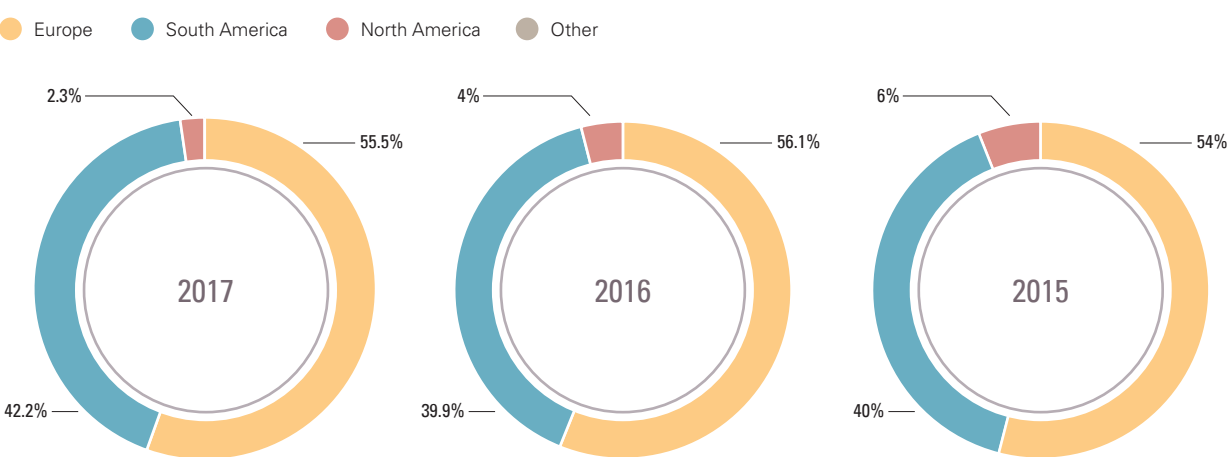
BREAKDOWN OF THE VIRGIN FIBROUS AND RECYCLED RAW MATERIAL PURCHASED



DIVISION OF THE VIRGIN FIBROUS RAW MATERIAL PURCHASED BY THE SOFIDEL GROUP BY FORESTRY CERTIFICATION SCHEME



COUNTRIES OF ORIGIN OF THE VIRGIN CELLULOSE PURCHASED

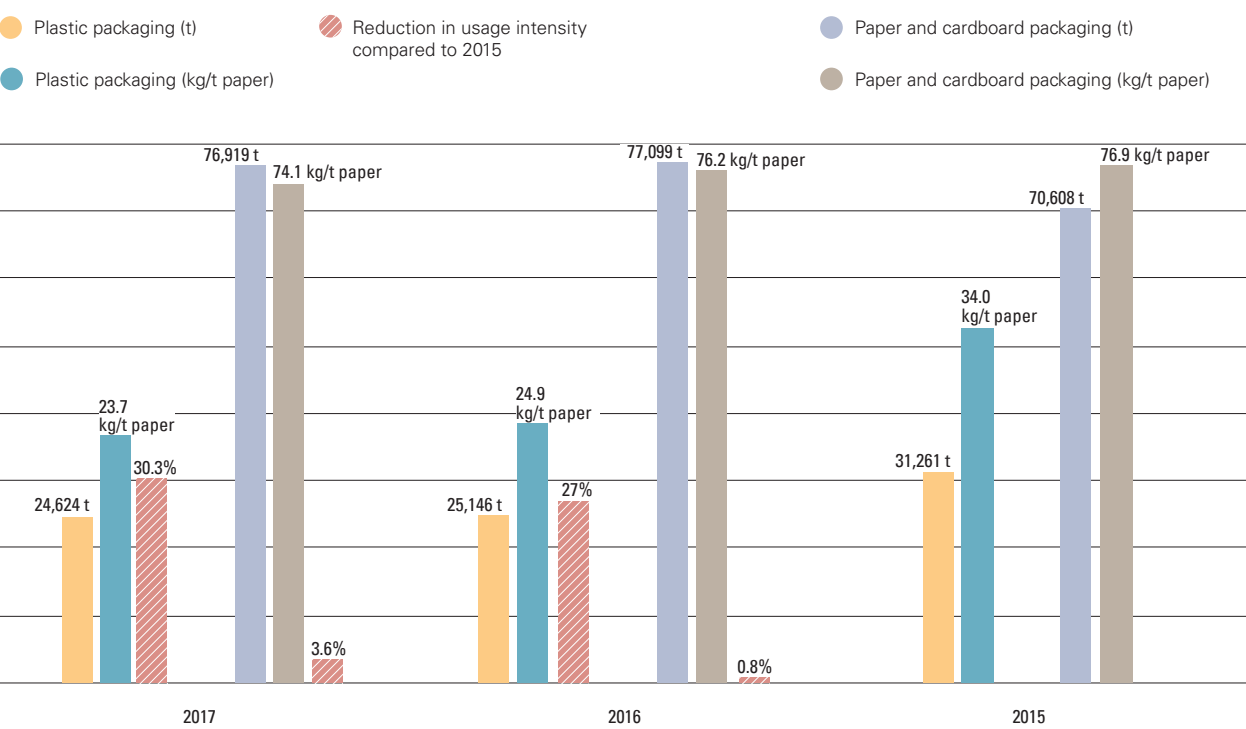


Other raw materials

In addition to fibrous raw materials, another significant inflow is packaging. Looking beyond Sofidel operations, at a global level, due to its presence in almost all human activities, this category represents one of the most obvious environmental issues: just to give an idea of the amounts involved, between 5 and 13 million tonnes of plastic end up as waste in the oceans (of which between 150,000 and 500,000 tonnes in the European Union), 1.5% to 4% of global production. This aspect, which is obviously important, is monitored by the European Commission and is highlighted in the Action Plans continuously developed and updated for the circular economy: for plastic packaging, for example, the target is to increase the percentage of material collected and recycled (now very low, under 30%) to levels comparable with other recyclable materials (glass and paper) and to ensure that they

all such material is recyclable by 2030. Recently (16 January 2018) the European Commission published a new Communication aimed at various Bodies, including the European Parliament, containing new concrete proposals to address the problem. In anticipation of these plans, Sofidel has for many years been analysing consumption of this flow of raw materials and has started and implemented many projects in line with a policy of reducing the thickness of plastic packaging and optimizing its use of cardboard packaging: the latter principle has also led to the creation of an innovation product line with no cardboard core. In recent years, consumption of packaging has shown a distinctly positive trend, confirmed once again in 2017, when a 30.3% reduction in usage intensity was recorded for plastic packaging and a 3.6% reduction for paper and cardboard packaging compared to 2015.

CONSUMPTION OF PACKAGING



Finally, to give a complete picture of the flows of raw materials used, the other categories are shown in the table below.

OTHER RAW MATERIALS	t
Reels of tissue paper acquired outside the Group	83,561
Chemical additives	34,655
Oils and lubricants	341

In 2017, the contribution of recycled raw materials was 177,648 tonnes, i.e. 14.4% of the total¹⁰; the total of the raw materials obtained from renewable sources was 1,175,062 tonnes, corresponding to 95.2% of the total.

10. The total is calculated on the consumption of the materials listed + the total of the fibre (virgin purchased) recycled.

BIODIVERSITY

In order to assess the impact of its business activities on biodiversity, Sofidel carried out a calculation to determine the surface area of the production sites close to areas of great natural value.

This analysis showed that the sites less than 3 km away from type SIC and ZPS areas, as defined by Dir. 92/43/EEC and Dir. 2009/147/EC, occupy a total surface area of about 194 ha. In 2017, these sites did not generate significant impacts on biodiversity and habitats.

FACTORY	Surface area (ha)	Distance (km)	Name of area	Class. of Area
Soffass Monfalcone	6.8	0.12	Aree Carsiche della Venezia Giulia	IT3341002
Soffass Converting Via G. Lazzareschi	28.4	2	Ex alveo del Lago di Bientina	IT5120101
Soffass Cartiera Via G. Lazzareschi		2.4	Ex alveo del Lago di Bientina	IT5120101
Sofidel Sweden	19.2	0.12	Föllingsö	SE0230355
Soffass Via Fossanuova	14	2.10	Ex alveo del Lago di Bientina	IT5120101
Sofidel France Roanne	28.1	0.60	Milieux alluviaux et aquatiques de la Loire	FR8201765
Sofidel Germany	30.1	0.65	Elbaue Jerichow*	DE3437401
Sofidel Benelux	4.5	0.9	Historischefortengordels van Antwerpen als vleermuizenhabitat	BE2100045
Intertissue	31	1.85	CrymlynBog/Cors Crymlyn*	UK0012885
Sofidel UK Lancaster	2.1	3	Morecambe Bay*	UK0013027
Sofidel Spain	30	2.7	Rio Ebro*	ES2200040

* Area listed among the Ramsar Wetlands.

In 2015, Sofidel UK Lancaster carried out a study on the impact of the water withdrawn at the factory on the ecosystem of the River Lune, focussing on certain river species. The re-

sults were presented to the local authorities¹¹ and are still being assessed.

11. Eels (England and Wales) Regulations 2009.



WASTE MANAGEMENT

Waste management in every Sofidel Group plant follows precise procedures to increase the division of the materials into homogenous categories and facilitate their delivery to recycling centres.

The refuse produced by paper-making mainly consists of sludge deriving from the waste of production that uses pulp as a raw material. This type of refuse is normally recycled for use in brick manufacture or the environmental reclamation of areas used for mining.

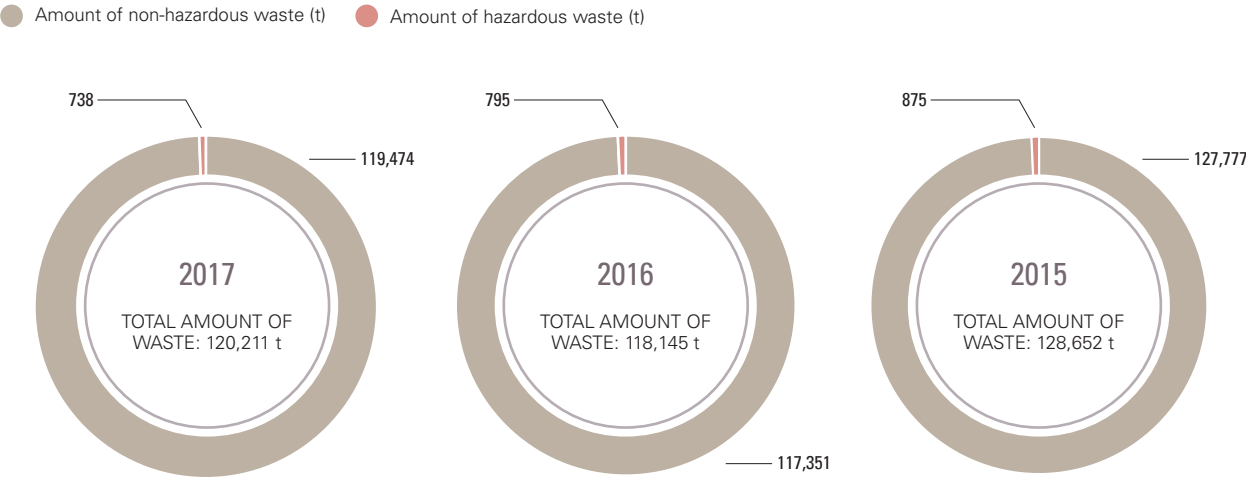
Hazardous waste instead derives from ordinary maintenance work on the industrial plant, including fluorescent tubes, used oils, batteries, etc

The operators who carry out the transport and intermediation of the waste are subject to frequent checks to verify their work both in the factories and outside them.

Sofidel did not carry out any cross-border shipping of waste. The costs associated with the treatment of the waste amounted to about € 12.5 m in 2017.

In 2017, there were no significant spills.

WASTE PRODUCED BY THE SOFIDEL GROUP



AMOUNT OF NON-HAZARDOUS WASTE (T)

Amount of non-hazardous waste sent for recycling (t)*
2017: 87,487
2016: 77,820
2015: 90,140

Amount of non-hazardous waste sent for dumping or disposal (t)*
2017: 25,253
2016: 28,841
2015: 32,205

*Does not include Sofidel America.

AMOUNT OF HAZARDOUS WASTE (T)

Amount of hazardous waste sent for recycling (t)*
2017: 546
2016: 491
2015: 548

Amount of hazardous waste intended for dumping or disposal (t)*
2017: 192
2016: 304
2015: 336

*Does not include Sofidel America.

In addition to the waste produced directly as a result of activities traceable to Sofidel, adopting a life-cycle approach, we can also confirm that the reduction in packaging use described in the section on use of raw materials will also certainly have had a beneficial impact in terms of the lower amount of waste generated by the final consumer.

ECOLOGICAL PRODUCTS

In 2016, the year it celebrated its 50th anniversary, Sofidel took on an important commitment in the area of its own-brand products; all the consumer brand products of the Group are now embellished with the FSC® brand, a guarantee of sustainable forestry management from both an environmental and a social point of view. This commitment is supported by the raw materials procurement policy which has directed purchases towards certificated cellulose for years. The partnership with FSC® was also strengthened with the entrance of the Sofidel Group into the Economic Chamber of FSC® International and FSC® Italia. Also in 2017, in line with the demand from customers, who are proving to be increasingly sensitive to environmental topics and with its commitment to promote sustainable development, Sofidel considerably increased its production of products with an ecological trademark (FSC®, PEFC™, Ecolabel, Swan Label and Blue Angel). During the year, the Group produced articles with at least one ecological trademark totalling about 600,000 tonnes, an increase of 50% with respect to the 2014. This growth confirmed the company's commitment to the choice of raw materials that not only have a certified forestry origin but that are able to guarantee production processes with lower environmental impact, with an eye to lifecycle improvement. Institutionally, Sofidel cooperates in an important European Commission pilot project for the development of product rules for the paper sector in the context of the Community Product Environmental Footprint (PEF) tool. In this project, Sofidel offered to take part in the 'Drafting Group', i.e. the limited number of organisations which contribute to the drafting of the Product Environmental Footprint Category Rules (PEFCR). Once the documents have been produced, revised and accepted by the relevant authority, they will standardise the method for calculating the Life Cycle Assessment (LCA) studies for the semi-finished product in the paper industry. In addition, they will guarantee users downstream the possibility of finding the most virtuous producer from an envi-

ronmental point of view to ensure the end-user has a more sustainable product. Sofidel has also agreed to try out the new method developed on one of its products; the project is planned to be completed in 2018.

THE ORGANIZATION'S ENVIRONMENTAL MANAGEMENT

The Group implements environmental management in accordance with the ISO 14001 standard in order to reduce the associated risks and in pursuit of continuous improvement. In particular in 2017 the Sofidel Romania and Sofidel France Roanne plants, as well as Soffass Val Fegana successfully underwent the initial part (Stage 1) of the audit process for obtaining this certification and will be certified at the start of 2018.

With this step, all the European paper mills will be ISO 14001 certified.

In 2015, the revision of the ISO 14001 standard was issued, which contains some important amendments with respect to the previous version; in particular, it requires an assessment of company risk for all aspects related to the environment (risks associated with reputation, continuity of supply, relations with local communities, market, etc.) and strengthens the relationship with external stakeholders. This activity, which has always considered extremely important at a Corporate level, will be extended to the production sites. The move over to the new version of the regulation by all the factories already certified is expected to take place, in compliance with the requirements of the new standard, by the end of 2018.

In 2017, maintenance of the existing organisation involved management costs of just over € 950,000; more than € 450,000 was spent on consultancy and environmental certifications.

More than 1,000 hours of specific training were provided. During 2017, the Sofidel Group received eight environmental complaints. Three of these complaints, already resolved with some managerial improvements, involved emissions into the air and water at the Sofidel Poland and Sofidel France Roanne plants. The other five complaints related to excessive noise emissions at the Sofidel UK Lancaster, Werra and Sofidel France Roanne plants, where the technical improvements required to resolve the problems highlighted are being studied.

THE FIGURES ON ENVIRONMENTAL MANAGEMENT AT THE SOFIDEL GROUP'S PLANTS

<div><div><div></div><div></div><div></div></div><div>Integrated plant</div></div>		Water consumption (m³)	Consumption of fossil fuel (TJ)	Consumption of woody biomass (TJ)	Consumption of electricity (TJ)	purchased from national grid (TJ)	self-produced by cogeneration (TJ)	self-produced from renewable sources (TJ)	Electricity sold to the grid (TJ)	Heat purchased from third parties (TJ)	Heat sold to third parties (TJ)	COD emissions (t)	BOD ₅ emissions (t)	Emissions of suspended solid (t)	Emissions of nitrogen (t)	Phosphorus emissions (t)	NOx emissions (t)	CO ₂ emissions - Scope 1	Total waste disposed of (t)
Soffass Via G. Lazzareschi (IT)		474,619	1240.7		416.9	169.4	241.2	6.3	0.0	0.0	0.0	56.3	10.3	8.3	2.7	3.3	57.7	69,719	2,240
Soffass Tassinano (IT)		4,752	0.5		28.7	24.8	0.0	4.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	36	1,319
Soffass Via di Leccio (IT)		284,325	683.2		201.1	64.7	136.4	0.0	0.0	0.0	0.0	47.7	7.8	6.2	1.1	0.1	5.9	37,458	961
Soffass Via Fossanuova (IT)		11,406	0.0		30.3	25.0	0.0	5.3	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2	1,646
Soffass Valdottavo (IT)		236,890	376.4		124.6	16.7	107.9	0.0	9.3	0.0	0.0	17.4	2.0	1.8	1.2	0.2	31.9	20,440	379
Soffass Monfalcone (IT)		181,900	243.6		111.9	83.3	28.7	0.0	0.0	0.0	0.0	5.6	0.5	0.4	0.1	0.0	16.2	11,987	623
Soffass Val Fegana (IT)		143,299	214.7		53.8	7.4	44.9	1.6	0.1	0.0	0.0	7.4	0.2	1.2	0.6	0.1	11.4	11,813	250
Sofidel France Frouard (FR)		548,268	528.0	262.2	463.8	463.8	0.0	0.0	0.0	0.0	0.0	32.7	1.6	2.5	1.6	0.1	34.4	30,220	2,359
Sofidel France Roanne (FR)		230,607	200.9		115.2	115.2	0.0	0.0	0.0	0.0	0.0	87.8	22.3	39.3	1.4	0.2	13.3	11,461	672
Sofidel France Ingrandes (FR)		1,908	0.4		14.7	14.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	26	614
Sofidel Hungary (HUN)		2,684	1.0		9.0	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	65	970
Sofidel Poland (PL)		182,055	419.2		143.6	41.2	102.4	0.0	3.3	1.4	37.7	50.6	20.5	5.4	3.1	0.2	27.8	22,935	1,324
Sofidel Spain (ES)		335,028	206.0		130.9	130.9	0.0	0.0	0.0	0.0	0.0	92.6	36.0	4.0	2.6	0.1	7.9	11,680	1,230
Sofidel Germany (DE)		297,421	411.7		239.0	239.0	0.0	0.0	0.0	0.0	0.0	24.4	1.8	2.7	0.1	0.1	9.8	20,400	1,932
Werra (DE)		286,266	125.9		82.9	79.3	0.0	3.6	0.0	0.0	0.0	202.5	38.0	87.5	4.2	2.6	5.8	7,033	19,692
Omega (DE)		576,860	237.1		174.7	174.7	0.0	0.0	0.0	0.0	0.0						13.1	13,249	49,180
THP (DE)		257,951	184.4		137.5	137.5	0.0	0.0	0.0	0.0	0.0						13.8	10,276	454
Sofidel Greece (EL)		150,399	179.7		75.7	75.7	0.0	0.0	0.0	0.0	0.0	29.3	7.6	4.6	1.4	0.1	4.4	9,991	184
Sofidel Benelux (BE)		750,501	576.4		268.7	268.7	0.0	0.0	0.0	0.0	0.0	39.8	1.2	5.4	5.0	0.4	37.3	32,209	2,133
Sofidel Romania (RO)		312,076	245.6		135.8	135.8	0.0	0.0	0.0	0.0	0.0	24.5	3.3	3.5	2.7	0.3	14.1	13,325	20,261
Sofidel Sweden (SE)		427,901	137.1	229.0	228.5	228.5	0.0	0.0	0.0	0.0	0.0	75.2	26.9	4.0	1.3	0.0	9.9	10,157	850
Intertissue (UK)		321,408	377.3		211.0	211.0	0.0	0.0	0.0	0.0	0.0	21.5	0.9	4.4	1.6	0.2	12.7	21,422	1,616
Intertissue Horwich (UK)		220	2.2		14.9	14.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	145	191
Sofidel UK Hamilton (UK)		382,935	479.6		214.3	214.3	0.0	0.0	0.0	0.0	0.0	147.2	24.2	21.7	1.9	0.4	31.4	27,232	823
Sofidel UK Rothley Lodge (UK)		0	2.1		31.1	31.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	139	476
Sofidel UK Lancaster (UK)		188,108	197.1		82.4	82.4	0.0	0.0	0.0	0.0	0.0	18.5	6.0	9.4	0.4	0.0	6.6	11,113	301
Sofidel Turkey (TR)		12,169	0.2		4.2	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13	469
Sofidel America Haines City (US)		481,741	718.0		245.2	131.7	110.8	0.0	0.0	0.0	0.0	NA	48.7	74.7	1.6	0.6	47.5	40,112	1,585
Sofidel America Henderson (US)		1,787	0.0		7.6	7.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	1,455
Sofidel America Hattiesburg (US)		0	0.1		19.4	19.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9	245
Sofidel America Tulsa (US)		0	0.1		12.7	12.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7	3,477
Sofidel America Green Bay (US)		1,817	1.9		29.4	29.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	125	601



7 | PEOPLE

Management of human capital
Company well-being
Staff composition and distribution
Types of contract
Personnel characteristics
Turnover
Human rights, protected categories and equal opportunities
Pay and incentives
Training and professional development
Health and safety
Industrial relations

MANAGEMENT OF HUMAN CAPITAL

The Sofidel Group's approach to the management of human resources focuses on the valorisation of its employees and their integration into the company organisational culture, essential elements for the contribution of increasingly decisive factors, such as innovation and flexibility, for company competitiveness in a globalised market.

The human resources management policy is firmly based on the principles set out in the Ethical Code, promoting respect for equal opportunities and diversity as wealth to be cultivated, as well as the values of respect, equal treatment, development of individual abilities, the Group's work, open communication and continuous learning.

The development of technical and managerial skills is a strategic factor for the Sofidel Group, which supplies an average of 11.50 hours of training per employee annually, with the aim of keeping employees updated on topics of general interest such as health and safety, increasing knowledge of English and transferring consolidated methods and results-based culture to operational staff in the production sites.

The strategic value of human resources is also highlighted by the Performance Management objective. In 2017, the Evaluation Card project was carried forward, establishing a direct connection between quality performance and the reward system, and enabling a medium-term assessment of qualitative results, followed by a shared action plan for the employee's professional and personal development.

The Sofidel Group has also implemented specific management policies targeting the two minority age ranges of staff, joining the 'Lifelong Employability & Company Welfare' workgroup promoted by the Sodalitas Foundation, with the aim of finding effective solutions for lifelong employability and sustainable management of human resources. Similarly,

the Group has started to structure an 'Induction' process at Group level for the management of newly-hired employees. Always seeking to promote the internal development and professional growth of its employees, during 2017 the Human Resources Departments implemented the Job Internal Recruitment project, with the aim of offering internal job opportunities to all employees, both at a national and international level.

Finally, in order to strengthen its own position and guarantee a work environment which protects the dignity and quality of working life of all employees, the Sofidel Group has published a specific "Regulation against bullying in the workplace" which will support the policy already in place and applied for years against every form of harassment and/or discrimination within Group companies.

In 2017 the fifth "International HR & H&S Meeting" of the Group was organized in Sweden, attended by all the HR Managers and H&S Managers from European countries. The meeting provided an opportunity to promote mutual awareness and the continuous exchange of ideas and information within the Human Resources Department.

During the meeting, the global HR & H&S strategies and projects to be implemented were defined, including for HR *Talent Management* and *Sofidel Leadership* and for safety the Health & Safety Audit with Q81 Management Systems. The Q81 software, which can be used in web mode, allows the Health & Safety Audit to be carried out using smart phones and tablets. The checklists are loaded onto Q81, allowing the report to be generated directly with documentation and photographs attached in order to optimize the planning and execution of the audit process conducted by the Corporate division on Group plants.

COMPANY WELL-BEING

During 2017 the "Sofidel People" project was launched, with the aim of implementing specific improvement measures based on employee needs and requirements.

An analysis of organizational well-being was carried out in 2016 through the submission of a questionnaire to all Group employees. The level of participation in this initiative within the company population was 82%. Managers and white collar workers also took part in workgroups whose results enriched the numerical survey with qualitative data.

The "Sofidel People" project will be developed over several years, focussing on the following macro areas: improving internal communication flows; improving the spread and knowledge of company processes and procedures; optimizing human resource management.



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SOFIDEL PEOPLE: IMPROVING INTERNAL COMMUNICATION FLOWS

With the aim of encouraging internal communication and employee participation, the Group's communication tools have been enhanced: with the *People & Paper* and *Sofidel News* newsletters in paper and electronic form, the realization of videos and tutorials soon to be published on training issues of common interest and the Family Day, which has become, since 2017, an annual event in the various Group countries. In addition, Sofidel Running was established, a team of Sofidel employees from throughout the world with different languages and cultures but a shared passion: for running (for further information, see "Initiatives to promote dialogue with stakeholders" on page 29).

SOFIDEL PEOPLE: SPREAD AND KNOWLEDGE OF COMPANY PROCESSES AND PROCEDURES

The project relating to expanding knowledge of processes and procedures has instead been implemented as part of the activities linked to the renewal of the ISO 9001 standard. In fact, analysis of existing company documents enabled the extent to which they match the requirements of the latest version of the standard to be assessed, and their updating, if necessary, in order to simplify the texts and make them clearer. To this end, during the year the Quality Department, together with representatives of the main company processes, carried out training designed to streamline the drafting of company documents.

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SOFIDEL PEOPLE: OPTIMISING HUMAN RESOURCE MANAGEMENT

One of the most significant challenges, which emerged from the consultation carried out during the first stage of the “Sofidel People” project, has been recognising and defining the Sofidel leadership style.

The aim, which the Group is also pursuing with the active involvement of the other countries in which it operates, is to define a reference map of effective leadership qualities in Sofidel, i.e. a set of priorities, behaviour and personal qualities (attitudes, approach and motivation) which describe the recipe for the way the company has been able to achieve success up till now and the factors which contribute and will continue to contribute, in a growing way, to overcoming the internal and external challenges that the company faces.

This distinctive style is what Sofidel expects *in primis* from its managers and subsequently from all the people in the company, in line with their specific roles. Action to achieve this aim started with the involvement of the Directors and those directly reporting to them, who were asked to identify the effective behaviours that they already see among the people in the company, recognizing the qualities that contribute to success, as well as the qualities that are currently lacking, starting from the less successful cases.

Ten principles were thus identified which are believed to express the essence of Sofidel as it is today and as it would like to be in the future. These will be made known to the workforce with specific initiatives during 2018, and broken down into conduct to be observed in daily activities in each area of the company, to give them real practical value and ensure that they become a distinctive element of Sofidel’s business, recognizable in all its plants.

In the last few years the company has been developing the concept of “Safety at work”, which has always been one of its main priorities, from protecting employees from physical and

psychological harm to promoting their health and well-being. In this regard, during the year Sofidel launched the “Workplace Health Promotion (WHP)” and “Welfare” projects.

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WORKPLACE HEALTH PROMOTION: HEALTH PROMOTION PROGRAMME

The Group, which respects the principles of the European Network for Workplace Health Promotion, considers that real and lasting improvement in the level of health and safety of workers can only be achieved by combining the following elements: improvement in the work environment and work organisation, promotion of active participation, encouragement of personal development and the adoption of healthier lifestyles.

Accordingly, in Italy Sofidel has joined the ‘Workplace Health Promotion’ (WHP) programme, a long-term project set up by the Region of Tuscany, which involves the adoption of good practices in relation to diet, physical activity, smoking and alcohol. More specifically, during the year, following the compilation of a questionnaire designed to obtain information on workers’ current lifestyles, a number of best practices were produced to promote a healthy diet and physical activity.

In order to spread a culture of healthy eating, an event was organized in partnership with the Hospital Group San Donato Foundation (Milan), for all employees with communication and distribution of relevant information; and food distributors with healthy products were installed at some plants. To promote the culture of well-being and a healthy lifestyle, the Sofidel Running Team was established, bringing together all the running enthusiasts, expert or not, from the Sofidel workforce (for more information, see the paragraph “Initiatives to promote dialogue with stakeholders” on page 29). The Workplace Health Promotion programme will be rolled out to the other Group countries in the coming years.

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WELFARE: PROGRAMME BASED ON SUPPORTING THE COSTS OF EMPLOYEES FOR SOCIALLY USEFUL ACTIVITIES

With this project Sofidel has made available to workers a basket of essential goods and services (from education, assistance, health, supplementary pensions to the “shopping trolley”), guaranteeing them the possibility of tax advantages and significant discounts while continuing to use their preferred supplier.

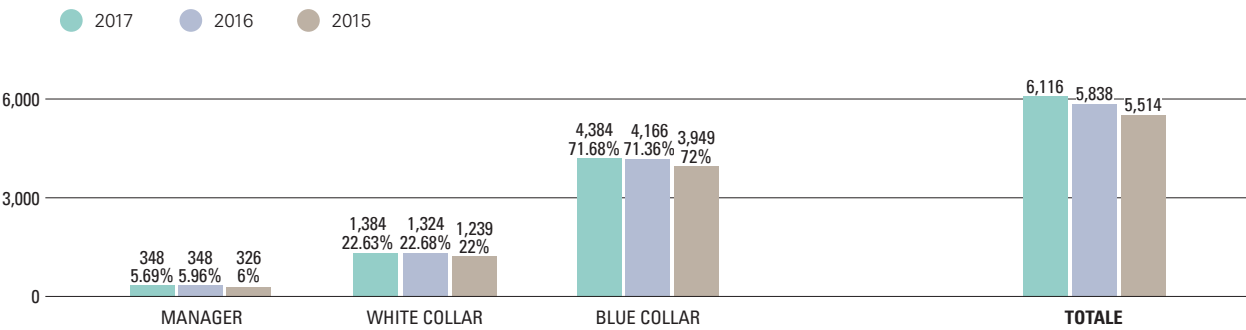


STAFF COMPOSITION AND DISTRIBUTION

The results of the Sofidel Group were contributed to by 6.116(*) people, working in 13 countries, of which 71.68% were blue collar, 22.63% white collar and 5.69% managers. Compared to 2016, the total number of Group employees has risen by 278, an increase due mainly to the development of the US plants and those in Poland.

(*) The data for personnel and the relevant breakdown for 2017 and 2016 are at 30 November, while the data for 2015 are at 31 December. Furthermore, with reference to 2016, it is noted that the staff breakdown does not include the subsidiary Sofidel Hungary, for which this information could not be reported.

BREAKDOWN OF SOFIDEL GROUP STAFF BY LEVEL



BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2017

	Belgium	Germany	Spain	France	UK	Hungary	Greece	Italy	Poland	Romania	Sweden	Turkey	USA	TOTAL
Blue Collar	103	612	114	552	666	140	43	787	241	203	140	28	755	4,384
Managers	16	32	25	52	49	10	6	111	21	7	10	7	2	348
White Collar	48	157	44	128	155	55	9	394	125	49	34	29	157	1,384
OVERALL TOTAL	167	801	183	732	870	205	58	1,292	387	259	184	64	914	6,116

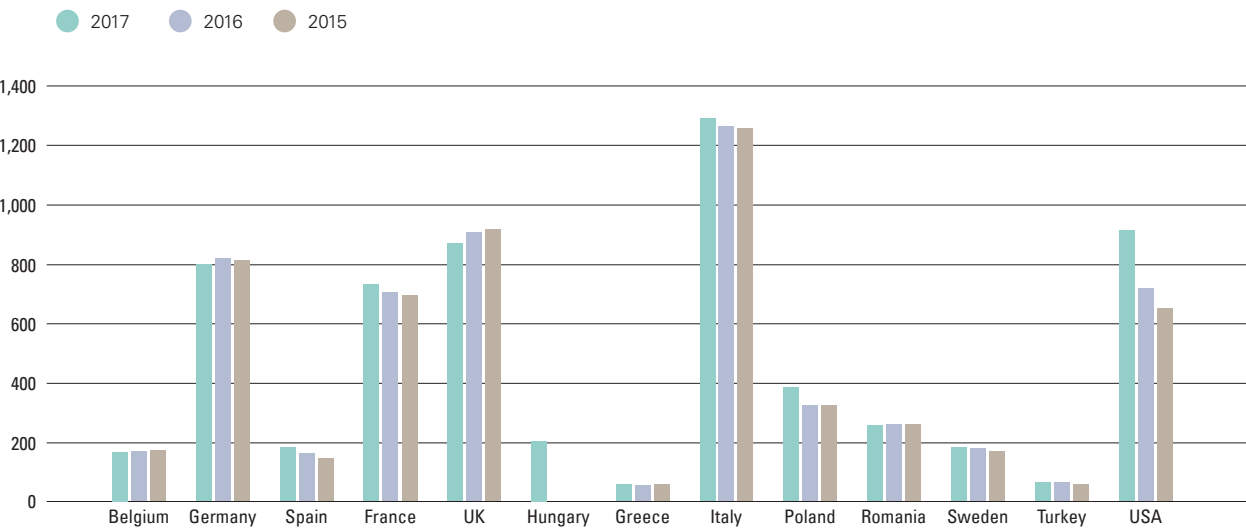
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2016

	Belgium	Germany	Spain	France	UK	Greece	Italy	Poland	Romania	Sweden	Turkey	USA	TOTAL
Blue Collar	106	632	101	536	691	42	774	188	202	136	28	581	4,017
Managers	18	30	22	51	53	6	105	19	7	10	7	2	330
White Collar	47	155	39	118	161	8	383	118	52	34	31	134	1,280
OVERALL TOTAL	171	817	162	705	905	56	1,262	325	261	180	66	717	5,627

BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2015

	Belgium	Germany	Spain	France	UK	Greece	Italy	Poland	Romania	Sweden	Turkey	USA	TOTAL
Blue Collar	107	624	87	528	701	45	776	186	200	124	25	546	3,949
Managers	20	30	21	51	47	6	105	19	8	9	8	2	326
White Collar	47	158	37	114	165	8	374	118	53	36	27	102	1,239
OVERALL TOTAL	174	812	145	693	913	59	1,255	323	261	169	60	650	5,514

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY GEOGRAPHICAL AREA



The data highlights the preponderance of Italian staff (21.12%) in the Sofidel Group, making up the majority of managers (31.90%), white collar (28.47%) and blue collar staff (17.95%). The next biggest groups, at Group level, are employees in the United States (14.94%), United Kingdom (14.22%) and Germany (13.10%). In 2017, to improve its production efficiency and strengthen the competitiveness of its businesses in United Kingdom, Sofidel started – after giving prior notice to the trade union representatives – a restructuring operation involving the Intertissue converting plant in Horwich. The operation, which will be completed by 31 March 2019 and includes the transfer of production capacity

to other Group plants in the United Kingdom, has led to reduction in site personnel of 47 units. The close connection between the company and the local area surrounding its operations was again confirmed in 2017. Sofidel favours the employment of workers from the local communities where it carries out its business, thus contributing to the growth in employment and income in the area and the achievement of a higher level of sustainability by reducing home to office travel. The company has always focussed on making the most of local resources, trying to find the best-qualified professionals; more than 95% of the senior managers come from the relevant local community.

TYPES OF CONTRACT

The absolute majority of contracts are open-ended (94.03%, while almost all employees (98.58%) have a full-time contract.

Part-time working, as regulated by the current work contracts, is recognized as a useful tool to provide flexibility in the organisation of work as well as to meet people’s needs.

BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER ANDTYPE OF CONTRACT - 2017

Level	FULL-TIME			PART-TIME		
	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	358	4,012	4,370	4	10	14
Managers	61	280	341	4	3	7
White Collar	519	799	1,318	62	4	66
OVERALL TOTAL	938	5,091	6,029	70	17	87

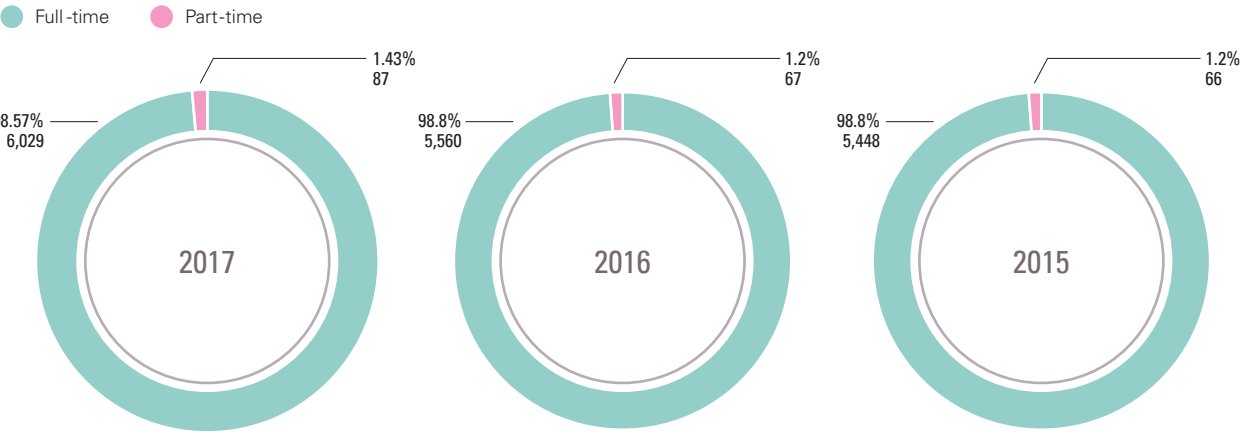
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER ANDTYPE OF CONTRACT - 2016

Level	FULL-TIME			PART-TIME		
	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	276	3,732	4,008	3	6	9
Managers	55	268	323	1	6	7
White Collar	470	759	1,229	46	5	51
OVERALL TOTAL	801	4,759	5,560	50	17	67

BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER ANDTYPE OF CONTRACT - 2015

Level	FULL-TIME			PART-TIME		
	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	266	3,669	3,935	3	11	14
Managers	55	268	323	1	2	3
White Collar	450	740	1,190	46	3	49
OVERALL TOTAL	771	4,677	5,448	50	16	66

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY TYPE OF CONTRACT



PERSONNEL CHARACTERISTICS

The characteristic feature of the Sofidel Group continues to be its young staff population.

BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE - 2017

Level	AGE < 30 YEARS			AGE 30-50			AGE > 50 YEARS		
	Women	Men	TOTAL	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	44	571	615	203	2,413	2,616	115	1,038	1,153
Managers	3	5	8	45	160	205	17	118	135
White Collar	77	86	163	421	527	948	83	190	273
OVERALL TOTAL	124	662	786	669	3,100	3,769	215	1,346	1,561

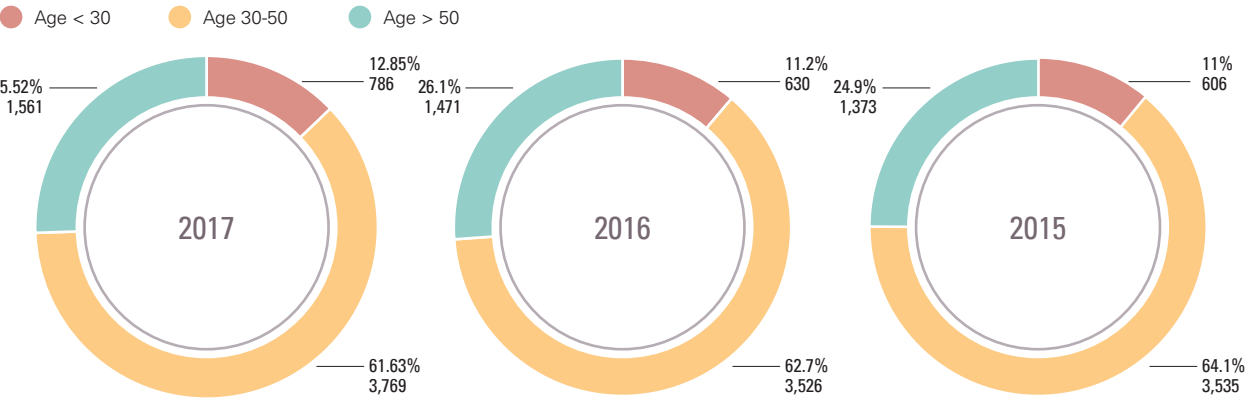
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE - 2016

Level	AGE < 30 YEARS			AGE 30-50			AGE > 50 YEARS		
	Women	Men	TOTAL	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	26	458	484	147	2,299	2,446	106	981	1,087
Managers	1	6	7	43	158	201	12	110	122
White Collar	71	68	139	365	514	879	80	182	262
OVERALL TOTAL	98	532	630	555	2,971	3,526	198	1,273	1,471

BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE - 2015

Level	AGE < 30 YEARS			AGE 30-50			AGE > 50 YEARS		
	Women	Men	TOTAL	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	21	429	450	147	2,332	2,479	101	919	1,020
Managers	1	7	8	44	161	205	11	102	113
White Collar	78	70	148	344	507	851	74	166	240
OVERALL TOTAL	100	506	606	535	3,000	3,535	186	1,187	1,373

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY AGE

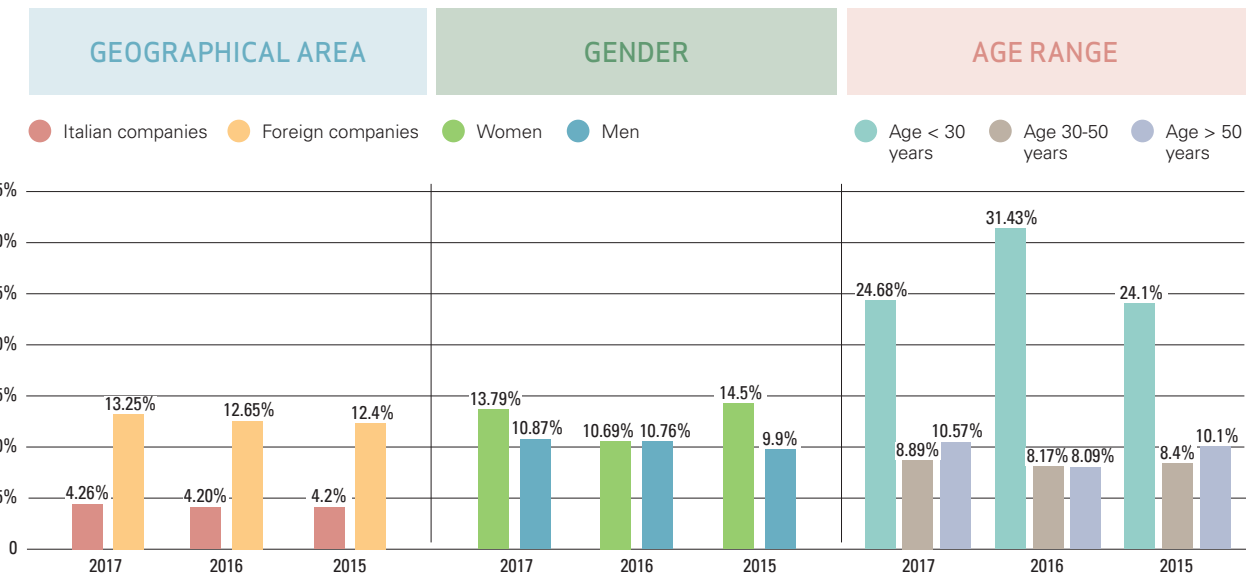


The majority (61.63%) of the Sofidel Group population is in the middle age range of 30-50. The number of workers over 50 years of age is also significant and their management will require the application of appropriate tools in the future. As part of the ‘Lifelong Employability & Company Welfare’ workgroup, promoted by the Sodalitas Foundation, Sofidel has the opportunity to assess and collect best practices in Italy and abroad aimed at maintenance of an active role and adequate motivation for older workers in the company context.

TURNOVER

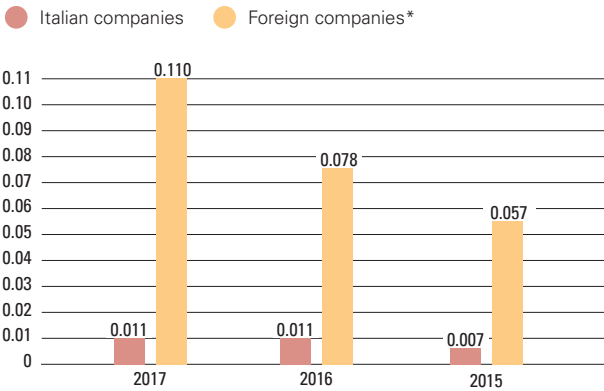
The rate of turnover¹² for the Group shows low values again for the 2017 year. The percentage value is higher abroad. Turnover at Group level has not changed significantly compared to that for 2016.

RATE OF TURNOVER OF THE SOFIDEL GROUP BY GEOGRAPHICAL AREA, GENDER AND AGE RANGE



The following data have been calculated on the basis of voluntary resignations by Sofidel Group employees, divided by geographic area:

RATE OF TURNOVER OF THE SOFIDEL GROUP - VOLUNTARY RESIGNATIONS (%)



12. The rate of staff turnover was calculated considering the total number of employees who left the company voluntarily, through retirement or termination of employment.

*The data on voluntary turnover for foreign companies shows a rise in recent years mainly due to the growth in the US market, where frequent turnover of personnel is a physiological characteristic of employee management.

HUMAN RIGHTS, PROTECTED CATEGORIES AND EQUAL OPPORTUNITIES

The Sofidel Group promotes respect for equal opportunities and diversity as aspects to be cultivated, in line with the principles and values expressed in the Group Ethical Code and human rights laws and regulations. In order to prevent any type of discrimination, all Group companies are involved in training and awareness raising activities, and have specific anonymous reporting (“whistle-blowing”) mechanisms, which enable workers to disclose any breaches of human rights. No reports of discrimination were received during the year. To date, the Group has not considered it necessary to carry out specific human rights assessments as company business is not carried out in areas defined as at risk. As far as protected groups are concerned, the Group fulfils the obligations set out by the relevant legislation in force in the countries where it operates. In 2017, there were 59 employees in these groups – 7 women and 52 men. The overall percentage of female staff in the Sofidel Group is 16.48%, with relative percentages of 18.68% among managers, 41.98% among white collar staff and 8.26% among blue collar staff, confirming the prevalence of men, particularly among blue collar workers, because of the nature of the jobs performed.



BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2017

Level	Women	Men	TOTAL
Blue collar	362	4,022	4,384
Managers	65	283	348
White collar	581	803	1,384
OVERALL TOTAL	1,008	5,108	6,116

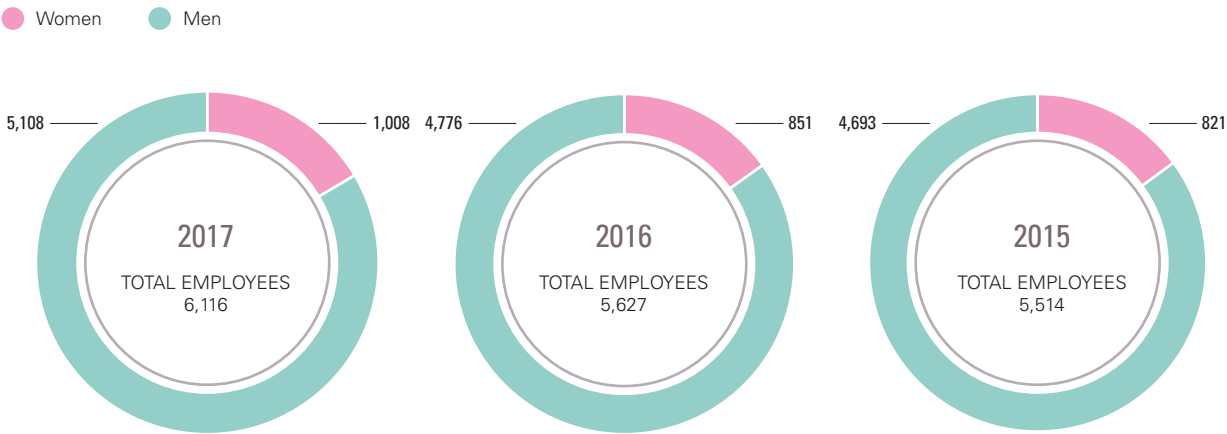
BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2016

Level	Women	Men	TOTAL
Blue collar	279	3,738	4,017
Managers	56	274	330
White collar	516	764	1,280
OVERALL TOTAL	851	4,776	5,627

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2015

Level	Women	Men	TOTAL
Blue collar	269	3,680	3,949
Managers	56	270	326
White collar	496	743	1,239
OVERALL TOTAL	821	4,693	5,514

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY GENDER



In 2017, 33 employees in Italy, 24 women and 9 men, took parental leave (optional absence for maternity/paternity) while in the foreign companies the number was 127, 54 women and 73 men.

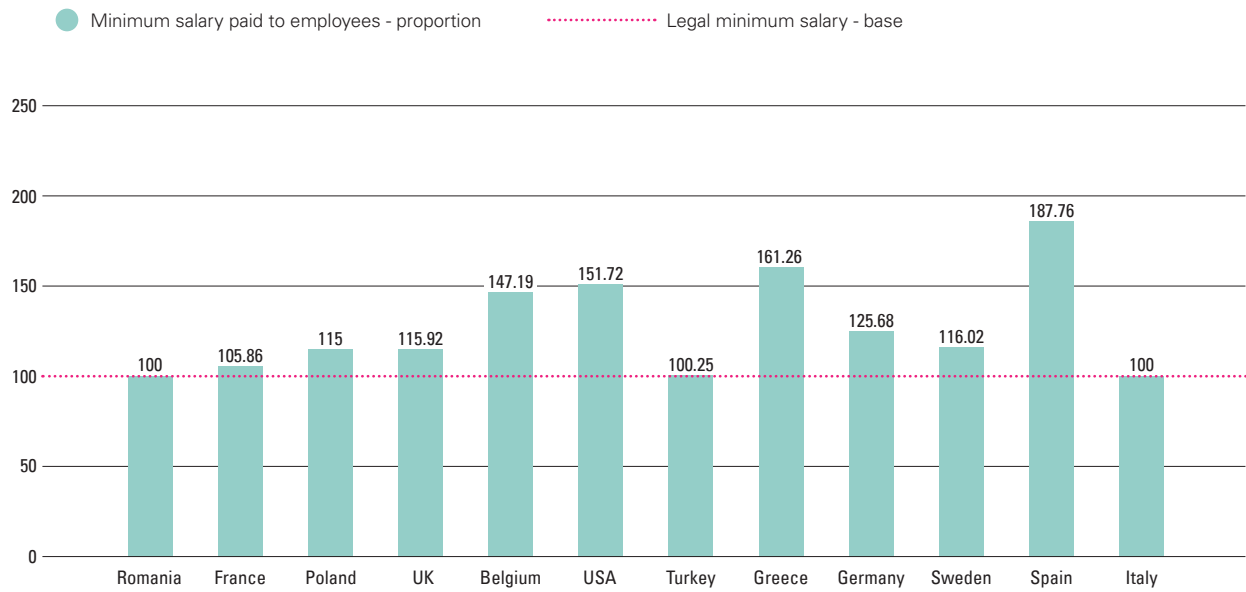
Only 5 workers decided to leave the Group at the end of their maternity leave.

PAY AND INCENTIVES

In line with its principles, the Sofidel Group decides the pay of its employees in compliance with legal standards and guarantees respect for the criteria of fairness and transparency.

An analysis carried out in the countries where the Group is present showed that minimum salaries, where set, are amply respected.

MINIMUM SALARIES BY COUNTRY - 2017



In addition, there are performance evaluation programmes for every employee who is part of the ‘reward system’ in almost all Group companies. Performance evaluation consists of an interview based on a questionnaire which considers the strategic aspects of work performance. Many Group companies have reward systems based on the definition of specific, measurable targets that are achievable and shared, so that employees are able to influence them with their behaviour. The check on achievement of such targets, which may encompass sustainability performance such as the reduction of CO₂ emissions and containment of energy and water consumption, is the responsibility of the managers of the different company areas.

In 2017, 79.95% of Group company employees benefitted from increases in their pay and 67.12% received an award or bonus. The benefits given to employees are provided without any distinction between full- and part-time office staff. The employment relationship with Sofidel is also marked by the number of provisions and initiatives in favour of workers. Employees in Italy, France, the UK, Germany and the United States, for example, have forms of supplementary pensions that operate through the activation of special pension funds that employees of the companies can contribute to with different participation percentages. The percentage varies according to individual company regulations.

In addition, there is also a special Solidarity Fund in Italy, promoted through CRAL Italia (Workers’ Social Organisation), intended to support those who find themselves in situations of great need.



Performance Evaluation Programs

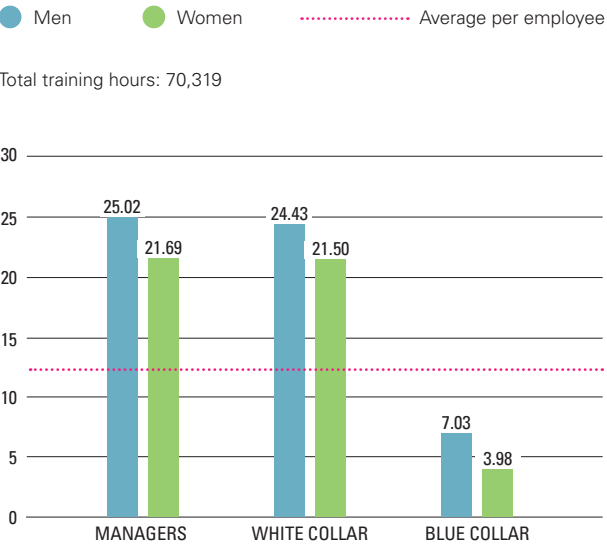
The qualitative performance assessment is made through the constant measurement of a series of parameters that indicate performance: individual commitment, skills/professionalism, problem solving, quality, ability to work together (teamwork), communication/interpersonal skills, spirit of initiative, delegation, control and development of co-workers.

The behavioural approach has proved very effective in linking company strategy to the conduct required to implement it. The evaluation also ensures periodic self-monitoring of performance, a check on its progress and the possibility of making changes and useful corrections to improve it.

TRAINING AND PROFESSIONAL DEVELOPMENT

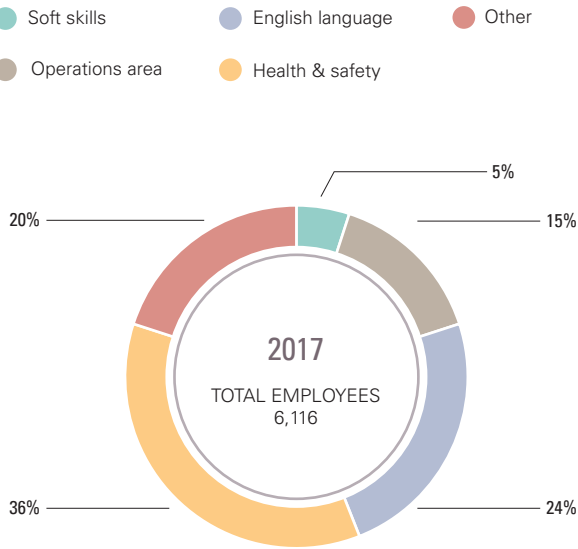
In 2017, a total of **70,319 hours of training** were provided overall; the average hours provided for each company level were 25.02 for male managers and 21.69 for female ones, 24.43 hours for male office staff and 21.50 for females, and 7.03 for male factory hands and 3.98 for females. Furthermore, **the average number of hours of training provided per employee was 11.50.**

AVERAGE HOURS OF TRAINING IN THE SOFIDEL GROUP BY GENDER AND LEVEL



The areas which attracted greatest interest, other than workplace health and safety, were English language studies, best practices in the operations area for the introduction of new machinery and technical and production improvements and soft skills. Other training topics concerned specific areas and technical, IT and management system updates.

INTEREST BY TRAINING TOPIC



Within the operations area, diffusion of the philosophy and principles of Lean Management continues to have special relevance.

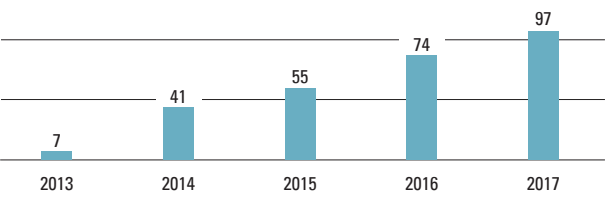
From 2013 to date, 97 methods have been applied on 58 lines in 13 plants in 8 different European countries. In the last year, not only has implementation of Lean tools and methods within production departments been further expanded, increasing the number of plants and production lines making use of such methods, but further progress has been recorded on the development of the programme to create and train certified internal auditors capable of verifying correct application of the methods in all plants.

In 2017 the programme to integrate all the Lean tools put in place, entitled “Sofidel Manufacturing System” (SMS), was further extended and strengthened: through appropriate training, Sofidel enabled the introduction in as many as 6 Group plants of advanced problem solving techniques, providing to the internal coordinators practical analysis tools that permit a thorough search for appropriate solutions to improve production line efficiency and product quality.

The profile of SMS as Sofidel’s integrated system for

production plant management is growing day by day, incorporating and combining Sofidel’s management philosophy with the principles of Lean Manufacturing.

SPREAD OF THE LEAN MANAGEMENT SYSTEM



For trainers, Sofidel made use of the specific skills already available within the company for 25.84% of the total, as well as qualified external agencies, for the rest. The investment in training totalled € 1,736,727. Finally, in terms of valuing human resources, in 2017 the Italian companies of the Group saw two of their colleagues decorated with the ‘Order of merit for labour’, conferred by the President of the Republic for the diligence and dedication to work demonstrated by 25 years of uninterrupted work.

HEALTH AND SAFETY

Sofidel believes in the promotion of health and safety at work as one of the critical factors for the sustainable development of its staff and business and also as a significant contribution to raising the level of health of society as a whole. To support this, training plans are put forward every year in all Group companies; in 2017 **25,638 hours of training** were delivered on health and safety topics. The areas covered in the training sessions mainly concerned,

both for new recruits and existing employees, job-related risks and the resulting sector-specific prevention and protection measures and procedures, use of work equipment, management of emergencies and fires, first aid, organization of company prevention and the rights and duties of the different company figures. In addition, on-the-job training by qualified internal staff is provided at plant level for each category of worker.



To protect the health and life of all its workers, the Group has decided to equip all the production plants and officers with automated external defibrillators (AED) with training, on the use of the device, for members of the first aid team with aim of extending the initiative to a large number of workers.

In addition, Sofidel’s partnership with the European Agency for Health and Safety at Work (EU-OSHA) continues, with membership of the new two-year campaign (2018-2019) which will focus on hazardous substances, with the aim of raising public awareness and promoting a culture of prevention in the workplace throughout the EU, as well as being addressed to specific categories of workers.

In 2017, audits were carried out by the corporate H&S unit to disseminate the culture of safety from a technical and procedural viewpoint and to further assist the spread of Health and Safety at Work Management Systems. In relation to the development of these systems, BS OHSAS 18001 certifications were obtained for the plants of Sofidel Romania and Sofidel France (Ingrandes and Roanne). The aim is to continue the implementation of health and

safety management systems in all Group companies. Health and safety committees have also been set up, composed of representatives of management and workers at plant level, so that workers are aware of and involved in the dissemination of the relevant policies.

During 2017 there were fires at Soffass S.p.A. and Sofidel UK which did not result in injuries, poisoning or deaths of employees.

MEASUREMENT INDICES FOR THE TREND IN ACCIDENTS

Sofidel monitors the trend in accidents in the different plants through a series of indices, the most important of which are the Frequency Rate¹³ (FR) and the Severity Rate¹⁴ (SR). Measurement of this data is not broken down by male-female gender as most of the female staff work in the offices and the division therefore has little significance for statistical purposes.

FREQUENCY RATE (FR) AND SEVERITY RATE (SR) FOR GROUP COMPANIES BY COUNTRY, AT 31/12/2017*		
Country	FR	SR
Belgium	8.22	1.49
France	22.64	0.42
Germany	33.42	1.36
Greece	0.00	0.00
Italy	10.09	0.27
Poland	29.67	1.30
Romania	0.00	0.00
Spain	37.37	0.81
Sweden	17.34	1.13
Turkey	13.82	0.06
United Kingdom	6.00	0.11
Hungary	30.32	1.90
TOTAL SOFIDEL GROUP	16.26	0.60

* These indices are calculated with reference to thousands and millions of hours worked based on the reference standard UNI 7249:2007. The values of the accident rates shown do not take account of accidents while travelling or those causing less than 3 days’ absence. In addition, only accidents which caused the worker to leave the work position are counted. It should be noted that the final result could be between 15.48 and 17.11 for the Frequency Rate and between 0.57 and 0.63 for the Severity Rate because the hours worked for December were only estimated. In addition the recent acquisition of the Hungarian plant led to a worsening of the Group indicators because measures to prevent accidents and protect workers’ health and safety are still being implemented. The plants of Sofidel America are excluded from the reporting because the hours worked were not available.

13. **Frequency Rate (FR)**: number of accidents/hours worked x 1,000,000.
14. **Severity Rate (SR)**: days of absence due to accidents/hours worked x 1,000.



INDUSTRIAL RELATIONS

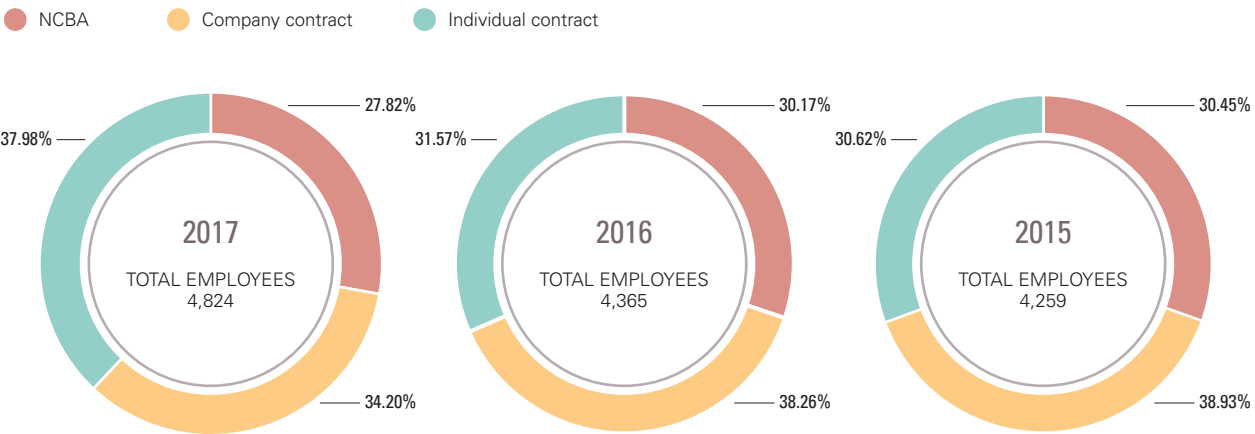
Sofidel shares with the various trade union organizations an industrial relations system based on constant, constructive discussion, in compliance with the principles in the contracts managed.

In the Italian companies of the Sofidel Group, the National

Collective Bargaining Agreement (NCBA) is applied for all employees, in compliance with current law.

In the other Group companies, the employment contract of employees is regulated by national collective bargaining agreements in 27.82% of cases while the rest of the workers have individual and/or company contracts.

DIVISION OF EMPLOYEES OF THE FOREIGN COMPANIES IN THE GROUP BASED ON THE TYPE OF CONTRACT (NCBA, COMPANY AND INDIVIDUAL CONTRACTS)



The EWC (European Works Council) is a body to represent workers, provided for by European Directive 94/45/EC, established in Community-scale undertakings and groups for the purpose of informing and consulting employees on a transnational basis.

The parties, while sharing the aims of the body and the mutual will to implement it, are discussing the concrete and practical method of operation of the same, without having found, at the moment, an agreement.



8 | MARKETS AND CORPORATE BRANDS

Strategy and business model

- Strategy for value creation
- Key elements of the model and flow diagram
- Internationalisation strategy in Europe and the United States
- Distinctive factors
- Outlook and strategic objectives
- Innovation in the Sofidel Group
- Sofidel's strategy within the Circular Economy

Markets and customers

- Group companies
- Lines of business and markets
- The Sofidelshop E-Commerce portal
- Service quality
- Management of complaints

Suppliers and the supply chain

- Type and volume of purchases
- Supplier qualification, selection and assessment
- New challenges

Community

- Community relations
- Investments to benefit local communities

STRATEGY AND BUSINESS MODEL

STRATEGY FOR VALUE CREATION

The Sofidel Group is now present in 13 countries¹⁵ throughout the world and has reached a production capacity of over a billion tonnes a year.

In the last 20 years the market has undergone a radical transformation, and the Sofidel Group has met the challenges posed by its own growth in a new and constantly changing context with a careful and measured strategic planning process. The Group’s business activities have gone through four major strategic growth phases.

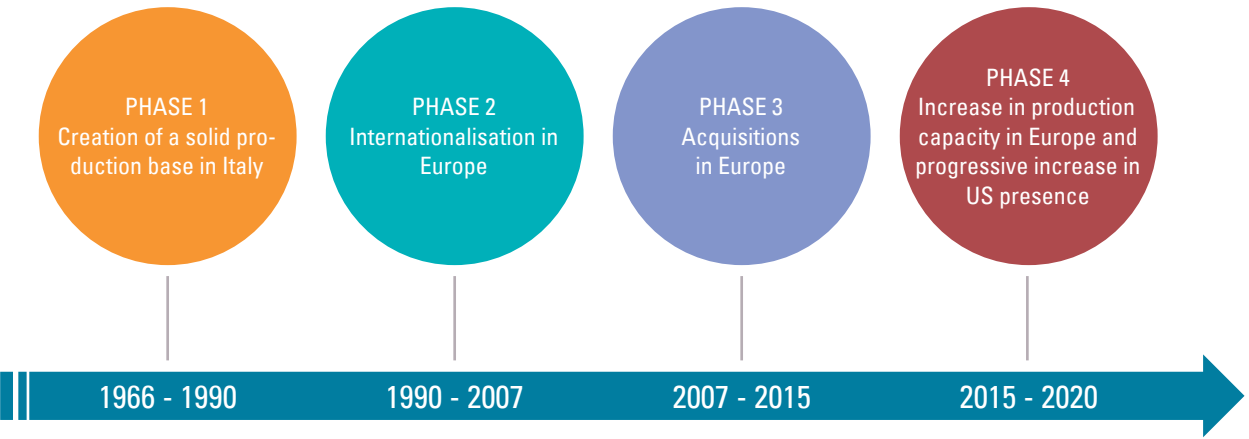
In **Phase 1 (1966-1990)**, the company focussed on creating

a solid production base in Italy, mainly oriented towards the development of plant quality and technological and operating efficiency.

In **Phase 2 (1990-2007)** the internationalisation process was started in Europe, through the creation of new, well distributed greenfield production sites.

In **Phase 3 (2007-2015)**, the company made some important acquisitions in Europe.

Finally, in **Phase 4 (2015-2020)**, the Group grew further, increasing its production capacity in operating sites in Europe (organic growth) and started the internationalisation process in the United States, progressively taking control of different areas.



KEY ELEMENTS OF THE MODEL AND FLOW DIAGRAM

Sofidel’s business model has as its objective the creation of long-term value for its stakeholders, producing profitability and growth in each of its businesses, improving efficiency and mitigating risks.

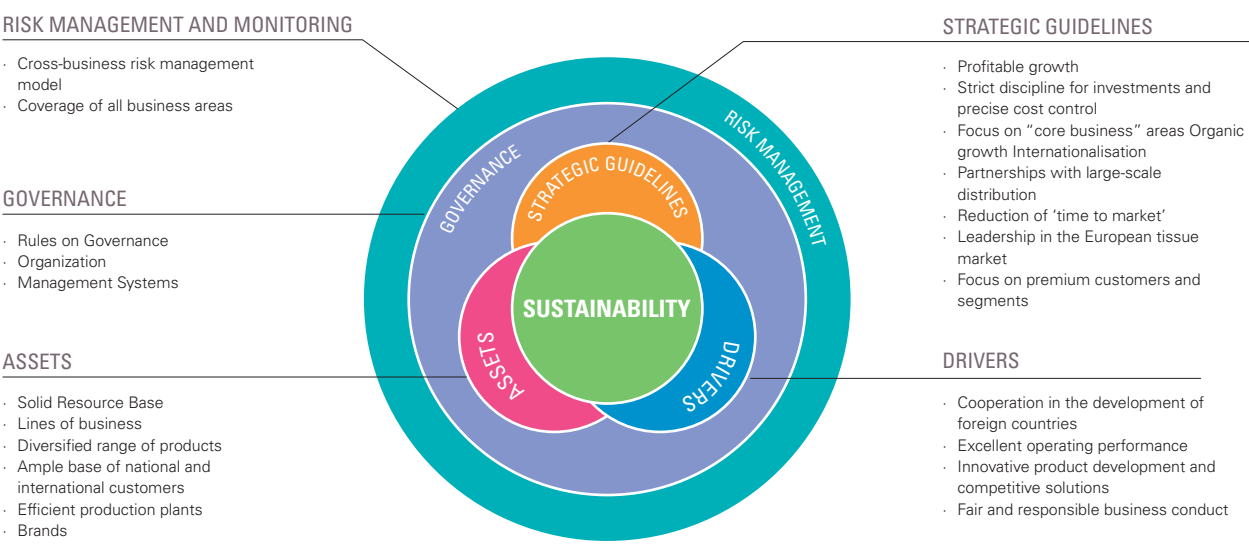
The main forms of capital used by Sofidel (financial capital, production capital, intellectual capital, natural capital, human capital, relational and social capital) are classified in accordance with the criteria included in the “International IR Framework” published by the International Integrated Reporting Council (IIRC).

The economic and financial and non-financial results for 2017 and sustainability performance are based on the responsible

and efficient use of capital which has resulted in operating excellence, resource integrity, management of operating risk, protection of health and safety and environmental protection.

A map of the main capital used by the Group is set out below. The diagram shows how the efficient use of capital and related links create value for the company and its stakeholders.

15. Italy, Spain, Sweden, United Kingdom, Belgium, France, Croatia, Germany, Poland, Romania, Greece, Turkey and the United States.



	STOCK OF CAPITAL	MAIN SOFIDEL ACTIONS	VALUE CREATION FOR SOFIDEL	VALUE CREATION FOR SOFIDEL STAKEHOLDERS
FINANCIAL CAPITAL	<ul style="list-style-type: none">Financial structureLiquidity	<ul style="list-style-type: none">Cash flow from operationsBank loansLiquidity maintenance	<ul style="list-style-type: none">Low cost of capitalReduction in working capitalFinancial leverageOpportunities for acquisitionsMitigation of effects of market volatility	<ul style="list-style-type: none">Social and economic growth
INDUSTRIAL CAPITAL	<ul style="list-style-type: none">National and international plantsIndustrial machineryLogistics and distribution networksEnergy plantConstructions and other equipment	<ul style="list-style-type: none">Technological innovationProcesses and proceduresProduction expansionDevelopment and maintenance activitiesEnvironmental certifications	<ul style="list-style-type: none">Return on investment (ROI)Widening of asset baseIncrease in value of assetsImprovement in operating efficiencyReputation	<ul style="list-style-type: none">Reduction of greenhouse gas (GHG) emissionsResponsible use of resourcesEmployment
INTELLECTUAL CAPITAL	<ul style="list-style-type: none">Technology and intellectual propertyInternal company proceduresCorporate governanceRisk managementKnowledge management	<ul style="list-style-type: none">Research and developmentPartnershipsApplication of systems and proceduresAudit	<ul style="list-style-type: none">Competitive advantageRisk mitigationTransparencyPerformanceStakeholder engagement	<ul style="list-style-type: none">Reduction of social and environmental impactsProduct quality and safetySustainable products
HUMAN CAPITAL	<ul style="list-style-type: none">Health and safetyKnow-how and skillsExperienceInvolvementDiversityCompany culture	<ul style="list-style-type: none">Safety at workTraining and developmentPromotion of human rightsInvolvement of partners/associatesCompany eventsCommunication	<ul style="list-style-type: none">PerformanceEfficiencyCompetitivenessInnovationReputation	<ul style="list-style-type: none">Employment and employment protectionWell-being of Sofidel peopleOpportunities and benefits for the region
SOCIAL AND RELATIONAL CAPITAL	<ul style="list-style-type: none">Relations with stakeholders (National and local government bodies, communities, associations, customers, suppliers, partners, universities, NGOs, etc.)Corporate Brand	<ul style="list-style-type: none">Stakeholder EngagementLocal development initiatives and projectsStrategic partnershipsTraining and research programmesManagement of commercial brands	<ul style="list-style-type: none">Reduction of 'time to market'Mitigation of country riskMarket sharesReputationCompetitive advantageReliability of suppliers	<ul style="list-style-type: none">Local socioeconomic developmentCustomer satisfactionRespect for human rights
NATURAL CAPITAL	<ul style="list-style-type: none">WaterBiodiversityCellulose	<ul style="list-style-type: none">Investment in technological updates and production processesExtension of supply sources for fibrous raw materials	<ul style="list-style-type: none">Cost reductionReduction of operating risks (asset integrity)ReputationStakeholder recognition	<ul style="list-style-type: none">Containment of water consumption (use and management of water)Energy efficiencyRenewable energyProtection of biodiversity

INTERNATIONALISATION STRATEGY IN EUROPE AND THE UNITED STATES

In the first half of the 1990s, the Sofidel Group conceived and set up its strategy of industrial growth in Europe and the United States. The internationalisation process was based on three essential pillars: consolidation of the Regina brand in Italy, development of private label products abroad and finally the internationalisation of production. In the second half of the 1990s and the first decade of this century, the international strategy was implemented. This strategy was characterized by certain basic strategic elements (see image) which allowed the Group to achieve the desired objectives. In particular, the Sofidel Group planned to reach an adequate coverage in the various geographical areas of Europe, through the construction of production sites in western and central Europe first, then in northern and southern Europe (taking advantage of the potential growth in consumption).



The initial investments were mainly of greenfield type, with the construction of new integrated plants with modern technical characteristics and large scale units. The Group was thereby able to achieve levels of production efficiency superior to those of its major international competitors and high quality production. The new production sites were designed to be multi-product and not, as was often the case for some major competitors, dedicated to one type of product. The plants distributed across different countries are able to produce identical products so as to satisfy our biggest Euro-

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STRATEGIC BASIS FOR THE INTERNATIONALISATION PROCESS

- Production plants in different European areas. This allows us to have direct relations with the international purchasing centres of the large scale distribution networks and contain logistic costs.
- Opportunities to exploit economies of scale and reduce transaction costs.
- Possibility of benefiting from differences in certain characteristic production costs (energy, labour, logistics)

pean customers (the large scale distribution chains) with the same quality profile. In the second phase of international growth, once the benefits of production and logistical efficiency, flexibility and quality had been achieved, acquisitions of companies and plants were made to accelerate the growth process. To complete the internationalisation strategy, all the European areas in which Group companies operate have integrated plants (paper mill and converting). Strategic change focused on internationalisation has also been very important from the viewpoint of company culture

and the motivation of human resources. It was a fundamental process because it provided the opportunity for many people in the company to take up prestigious new positions, and allowed valuable international experience and skills to be built up, useful for future development.

DISTINCTIVE FACTORS

Growth in Italy, partnership with the large-scale retail trade, the development of the Regina brand, commanding presence in the European markets, full internationalization with expansion first in Europe and then in the United States, and the integration of sustainability as a lever for competitive growth to ensure added value, are the common denominators of the Sofidel Group. The decision to invest in the Piana di Lucca (Plains of Lucca), an area rich in groundwater, has proved a winning choice. The tax incentives, presence of companies with strong, specific technical and production skills, above all Fabio Perini, and partnerships formed within the Piana di Lucca district are the factors which have contributed to Sofidel Group's growth. In addition, the Group's current managerial and operational approach is founded on a system of values and principles which the company has always held and which still mark it out today. The powerful growth recorded since 2000 and the internationalisation process have not changed this system of values and principles. The company has defined the two main pillars of its operations, summed up by the two slogans: *Less is more* and *Endless care, innovative life*, which represent "guiding principles" for translating ethical values into actual behaviour and effective implementation of the strategy of shared value. *Less is more* means making the best use of all the resources that the company has available – cellulose, energy, water, gas, fuel, people's time and commitment – eliminating unnecessary waste and inefficiencies, and creating products that give the best performance, not by producing or consuming more, but by producing more efficiently and consuming less. *Endless care, innovative life* represents attention to detail and caring about the little things that help to satisfy people's needs in an innovative way.

LESS IS MORE
Making products that perform well for customers, reducing consumption of the resources that we have available.

ENDLESS CARE, INNOVATIVE LIFE
Satisfying in the best and most innovative way the existing and potential needs of customers, by limitless attention to and care for "the little things".



DISTINCTIVE FACTORS

- Priority given to long-term economic results.
- Competitive positioning based on quality.
- Focus on tissue production.
- Rationalisation of business portfolio, with clear identification of three strategic growth areas: brand, private label, Away From Home (AFH), and semi-finished reels.
- Policy of growth and entry into new market segments.
- High level of attention given to order and cleanliness in plants, offices, warehouses, yard, avoiding waste.
- Healthy and constructive relationship with stakeholders (banks, suppliers, large-scale retail trade, employees, institutions, local community, etc.)

We have never wanted, and still do not want, to be a commodity paper producer. We want to give customers and consumers something different, more valuable. To provide tools for hygiene and personal care to resolve the problems that man has in different places both at home (in the bathroom, the kitchen, the garage, etc.) and outside the house (in a hospital ward, a mechanic's workshop, a hotel room, a restaurant serving area, etc.) We want to offer practical and innovative products designed to improve people's lives. We have never been a company that just uses cellulose to make toilet paper and napkins but a company that carefully chooses its production methods, in the same way as one does to produce pasta, to solve a multitude of problems for mankind. This is our philosophy, our way of working: starting from the problems of everyday life, explicit and implicit needs, to provide better, more innovative solutions. Endless care and innovation, which can only happen with a continuous rise in quality and a constant eye to improvement.

Luigi Lazzareschi, CEO Sofidel Group

OUTLOOK AND STRATEGIC OBJECTIVES

The greenfield sites realized in Europe have enough space and scalability to permit a significant increase in production capacity. In many cases production capacity can be doubled or tripled, with relatively modest investment and in a relatively short time.

In the next few years, the Group therefore intends to implement its organic growth strategy, by enhancing current sites and increasing production capacity in plants that the company is already operating, or through minor acquisitions. The United States also represent a huge and important market, where the Sofidel Group can find further space in parts other than those occupied by the major American multinationals.

A careful analysis of the market and the consumption styles of American consumers has shown that 30-35% of the market is accounted for by high performance products, with TAD (Through-Air-Drying) technology and 65-70% involves traditional products. A part of this second market share is not covered by the major players, but by several smaller companies, which are behind from the technological viewpoint. The main target for the Group in the coming years is therefore represented by the private label segment, not with greenfield investments but through acquisitions¹⁶.

With such acquisitions, the Sofidel Group has maintained a presence since 2012, albeit on a limited scale in overall terms, in the United States.

INNOVATION IN THE SOFIDEL GROUP

Innovation in production processes, like product innovation, plays a central role in the Sofidel Group’s sustainable growth strategy. It is in fact precisely the implementation of the most modern technologies for tissue production, combined with the expert skills of management and technical staff and the historic vocation for manufacturing premium quality products that allow the Group to keep producing increasingly high performance products with lower and lower amounts of natural capital. Enabling it, therefore, to respond in a responsible manner to the growing demand for efficiency, functionality and sustainability from customers, consumers and society in general.

Technological innovations

Attention to its technological capital is a constant element throughout the history of Sofidel which, in this regard, has been able to build up over the years constructive and long-lasting relationships, also with regard to research and development, with some of the main suppliers in the sector. Starting in 2016 and throughout 2017 this forward-looking approach has translated into a vast operation to renew the

company’s technological capital, involving both paper mills and converting plants.

With regard to the first stage of the production cycle, paper production, Sofidel has purchased new paper mill machines with NTT (Advantage New Tissue Technology) from Valmet, which in addition to allowing production of both conventional tissue and textured paper, also enables better levels of efficiency to be achieved in terms of energy and use of raw materials. Between the end of 2017 and 2018, four examples of this model will enter production in the plants of Circleville (OH), United States; Ciechanów, Poland; and Buñuel, Spain.

With regard to the second stage of production, from paper to the finished product, one of the salient elements is the progressive activation of 21 new Constellation converting lines, produced by Fabio Perini, an innovative technology which offers improved winding quality, preserving the softness of the product and guaranteeing uniform strips from the start to the end of the roll.

It is important to note that the combination of this vast investment in technology and the use of a revisited mix of cellulose fibre – short fibre, from species like eucalyptus and birch, and long fibre, from pines and fir trees – have permitted us to give the finished product a new degree of softness and strength.

During the test phase, this new production approach, which can be applied both to toilet paper and kitchen towel, has on average, for equal performance, allowed a reduction in CO₂ emissions of 7.3% per tonne of paper produced. As of now, implementation is still at the initial stages, but in future this new technology could potentially be extended to all Sofidel brands in Europe, with great benefits for the final customer and the environment.

Product innovation

Rotoloni Regina and Asciugoni Regina provide a concrete example of product innovation with obvious advantages and benefits linked to environmental sustainability: a significant improvement in logistics for the company (e.g. more paper transported with a single lorry, less space occupied in warehouses), increase in the return per linear metre of shelving for the large-scale distribution chains, less space taken up in the homes of final consumers for an equal amount of paper purchased. The higher number of sheets per roll has allowed an increase in plant production capacity and a reduced purchasing frequency for families (each roll lasts longer). New products are often created with limited adaptations to

16. In the United States to date the Sofidel Group has acquired the Cellynne Group, with plants in Haines City (FL), Green Bay (WI), and Henderson (NV).

the production process. The planned geographical distribution of the production plants, implemented according the strategy of “ever decreasing circles” (market innovation) has increased the efficiency of logistic processes with obvious benefit for the large-scale distributors.

In 2017 its innovative spirit led the company to introduce new and technologically advanced products to the market: REGINA WISH kitchen towel, Papernet BIO TECH toilet rolls and the new toilet roll without a core, FULLTECH.

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REGINA WISH KITCHEN TOWEL: THE NOVELTY OF 2017

The new Regina Wish kitchen towel differs from other kitchen towel due to its size. The sheets of Wish have been designed to be “hand-sized” to allow the right amount of paper to be used for each purpose according to actual need, thus reducing waste compared to traditional products. The surface of a sheet of Wish is on average 25% smaller than that of a standard roll of kitchen towel. Accordingly, thanks to its flexibility, a roll of Wish kitchen towel lasts longer.

PAPERNET BIOTECH HELPS TO IMPROVE THE QUALITY OF WASTE WATER

It is not just the Sofidel brand for the Away From Home channel. With its line of products (Bio Tech, Dissolve Tech and Full Tech), Papernet is also one of the brands most heavily engaged in proposing high added value products in terms of hygiene and respect for the environment. This is the result confirmed by the tests commissioned by the Department of Chemistry and Industrial Chemistry and Biology of the University of Pisa in the wake of the experiments carried out by Sofidel with the Municipality of Peccioli (Pisa, 5,000 inhabitants). For 6 months Sofidel has supplied free to all the households in the municipality BioTech toilet roll in order to verify in a real environment its efficiency in terms of sanitation. During the observation period the analysis showed a statistically significant reduction in the Total Bacterial Count and in the concentration of Staphylococcus Aureus. Data which confirm what has already been shown by previous pilot tests conducted in the laboratory of SGS Institut Fresenius GmbH (DE), achieved thanks to the action of a mix of selected spores present in the Papernet BioTech toilet roll which render more efficient the degradation of the organic material, thus helping to minimize encrustation, blockages and bad smells.



FULLTECH, THE NEW TOILET ROLL WITHOUT A CORE, EVEN MORE SUSTAINABLE

It’s the new toilet role without a core for the AFH sector and it’s 100 metres long. Full Tech allows optimal space-saving and is guaranteed, with minimum bulk, to last longer than a Mini Jumbo roll. Because it has no core, it has a lower environmental impact, with less cardboard to be disposed of. In addition, the compactness of the rolls allows a reduced use of packaging and means of transport, thus reducing emissions of CO₂ by over 100 kg for each tonne of paper.



SOFIDEL'S STRATEGY
WITHIN THE CIRCULAR ECONOMY

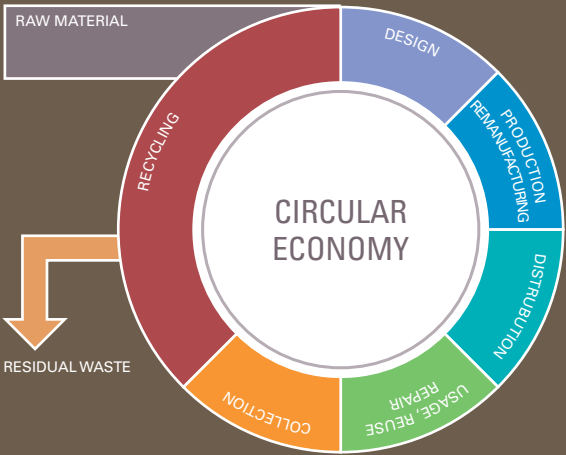
Despite the intrinsic limits on the ability of the tissue sector to fully embrace the requirements of the Circular Economy, Sofidel has nevertheless defined a series of activities and objectives to increase the circularity of its business. This mainly involves actions already planned or in place for many years, but which the company will include in a more organic plan to align its policies with the expectations of its main stakeholders.

The most important of these are research into systems for reducing production waste and the elimination of waste disposal in landfill sites or dumps, both for its own processes and those of its suppliers; inclusion of the requirements of circularity, both in its supplies and in supplier production processes; the procurement of supplies with reduced packaging or the adoption of recycled packaging materials instead of virgin ones; initiatives to raise consumer awareness both to ensure proper disposal of packaging after use and a moderate use of the product, to avoid unnecessary waste.

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Circular Economy

The concept of the Circular Economy within the European Community was officially introduced in December 2015, when, after a long legislative process, the Commission issued Communication COM(2015) 614 with the title “Closing the Loop: An EU Action Plan for the Circular Economy”.

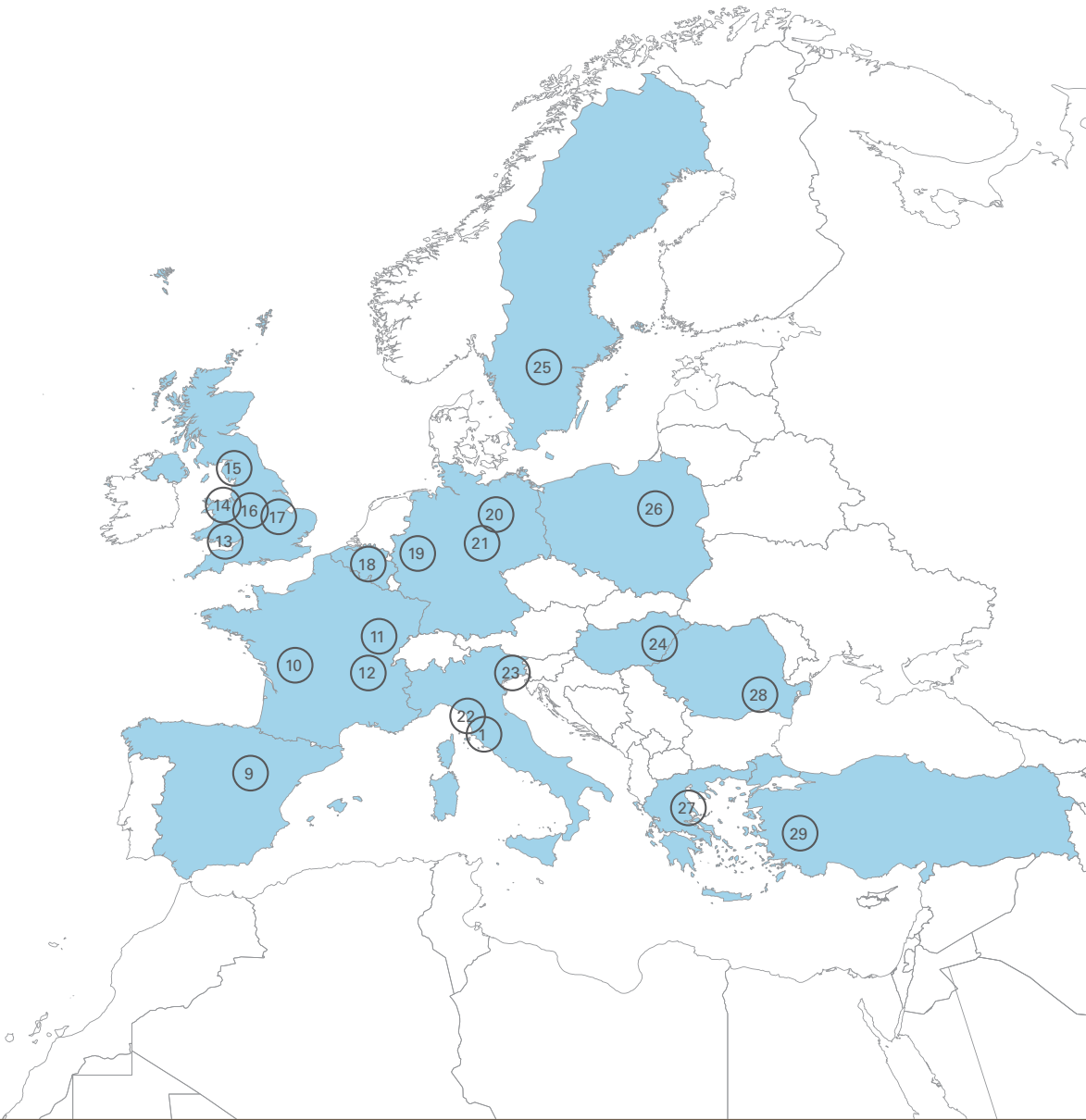
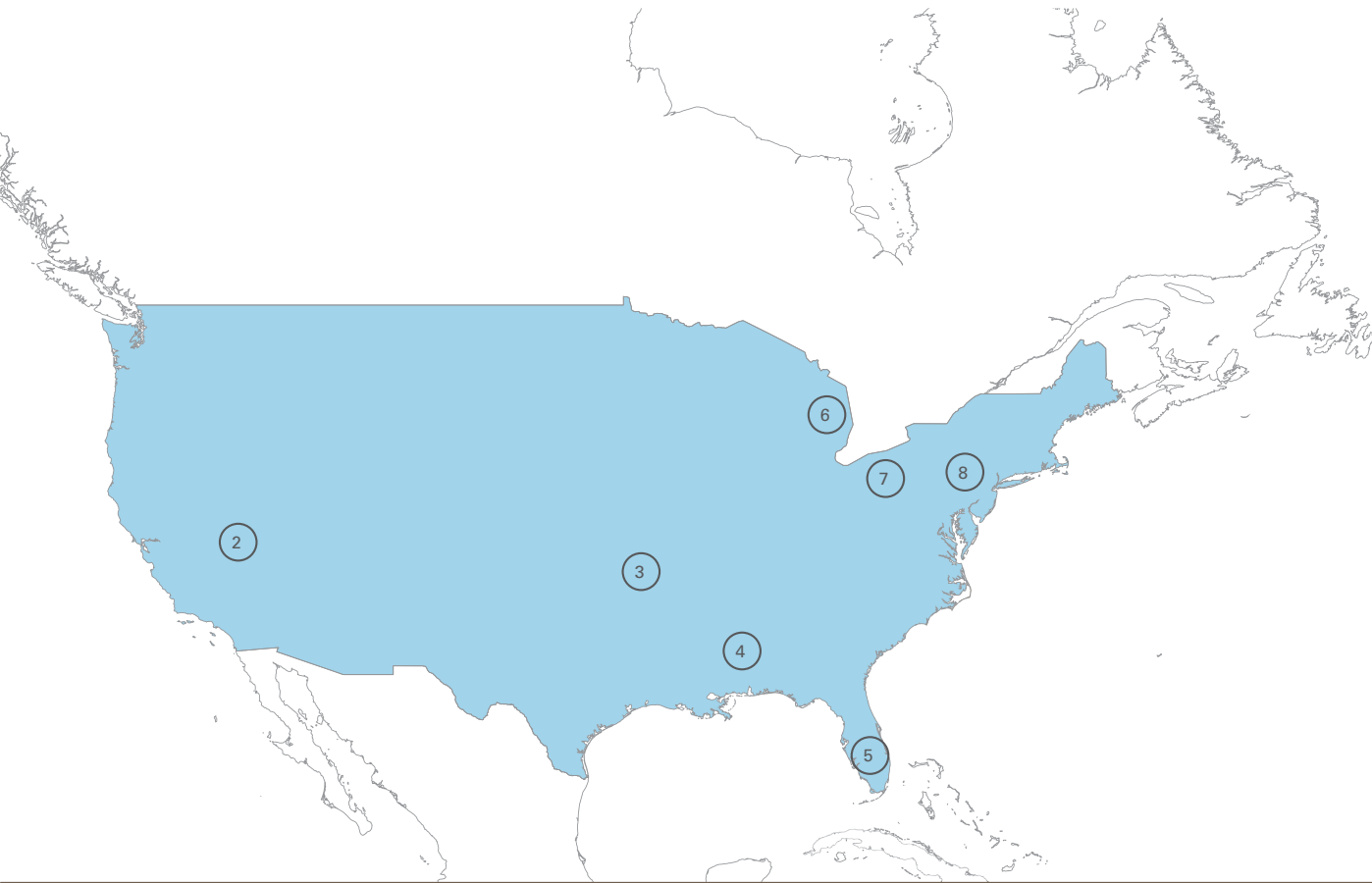
The Communication is split into 8 sections covering production, consumption, waste production and incentives for the market for raw and secondary material and set out some priority points including plastics, food waste, critical raw materials, construction and demolition, biomass and organic products. In particular, passing from the current model of the linear economy to the circular one requires a rethinking of market strategies and models to safeguard the competitiveness of industrial sectors and the heritage of natural resources. The circular economy model takes into account consumer habits, regulates production processes and large-scale manufacturing businesses, is able to create new jobs and at the same time to significantly reduce the demand for virgin raw materials.



MARKETS AND CUSTOMERS

GROUP COMPANIES

At the end of 2017, the Sofidel Group was present in 13 countries (in Europe and the United States) with 19 companies.



SOFIDEL ITALIA

1. Lucca - Porcari IT | Services

SOFIDEL AMERICA

- 2. Henderson NV | Converting plant
- 3. Tulsa OK | Converting plant
- 4. Hattiesburg MS | Converting plant
- 5. Haines City FL | Integrated plant
- 6. Green Bay WI | Converting plant
- 7. Circleville OH | Integrated plant
- 8. Filadelfia PA | Services

SOFIDEL SPAIN

9. Buñuel ES | Integrated plant

SOFIDEL FRANCE

- 10. Ingrandes FR | Converting plant
- 11. Nancy-Pompey FR | Integrated plant
- 12. Roanne FR | Integrated plant

INTERTISSUE

- 13. Swansea UK | Integrated plant
- 14. Horwich UK | Converting plant

SOFIDEL UK

- 15. Lancaster UK | Paper mill
- 16. Leicester-Hamilton UK | Integrated plant
- 17. Leicester-Rothley Lodge UK | Converting plant

SOFIDEL BENELUX

18. Duffel BE | Integrated plant

SOFIDEL GERMANY

- 19. Köln DE | Trading
- 20. Arneburg DE | Integrated plant

WERRA PAPIER

- 21. Wernshausen DE
- Werra Papier Holding | Services
- Werra Papier | Integrated plant
- Werra Papier (ex-Omega) | Integrated plant
- Thüringer Hygiene Papier | Integrated plant
- Thüringer Hygiene Papier Logistic | Services

SOFFASS

- 22. Lucca-Porcari IT | Paper mill / Converting plant
- Lucca-Porcari IT | Paper mill / Converting plant

- Lucca-Borgo a Mozzano IT | Paper mill
- Lucca-Bagni di Lucca IT | Paper mill
- Lucca-Capannori IT | Converting plant
- 23. Gorizia-Monfalcone IT | Integrated plant

SOFIDEL HUNGARY

24. Lábatlan H | Converting plant

SOFIDEL SWEDEN

25. Kisa SE | Integrated plant

SOFIDEL POLAND

26. Ciechanów PL | Integrated plant

SOFIDEL GREECE

27. Katerini EL | Integrated plant

SOFIDEL ROMANIA

28. Calarasi RO | Integrated plant

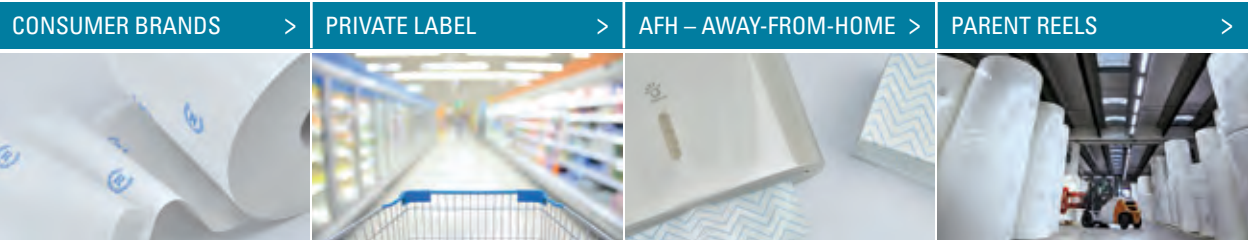
SOFIDEL TURKEY

29. Honaz Denizli TR | Converting plant

LINES OF BUSINESS AND MARKETS

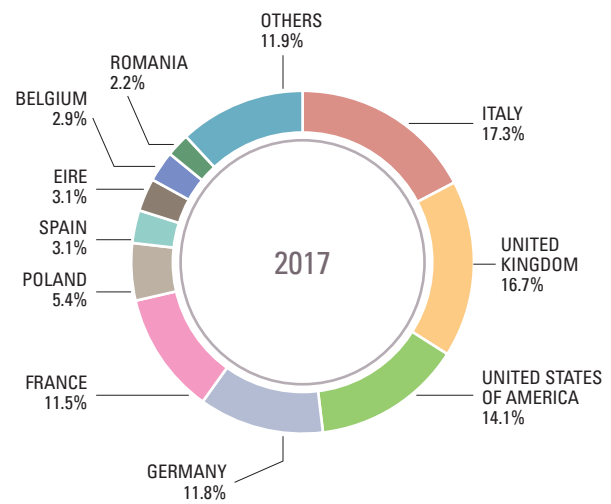
Sofidel produces tissue, the type of paper that, being soft and strong, can be used to make toilet paper, kitchen towel or all-purpose absorbent paper, serviettes, paper handker-

chiefs and facial tissue. Production and distribution of tissue products by paper companies in the Sofidel Group is divided into four different lines of business: Brand, Private Label, Away From Home and Parent Reels.



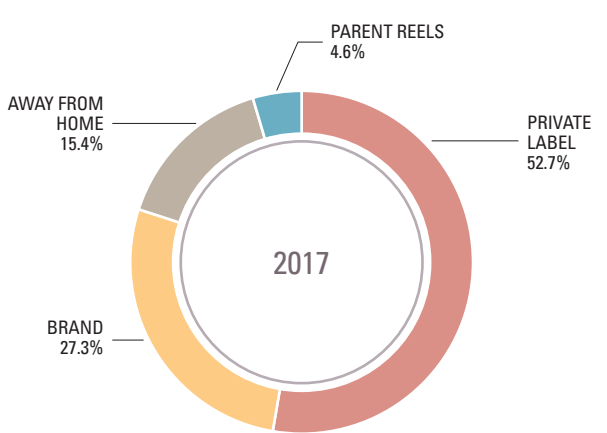
The charts below show the breakdown of Group turnover by country and line of business.

BREAKDOWN OF TURNOVER BY COUNTRY



Before addressing the subject of the market and the marketing of Sofidel products in 2017 it is useful to take a look at the cost of raw materials. In the last year the price of cellulose has continued to rise steadily, while, in recent years, the net wholesale prices for the finished product have remained stable. There are many reasons behind the long duration of this period: from the trend in the world economy, to the war on plastic, the increase in demand in certain geographical areas like China and Asia, demographic growth, migration, through to the occasionally incorrect market forecasts which in some cases have ended up creating

BREAKDOWN OF TURNOVER BY LINE OF BUSINESS



false demand and thus causing a further price increase. Unfortunately it is difficult to imagine that the cost of cellulose will go back down in the short term and therefore two solutions are already being implemented: optimization of production and management costs and an increase in consumer prices. Brand With the European leader Regina and other brands acquired over the years, this is a line of business particularly oriented to customer satisfaction and characterized by high product quality, product innovation and attention to quality of service.

The Regina brand, in Italian houses and close to Italian hearts for over 30 years

Sofidel created the Regina brand, putting the products first on the Italian market and then in other relevant company markets.

Its products have become a real icon among mass consumption products in Italy, finding their way into Italian hearts and houses thanks to their strength, absorbency and softness, but also due to an advertising campaign which has generated some genuine catchphrases (“the rolls that never end”), becoming part of the history of Italian advertising.

A success due both to the high quality and guaranteed performance of the products, made with an exclusive selection of pure cellulose fibre and to the breadth of the range and its capacity to innovate, as in the case of the jumbo rolls and Regina Blitz, to clean glass and shiny surfaces in an instant; these are the factors that have made Regina the reference brand for Italian households where hygiene is concerned.

The brand has four product lines: toilet paper, kitchen roll, serviettes and paper handkerchiefs.

In Italy the first category includes Rotoloni Regina, with 500 sheets for each roll, more than twice the normal number, and Carta Camomilla – soft, strong, and with a delicate scent of camomile, which thanks to the colourful design and Milla, the ant which stars in its advertising spot, has struck a chord with small children. Asciugoni Regina, together with Regina di Cuori, Blitz, and Wish, which enables a reduction in waste thanks to an intelligent redesign of the sheets to make them “hand-sized” make up the line of kitchen towels (or all-purpose absorbent paper) in Italy.

But Regina is a brand leader in Europe and not just in Italy: it is marketed in about 30 countries, is particularly strong in the United Kingdom and Eire (Regina Blitz, Regina XXL, Regina Softis) and Poland (Regina Rumiankovy, Regina Delicatis, Regina Najdluzszy and Regina Blitz).

Regina. Paper for people

This year Regina has aimed to confirm its leadership in Europe by identifying a new brand position at the European level. The new payoff “Paper for people” tells the double objective of the brand: on the one hand, to help people with their little everyday challenges in the house, and on the other to develop increasingly innovative, sustainable and high-performance products. A position also summed up in the new Brand Manifesto which summarizes all the values of Regina. The multi-product campaign – which has been on-air in Italy, Poland, Eire and the United Kingdom, has featured up to now Asciugoni Regina, Regina Blitz and the new Regina Wish, the kitchen towel which allows paper wastage to be reduced, thanks to its “hand-sized” design. Each promise for each individual product is inserted in a single communication platform, able to convey the benefits associated with individual products with an innovative and warm set of words and tone of voice. The common concept underlying the campaign is part of everyone’s personal experience: there are little inconveniences that are sure to occur in our daily home life. Fortunately however there is another certainty: that we can always count on a Regina product to resolve these little problems quickly (Blitz), without wasting paper (Wish) and with rolls that last longer than normal rolls (Asciugoni). The focus is on stories of family relationships and daily life treated with an ironic, light and warm tone of voice, further underlined by the voice-over which accompanies the individual spots and the music that they share. The advertising campaign also marks the start of the collaboration between Sofidel and Grey, the agency which won a recent consultation involving various local and international units.



The other Sofidel brands

Strengthened by the continual process of differentiation over the years, the Group has flanked the Regina® brand with other brands acquired and/or launched more recently: Softis® in Germany and Austria, Le Trèfle® and Sopalin® in France, Thirst Pockets in the United Kingdom/ROI and KittenSoft in the ROI, Cosynel and Nalys in Benelux, Soft & Easy® in Poland, Yumy® in Turkey, Onda® and Volare® in Romania, Forest

in Hungary and Lycke in Sweden.

With its advertising support and continual investment in product quality Sofidel has been able to enhance the goodwill that these brands had already acquired in the various countries, without losing the bond that they had established with their consumers. Each brand has therefore improved its position and brand promise in line with the relevant market and consumers.



The Wish® concept applied to more brands

One of the most significant events in 2017 for the brands of the Sofidel Group was the launch in various countries of a new product concept with the name of Regina Wish®, Nalys Wish® and Sopalin Wish®.

Thanks to its “hand-sized” sheets, Wish® allows the consumer to select the amount of paper actually needed and therefore to waste less. Wish® is the first kitchen towel in Europe with these characteristics and this positioning (for further information see the section “Innovation in the Sofidel Group,” p. 104).

At the moment it has been launched in Italy, the United Kingdom, France, Belgium, Holland, Spain and Poland.

Looking to the future of the brands

The Sofidel Group has confirmed its growth strategy by concentrating on:

- a larger number of innovative products capable of better performance in the service of the consumer, which are more sustainable and/or come with new usage options;
- Penetration into new markets, such as Spain and the Scandinavian countries, and on strengthening market shares in countries like Turkey, the Balkans and Eastern Europe.

“

Investment in advertising

The development and growing use of digital devices has led to a transfer of resources from the television to the web, leading to a rebalancing of the Group’s on and off line advertising investments. In general the following strategic considerations apply:

- the advertising investments in France, Belgium and the Netherlands have been defined with the aim of consolidating the market shares;
 - in the United Kingdom and Eire investments have been set aside to support the launch of Regina Wish® and consolidate the brands Regina Blitz and KittenSoft®;
 - in Italy investments have aimed both to consolidate the iconic brand Regina®, and in particular to support the growth of Regina Blitz®;
 - in Poland, after the launch of the new range of kitchen towel in 2016, investments were set aside to strengthen the recruitment of new consumers following the adoption of the new Constellation technology which further improves product quality.
- Sofidel, while not a direct subscriber to any self-regulatory body for advertising or marketing code, pays maximum attention to the choice of its suppliers and has researched and created forms of advertising which show respect for the competition and are in line with its own Ethical Code.

Private label

The Private Label (PL) market continues to develop in terms of quality, contributing positively to the image of the distributor.

Distributors and production companies are working together more and more closely on improving performance in various areas, thus enriching the range on offer.

For consumers, in the most developed markets the PL has become an essential component of its purchases (89% stated that they purchased private label products - Euromonitor 2013). The age range most open to PL seems to be 30-44 year olds, for whom a 16% increase in purchases was recorded in the last year.

The highest penetration of PL products is found at a European level in the market for tissue and hygiene products, which now stands at 14%. Products like toilet paper and kitchen towel are relatively simple products both in terms of supply and distribution and provide good margins for the distributor. There is often no great difference of perception between PL and brand products.

Sofidel’s private label strategy

PLs share in Sofidel turnover is 52.7%.

The strategy pursued in 2017 focused on 3 main concepts:

- The development of “tailored” products;
- The development of sustainable products (for example with no cardboard core, reduced size or less polyethylene packaging);
- Development of a stakeholder engagement initiative to open up to customers in a partnership relationship based on listening and sharing (see “European M&S Meeting,” during which concrete projects developed jointly by Sofidel and some of its customers were presented).

Best practices

United Kingdom

Sofidel-Sainsbury’s Group project: partnership for the development of an important product innovation, created to heighten the intrinsic quality of the product in question.

Sofidel-Coop UK project: toilet roll without a core.

Germany

Sofidel-Rossmann project: EPD certification.

Switzerland

Sofidel-Migros project: evaluation of sustainability in the supply chain.

Marketing in general

In the Italian market, advertisements are increasingly focused on PL given that the market share of the Italian PL products has reached 38% in the tissue market and in some cases arrives at 50%. Nevertheless the PL market is characterized by a strong downwards trend in prices due to the exponential growth of the discount sector and the fact that the market is preparing for the entry of new actors like Aldi, known to be very competitive. On the B-brand side (Nicky) the increase in the cost of raw materials has made the market situation even more difficult, forcing even the super channel to adopt the same pricing policy as the discount chains, thus adding to the pressure on promotions and moving in many areas towards an *everyday low price*.

In Poland sales have remained fairly stable; Sofidel is strengthening its production capacity to exploit this market capacity, but also to cover the Baltic area more effectively. Sofidel is also working on optimizing the production of high added value products which will be marketed from 2018 onwards.

The German markets are now seeing a constant growth of the discount sector at the cost of large and small retailers. The discount sector now represents about 40% of total turnover in the German market. The discount share also rose for Sofidel in 2017 to 41.5%, while the PL share for drugstores accounts for 41% of its turnover. It can be said that Sofidel sales in Germany are exactly distributed between discount stores and traditional retail chains.

The French market has also been characterized by strong competitiveness in 2017 with the entry of new producers (particularly Portuguese ones) with particularly low prices.

The Spanish market is stable for now. New technologies are increasing product quality and the new plant being built will strengthen production capacity in the coming year.

On the Scandinavian market work is continuing on the optimization (of range and product quality) started with the new Swedish plant in order to raise product quality, sustainability and prices.

In the Hungarian market, Sofidel has consolidated its position with the acquisition of the ex Forest Papir last year. Further developments are however expected in 2018 following a reorganisation of the area.

As regards the Romanian market for PL, 2017 was a record year, due both to organic market growth and the sustainability projects developed with the main customers.

For the Balkan market, for two countries in particular (Slovenia and Croatia) activities were carried out to check and reduce the level of credit risk, terminating relationships with high risk customers. From a sustainability viewpoint, the partnership with important customers was strengthened.

On the American market the consumer sales team of Sofidel America has achieved excellent results in 2017, securing important new customers. The estimated combined additional annual volume is over 60,000 tonnes. The PL market has seen an increase in volume of 34% in 2017 compared to 2016 (53,864/2017 – 40,090/2016). Sales are forecast to reach over 20.7 million per year, an increase of 7.8 million or 60.5%. The market conditions are very competitive with more than a dozen important tissue suppliers competing for the new Private Label business, with the 20 major retailers and wholesalers representing almost 80% of the ACV (All Commodities Volume) in the United States.

The challenge for the sales team is essentially the supply of products with the same high quality as the TAD Ultra materials that customers want. These very high quality bathroom products, hand towels and serviettes are growing from year to year on the global market. The goal is to be able to efficiently and effectively supply current and potential customers for all their PL tissue needs. The new facility in Circleville (OH) will supply the plants of Sofidel America with parent reels that can compete with Ultra tissue products in the near future. The aim is to have the best quality, at the best price for customers and, finally, for the end consumer.

Away From Home (AFH)

The AFH channel ended 2017 with a volume of about 100,000 tonnes, a rise of about 12% compared to 2016.

New business and range extension with existing customers, confirming the quality and loyalty of our partners, enabled the financial year to be closed with profit levels superior to those of the previous year both in absolute and average terms.

Sofidel's strategy for the AFH channel is increasingly focused on the Papernet brand, which following its launch in the United States is becoming a true international brand and, specifically, on the technical lines (Dissolve Tech and Bio Tech the first-born Full Tech), which are supported by international recognition and patents, and are the target of growing appreciation in almost all the European areas.

The strategy of keeping away from competition based on price remains in place, to protect the profile of the Papernet business which is focused on marketing exclusive, innovative products, developed with the aim of creating solutions for the traditional problems of the AFH channel (e.g. blockages, sanitation).

Cases of success for Bio Tech and Dissolve Tech have increased exponentially in the sectors in question (transport, healthcare and cleaning), confirming that the path taken with the focus on high added value products is a winning strategy both for Sofidel and its customers.

2017 was a prolific year also in terms of the launch of new products, as well as the optimization of existing ones, with

particular reference to the development of new systems (dispensing) such as Full Tech, which have sustainability value, unique to the market: a product developed in order to achieve a drastic reduction in CO₂ thanks to the absence of a cardboard core.

The logic behind Private Label products (PL) is now only valid for the large-scale chains, both in the cleaning channel and the office one, always with the strategic objective of using PL as a tool for marketing Papernet products.

Also worthy of note is the development of business with important customers/final consumers thanks to the support of our primary partners both in the office channel and the traditional AFH channel, where the existence of international agreements is enabling Sofidel to be increasingly considered as the *preferred supplier*.

Parent reels

In 2017 for semi-finished products the trend recorded in previous years has been confirmed with 8.3% of the total volume of European paper mills. This performance is in line with the company strategy focused on giving priority to volumes of primary products which are finished products.

THE SOFIDELSHOP E-COMMERCE PORTAL

Sofidel's strategy is to dominate, with the aim of being omnichannel, the digital channels through its own property (Sofidelshop), the market place (Amazon) and trade sites (Tesco, Esselunga etc.).

Sofidelshop is part of Sofidel's strategy for channel dominance. The site's objective is to exploit awareness of the Regina brand, and, in this regard, a year and a half from the launch, good results have been achieved in terms of access, with increasingly significant rates of growth.

Sofidelshop has all the products of the Regina range, the Milla products and a corner dedicated to detergents linked to a co-marketing deal with Emulsio. In 2018 engagement initiatives were developed with point collections and competitions with prizes to develop in particular repeat and regular purchases and membership subscriptions.

Thanks to its configuration the consumers, based on the number of people in their household and the surface area of the house, can calculate their consumption of Sofidel products and be automatically supplied through a service subject to a membership subscription.

This allows consumers both to free their shopping basket of bulky products and to avoid going short.



Marketplace

Amazon is now to all effects an important player in the FMCG, capable of leading the traditional retail trade towards online selling to an ever greater extent. It would have been unthinkable three years ago to see toilet paper being sold by this customer; and yet today, for Sofidel, Amazon is a growing customer in terms of turnover in all countries and in October also started to sell private label products.

E-commerce trade

The markets present different levels of maturity in terms of web trade: in first place are the United Kingdom and France, countries in which the market share of online tissue products is as high as 7/8% while in Italy and Germany it is just around 1%.

In order to address this diversified situation and learn from the different experiences, Sofidel has created a Sofidel Hub, a work group which aims to share the various digital experiences of the different countries in order to build a common language, share best practices and define KPIs and relevant targets for the digital future of Sofidel.

SERVICE QUALITY

Customer satisfaction is, for the Sofidel Group, an indispensable element in terms of continuous improvement of stakeholder engagement, Understanding customers' desires and requirements, in order to provide a product which responds to their real needs, is intrinsically linked to measuring customer satisfaction. Many initiatives have been put in place by Sofidel to collect information on and assess the degree of customer satisfaction with Group products and services, always based on the principles of listening, transparency and dialogue.

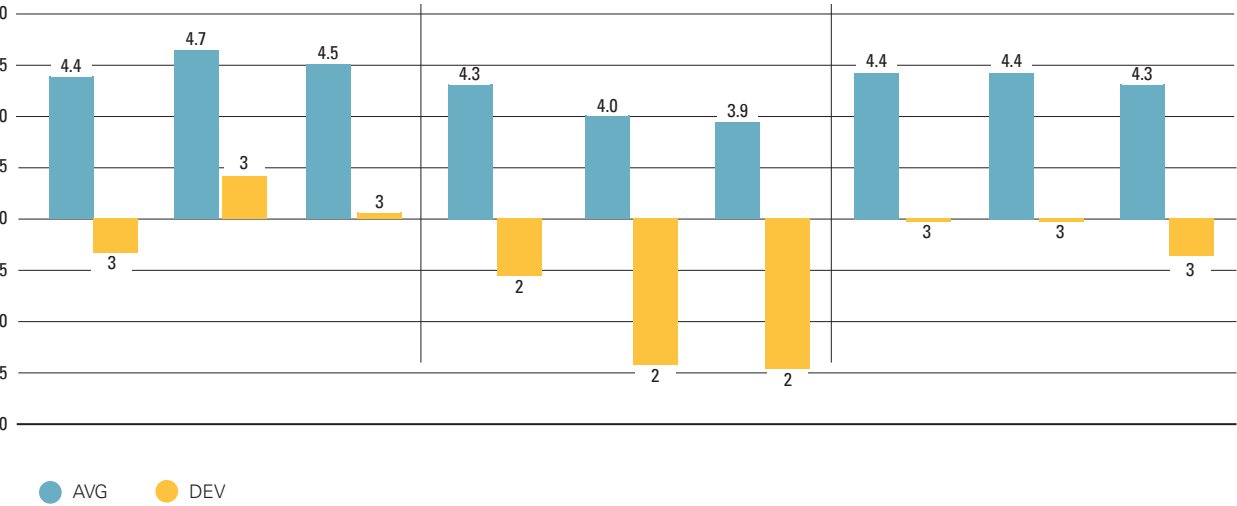
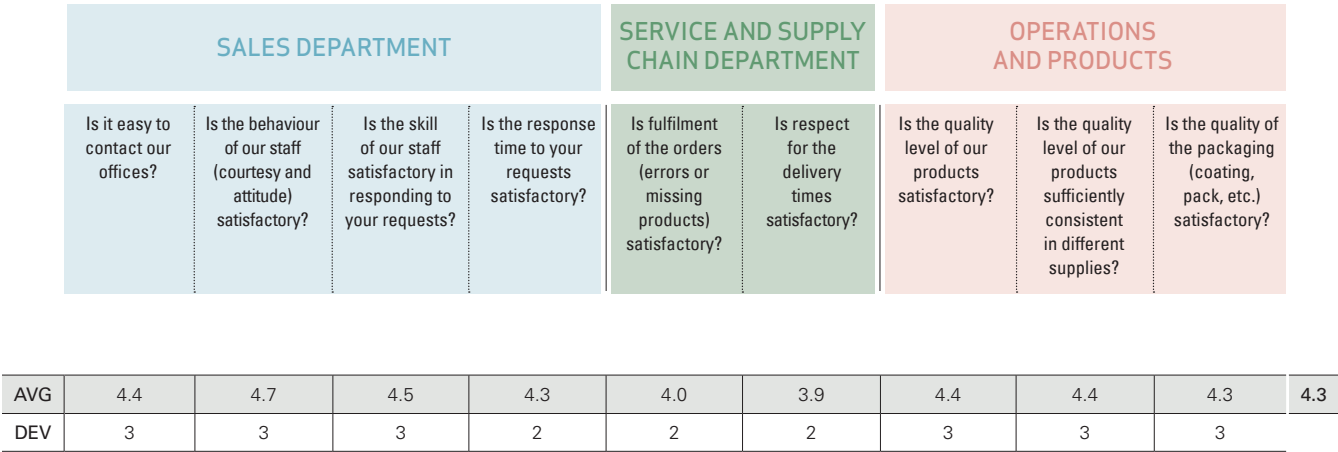
Several years ago, the Sofidel Group acquired a special IT management tool with the aim of maximizing the number of responses to customer satisfaction questionnaires so that the data obtained is more representative. Thanks to this, the results for 2017 are very positive, with 2,219 questionnaires

sent compared to 1,536 the year before, of which 980 (about 44.2% of the forms sent) were correctly completed and returned. The customers who filled in and sent back the forms represent 44.9% of the turnover of the Sofidel Group.

Unfortunately compared to last year the result is negative due to a modification in the computer system used, which caused various technical problems, and also dissatisfaction among various customers who complained about problems

with the logistic service (as is evident also from the datum on deliveries made on time, which is lower with an average of 3.9), with repeated late deliveries, in particular in the second half of the year.

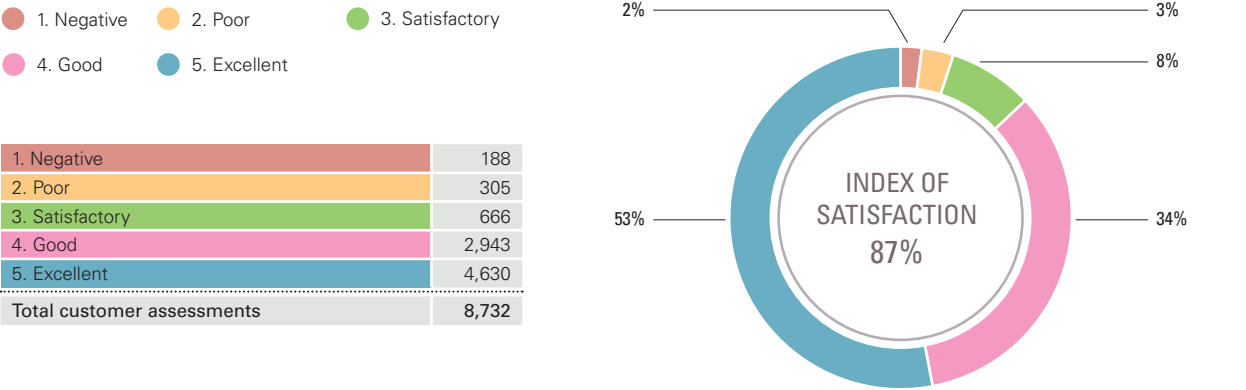
As can be seen from the chart below, analysis of the replies given in 2017, in spite of the clear drop, maintained the levels reached (4.3) in the previous year out of a maximum score of 5. This result is perfectly in line with the 3 previous years (4.3).



Further analysis of the results of the Customer Care Survey shows that, for the first time since 2013, the percentage of positive assessments(*) is falling, down from 91% in 2016 to 87% in 2017. This drop is mainly due to incidental causes relating to the customer assistance service during the year.

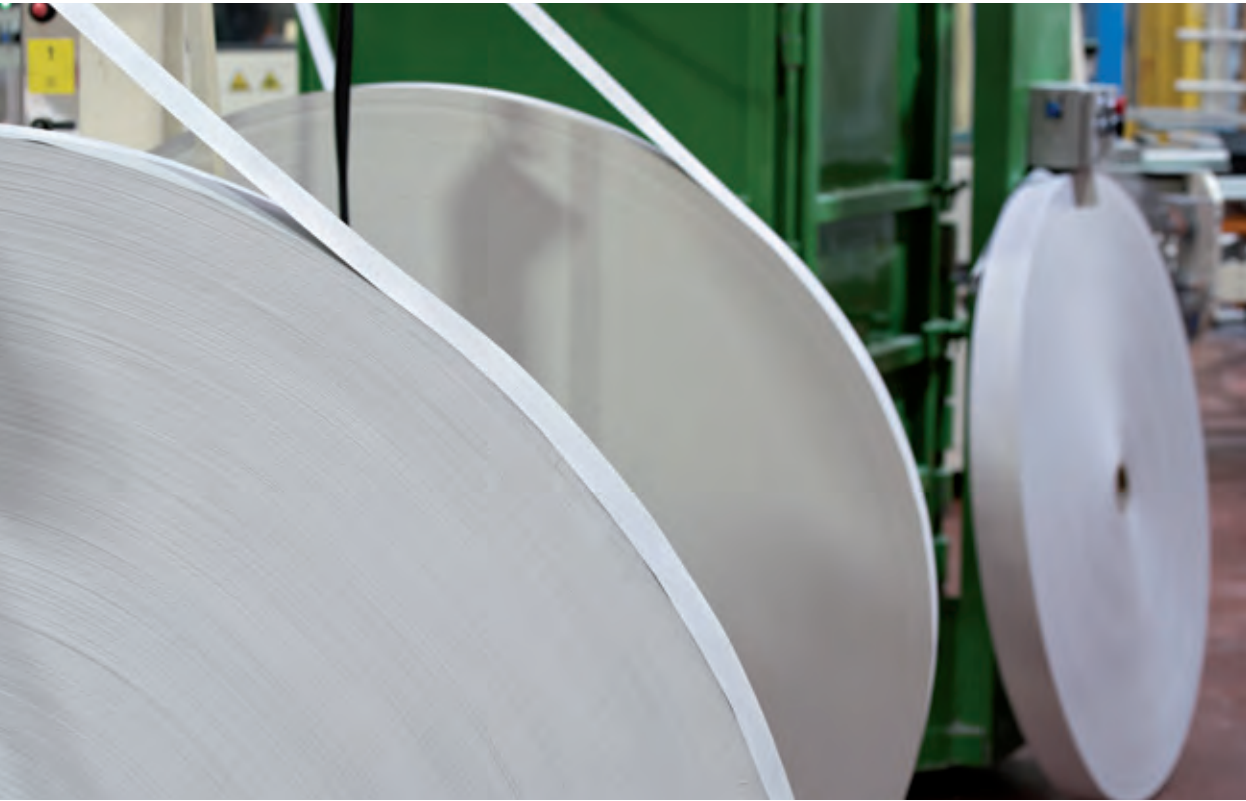
(*) Percentage obtained from the sum of the individual assessments received with scores of between 4 and 5 points, over total assessments.

INDEX OF OVERALL SATISFACTION WITH THE SOFIDEL GROUP



The aims of the Customer Care Survey service for the next five years will continue to be developed, both for quality, with the consolidation of the high levels of satisfaction – through direct engagement with the customers that expressed dissatisfaction – and quantity – with the implementation of criteria to improve the representativeness of stakeholders invited to indicate their satisfaction with the products and services offered by the Group.

The Sofidel Group offers a Customer Care service that follows the customer from the time of the order through to processing of the payment. This service employs a total of 90 people within the company and can be found in all the countries where the Group operates. The service is coordinated centrally, but in organizational terms reports to local managers in order to provide a more concrete presence in the local area.



MANAGEMENT OF COMPLAINTS

The other side of the coin is the management of reports and any complaints from customers, whether distributors or final consumers.

This type of interface, in particular, is of fundamental importance in both the management of the relationship of trust with these stakeholders and the management of aspects linked to product quality.

Complaints are managed through an electronic workflow which involves the different departments concerned. An internal 'Claim Management Efficiency' tool analyses all complaints and sorts them by type (consumer complaint and retailer complaint), monitoring the relevant response time based on internal procedures to improve efficiency.

In 2017, an overall 3,977 complaints were received compared to 4,698 in the previous year, with a slight reduction compared to 2016 in technical complaints from customers and consumers.

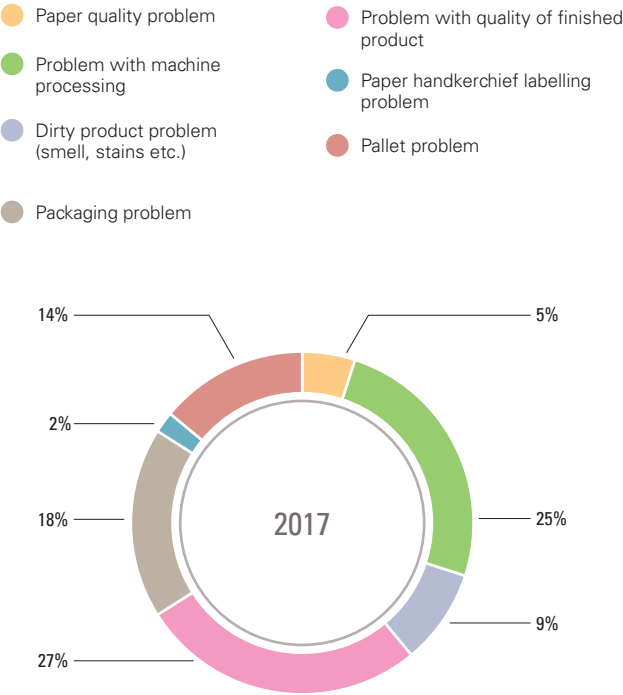
Distribution of complaints by type

Some attention should be given to a complaint regarding the REGINA rewards competition. During the "Regina rewards you" competition the publication on the competition rule card of a simple reference to the rules available online without noting the need to keep the proof of purchase/receipts, together with the fact that supplies of one of the prizes ran out, generated understandable and justified anger among consumers which Soffass dealt with diligently. After having made all the appropriate checks, also together with the relevant authorities (AGCM), the company was in fact able to send the rewards requested (or rewards of an equivalent value) to all the participants in the competition who played the codes, regardless of the presentation of the proof of purchase/receipts. At the end of December 97% of the rewards had been sent, with 3% in stock.

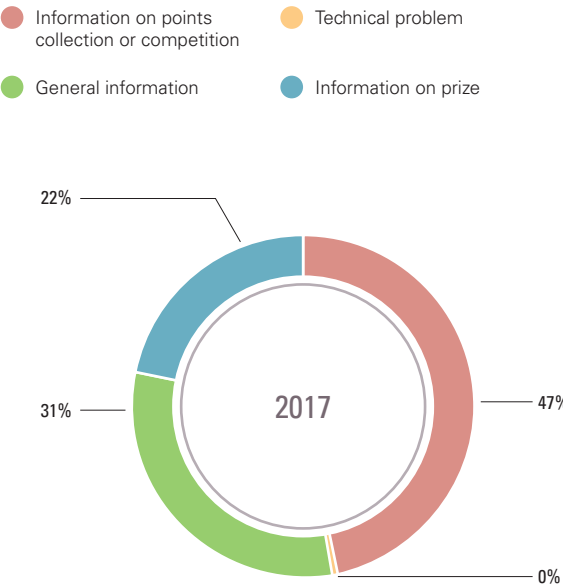
Freephone number

The Sofidel Group continued its development work on tools for dialogue with its consumers. To date, Freephone numbers are active both for the main Group brands (Regina, Softis, Le Trefle, Sopalin and Volare) and for the Nicky B-Brands. Following the reduction in the number of competitions held by Group brands, there was a further decrease in the number of Freephone calls for information in 2017, which fell from 1,029 in 2016 to 658 in 2017.

DISTRIBUTION OF COMPLAINTS BY TYPE



DETAIL OF CALLS TO FREEPHONE NUMBER



SUPPLIERS AND THE SUPPLY CHAIN

The Sofidel Group's strategic goal is to have a supply chain with no reputational risk. This goal has been broken down into two lines of action:

- assessment of supplier sustainability strategies and performance;
- adoption of a sustainable purchasing model.

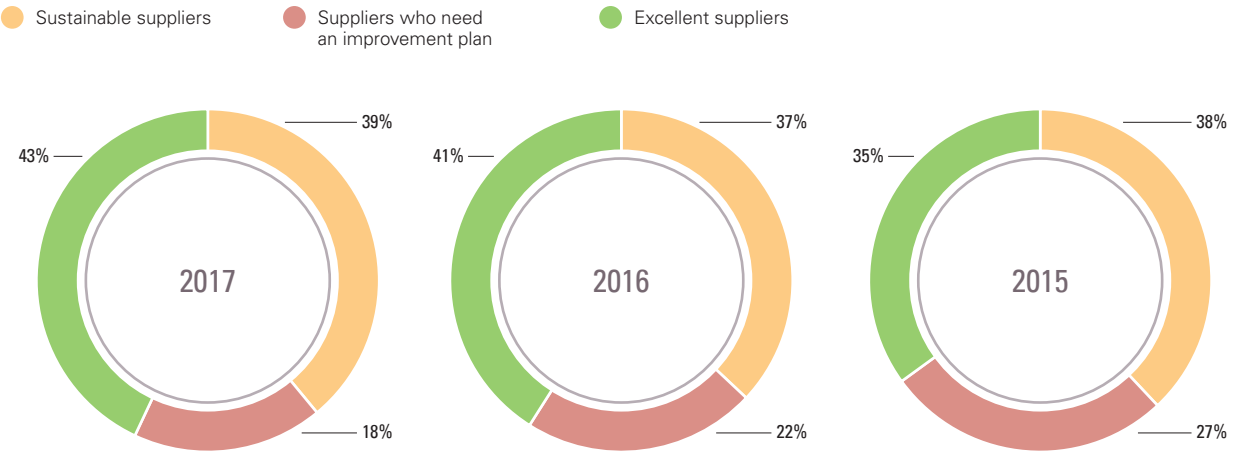
The tool chosen for supplier sustainability assessment is the TenP platform', developed by the Global Compact Network Italy Foundation which provides a prequalification system for assessing individual suppliers in terms of working conditions, respect for human rights, environmental protection and the fight against corruption.

The Sofidel Group has developed a rating system which puts

each supplier into a different category (green, yellow and red) based on the score obtained during the prequalification assessment.

Sofidel has identified 13 product categories with a reputational risk out of a total of 1,800 suppliers and has set a target for 100% prequalification of these by 2020 using the TenP platform. The number of qualified suppliers was 360 at the end of 2017, corresponding to 20% of the 2020 target. In 2017 the improvement taking place within the Group's set of suppliers was confirmed, with a rise in the percentage of suppliers assessed as excellent in terms of sustainability (green category) and a reduction in the number of suppliers requiring an improvement plan (red category).

SOFIDEL GROUP SUPPLIERS



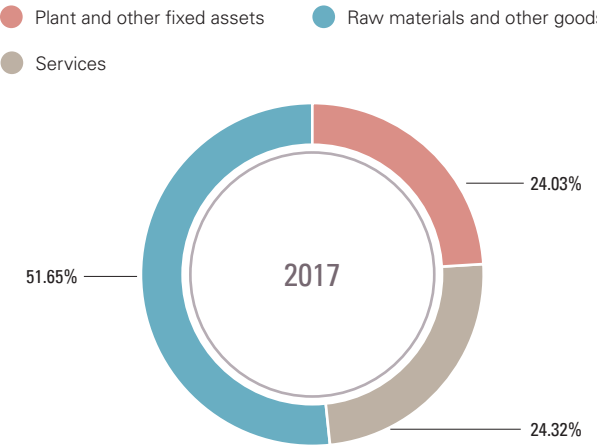
The second edition of the Sofidel Suppliers Sustainability Award, established by the Group to recognize suppliers who have distinguished themselves with their social and environmental sustainability initiatives, was supported in 2017 by the Ministry of the Environment, Land and Sea. Almost 400 supplier firms took part (60 more than for the previous year). Sofidel has based its sustainable procurement model on the ISO 20400 Sustainable Procurement Guidelines and, during 2017, obtained certification from SGS Italia, confirming that the model has been set up in line with the reference standard.



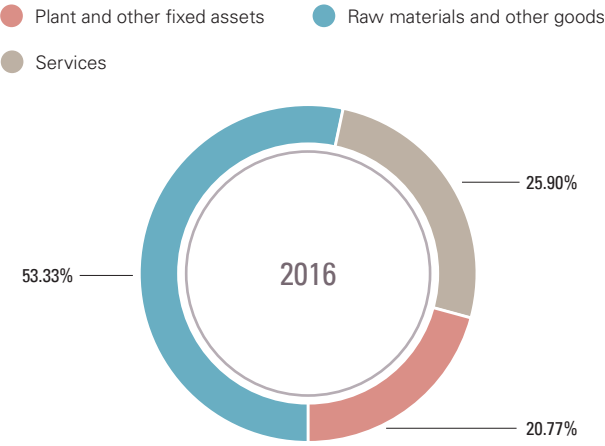
TYPE AND VOLUME OF PURCHASES

In 2017 Sofidel mainly purchased raw materials with a total value amounting to 51.65% of total supplier turnover. Data at 30 November 2017.

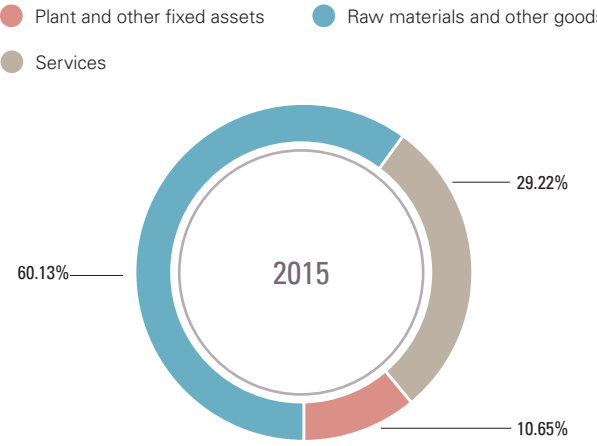
2017
TURNOVER - SOFIDEL GROUP SUPPLIERS



2016
TURNOVER - SOFIDEL GROUP SUPPLIERS



2015
TURNOVER - SOFIDEL GROUP SUPPLIERS



SUPPLIER QUALIFICATION, SELECTION AND ASSESSMENT

In 2017 Sofidel also started implementation of the SAP Ariba platform which will support the current corporate IT system with the aim of obtaining a truly transparent End-to-End purchasing process.

Integrated management of supplier information is achieved using the Supplier Lifecycle and Performance Management (SLP) module: this new tool is the sole interface between the Sofidel Group and its suppliers and the channel for the structured collection of information.

The onboarding process includes four distinct macro-phases: registration; registration approval; qualification; and qualification approval.

The macro registration phase allows the supplier profile to

be recorded and ensures that the supplier signs up to the integrated framework including specific policies, management and control systems in line with the main international standards and guidelines.

The qualification phase is differentiated based on the product category that the supplier belongs to: suppliers in a product category considered to be subject to reputational risk are invited to carry out a self-assessment using the TenP platform and to enter the score obtained, together with the self-assessment document, on SAP Ariba. Qualification approval gives the supplier “qualified” status on SAP Ariba. The synchronization between the supplier master files of the two platforms (SAP Ariba and SAP) then allows the automatic selection of suppliers who can develop commercial relationships with the Sofidel Group based on the supplier status (unqualified/qualified).

PURCHASING PROCESS



SOURCE TO CONTRACT



ONBOARDING PROCESS



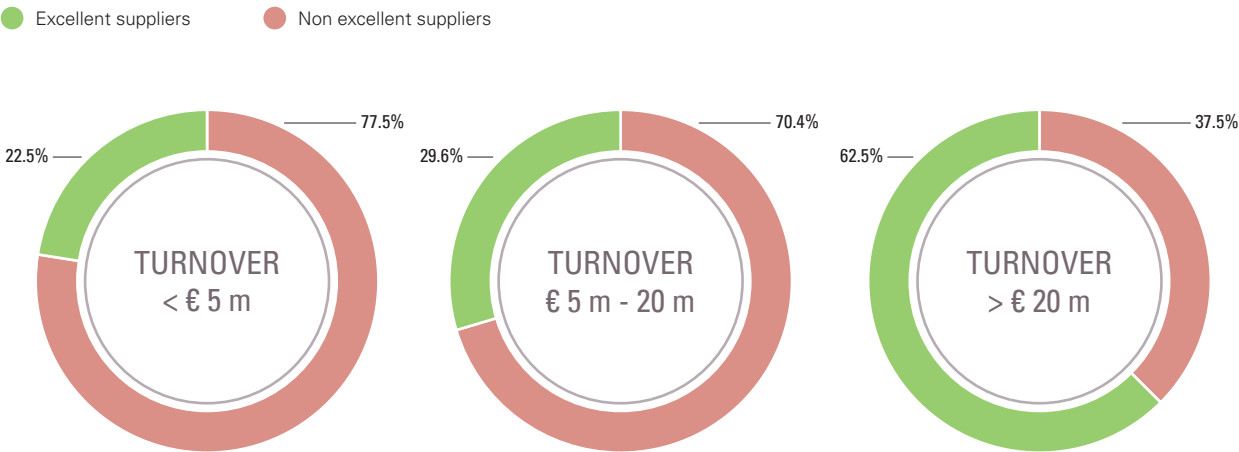
HOW	SLP Registration questionnaire	SLP	SLP TenP questionnaire	SLP
WHO	Supplier	Sofidel	Supplier	Sofidel

NEW CHALLENGES

The goal of having a supply chain with zero reputational risk means that the Sofidel Group has to continually monitor and stimulate sustainability all along its supply chain. Analysis of the current supplier portfolio from a sustainability viewpoint has clearly shown the new challenge ahead for

the Group: encouraging the transformation in a sustainable direction of the small and medium sized enterprises (SME) belonging to its network of suppliers, through the implementation of an online training service and an online Help Desk to support them with their improvement plans and in their adaptation to meet Sofidel standards.

THE SME CHALLENGE



COMMUNITY

COMMUNITY RELATIONS

The Giuseppe Lazzareschi Foundation

Much desired by the Lazzareschi family, the Foundation was founded in 2003 in memory of their father Giuseppe, founder together with Emi Stefani of Sofidel, with the aim of promoting cultural, social and entrepreneurial growth in the area of Lucca and the region of Tuscany in general, the historic base of the Group. A decisive influence in the economic development of Porcari, Giuseppe Lazzareschi's private life and business was marked out by values such as honesty, respect and loyalty and, thanks to his great intuition and forward-thinking, always sensitive to environmental problems and workplace health and safety as well. These are also the principles that inspire the work the Foundation which, with the cooperation of the Municipality of Porcari, has become a reference point for all the companies operating in the region. A driving force, bringing people and enterprise together to assist the growth and enhancement of the cultural, social and entrepreneurial capital, the Foundation has, over the last few years, held exhibitions, events, conferences and fairs, involving an ever wider public.



Sofidel and Wateraid

On the occasion of World Water Day on 22 March, Sofidel announced a new three-year partnership with WaterAid – an non-governmental organisation founded in the United Kingdom in 1981 that works, on the basis of international cooperation, to guarantee access to drinking water and sanitation in some of the poorest countries in the world. Sofidel, which has always been committed to limiting water consumption within its production processes, is now engaged, through the new partnership, in a more general initiative to raise awareness among its stakeholders and support projects aimed at guaranteeing access to water and availability of services, and improved levels of sanitation, in developing countries where the organisation operates. The water problem now affects 2.4 billion people throughout the world, while over 650 million people have no access to clean water, causing the spread of otherwise avoidable illnesses. Wateraid, which since 1981 has brought drinking water to 25 million people and sanitation to 24 million people in 37 countries, estimates that around 900 children die every day due to illness linked to lack of clean water and sanitation.

“The sustainable growth strategy of our Group is fully in line with the United Nations Sustainable Development Goals. In practical terms, for us this means firstly taking action to limit the ecological footprint of our products and then to achieve responsible management of water, starting with our plants. The partnership adds to and strengthens our commitment in this area, and represents another way, given our awareness of the importance that this resource has in terms of well-being and hygiene, of taking responsibility for an area of global interest together with a well-known NGO like WaterAid”

Luigi Lazzareschi, CEO of the Sofidel Group



Sofidel and WWF

In France, a partnership with the WWF to promote responsible forest management

Sofidel, together with WWF France, is engaged, as part of a three-year partnership, to promoting FSC (Forest Stewardship Council) certification on the French market. The agreement provides for the introduction of the WWF logo on brand products Sopalin and LeTreflè, guaranteeing FSC certification. 100% of Sofidel products in the consumer sector in Italy, Great Britain, Spain, France and Benelux (Belgium, Netherlands and Luxembourg) bear the FSC chain of custody forestry mark.



Regina and the educational project “I care for you”

2017 saw the fourth year of the digital educational project realized by WWF Italia with the support of Sofidel “I care for you, everyone’s gesture for everybody’s planet”. After the first years involving water and the climate, for this school year the area under examination was forests.

The project, which involved students aged between 8 and 12, aimed to raise awareness among children about the connections between everyday gestures and great global phenomena. Each class was allowed to take part in the final competition to win Regina prizes for the students and the school.



Together with Médecins Sans Frontières

Sofidel’s partnership with Médecins Sans Frontières (MSF), established in 2015, continues through the Papernet brand. Thanks to this partnership, 150,000 vaccines against measles were donated to MSF. Measles still kills a child under five years of age every 4 minutes in Africa.



Nicky with the Telethon Foundation in Italy

Sofidel, through the Nicky brand, has since 2012 been supporting the Telethon Foundation in promoting excellent scientific research in Italy on rare genetic diseases. Since 1990 the Telethon has developed research projects, thanks to the support of donors like Sofidel, on over 470 different conditions, through institutions such as Tigem in Pozzuoli (Na), Tiget in Milan, the DTI and calls for the best researchers.

Nicky supports Telethon by promoting its projects on all its product packaging through a dedicated box, communication on social media and the TV marathon on the RAI network which takes place in December.



Nicky with the Woodland Trust in Great Britain

Sofidel, thanks to its partnership with the Woodland Trust, an organisation for the conservation of woodland heritage in the United Kingdom, guarantees the planting of at least 20,000 native trees a year. The United Kingdom has one of the lowest percentages of woodland in Europe, only 13% compared to an average of 44% in other parts of Europe.



Nicky with Jack & Jill Children’s Foundation in Eire

The Foundation looks after children who have suffered brain damage and the partnership with Nicky, through the purchase of the relevant products, guarantees hours of medical assistance to the families.

This charity operates in communities throughout Eire, supporting 300 children and their families.



Sofidel and the world of schools and universities

Sofidel has for many years paid constant attention and shown a steady commitment to the education and training of new generations. With time it has become a regular feature of the life of numerous technical high schools and the University of Pisa, translating its social role into a true educational responsibility.

Sofidel is committed to helping students, tutors, headmasters and rectors to develop more innovative, open training, built around skills, which is able to provide a real contribution to development in the tissue industry and for the region.

Of particular importance, recently, is the scheme to alternate school and work experience for high school students, which for Sofidel represents a teaching and educational method, not just a tool. An opportunity for full personal training.

Among the more significant partnerships we would like to highlight: our participation, as founders, in the Professional Technical Hub for the development of mechatronics in the paper sector; the partnership with the ITI Marchi/Forti di Pescia for the Masters in Paper Technology, the partnership with the ITI Ferrari di Borgo in Mozzano the Istituto Benedetti in Porcari for the Masters in Paper Chemistry; the partnership for the Paper section of the Chemical Engineering and Mechanical Engineering and Industrial Chemistry degree courses in Pisa, as well as the Paper and Cardboard Masters at the University of Pisa, which has been hosted for 15 years in Lucca and which Sofidel has helped to relaunch as an international qualification with teaching content which is closer to the real needs of the sector.



INVESTMENTS TO BENEFIT LOCAL COMMUNITIES

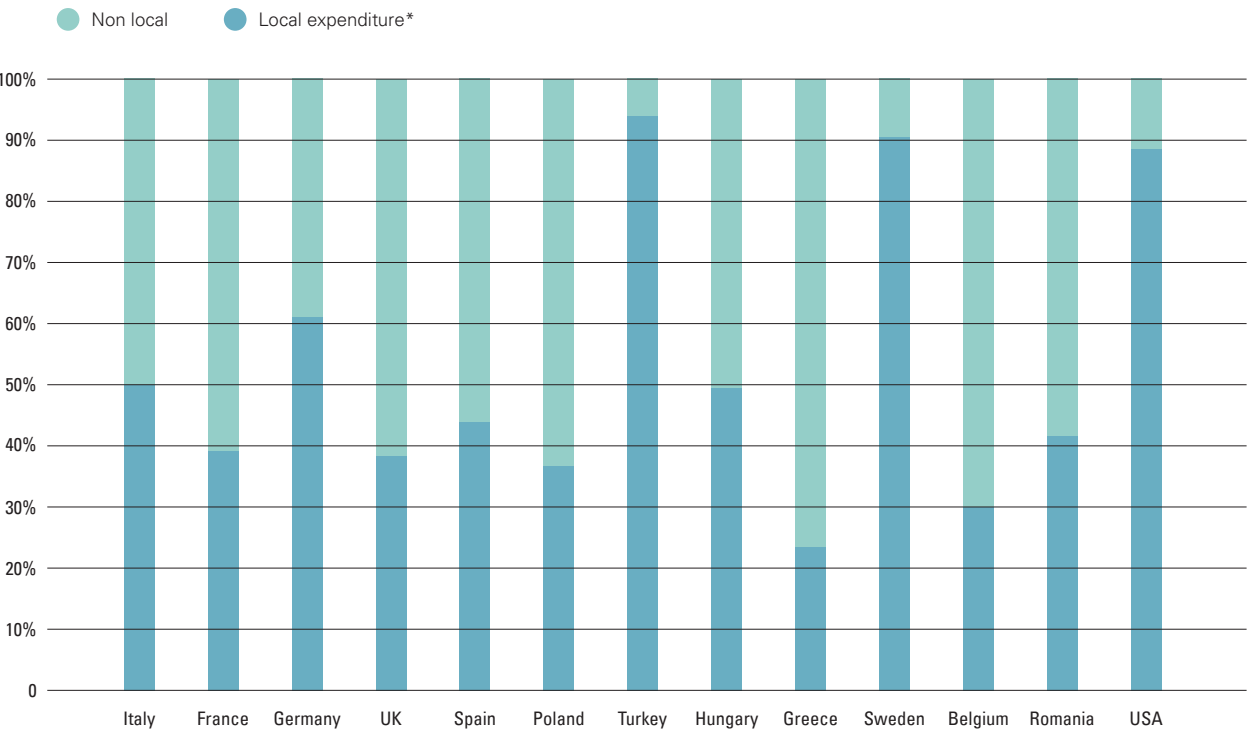
Sofidel's commitment to local communities is characterized by an approach to the core business which allows negative impacts on the local area (principally in environmental terms) to be reduced and wealth to be generated and distributed locally. This dual objective is achieved on the one hand through the use of clean technologies, but also through logistics planning which enables CO₂ emissions to be reduced, favouring,

where possible, local purchases and thus contributing to the strengthening of the relevant supply chain.

Sofidel suppliers are mainly located in Europe, where the majority of Group plants are, except for raw materials suppliers, for reasons connected to the nature of the cellulose market.

In 2017, Sofidel purchased on average 56.69% of goods and services from local suppliers.

CONCENTRATION OF EXPENDITURE ON LOCAL SUPPLIERS BY COUNTRY - 2017



*"Local" means suppliers located in the same country as the Sofidel Group plant.

The Sofidel Group follows specific guidelines for the management of donations and sponsorships of social activities to benefit local communities, which set out the procedures for submitting the relevant requests and the selection and approval criteria.

In line with its mission to provide families with hygiene,

health and well-being, the Group annually identifies the areas to which investments are to be directed and, as confirmation of the importance paid to local communities, asks Group companies to give priority to donations and sponsorships designed to improve the social fabric of the areas in which they are situated.



APPENDIX

Reporting process
Report boundary
Assurance
GRI performance indicators

REPORTING PROCESS

The seventh edition of the Integrated Report of the Sofidel Group (the sixth dates back to April 2017) was characterized by stricter adherence to the guidelines of the International Integrated Reporting Committee (IIRC)¹⁸, better known as the IR framework. In particular, reference was made to the guidelines of the 'Framework for Integrated Reporting and the Integrated Report' of the Integrated Reporting Committee (IRC) of South Africa which is the only reliable benchmark available to date.

The IR framework focuses on the organisation's capacity to create value in the short, medium and long term. In this way it maximises the attention given to:

- conciseness, strategic focus, forward-looking nature and links between information and capital, showing their mutual interdependence;
- the importance of integrated thinking within the organisation, which consists of considering the relationships between the operating units and functions of an organisation, as with the capital which the latter use or influence.

Based on this belief, the process used to prepare this Report – which can be defined as "transitional" – allowed for more involvement from all company functions, starting from Top Management, in sharing and bringing out the connections and interdependencies between the numerous factors that affect the ability of the organization to create value over time. Aspects such as the description of the company's business

model, the focus on leadership and the centrality of the sustainability context demonstrate the company's desire to move towards a more integrated and integral reporting model, within which sustainability is increasingly the lever used to rethink and redefine strategy and operating processes, to address change and to respond to the needs and expectations of the market and of society as a whole, with the ultimate objective of raising the level of innovation, competitiveness and profitability.

For the reporting of its economic, social and environmental performance using Key Performance Indicators (KPI), the Sofidel Group has, as suggested by the South African scheme known as 'King III', also adopted the guidelines of the Global Reporting Initiative, version 4, in accordance with the Core option.

Reference was also made to the SAS (Sustainability Accounting Standards – Pulp & Paper Products) used by listed companies on the American market for the reporting of material sustainability information.

18. Organism created by the International Federation of Accountants (IFAC), the Global Reporting Initiative (GRI) and the Prince's Accounting for Sustainability Project for the development of an integrated reporting statement of the economic-financial, environmental and social performance of public and private organisations.

REPORT BOUNDARY

The reporting boundary for this Integrated Report includes all the companies controlled by the parent company, Sofidel S.p.A. The reference period is the 2017 financial year, which coincides with the solar year running from 1 January to 31 December 2017, except where otherwise indicated.

The reporting methodology, in line with that used for the Integrated Report in previous financial years, provides full comparability of the data contained in this report. Any

reclassification of data already presented in the previous edition of the Integrated Report is clearly justified in the text.

For information on the Integrated Report and the reporting process adopted:

Mr Antonio Pereda (antonio.pereda@sofidel.com)

Mrs Susanna Bellandi (susanna.bellandi@sofidel.com)

ASSURANCE



An integral part of the audit was the analysis of the statements and assumptions linked to sustainability made in the Report and the evaluation of the robustness of the management system for data, information flows and the related controls.

We have examined and subjected to review the data and other information made available by Sofidel.

We have obtained information and technical data from certified management systems.

We have conducted audits on a sample basis of:

- the mechanisms adopted by Sofidel for implementation of its sustainability policies, as described in the Report;
- the processes for determining the materiality of the contents to be included in the Report;
- the processes for the generation, collection and management of the quantitative and qualitative data included in the Report.

We interviewed 13 company representatives involved in the operational management of the aspects described in the Report.

We conducted interviews with representatives of two categories of stakeholder.

Conclusions

In the opinion of DNV GL, the Sofidel's Integrated Report 2017 provides an accurate and impartial representation of the sustainability strategies, management systems and performance of the Organisation.

- Materiality

The Report reflects Sofidel's commitment to providing information and data that allow its stakeholders to assess the economic, social and environmental performance of the Organisation.

The document adequately describes the process implemented to identify the aspects considered material for the various stakeholders. Its contents are the fruit of a process of internal analysis by the functions of the results emerging from the stakeholder engagement activities. We note in particular Sofidel's strong commitment to involving its customers in order to share the identification of material aspects. In order to give more consistency to the process for defining materiality, we suggest extending the engagement activities in a structured manner to other categories of stakeholder, such as strategic suppliers.

- Inclusion

The document highlights Sofidel's commitment to the promotion and development of initiatives to regularly and systematically involve its stakeholders.

A positive assessment can be given of the engagement initiatives developed during the year by Organisation in relation to the various categories of stakeholder.

In line with Sofidel's commitment to pursue a business model strategically oriented to sustainability, we underline the importance of allowing stakeholders to understand more easily how the themes and aspects emerging as material have been integrated in the strategies and actions implemented by Sofidel.

- Completeness

The Report enables stakeholders to evaluate Sofidel's sustainability performance in the reporting year and to understand its sustainability strategies and goals.

The document has been produced with the contribution of the various organizational structures which help to identify the material aspects and data for the reporting year. We underline the importance of continuing to systematize the internal reporting flows, in particular with reference to the timescales for data generation and validation.

- Correspondence

The document makes clear Sofidel's commitment to integrate the considerations coming from its stakeholders within its decision-making process and strategic action plans.

In line with the objectives of continuous improvement of sustainability and reporting, it is important to continue with work on structuring the information contained in the Report, in order to give further evidence of how the results emerging from its stakeholder engagement activities are integrated within its strategic choices and correlated with the objectives that the Organisation sets itself in terms of sustainability.

- Sustainability context

The information and data presented within the Report adequately reflect the strategy, commitments and activities carried out by Sofidel in relation to the sustainability context in which the Organisation works.

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Standards for Report quality

- Neutrality

The Report is a complete and impartial description of the sustainability impacts and performance of Sofidel. The document reflects the Organisation's desire to represent its activities and result for the reporting year in a balanced manner, consistent with its company strategies.

- Accuracy

From our analysis of the data and the company processes which generate it, the data contained in the Report are the result of stable and repeatable activities. The information contained in the Report is therefore sufficiently detailed and accurate.

Further findings in relation to sustainability performance

- Reliability

The data included in the Report which is the subject of our audit were shown to be identifiable and traceable; the personnel responsible were able to demonstrate in a convincing manner the origin and interpretation of the data.

During our audit, we identified a limited number of non-material errors, which were corrected before the final version of the Report.

In our opinion, the information and data communicated in the Report are reliable.

Based on the work undertaken, nothing came to our attention to suggest that the Report does not properly describe ST's adherence to the Principles.

DNV GL believes that the report is in line with the Core requirements of the GRI G4 Guidelines. Further conclusions and observations on the adoption of the reporting principles and information on specific areas of performance are given below.

Improvement opportunities

Below is a summary of the observations and opportunities communicated to the management of Sofidel which, in any case, do not affect our conclusions on the Report; they are, in fact, consistent with the organizational objectives already in place.

- We recommend structuring a more quantitative process for materiality analysis, involving the various categories of stakeholder in the identification of material aspects.
- In order to guarantee even greater completeness in the reporting process we recommend defining a more structured process for identifying areas and specific events worthy of inclusion in the Report.
- We also recommend aligning processes and reporting timescales to allow more complete and measured data to be included in the Report, reducing to a minimum reliance on estimates or projections based on estimates.

Competence and independence of DNV GL

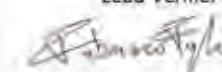
DNV GL is a leading provider of sustainability services, including the verification of sustainability reports. Our environmental and social assurance specialists operate in over 100 countries.

DNV GL was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV GL maintains complete impartiality toward stakeholders interviewed during the verification process.

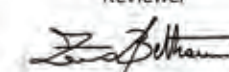
DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

For DNV GL Business Assurance Italia S.r.l.

Fabrizio Foglia
Lead Verifier



Zeno Beltrami
Reviewer



Vimercate (MB), 02-03-2018

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GRI






PERFORMANCE INDICATORS










Reference was made to the ‘Sustainability Reporting Guidelines’ of the Global Reporting Initiative (GRI) (G4) for reporting of the economic, social and environmental performance of the Sofidel Group. Set out below is the table showing the correspondence between the indicators and information required by the GRI standard and the Global Compact principles and their position in the text, highlighting the level of coverage reached with the Integrated Report.

TABLE OF GRI PERFORMANCE INDICATORS

REPORT INDEX	GRI G4	SDGs
LETTER TO STAKEHOLDERS	G4-1	
GROUP PROFILE		
Sofidel Group in figures	G4-3, G4-4, G4-5, G4-6, G4-7, G4-8, G4-9, G4-10, G4-11, G4-56, <IR> 4.4, <IR> 4.34	
History of the Group		
Mission and vision		
Culture, ethics and values		
SIGNIFICANT EVENTS DURING THE YEAR	G4-SO1, G4-SO2	
OUR IDEA OF SUSTAINABILITY		
Strategy and corporate responsibility governance	G4-2	
Sustainability strategy	G4-2	
Strategic sustainability tools	G4-14, G4-15, G4-48, G4-56, G4-57, G4-58	
Main inspirations of the Group sustainability model	G4-HR2, G4-HR5, G4-HR6	
Our main sustainability partners	G4-16	
Materiality analysis and dialogue with stakeholders		
Key stakeholders	G4-24, G4-25	
Methods of engagement		
Materiality analysis	G4-17, G4-18, G4-19, G4-20, G4-21, G4-22, G4-23, <IR> 3.17	
Management of relations	<IR> 3.10	
Initiatives to promote dialogue with stakeholders	G4-26, G4-27, G4-SO11	
GROUP ECONOMIC AND FINANCIAL PERFORMANCE		
Outlook for Group economic and financial performance	<IR>4.30	
Economic and financial performance	G4-EC1, G4-9	
Main indicators	G4-EC1, G4-9	
Investments	G4-EC1, G4-9	
Significant post balance sheet events	G4-SO1, G4-SO2	
Calculation and distribution of global added value	G4-EC1, G4-9	

REPORT INDEX	GRI G4	SDGs
PRODUCT		 
Tissue production process	G4-4	
Product quality and safety	G4-PR3, G4-PR4, G4-PR1, G4-PR2, G4-4	
Product quality	G4-PR3, G4-PR4, G4-PR1, G4-PR2	
Product safety	G4-4	
OPERATIONS		
Governance		
Company structure	G4-7, G4-34, G4-35, G4-36, <IR> 4.8	
Organizational structure		
Internal control system		
Risk management and monitoring	G4 - 47, G4 - EC1, G4 - EC2, G4 - EC3, G4 - SO3, G4 - SO4, G4 - PR1, G4 - PR2, <IR> 4.23	
Management systems	G4-45, G4-46, G4-47, G4-48	    
Respect for the environment		    
Energy efficiency	G4-EN3, G4-EN4, G4-EN5, G4-EN6, G4-EN7	
Management of greenhouse gas emissions	G4-EN15, G4-EN16, G4-EN17, G4-EN18, G4-EN19, G4-EN20, G4-EN21, G4-EN30	
Protection of water resources	G4 - EN8, G4 - EN9, G4 - EN10	
Protection of forest resources	G4-EN1, G4-EN2, G4-EN 11, G4-EN 12, G4-EN 13, G4-EN 14	
Biodiversity	G4-EN11	
Waste management	G4-EN22, G4-EN23, G4-EN24, G4-EN25, G4-EN26	
Ecological products	G4-EN27, G4-EN28	
The organization's environmental management	G4-DMA EN	

REPORT INDEX	GRI G4	SDGs
PEOPLE		
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Company well-being		
Staff composition and distribution	G4-LA1, G4-LA3, G4-LA12, G4-HR5, G4-HR6, G4-HR12	
Types of contract		
Personnel characteristics		
Turnover		
Human rights, protected categories and equal opportunities		
Training and professional development	G4-LA9, G4-LA10, G4-LA11	
Health and safety	G4-LA5, G4-LA6, G4-LA7, G4-LA8, G4-HR2, G4-HR7	
Pay and incentives	G4-EC5, G4-EC6, G4-LA2, G4-LA13	
Industrial relations	G4-LA4, G4-LA16, G4-HR4	
MARKETS AND CORPORATE BRANDS		
Strategy and business model		
<i>Strategy for value creation</i>	<IR> 3.3, <IR> 4.10, <IR> 4.23, <IR> 4.27, <IR> 4.34	
<i>Key elements of the model and flow diagram</i>		
<i>Internationalisation strategy</i>		
<i>Distinctive factors</i>		
<i>Outlook and strategic objectives</i>		
<i>Innovation in the Sofidel Group</i>		
<i>Sofidel's strategy within the Circular Economy</i>		
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<i>Group companies</i>	G4-4, G4-6, G4-8, G4-9, <IR> 4.4	
<i>Lines of business and markets</i>		
<i>The Sofidelshop E-Commerce portal</i>		
<i>Service quality</i>	G4-PR1, G4-PR2, G4-PR5, G4-PR8	
<i>Management of complaints</i>	G4-PR5, G4-PR8	
Suppliers and the supply chain		
<i>Type and volume of purchases</i>	G4-12, G4-13, G4-DMA EC, G4-EN32, G4-DMA EN, G4-DMA LA, G4-LA14, G4-LA15, G4-DMA HR, G4-HR4, G4-HR5, G4-HR6, G4-HR10, G4-HR11, G4-HR12, G4-SO9	
<i>Supplier map</i>	G4-12	
<i>Supplier qualification, selection and assessment</i>	G4-EN32, G4-EN33, G4-LA14, G4-LA15, G4-HR1, G4-HR10, G4-HR11, G4- SO9, G4-SO1	  
<i>New challenges</i>	· G4-HR2, G4-HR4, G4-HR5, G4-HR6, G4-HR7, G4-EC9	

REPORT INDEX	GRI G4	SDGs
Community		        
<i>Community relations</i>	G4-EC7, G4-EC8, G4-HR8, G4-SO1, G	
<i>Investments to benefit local communities</i>	4-SO2	
APPENDIX		
Reporting process		
<i>Report boundary</i>	G4-28, G4-29, G4-30, G4-31, G4-32, G4-33	
<i>The principles applied and the reporting process</i>		
<i>Assurance</i>		
GRI performance indicators		
Contacts		

NOTES

TABLE OF GRI PERFORMANCE INDICATORS

Material aspect	Specific Standard GRI Category	Sub Categories and/or Aspects	Relevance for Sofidel	Partners	Customers	Suppliers	Local area/ region	Associations
Product Quality and Safety	Social	Product Responsibility: Product and Service Labelling, Customer Health and Safety, Compliance	•		•	•	•	•
Customer and Consumer Satisfaction	Social	Product Responsibility: Marketing Communications, Product and Service Labelling, Compliance	•		•		•	•
Consumer Health and Safety	Social	Product Responsibility: Customer Health and Safety	•		•	•	•	•
Process and Product Innovation	Social	Product Responsibility: Marketing Communications, Product and Service Labelling	•	•	•		•	•
Integrity and Business Ethics	Social	Society: Anticorruption, Anti-competitive Behavior	•	•	•	•	•	•
Market Position and Brands Mgmt	Economic	Market Presence, Economic Performance	•	•	•		•	
Sustainable Forest Management	Environmental	Biodiversity	•	•	•	•		
Water Use	Environmental	Water	•	•			•	•
Carbon Emissions	Environmental	Emissions	•	•	•	•	•	•
Health and Safety at Work	Social	Society: Occupational Health and Safety	•	•		•		
Sustainable Supply Chain	Social	Labor Practices and Decent Work: Supplier Assessment for Labor Practices, Supplier Assessment for Impacts on Society	•		•	•	•	•
Human Capital	Social	Labor Practices and Decent Work: Employment, Labor/Management Relations Training and Education	•	•			•	
Material and Energy Efficiency	Environmental	Materials	•	•		•	•	•
Waste	Environmental	Effluents and Waste	•	•			•	•
Risk Management	Social	Society: Public Policy, Grievance Mechanisms for Impacts on Society	•	•		•		
Digital Company	Social	Overall	•	•	•	•	•	
Community Involvement	Social	Society: Local Communities	•	•			•	•
Circular Economy	Economic Environmental Social	Economic Performance Overall Society: Compliance	•		•	•	•	•
Diversity and Inclusion Management	Social	Labor Practices and Decent Work: Diversity and Equal Opportunity, Equal Remuneration for Women and Men	•	•			•	•

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