





SOFIDEL



INDEX

6
LETTER TO STAKEHOLDERS

9
GROUP PROFILE

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

17
SIGNIFICANT EVENTS
DURING THE YEAR

23
SUSTAINABILITY

Sustainability strategy
· Sustainability as a strategic model for development
· The business model
· The sustainability integration model
· Building an inclusive and sustainable future based on the UN's 17 sustainability goals
· Sofidel and the Circular Economy
· Our main sustainability partners

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

39
STRATEGY AND BUSINESS MODEL

Strategy for growth
Key elements of the model and flow diagram
Internationalisation strategy in Europe and the USA
Distinctive factors
Outlook and strategic objectives
Innovation in the Sofidel Group

47
GROUP ECONOMIC
AND FINANCIAL PERFORMANCE

2018 Highlights
Outlook for Group economic and financial performance
Economic and financial performance
Investments
Calculation and distribution of Global Added Value

59
PRODUCT

Tissue production process
Research and development
Product quality and safety
· Product quality
· Product safety

65
OPERATIONS

Governance
· Company structure
· Organisational structure
· Internal control system
· Risk management and monitoring
· Management systems

The environment
· Environmental policy
· The environment and technological innovation
· Climate change and the Science Based Target programme
· Sofidel and its positive CDP score
· Sofidel and plastic
· Sofidel and forestry certifications
· Governance
· Sofidel and Environmental Management System certifications
· Energy efficiency
· Management of greenhouse gas emissions
· Protection of water resources
· Protection of forest resources
· Packaging and other raw materials
· Constant improvement of waste management
· Ecological products
· The figures on environmental management at Sofidel Group plants

Suppliers and the supply chain
· Supplier map
· Supplier qualification, selection and assessment
· New challenges

105
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
Staff training and development
Health and safety
Industrial relations

125
MARKETS & CORPORATE BRANDS

Corporate Brand strategy and communication Markets and customers
· Our markets
· Product innovation
· Lines of business
· The Sofidelshop E-Commerce portal
· Service quality
· Management of complaints

Community
· Community relations
· Investments to benefit local communities

147
METHODOLOGICAL NOTE

Reporting process
Report boundary
Assurance
GRI performance indicators

LETTER TO STAKEHOLDERS

A challenging year

2018 was a very challenging year for the tissue industry.

The year was characterised by a sharp increase in the cost of the raw material, cellulose, and by increases in the cost of energy and transport. These factors have had an impact on the industry's margins for the year in general.

In this scenario, Sofidel continued its investment policies in the USA and Europe (designed to ensure higher efficiency standards over time for both the product and the service) and has taken action on several levels to increase the profitability of its business by increasing sales prices for its customers, bolstering the renewal of its products in all segments and implementing a plan of efficiency measures to mitigate the negative effects that the tissue market has had to face in the short and medium to long term.

The greenfield investment in new production capacity in Circleville, Ohio, saw the start of production. The new integrated plant, which will significantly fuel growth in the American market, is now the Group's largest and most advanced and represents a benchmark in terms of technological innovation for the whole sector; it will also contribute to a full recovery in an area that had previously undergone a period of economic hardship. Also in the USA, the second greenfield investment on the American continent has been launched in Inola, Oklahoma, which will lead to the construction of another large integrated plant in the central southern part of the country by mid 2020.



In the latter half of the year, investments in new production capacity came fully on stream in Europe at the Ciechanów plant in Poland and the Buñuel plant in Spain, which are also characterised by the use of advanced paper mill and converting technologies.

The availability of new production capacity will optimise the process of supplying customers thanks to a simplified logistics chain and higher quality standards that will ensure more efficient and sustainable processes and products.

At the same time, Sofidel has implemented numerous actions to increase its efficiency and boost its competitive capacity. This includes: continuation of the project to decommission the Horwich plant in the United Kingdom (completed in March 2019); closure of the logistics company Thüringer Hygiene Papier Logistik GmbH (THPL) in Germany; and starting the winding up of SofidelTurkey in Turkey (to be completed by mid-2019). Our increased focus on cost management should also be mentioned, as it has already led to the reduction of some non-strategic production costs. All these operations are designed to produce significant savings over time.

As far as the market is concerned, in order to counteract the sharp rise in the cost of cellulose, starting in the second half of 2017 and with increased determination and vigour from the first quarter of 2018, Sofidel has taken steps to increase sales prices for its customers, through a careful selection of orders with insufficient or negative margins. The pressure exerted has led to a partial recovery in margins, but has also temporarily forced the company to refuse orders, with a consequent loss of unprofitable volumes. This policy of raising sales prices, which continued throughout 2018, is also being pursued in 2019. Alongside action to restore margins, Sofidel continued to renew its Brand and B brand product lines, also proposing innovative and unique products in the private label (PL) segment. Fully in keeping with the policies to limit plastic use launched by institutions, governments and organisations worldwide, after reducing the thickness of the polythene film in its packaging, Sofidel has further implemented the programme to limit use of this material by introducing the first products with new paper packaging in several European markets. Sofidel's overall strategy of innovation and differentiation, supported by new paper mill and converting technologies and aimed at creating shared value also for distributors and final consumers, will be further expanded.

As early as the last quarter of 2018, some customers who had postponed or not fully adhered to the request for a price increase signed new agreements and, starting from the first quarter of 2019, a gradual recovery of volumes and new margins has been underway, while new temporary credit lines have been opened to cover existing investments. Our sound performance in terms of environmental sustainability has once more been confirmed. The qualifying elements include: the improvement attested by the CDP Report 2018 - a global system for measuring, disseminating, managing and sharing information about the environmental impact of businesses and cities - which saw Sofidel ranked towards the top of the Climate Change and Timber Forests categories, scoring in both cases above the European and global industry averages.

Emi Stefani

Luigi Lazzareschi



GROUP PROFILE

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

Sofidel creates products with increasingly advanced and innovative functional characteristics, guaranteeing reduced environmental impact through lower use of natural capital.

SOFIDEL GROUP IN FIGURES

From its headquarters in Porcari (Lucca), Sofidel coordinates the work of 17 companies in Europe and the United States. It has more than 6,300 employees, production capacity of 1,308,000 tonnes and Group net sales of € 1,706 million compared to € 1,697 million in 2017.*

* In representing net sales, the Group has adopted the new international accounting standards to provide greater comparability with the data shown in the Report on Operations.

52 YEARS IN BUSINESS PRESENCE IN **13** COUNTRIES

17 COMPANIES OVER **6,300** EMPLOYEES

GROUP NET SALES **1,706** MILLION EURO

PRODUCTION CAPACITY **1,308,000** TONNES

9.3

HOURS OF TRAINING
PER EMPLOYEE (H/PER CAPITA)

58,959

HOURS OF TRAINING

OVER **21,500** HOURS OF TRAINING
ON HEALTH AND SAFETY

WATER CONSUMPTION **7.1** L/KG

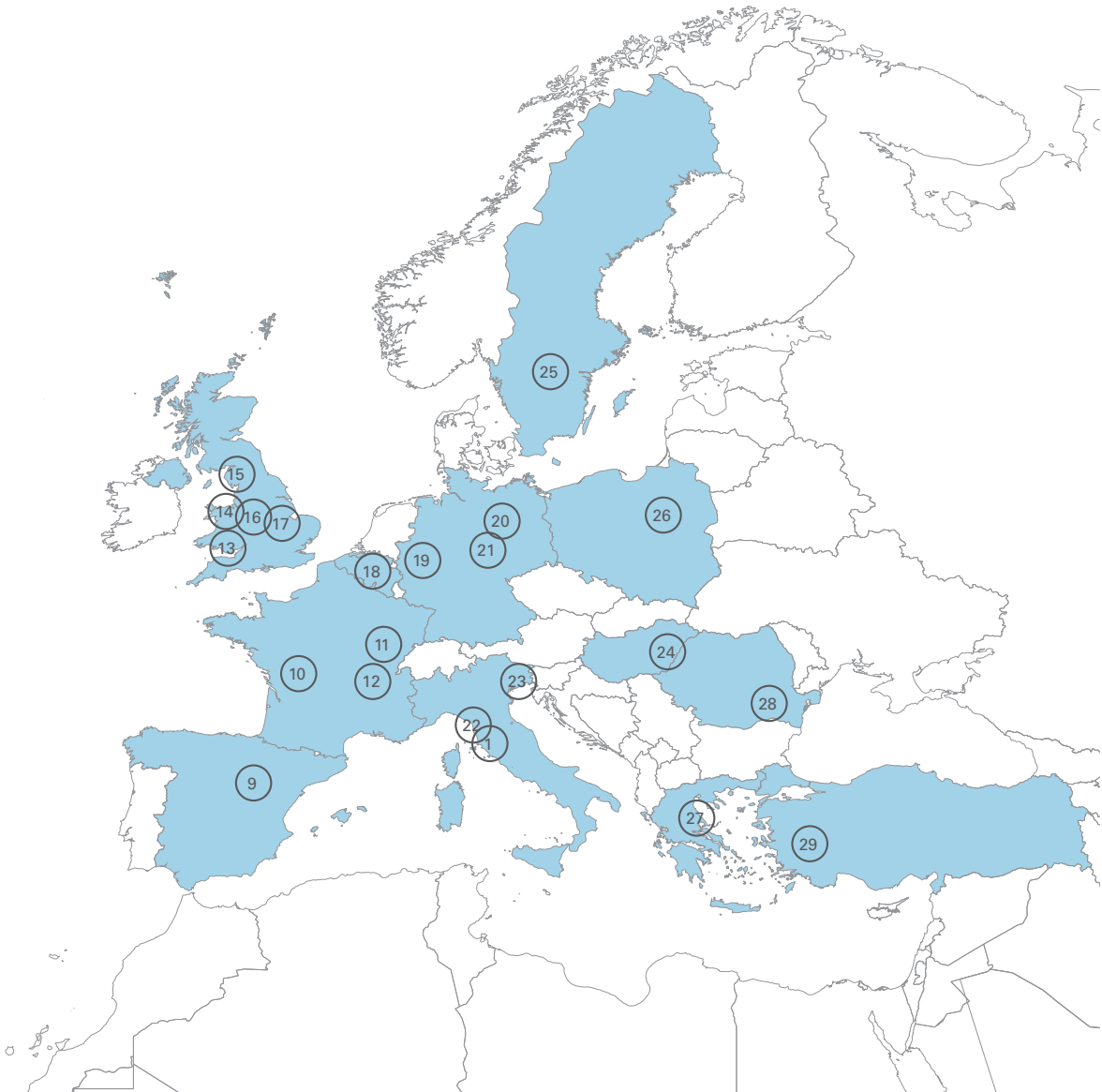
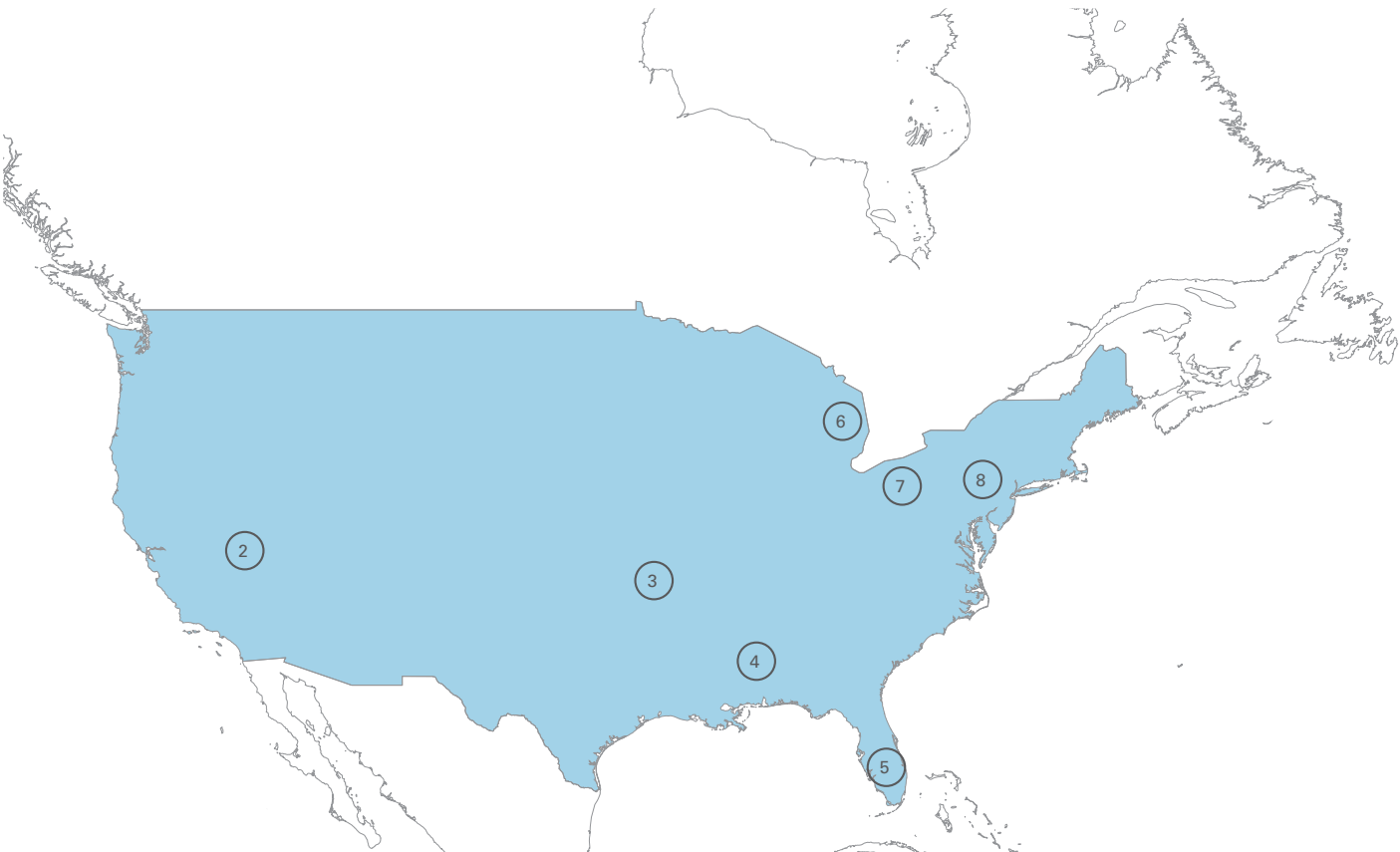
REDUCTION IN CARBON INTENSITY
COMPARED TO 2009 **18.3%**

CO-GENERATION PLANT INVESTMENT
IN CIRCLEVILLE BETWEEN 2016 AND 2018 **24** MILLION
EURO

498 TJ TOTAL PRODUCTION OF ENERGY
FROM RENEWABLE SOURCES

SOFIDEL IN THE WORLD

At the end of 2018, the Sofidel Group was present in 13 countries (in Europe and the United States) with 17 companies.



SOFIDEL ITALIA 1. Lucca - Porcari IT Services	SOFIDEL SPAIN 9. Buñuel ES Integrated plant	SOFIDEL UK 15. Lancaster UK Paper mill 16. Leicester-Hamilton UK Integrated plant 17. Leicester-Rothley Lodge UK Converting plant	WERRA HOLDING 21. Wernshausen DE	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 POLAND 26. Ciechanów PL Integrated plant
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. Philadelphia PA Services	SOFIDEL FRANCE 10. Ingrandes FR Converting plant 11. Nancy-Pompey FR Integrated plant 12. Roanne FR Integrated plant	SOFIDEL BENELUX 18. Duffel BE Integrated plant	WERRA PAPIER 21. Wernshausen DE Werra Papier Holding Services Werra Papier Integrated plant Werra Papier (ex-Omega) Integrated plant	24. Lábatlan H Converting plant	SOFIDEL GREECE 27. Katerini EL Integrated plant
	INTERTISSUE 13. Swansea UK Integrated plant 14. Horwich UK Converting plant	SOFIDEL GERMANY 19. Köln DE Trading 20. Arneburg DE Integrated plant	SOFFASS 22. Lucca-Porcari IT Paper mill / Converting plant	SOFIDEL HUNGARY 24. Lábatlan H Converting plant	SOFIDEL ROMANIA 28. Calarasi RO Integrated plant
				SOFIDEL SWEDEN 25. Kisa SE Integrated plant	SOFIDEL TURKEY 29. Honaz Denizli TR Converting plant

Since 14 November 2018 “Sofidel Turkey” has changed its name to “Tasfyte Halinde Sofidel Turkey Kagit Sanayi Ve Ticaret Anonim Sirketihas” and has started winding-up proceedings.

MISSION

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

by investing in

people, 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 values and hard work, with strict regard for ethics. Sofidel has implemented a management model in line with the Management by Values methodology, which aims to create shared value by fully integrating social strategy with competitive strategy, in a vision of the business which encompasses multiple purposes.

Operating in compliance with ethical values represents a value added for Sofidel in terms of its operations, fully compatible with profitability. Sofidel has therefore adopted a Code of Ethics that contains the Group's values – such as professionalism, honesty, transparency, fairness, humility, ethics and sharing – the principles of its behaviour and conduct towards stakeholders, as well as a Sustainability Charter which summarises all of 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 contribute to the achievement 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 strategy of the organisation: 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, which is central for developing initiatives to promote and enhance the social and environmental fabric of the communities within which the company lives and works. One of the concepts that 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 focuses on reducing waste and inefficiencies in order to continually improve production methods, limit environmental impacts (ecological footprint) at every stage and promote responsible consumption.

This fundamental guiding principle, which has always been the Group's intangible heritage, is the cultural and industrial premise that has also enabled Sofidel to be adequately equipped to positively approach the idea of development inherent in the concept of the circular economy. Based on all this, Sofidel's ultimate goal is to provide products with ever greater functional qualities and innovative performance, while guaranteeing reduced environmental impacts and lower use of natural capital.



SIGNIFICANT EVENTS DURING THE YEAR

New production capacity, renewed commitment to implementing and disseminating a culture of sustainability and further work to develop shared value are some of the features that characterised 2018.

The main event of 2018 was the opening of Sofidel's largest integrated plant in Circleville, Ohio, which was the result of the first greenfield investment in the United States.



SOFIDEL'S LARGEST, MOST MODERN AND SUSTAINABLE PRODUCTION PLANT IN THE WORLD STARTED UP IN CIRCLEVILLE, OHIO.

Sofidel's new integrated plant, the result of the first greenfield investment in the United States, was put into production in Circleville, Ohio (USA). The plant is characterised by the adoption of innovative technologies for the paper mill, converting and warehouse phases. A total investment of about 400 million dollars, for a site that will employ around 700 people when fully operational, with a total production capacity of 140,000 tonnes/year. Two Valmet Advanced New Tissue Technology 200 (NTT) paper machines have been installed as well as ten converting lines, three of which are Constellation Fabio Perini lines.

As regards sustainability, alongside the use of co-generation plants, Sofidel has implemented a system for recovering the heat generated by the turbines, which is used for drying the paper reels and for the production of steam. The plant is also at the forefront of logistics automation. By applying techniques borrowed from the food & beverage industry to the paper industry, a system has been developed for the automatic transfer of reels between the paper mill and converting phases - using laser-guided vehicles (LGVs) - and complete automation of finished product management based on the Smart Store automatic warehouse, capable of handling over 50,000 pallets of goods. This is currently the Group's largest, most modern and most sustainable production plant, which now has new production capacity to further boost growth in the US market, the first in the world for per capita consumption in the tissue sector.



ANNOUNCING THE NEW GREENFIELD INVESTMENT IN OKLAHOMA

Work has begun on Sofidel's new greenfield investment in the United States for the construction of an integrated plant at Inola, in the state of Oklahoma (USA), around 50 km from Tulsa. Two paper machines will be installed here for a total production of 120,000 tonnes per year, with the related converting lines for the production of the finished product. The total investment is 360 million dollars over three years

(2018-2019-2020) for a plant that will combine the focus on sustainability with technological innovation.

POLAND AND SPAIN: GROWTH IN EUROPE ALONG INTERNAL LINES

In Europe, projects to triple the production capacity of Sofidel Poland, in Ciechanów, and Sofidel Spain, in Buñuel, have been successfully completed. In both cases, the new Advantage New Tissue Technology 200 (NTT) produced by Valmet was used.

CEO LUIGI LAZZARESCHI WAS A SPECIAL WITNESS AT THE SELECT USA INVESTMENT SUMMIT 2018, WASHINGTON D.C.

CEO Luigi Lazzareschi participated as a special witness in the round table entitled “Success in the US market,” organised as part of the Select USA Investment Summit 2018, the

most important event for the promotion of direct foreign investment in the United States, held in Washington D.C. Sofidel’s CEO was invited to give his testimony during the final session, at the request of the US Secretary of Commerce Wilbur Ross, dedicated to the presentation of foreign direct investment generated in the last year. Luigi Lazzareschi was introduced with words of esteem and thanks by the Governor of Oklahoma, Mary Fallin, and he presented the most recent investment in the new plant in Inola, Oklahoma.



AT THE 50TH ANNIVERSARY OF THE CLUB OF ROME

At the conference for the 50th anniversary of the Club of Rome, CEO Luigi Lazzareschi was invited to bring Sofidel’s testimony to the round table “The Future is Now!” The salient points include full alignment of the Group’s industrial policy with the goal of “building an inclusive, sustainable and resilient future for the population and for the planet” pursued by United Nations (UN) through the 17 Sustainable Development Goals (SDGs) included in its Agenda 2030. The Club of Rome, the world’s first think tank on sustainable development, was founded in 1968 by the Italian economist and entrepreneur Aurelio Peccei and the scientific director of the OECD (Organisation for Economic Cooperation and Development) Alexander King.

IN MILAN WITH WWF ITALY AND THE GIANGIACOMO FELTRINELLI FOUNDATION FOR THE PROTECTION OF NATURAL CAPITAL

Sofidel continued its efforts to raise awareness among its stakeholders and the general public about the effects of climate change, in particular, on this occasion, the value of natural ecosystems. In Milan, Sofidel promoted, in collaboration with WWF Italy and the Giangiacomo Feltrinelli Foundation, the debate “Natural capital: let’s give value to our riches.” Speakers at the event included Gianfranco Bologna, Scientific Director of WWF Italy (who was the scientific curator of the event), Ivan Faiella, Senior Economist of the Bank of Italy, Massimo Medugno, Director General of



Assocarta, Riccardo Santolini, Researcher and Professor of Ecology at the University of Urbino, and Alessandra Stefani, Director General of Forests at the Ministry of Agriculture, Food and Forestry.

The subject of the debate was the value of nature, a fundamental heritage for our well-being and development and, therefore, for our economy and our future. The meeting gave rise to the e-book “Natural capital: ecology, economy and policies for sustainable societies,” freely downloadable from the Giangiacomo Feltrinelli Foundation website.

SOFIDEL IS A MAIN PARTNER OF WWF ITALY FOR EARTH HOUR 2018

Sofidel with WWF for Earth Hour, the global initiative promoted by the environmental organisation to draw attention to protecting our planet. The Group worked with WWF Italy to promote the campaign, supporting activities to raise awareness about it, participating in the special “Climate Ride” from the Colosseum to St. Peter’s, organised in Rome by WWF Italy, and turning off the illuminated signs of the Italian and Swedish plants.

AN AWARD FOR REGINA BLITZ IN THE UNITED KINGDOM

The Grocer New Product Awards recognise the most innovative products in the Fast Moving Consumer Goods (FMCG) sector launched in the UK market over the previous 14 months. Regina Blitz Extra Large Triple Layer Sheets won in the Household Products category with an overall score of 47 out of 50. Other finalists in the same category also included Regina Wish.

3SAWARD 2018: GIVEN IN THE UNITED STATES TO THE MOST SUSTAINABLE SUPPLIERS

The award ceremony for the third Sofidel Suppliers Sustainability Award (3SAward), the annual award given by the Group to suppliers who have distinguished themselves with their social and environmental sustainability initiatives, was held in Columbus, Ohio (USA). The decision to hold the 2018 edition in the United States, after the first was held in Lucca and the second in London, is linked to Sofidel’s desire to promote its culture of sustainability in America. The keynote speaker for the event was Patrick Dixon who, having studied social scenarios and megatrends for years, is considered one of the world authorities on the subject.

CEO LUIGI LAZZARESCHI IN THE PAPER INTERNATIONAL HALL OF FAME

Sofidel CEO Luigi Lazzareschi was invited to join the Paper International Hall of Fame (PIHF), which brings together the big names in the global paper industry. He is the first Italian to have been awarded this honour. His admittance rewards the Group’s commitment to sustainable development and international growth. The ceremony was held in Appleton, Wisconsin (USA). The Paper International Hall of Fame, an organisation founded in 1992 in the United States, was created to raise awareness about the values, know-how and benefits generated by the paper industry for people’s lives. Since its foundation, it has honoured 135 personalities from all over the world.



SUSTAINABILITY

Sustainability strategy

- Sustainability as a strategic model for development
- The business model
- The sustainability integration model
- Building an inclusive and sustainable future based on the UN's 17 sustainability goals
- Sofidel and the Circular Economy
- Our main sustainability partners

Materiality analysis and dialogue with stakeholders

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

Sofidel operates by seeking to minimise its environmental impact and maximise economic and social benefits for the creation of shared value for all its stakeholders.

SUSTAINABILITY STRATEGY

SUSTAINABILITY AS A STRATEGIC MODEL FOR DEVELOPMENT

Through its commitment to sustainability, Sofidel intends to:

- play an increasingly significant environmental, social and economic role;
- contribute to improving the quality of life of all its stakeholders and the communities in which it operates;

- increase its competitiveness in the medium to long term (see the Sustainability Decalogue).

To ensure lasting social and environmental benefits for all stakeholders throughout the value creation chain, Sofidel strives to minimise its environmental impact and maximise economic and social benefits for the creation of shared value for all its stakeholders.



LESS IS MORE. THE FOUNDING PRINCIPLE

Sofidel embraces the *less is more* principle, which characterises all the Group's work and translates into three fundamental precepts:

- reduce environmental impacts at every level, from procurement to production, from logistics to office work;
- reduce waste;
- promote responsible consumption.

The ultimate goal is to create products that contain ever decreasing amounts of natural capital while improving performance.

THE BUSINESS MODEL

The Sofidel Group's 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's goal is to incorporate 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 people's safety and well-being first.

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. 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 specific attention to methods for monitoring and managing financial and non-financial risks, by providing detailed risk management policies associated with the protection of economic and financial assets, products and customers, the supply chain, personnel and the environment. A specific section is dedicated to these; for further information see the paragraph "Risk monitoring and management" (page 69).

THE SUSTAINABILITY INTEGRATION MODEL

Sofidel's sustainability strategy is based on the following four areas: *People, Operations, Product, Market & Corporate Brands*. This framework encompasses all the initiatives and projects that contribute to the Group's sustainable development.

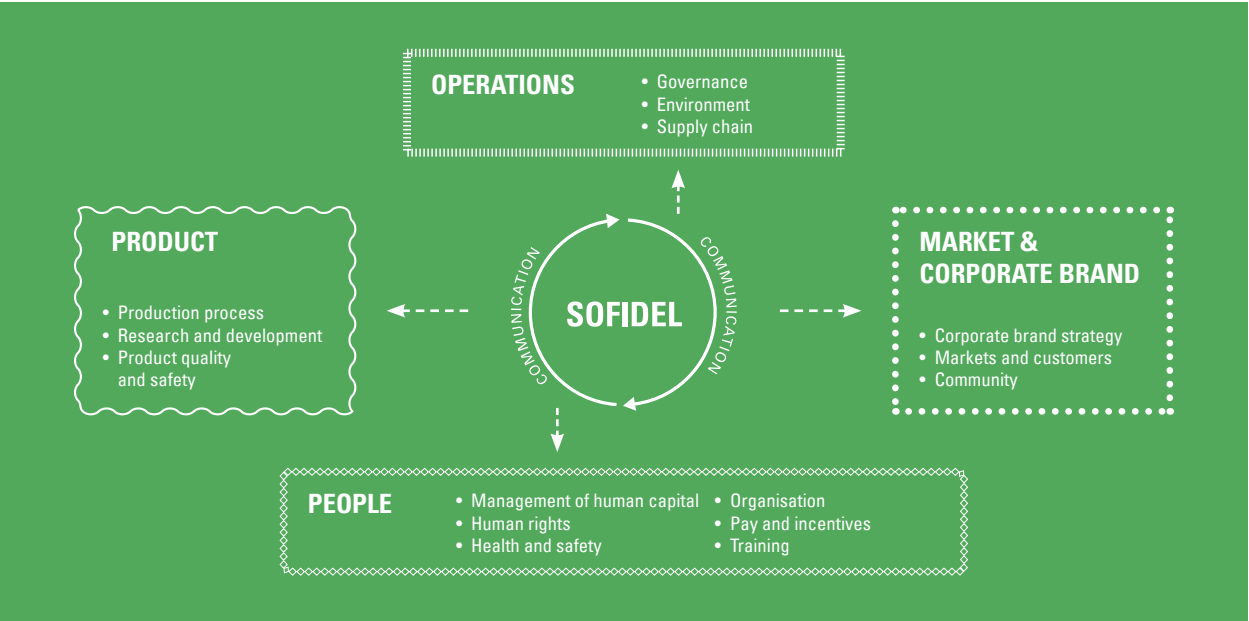
People: People are the Group's primary resource. In 2018, special attention was paid to people, mainly through two major projects: WHP (Workplace Health Promotion) and Welfare (see the "People" section on page 105).

Operations: This section explains how the company governs and manages its organisation and risks, highlights Sofidel's control systems and describes how it monitors sustainability at all stages of the production process (see the "Operations" section on page 65).

Product: The product area includes all quality and safety verification processes, as well as research and development that allow the Group to design processes and products with ever higher performance and in line with circular economy principles (see the "Product" section on page 59).

Markets & Corporate Brands: The core and purpose of all Sofidel's work are customers, consumers and all stakeholders: this is the Group's last but no less important strategic area (see the "Markets & Corporate Brands" section on page 125).

SUSTAINABILITY INTEGRATION MODEL



BUILDING AN INCLUSIVE AND SUSTAINABLE FUTURE BASED ON THE UN'S 17 SUSTAINABILITY GOALS

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 (SDGs) 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 and maximise social benefits all along the value creation chain: procurement, production processes, products and logistics. Within the 17 Sustainable Development Goals, Sofidel particularly aims to achieve 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); Partnership for the goals (goal 17).



Sofidel is committed, as a member of the WWF Climate Savers programme, to the reduction of climate-altering emissions (-23% in carbon intensity between 2009 and 2020 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 2018, 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 non-profit or-

ganisation, 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 141).

SOFIDEL AND THE CIRCULAR ECONOMY

As early as 2017 Sofidel was one of the first signatories of the WWF Manifesto "An SOS (Safe Operating Space) for a Sustainable Human Future" which defines the social and environmental boundaries within which sustainable, equitable and inclusive development can be guaranteed. Despite the intrinsic limits of the tissue industry, which do not allow it 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.

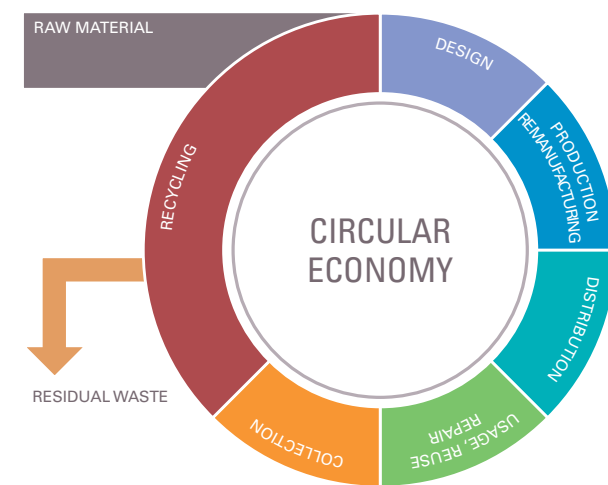
1. Best Available Techniques (BAT) Reference Document for the Production of Pulp, Paper and Board, 2015, p. 719.

This mainly involves actions already planned or in place for many years, but which the company has included 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, both for its own processes and those of its suppliers, and the elimination of waste disposal in landfill sites or dumps; inclusion of the requirements of circularity, both in its supplies and in supplier production processes; procurement of supplies with reduced packaging or adoption of recycled packaging materials instead of virgin ones; initiatives to raise consumer awareness to ensure proper disposal of packaging after use and a moderate use of the product that avoids unnecessary waste.

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 behav-



our for each participant in the organisation: **Code of Ethics**, **Sofidel's Sustainability Charter** and **Sofidel's Sustainability Decalogue**.



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 its Code of Ethics and in the adoption of the TenP platform for the prequalification of suppliers (see the "Suppliers and supply chain" section on page 98).

TenP is the platform developed by the Global Compact Network Italy Foundation (GCNI), of which the Sofidel Group is a founding member and sponsor, to evaluate suppliers' sustainability performance.



OUR MAIN SUSTAINABILITY PARTNERS

Sofidel works to integrate sustainability at every operational level. This is a basic strategic orientation, adopted in the belief that, in the medium to long term, this choice will sustain a positive process of continuous improvement 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 multi-stakeholder networks and recognised non-profit organisations with a good reputation.

Aware of the importance that water has for the equilibrium of the planet and the well-being and hygiene of its occupants, Sofidel is committed, through its partnership with WaterAid, an international non-profit organisation, to raising awareness among its stakeholders and supporting work to guarantee access to water and improve sanitary conditions in developing countries.

Since 2018, Sofidel has been a partner in the WaterAid Healthy Communities project in Mali, one of the hottest places on earth, where four out of five inhabitants live by agriculture. The scarcity of rainfall, together with domestic political difficulties, make the water situation particularly precarious. WaterAid is active in the rural municipality of Samabogo, in the Ségou region. The Kanuya Group was set up here, an association of local women who received training and micro-credit to produce and sell shea soap to the local community.

Before this, there was no local source of soap and getting it from distant villages was expensive and time-consuming. Also thanks to Sofidel's support, WaterAid was able to provide access to clean water for more than 20,000 people, a dignified bathroom for more than 30,000 and adequate hygiene conditions for more than 44,000. Part of the profits from the sale of the soap allow each woman to take care of herself, her family and her children; the rest is reinvested, allowing the Kanuya Group to expand. In addition to the economic benefits, the increased availability of soap allows people to live in better and healthier conditions. The Kanuya Group is also committed to community-based activities that focus on educating about good hygiene.

Sofidel works with WWF, both nationally and internationally, as an active member of the WWF Climate Savers programme, which brings together companies that are voluntarily committed to reducing emissions of climate-altering gases. Since joining the programme in 2008, specific emissions of CO₂ have been reduced by 18.3% by 2018 thanks to investments of over € 100 million.

WaterAid



MATERIALITY ANALYSIS AND DIALOGUE WITH STAKEHOLDERS

KEY STAKEHOLDERS

In 2016, Sofidel embarked on an analysis of material issues for the company and its key stakeholders based on the following activities:

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

The process of stakeholder engagement to identify material issues continued in 2018. The company wanted to confirm the most important issues that emerged from the analysis carried out over the previous year through a benchmark study on a selected sample of customers and competitors, thus completing the work carried out in 2017.

The table below maps out the stakeholders and the areas considered relevant 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
SUPPLIERS AND CUSTOMERS	<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 (non-profit organisations, charities, etc.)· Universities and the world of research· Media and opinion leaders	<ul style="list-style-type: none">· Protection of the local area· 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 organisations· European working groups· Future generations	<ul style="list-style-type: none">· Attention to possible environmental impacts· Reduction in consumption of natural resources· Energy efficiency· Separated collection· Sustainable transport
COMPETITORS	<ul style="list-style-type: none">· Main global competitors	<ul style="list-style-type: none">· Product quality and innovation· Ethics and environment· Health and safety· Human rights

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
ENVIRONMENT	<ul style="list-style-type: none">· Voluntary disclosure initiatives· Product environmental information· Adhesion to stakeholder initiatives to collect information· Website, social media, corporate newsletter· Intranet· Certification bodies· Sofidel internal committees	<ul style="list-style-type: none">· Specific meetings with customers· Events/initiatives organised by NGOs· Specific meetings with environmental authorities· Specific meetings with trade associations· Certification bodies· Sofidel internal committees	<ul style="list-style-type: none">· Specific meetings with customers· Events/initiatives organised by NGOs· Specific meetings with environmental authorities· Specific meetings with trade associations· Certification bodies· Sofidel internal committees	<ul style="list-style-type: none">· Specific meetings with customers· Events/initiatives organised by NGOs· Specific meetings with environmental authorities· Specific meetings with trade associations· Certification bodies· Sofidel internal committees	<ul style="list-style-type: none">· Specific meetings with customers· Events/initiatives organised by NGOs· Specific meetings with environmental authorities· Specific meetings with trade associations· Certification bodies· Sofidel internal committees
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			
COMMUNITY	<ul style="list-style-type: none">· Corporate website· Integrated Report· Giuseppe Lazzareschi Foundation website· PR and social media· Newsletter	<ul style="list-style-type: none">· Specific meetings	<ul style="list-style-type: none">· Specific meetings with Local Authorities	<ul style="list-style-type: none">· Relationship with regional institutions· Social projects and initiatives· Initiatives with NGOs	<ul style="list-style-type: none">· Partnerships with universities and the world of research· Partnerships with NGOs· Partnerships with schools and universities

CATEGORY	INFORM	LISTEN	CONSULT	INVOLVE	WORK WITH
FINANCIAL COMMUNITY	<ul style="list-style-type: none">Consolidated Financial Statements and Report on OperationsIntegrated ReportCorporate websiteBank MeetingsInformation on requestPR	<ul style="list-style-type: none">Conference callsOne-to-one meetingsNational and international events		<ul style="list-style-type: none">CSR events	
CONSUMERS AND CUSTOMERS	<ul style="list-style-type: none">NewsletterCorporate websiteCommercial and service sitesSocial mediaSofidelshopSales documentationCommunication campaignsIntegrated Report	<ul style="list-style-type: none">Customer satisfaction surveysComplaints management (Freephone numbers)Monitoring of all business communication channelsE-commerce Sofidelshop	<ul style="list-style-type: none">European Marketing & Sales MeetingETO Group	<ul style="list-style-type: none">Periodic interviewsInternational meetingsAd hoc training	<ul style="list-style-type: none">Multi-topic working partiesSpecific interviews
TRADE SUPPLIERS AND PARTNERS	<ul style="list-style-type: none">Corporate websiteSupplier guidelinesIntegrated Report	<ul style="list-style-type: none">Specific meetings	<ul style="list-style-type: none">Specific meetingsDesktop AuditEco-Sustainability Policy	<ul style="list-style-type: none">Sustainable Supply Chain Self-Assessment Platform TenPSofidel Suppliers Sustainability Award	<ul style="list-style-type: none">Support programmes
INSTITUTIONS	<ul style="list-style-type: none">Corporate websiteIntegrated ReportSocial media, PR media and eventsSoft & Green (newsletter)	<ul style="list-style-type: none">Specific meetingsPublic conferencesSofidel Conferences	<ul style="list-style-type: none">Meetings with Local AuthoritiesRelationship with Regulatory Bodies	<ul style="list-style-type: none">Technical roundtables with government bodies	<ul style="list-style-type: none">Conferences
SOFIDEL GROUP PEOPLE	<ul style="list-style-type: none">Intranet PortalCommunications from top managementIntegrated ReportGroup organisational communicationsHouse Organ People&PaperSofidel Informa/ NewsDistribution of HR guidelines, policy and proceduresSofidel Channel	<ul style="list-style-type: none">InSpecific meetings	<ul style="list-style-type: none">Focus groupsWorkshopsInternal survey (Sofidel People)	<ul style="list-style-type: none">Company eventsInternational Human Resources MeetingMeetings with Trade UnionsMeetings with Workers' Safety Representatives(RLS) - Health & SafetySofidel PeopleWHP ProjectWelfare Project	<ul style="list-style-type: none">CRAL

The choice of the best method to engage the various stakeholders depends on a series of factors including, first of all, 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 and better focus on the topics to be included in the report, in 2016 the Sofidel Group began a constructive and fruitful dialogue with a number of key stakeholders, i.e. those who have a position of interest in the company and therefore a capacity for influence.



During the 2017 financial year, the following activities were carried out to define the list of material aspects:

- 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;
- identification of potential issues relevant to the tissue industry, through media research, industry studies and other external sources;
- interviews with a representative sample of customers belonging to the large-scale retail category, both at a national and European level, identified through criteria 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). Customers were sent a communication containing a list of material aspects and a range of scores (from 1 to 4) to be assigned to each aspect. Subsequently, they were asked to evaluate each topic based on their level of interest and its potential impact on their expectations of the Sofidel Group. In 2018, in order to confirm and, if necessary, update the results of the survey carried out the previous year, Sofidel

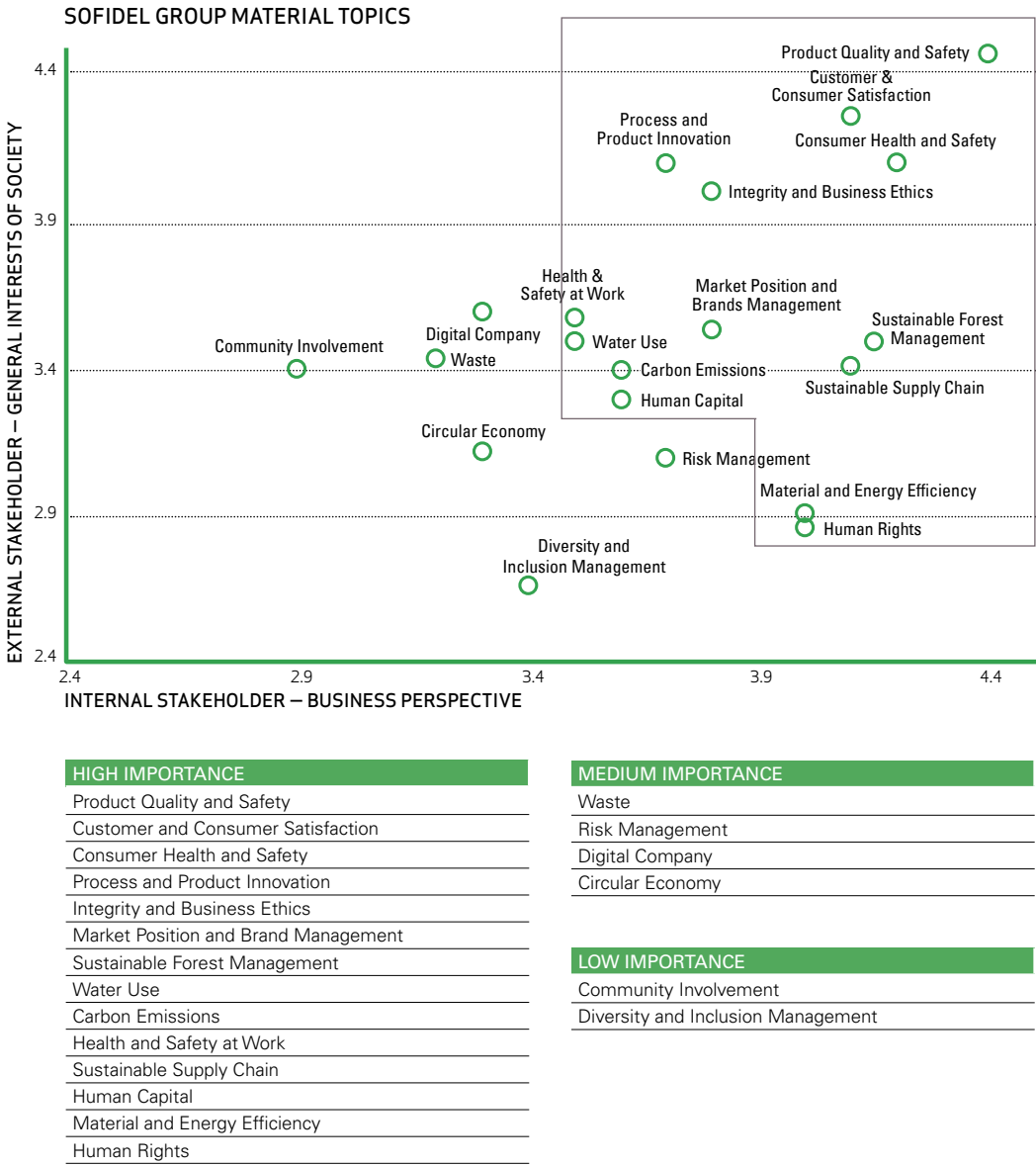
carried out a benchmark materiality analysis on a small sample of selected customers and competitors.

The benchmark analysis took into account public sources such as sustainability reports and the environmental, social, economic and governance strategy of each company, allowing the material topics for each stakeholder to be extracted. This analysis reconfirmed for Sofidel the importance of concepts such as product quality and safety, customer and consumer satisfaction, health and consumer protection, but also showed the increased importance of innovation (see "Product innovation" on page 128), ethics (see "Suppliers and the supply chain" on page 98) and human rights (see "Human rights, protected categories and equal opportunities" on page 115). The issue of human rights (until 2017 reported as a cross-cutting theme under equal opportunities, human resource development and the supply chain) becomes a topic in its own right, given Sofidel's commitment and performance in this regard and growing international awareness of the issue. 2018 stakeholder engagement focused on competitors and customers confirmed the importance of this topic. Waste reduction is also taking on a more important role for Sofidel, which is improving its performance in this area (see the sections "Packaging materials and other raw materials" on page 92 and "Constant improvement of waste management" on page 93).

Finally, the importance of circularity of the business has grown since 2017 (see the “Research and development” section on page 61). The results were analysed and used to draw up the materiality matrix (see below) 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 organisation and outlook (impact for the company);
 - external stakeholders involved and market perception (impact on stakeholders and society as a whole);
- the material aspects of high importance are shown in the top right corner.²



Based on their position within the materiality matrix, the aspects were therefore classified into three bands of importance (high, medium 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, Human Rights, Sustainable Supply Chain, Human Capital, Material and Energy Efficiency.* 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. The “medium importance” band also 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. The “low importance” band includes the two topics *Community Involvement* and *Diversity and Inclusion Management* which the company is interested in and intends to do further work on.



2. In order to better identify the area to be considered in terms of materiality, two materiality 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.

INITIATIVES TO PROMOTE DIALOGUE WITH STAKEHOLDERS

Changing to become more sustainable: focus with the Italian Institute of Statistics in Rome

Sofidel participated in the scientific conference “Italian enterprises and sustainable development. New statistical evidence and analysis to assess the change,” held at the Aula Magna of the Italian Institute of Statistics (Istat) in Rome. The results obtained, based on co-operation between Istat and PLEF (Planet Life Economy Foundation) on the subject of sustainable enterprise development were presented during the conference and further information needs of stakeholders were collected. Representatives of the Italian production system and of civil society discussed the results of the analyses presented, evaluating – among other things – the factors which enable lasting value to be created from intangible assets, finance, responsible production and consumption, the supply chain, and linear or circular processes.



With large-scale retail distribution at the Green Retail Forum 2018

Sofidel participated in Milan at the round table “Sustainability communication,” held during the eighth edition of the Green Retail Forum – People, Products, Processes. The Green Retail Forum, organised by PLEF (Planet Life Economy Foundation), is the annual meeting of operators, institutions and academia on the evolution of large-scale retail distribution towards economic, social and environmental sustainability.

Sofidel's experience at the centre of two conferences in the United States

Sofidel's CEO Luigi Lazzareschi brought the Group's experience to Tissue 2018 – Conference & Expo, in Appleton, Wisconsin (USA), and to Oklahoma Brownfields Conference 2018, in Oklahoma City, Oklahoma (USA). Tissue 2018 – Conference & Expo, organised by TAPPI and RISI, is an opportunity to reflect on the North American tissue industry, new practices and cutting edge trends in the sector. While

Oklahoma Brownfield Conference 2018 was an opportunity for public and private partners to meet and share ideas and results on the redevelopment of industrial areas.



Sofidel at the Italian CSR and Social Innovation Show

Sofidel took part in the 2018 edition of the CSR and Social Innovation Show, one of the main events in Italy dedicated to sustainability. The book *Le rotte della sostenibilità* (*The road to sustainability*) was published for the occasion. In it Sofidel tells the story of its progress towards the circular economy.



Confindustria Italia awards Sofidel the seal of approval for high quality school and work alternation (BAQ)

Created with the aim of fostering partnerships between schools and businesses, the BAQ mark certifies the educational commitment and quality of the training offered by a company. School and work alternation helps to consolidate the knowledge acquired at school and test students' aptitude in the field. Confindustria Italia carried out the BAQ assessment which took into account the number of partnerships Sofidel has activated with schools, the excellence of the projects developed and the contribution to defining pathways for school-work alternation.



Sofidel's project is among the top 25 Italian projects in the field of school-work alternation.

The school-work alternation project developed by Sofidel in collaboration with the Marchi-Forti Institute in Pescia, Tuscany, was given an award by the Sodalitas Foundation as one of the top 25 Italian projects during the event “We4Youth: how to accelerate school-business partnerships.” The aspects evaluated included: identification of skills to be developed by both school and business, co-design, methods for assessing the skills acquired by students and consistency with local production activities.

Sofidel's CEO Luigi Lazzareschi among the speakers at the PaperWeek 2018 conference in Canada

Sofidel's CEO Luigi Lazzareschi was invited to give one of the three main speeches – the keynote address at the



Tissue Masters session – at PaperWeek 2018, the annual conference of the paper and pulp industry, held in Montreal, Canada.

His speech focused on development and the future: from the absolutely strategic nature of sustainability as a lever for competitive growth, to an illustration of some of the results achieved and the new paper mill and converting technologies, destined to define a new benchmark in the industry. The macro challenges highlighted include: addressing the digital revolution and industry 4.0, the great transformation affecting large-scale retail distribution and, finally, focusing on Europe, the need to engage positively with the waves of migration from developing countries.

Round table in Sweden on reducing water consumption

Sofidel, together with WaterAid, organised a round table in Sweden, entitled “How can industry reduce water consumption?” It was attended by representatives of institutions and the world of politics along with other stakeholders, such as the Stockholm Consumer Cooperative Society and the Italian Chamber of Commerce. The initiative is part of the activities to strengthen the cooperation and engagement projects that the Group is implementing at various levels, across all markets.





STRATEGY AND BUSINESS MODEL

Strategy for growth
Key elements of the model and flow diagram
Internationalisation strategy in Europe and the USA
Distinctive factors
Outlook and strategic objectives
Innovation in the Sofidel Group

Innovation in production processes, like product innovation, plays a central role in the Sofidel Group's sustainable growth strategy.

STRATEGY FOR GROWTH

The Sofidel Group is now present in 13 countries³ throughout the world and has reached a production capacity of over a billion tonnes per year. In the last twenty 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.

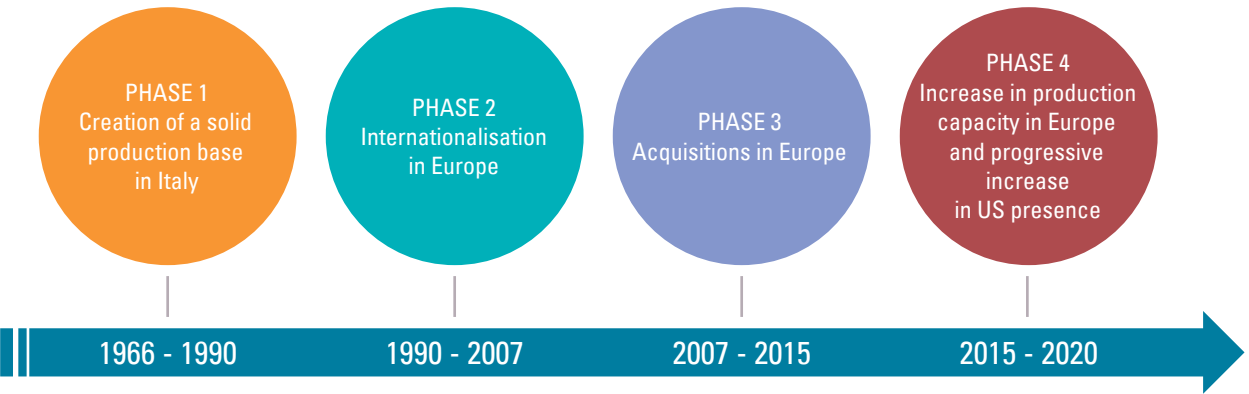
In **Phase 1 (1966-1990)**, the company focussed on creating a solid production base in Italy, mainly oriented towards the development of plant quality and technological and operating efficiency.

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.

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.

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



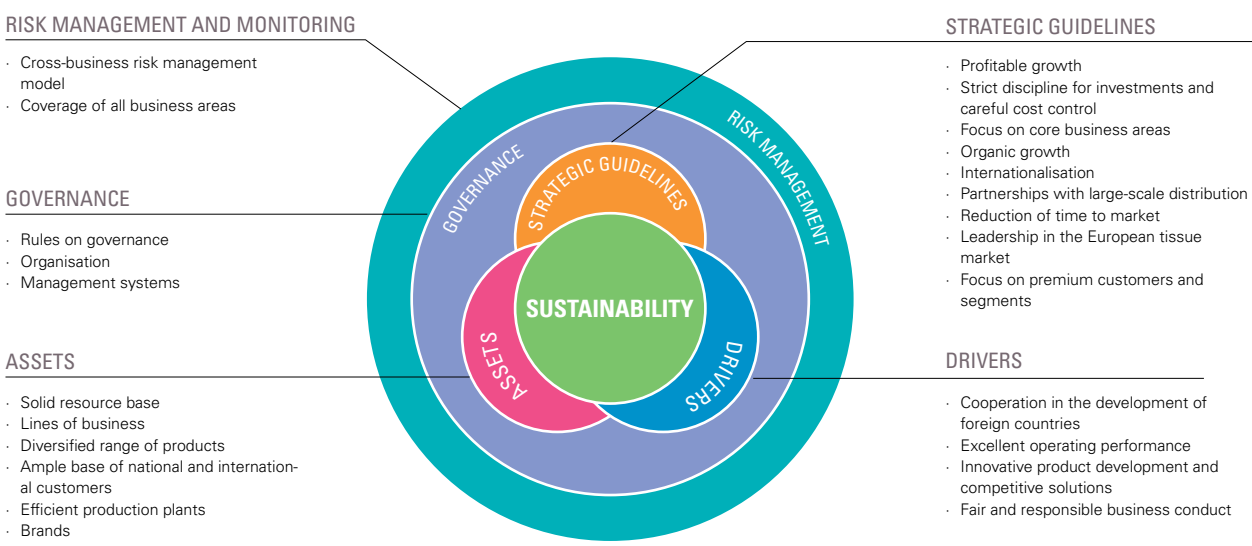
KEY ELEMENTS OF THE MODEL AND FLOW DIAGRAM

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 2018 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.

The next page contains a map of the main capital used by the Group. The diagram shows how the efficient use of capital and related links create value for the company and its stakeholders.



	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 social and environmental impactsProduct quality and safetySustainable products
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">Riduzione degli impatti sociali e ambientaliQualità e sicurezza dei prodottiProdotti sostenibili
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 Brands	<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 marketMitigation 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 USA

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 the internationalisation of production.

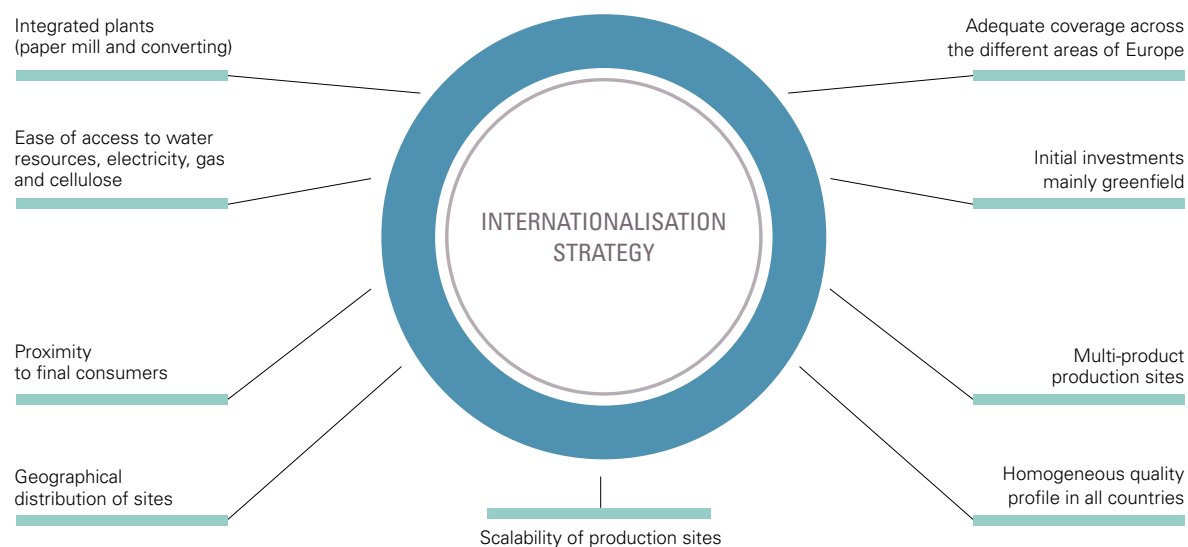
In the second half of the 1990s and the first decade of this century, the internationalisation strategy was implemented.

This strategy was characterised by certain basic strategic elements (see image) which allowed the Group to achieve the desired objectives.

In particular, the Sofidel Group planned to achieve adequate coverage in the various geographical areas of Europe, through the construction of production sites first in western and central Europe and then in eastern, northern and southern Europe (taking advantage of the potential growth in consumption).

Strategic basis for the internationalisation process

- **Production plants in Europe and the USA.** This allowed 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).
- **Environmental benefits** (less transport emissions).



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 European customers (large scale distribution chains) with the same quality profile across all countries.

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 large-scale retail distribution, the development of the Regina brand, commanding presence in the European markets, full internationalisation 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), a flat 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 the Sofidel Group's growth. In addition, the Group's current managerial and operational approach is founded on a system of values and principles which characterise the company in all its activities and which still mark it out today.

The strong growth recorded since 2000 and the internationalisation process have not changed this system of values and principles.

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 four strategic growth areas: Brand, Private Label, Away-From-Home (AFH), Semi-finished reels.
- Policy of growth and entry into new markets and related segments.
- High level of attention given to environmental and social sustainability.
- Particular attention is given to order, cleanliness (of plants, offices, warehouses, yards) and avoiding waste.
- Healthy and constructive relationship with stakeholders (banks, suppliers, large-scale retail distribution, employees, institutions, local communities, 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 solutions for hygiene and personal care both at home (bathroom, kitchen, garage, etc.) and outside the home (hospital, workshop, hotel, restaurant, etc.) with practical and innovative products, designed to improve people's lives. This is our philosophy, our way of working: starting from the problems of everyday life, explicit and implicit needs, in order to provide better and ever innovative solutions. Endless care for people and constant innovation.

Luigi Lazzareschi, CEO Sofidel Group

OUTLOOK AND STRATEGIC OBJECTIVES

The greenfield sites realised in Europe have sufficient 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 where the company is already operating: Poland (2017) and Spain (2018) are recent examples. The United States is another important market in which the Sofidel has been present since 2012 and has identified reasonable growth potential in areas other than those served by the large American multinationals: one example is Private Label goods, on which Sofidel has decided to focus in order to compete with companies with lower production capacities.

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 implementation of the most modern technologies for tissue production, combined with the expert skills of management and technical staff and its historic vocation for manufacturing premium quality products that allows the Group to introduce innovative processes and offer increasingly high performance products using lower amounts of natural capital. Thus enabling Sofidel to respond in a responsible manner to the growing demand for efficiency, functionality and sustainability from customers, consumers and society in general.

Starting in 2016, and continuing in 2017, this process of looking to the future has translated into large-scale renewal of the company's technological assets, involving both the paper mill and converting phases.

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 enable better levels of efficiency to be achieved in terms of energy and raw material use.

Between the end of 2017 and 2018, four examples of this model entered production in three of the Group's plants: Circleville, in the United States, Ciechanów, in Poland, and Buñuel, in Spain. With regard to the second production stage, from paper to the finished product, one of the salient actions is the progressive activation of new Constellation converting lines, produced by Fabio Perini, 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.

Logistics automation is another frontier of Sofidel innovation. By applying techniques borrowed from the food & beverage sector to the paper industry, in the Swedish plant in Kisa and in the US plant in Circleville, systems have been developed for the automatic transfer of reels between the paper mill and converting phases, using laser guided vehicles, and the complete automation of finished product management, based on the Smart Store automatic warehouse (see the "Product innovation" section on page 128).



GROUP ECONOMIC AND FINANCIAL PERFORMANCE

2018 Highlights

Outlook for Group economic and financial performance

Economic and financial performance

Investments

Calculation and distribution of Global Added Value

The availability of new production capacity in the USA will lead to a simplified logistics chain and higher quality standards that will ensure more efficient and sustainable processes and products.

2018 HIGHLIGHTS

Net sales € 1,706 /m

Adjusted Ebitda € 135 /m

Adjusted Ebitda Margin 7.93%

Capex € 392 /m



OUTLOOK FOR GROUP ECONOMIC AND FINANCIAL PERFORMANCE

PERFORMANCE OF THE WORLD ECONOMY

In the last two years - 2017 and 2018 - the world economy has grown by 3.7% each year, net of inflation, with advanced economies - led by the United States - recording +2.5% and emerging economies close to +5%, supported by the persistent performance of countries in South-East Asia, China and above all India. The global economy started 2018 with high growth rates and then stopped at the beginning of the summer when, given the geopolitical uncertainties and the vulnerability recorded in emerging markets, investors' confidence in the economic outlook dropped, giving way to uncertainty that led to shocks in the financial markets during the last months of the year. One of the reasons for this slowdown was the trade war that characterised relations between the top two world economies: the tariffs levied by the United States in July on exports of Chinese products and the countermeasures approved by China on imports of products made in the United States as trade retaliation. Despite the problems associated with trade tensions and falling global manufacturing output, the US economy grew faster in 2018 than in the last decade thanks to the cuts introduced by the tax reform, which reduced corporate taxes and increased public spending, stimulating demand but also raising the US deficit to record levels. In the euro area, growth weakened in the third quarter of 2018, recording an increase of 0.2% over the previous period, following growth of 0.4% in the first two quarters; recent data continue to indicate a weaker trend than expected due to the slowdown in foreign demand, combined with specific factors at country and sector level.

In general, the global development outlook depends mainly on the outcome of the negotiations between the US and China and on the possible exacerbation of financial tensions in emerging countries, as well as the outcome of the Brexit negotiations.

(Sources: Periodic Bulletins Bank of Italy, European Central Bank and Il Sole24Ore)

GROUP ECONOMIC AND FINANCIAL PERFORMANCE

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

Operating costs

In 2018, the Group pursued its investment policies in both Europe and the USA, expanding its existing sites in Poland and Spain and building two new production plants: one in Ohio, inaugurated in October, and the other in Oklahoma, which will be completed during 2020.

Inevitably, the operating costs were burdened by higher costs for:

- staff recruited well in advance of plant start-up for the necessary on-site training;
- production plant start-up costs;
- staff training;
- procurement costs of materials for the reorganisation of logistics;
- distribution costs of finished products for the reorganisation of logistics.

Once completed, the investments will guarantee the Group high levels of effectiveness and efficiency that will last over time along with highly competitive operating costs.

Cellulose and energy

The price of cellulose, the main material for the production cycle, rose continuously throughout the year just ended, reaching historical records for the sector, with the euro-dollar exchange rate contributing to the increased purchase cost in the latter part of the year. The Group has continued to pursue its objectives by using cellulose, allowing it to maximise the efficiency and quality of its products.

As regards energy supply, 2018 was characterised by a significant increase in prices which, in conjunction with the start-up phase of investments in America and Europe, led to an increase in operating costs.

The rise in the price of natural gas was influenced by:

1. the increase in the price of oil and the particularly harsh winter that coincided with a low level of stockpiles;

2. the low availability of nuclear energy in France with the consequent increased demand for gas from thermoelectric power plants;
3. the low inflow to Europe of LNG (Liquefied Natural Gas) which, owing to higher prices, was diverted to the Asian market.

The price of electricity has risen as a result of rising oil, gas and coal prices and the dramatic rise in the price of CO₂ emission allowances.

As in previous years, the Group has pursued a policy of carefully selecting suppliers with a high degree of reliability to ensure stability in supplies, has adopted measures to mitigate the effects of price fluctuations and has constantly monitored the markets to exploit any opportunities in terms of economic benefits. In order to reduce consumption, the Group carries out continuous maintenance and updates on its machinery and plant, taking into account the technical standards in terms of energy and the environment.

Transport

The presence of its production sites in the main outlet markets will enable the Group to achieve greater production integration and a consequent reduction in logistics costs. However, pending the entry into production of the new plants,

the higher volumes acquired led, in the middle of the year, to an increase in transport costs and then a sharp decline in the final months of 2018, coinciding with the start-up phase of the Circleville site in Ohio.

Overheads

Taking advantage of the synergies owing to its size, the Group has considered it necessary to pursue a path aimed at increasing the effectiveness and efficiency of its organisational structure in terms of optimising control of the processes and resources used. In Europe, on a like-for-like basis, overhead costs were reduced by about 12% compared to the previous year, while keeping quantitative and qualitative performance unchanged.

This policy of strengthening competitiveness has led to: the divestment of the Horwich plant in the United Kingdom, to be completed by March 2019; the closure of the logistics company Thüringer Hygiene Papier Logistik GmbH (THPL) in Germany; the start of winding up of Sofidel Turkey in Turkey, which will be completed by mid-2019; and a greater focus on cost management, which has led to a reduction of some of the non-strategic production costs. These are structural operations to increase economic efficiency designed to produce significant savings over time.



ECONOMIC AND FINANCIAL PERFORMANCE

CONSOLIDATED BALANCE SHEET

DESCRIPTION (thousands of Euro)	31/12/2018	31/12/2017
ASSETS		
Non-current assets		
Property, plant and equipment	1,851,646	1,556,282
Investment property	6,970	7,639
Goodwill	81,786	78,429
Trademarks and other intangible assets	46,781	46,224
Equity investments	1,853	2,162
Other non-current financial assets	7,039	6,722
Deferred tax assets	87,383	48,035
TOTAL NON-CURRENT ASSETS	2,083,458	1,745,493
Current assets		
Inventories	430,757	319,735
Trade receivables	43,708	99,338
Other current assets	20,001	65,932
Tax receivables	13,803	7,123
Current financial assets	4,716	174,628
Cash and cash equivalents	81,095	97,130
TOTAL CURRENT ASSETS	594,080	763,888
TOTAL ASSETS	2,677,538	2,509,381

DESCRIPTION (thousands of Euro)	31/12/2018	31/12/2017
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	678,472	647,258
Profit (loss) for the year	(26,064)	29,689
TOTAL GROUP SHAREHOLDERS' EQUITY	694,067	718,606
Share capital pertaining to minority interests	70	72
Profit attributable to minority interests	0	(1)
TOTAL MINORITY SHAREHOLDERS' EQUITY	70	72
TOTAL SHAREHOLDERS' EQUITY	694,137	718,678
Non-current liabilities		
Employee severance fund and other provisions regarding personnel	17,425	18,801
Deferred tax liabilities	50,858	38,287
Provisions for risks and charges	9,870	10,962
Non-current financial liabilities	940,457	983,878
Part of subsidies and grants received from government	27,673	32,420
Other non-current liabilities	41	41
TOTAL NON-CURRENT LIABILITIES	1,046,325	1,084,389
Current liabilities		
Trade payables	480,484	479,997
Current financial liabilities	258,595	70,025
Current portion of medium/long-term borrowings	134,019	92,190
Other current liabilities	54,624	54,481
Tax payables	9,355	9,622
TOTAL CURRENT LIABILITIES	937,077	706,314
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,677,538	2,509,381

CONSOLIDATED INCOME STATEMENT

DESCRIPTION (thousands of Euro)	31/12/2018	31/12/2017
REVENUES		
Revenues from contracts with customers (net sales)	1,705,836	1,696,617
Rental income	1,089	1,132
Other revenues and income	43,720	29,404
TOTAL REVENUES*	1,750,645	1,727,154
Operating costs		
Purchase of raw materials, finished products and changes in inventories	(858,948)	(802,389)
Services	(416,809)	(393,153)
Leases and rentals	(34,401)	(32,053)
Other operating costs	(28,992)	(25,821)
Payroll costs	(303,301)	(291,616)
GROSS OPERATING MARGIN	107,194	182,132
Amortisation of intangible fixed assets	(1,966)	(2,777)
Depreciation of tangible fixed assets	(121,909)	(120,489)
Write-downs of current receivables	(243)	(70)
Total amortisation, depreciation and write-downs	(124,118)	(123,336)
Provision for risks	(2,753)	(4,364)
OPERATING PROFIT	(19,677)	54,432
Financial income	1,110	644
Financial expenses	(5,144)	(7,194)
Foreign exchange gains and losses	(11,630)	(4,872)
Total financial income and expenses	(15,664)	(11,422)
PROFIT (LOSS) BEFORE TAX	(35,341)	43,010
Current taxes	(12,378)	(21,298)
Deferred/(prepaid) taxes	21,654	7,977
PROFIT (LOSS) FOR THE YEAR	(26,065)	29,689
Attributable to:		
Minority interests	0	(1)
GROUP	(26,065)	29,689

* The data for 2017 have been reclassified to provide a better comparison.

CONSOLIDATED CASH FLOW STATEMENT

DESCRIPTION (thousands of Euro)	31/12/2018	31/12/2017
Profit (loss) for the year	(26,065)	29,689
Income taxes	(9,278)	13,321
Financial income and expenses	3,635	6,550
1. Profit/(loss) for the year before income taxes, interest, dividends and capital gains/losses from transfer	(31,708)	49,560
Adjustment of non-monetary revenues	(10,755)	(11,582)
Amortisation/depreciation	123,875	123,266
Provisions	2,996	4,434
2. Cash flow before changes in net working capital	84,408	165,678
Change in trade receivables	55,629	71,313
Change in inventories	(111,022)	(1,352)
Change in trade payables	22,096	61,596
Change in other short-term assets/liabilities	(2,627)	(4,056)
3. Cash flow after changes in net working capital	48,484	293,179
Changes in provisions, receivables and deferred tax assets	(10,586)	4,122
Income taxes (paid)	(12,376)	(21,298)
Other changes*	(30,142)	30,939
Cash flow from operating activities (A)	(4,620)	306,942
Investments in intangible assets (net of disinvestments)	(2,390)	(2,499)
Investments in tangible assets (net of disinvestments)	(389,950)	(434,427)
Purchase (transfer) of other financial fixed assets	308	(565)
Capitalised interest	15,057	4,951
Change in trade payables - investment	(21,609)	11,620
Cash flow from investing activities (B)	(398,584)	(420,920)
Opening of medium/long-term loans	89,358	529,481
Redemption of medium/long-term loans	(87,336)	(88,217)
Change in short-term loans	156,826	(11,618)
Purchase/Sale of government securities	166,375	(166,375)
Change in financial assets	82,879	(53,049)
Dividends (and advances on dividends) paid	(1,800)	(20,000)
Collected/(paid) interest	(18,692)	(11,501)
Changes in capital and reserves	-	-
Cash flow from financing activities (C)	387,610	178,721
Increase (decrease) in net cash and cash equivalents (A+B+C)	(15,593)	64,742
Initial net cash and cash equivalents	97,130	33,582
Net exchange rate differences	(441)	(1,195)
Final net cash and cash equivalents	81,096	97,130

* The "other changes" do not relate to cash flows but are due to the translation effect not attributable to the individual change items.

INVESTMENTS

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

DESCRIPTION (thousands of Euro)	2018	2017
Rights, trademarks and brands	1,361	409
Intangible fixed assets in progress	1,029	2,082
Other intangible assets	-	8
Land and buildings	52,038	4,933
Plant and equipment	111,902	17,457
Fixtures and fittings, tools and other equipment	555	898
Other tangible assets	1,937	6,054
Tangible fixed assets in progress and advance payments	223,518	405,084
TOTAL	392,340	436,925

The investments for the year mainly related to:

- Sofidel America:
- in Circleville, Ohio, the construction of the integrated plant has been completed; it houses two paper mill machines and several converting machines for converting reels into finished products. The two machines started production in June 2018 and October 2018 respectively;
 - in Inola, Oklahoma, the company has begun construction on a new greenfield investment for an integrated plant (paper mill and converting). The investment refers to the installation of two paper mill machines, with a total production capacity of 120,000 tonnes per year, and several converting lines. Work started in March 2018 and will be completed by the end of the first half of 2020.

- Spain:
- in Buñuel, work was completed on the installation of the second paper mill machine and the related converting lines. The new machine started production in the second half of 2018.

In general, all the other investments made refer to continuous improvements in all 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 2018 Consolidated Financial Statements.

SIGNIFICANT POST BALANCE SHEET EVENTS

In order to obtain the necessary financial resources to support its investments cycle according to the objectives set out in the business plan of the SOFIDEL Group for the years 2018-2021, as a result of the agreements reached on 26 April 2019 with Banca Nazionale del Lavoro S.p.A., Intesa Sanpaolo Spa, Mediobanca – Banca di Credito Finanziario S.p.A., Unicredit S.p.A., Cassa Depositi e Prestiti S.p.A., Banco Bpm S.p.A., Banco Sabadell S.A. London branch, the Parent Company signed a medium-term loan agreement for a total of EUR 320 million.

The loan granted is intended partially for the refinancing of the capital expenditure already incurred by the Group, and for the remainder, is targeted at providing support for the planned investments in 2019.

On 26 April 2019, the loan agreement was signed and the Parent Company requested the first disbursement for a total of EUR 224 million for: i) 2018 capital expenditure; ii) 2019 capital expenditure; iii) legal fees and expenses. The sums so requested were obtained, with value date of 30 April 2019.

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 who 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	2018	2017
Net sales	1,705,836	1,696,617
Rental income	1,089	1,132
Other revenues and income	44,809	30,536
Revenues from characteristic production	1,750,645	1,727,154
B) Intermediate costs of production	2018	2017
Consumption of raw material, consumables and goods for resale	859,948	802,389
Services	416,809	393,153
Leases and rentals	34,401	32,053
Sundry operating charges	28,992	25,812
Costs of characteristic production	1,340,150	1,253,406
GROSS CHARACTERISTIC ADDED VALUE	410,495	473,747
C) Accessory and extraordinary items	2018	2017
12. +/- Accessory balance of operations	-14,383	-9,236
Accessory revenues	-	-
- Accessory costs	-14,383	-9,236
GLOBAL GROSS ADDED VALUE	396,112	464,512

DISTRIBUTION OF ADDED VALUE

(thousands of Euro)

	2018	2017
A) Human Resources remuneration	303,301	291,616
Personnel		
a) direct remuneration	252,265	240,033
b) indirect remuneration	51,036	51,583
B) Loan Capital remuneration	3,634	6,550
Charges for short or long-term capital	3,634	6,550
(C) Public Administration + Community remuneration	-9,277	13,321
Direct and indirect taxes	-9,277	13,321
D) Company remuneration	98,054	153,025
Profit (loss) for the period	-26,064	29,689
Amortisation/depreciation	124,118	123,336
GLOBAL GROSS ADDED VALUE	395,712	464,512



PRODUCT

Tissue production process
Research and development
Product quality and safety

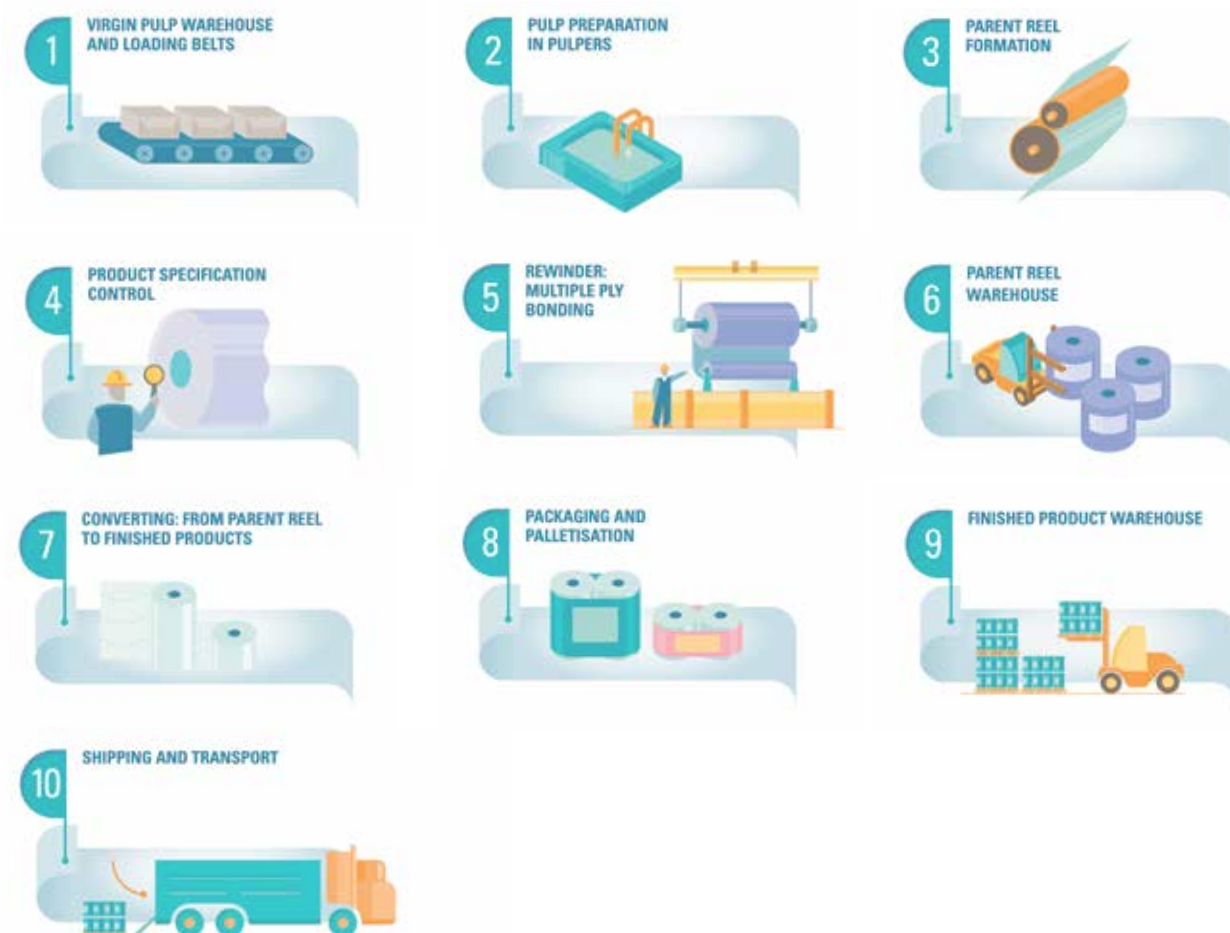
- Product quality
- Product safety

Research and development, together with quality and safety verification processes, allow the Sofidel Group to design better performing products, while following the principles of the circular economy.

TISSUE PRODUCTION PROCESS

The Sofidel Group only produces and markets tissue paper, i.e. the paper used for hygiene and domestic purposes in and outside the home - toilet paper, all-purpose absorbent paper, paper napkins, paper handkerchiefs, facial tissue, towels, etc.

Group companies oversee the whole production process from manufacture of the tissue and 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.



RESEARCH AND DEVELOPMENT

In creating new products, the Sofidel Group's Research and Development Department is inspired by the guiding principle *less is more* (see the "Sustainability as a strategic development model" section on page 24) and in 2018, fully in line with this principle, it worked on a series of projects focused on the principles of sustainability and the circularity of resources. Sofidel's commitment has resulted in the financing of at least ten important projects concerning new packaging materials, new products, new types of packaging, new paper processes, spare parts management and internal logistics of the finished product. Finally, new methods of analysis have also been developed for more accurate project planning. Each of these projects has been set up and implemented by pursuing specific and targeted objectives, in order to obtain

concrete and satisfactory results, also through continuous dialogue with the other strategic functions.

It should be remembered that a new work process has been created within the company that involves several functions and includes, in addition to the R&D Department: Operations, Marketing & Sales, Supply Chain, Engineering and Purchasing.

Joint projects with international universities and partnerships with highly specialised suppliers are practically essential when it comes to designing true product innovations or new generation technologies and processes. Awareness of this fact has led to Sofidel's participation in the Tissue Products and Processes cluster with RISE (an important Swedish research centre).



PRODUCT QUALITY AND SAFETY

PRODUCT QUALITY

Product quality and its maintenance across all the various production areas has always been the primary objective for the Sofidel Group, as set out in its company mission. In confirmation of this, since the mid-1990s, Quality Management Systems have been implemented with a primary focus on product compliance and customer and consumer satisfaction. These principles are formalised in the Quality Policy, issued by Top Management and available on the company's website. Product quality and its maintenance over time are guaranteed by compliance with Quality Management System pro-

cedures, the drive towards constant improvement, timely and careful training of the staff involved and constant monitoring of processes. The monitoring activities include the Compliance Indicator 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 following graph shows the values of the Product Compliance Index⁴ in the Group production sites for the last three 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
2018	98.54	98.40	99.34	97.10	97.11	94.57	97.68	96.20	96.87	95.94
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

	Sofidel Germany	Sofidel Greece	Sofidel Hungary	Sofidel Poland	Sofidel Romania	Sofidel Spain	Sofidel Sweden	Sofidel UK	Werra (THP Plant) (GER)	Werra (Werra Plant) (GER)	Werra (Omega Plant) (GER)
2018	98.74	98.99	98.75	98.99	98.62	98.58	89.45	97.95	96.34	99.43	97.71
2017	96.65	99.67	n.a.	97.91	98.23	98.47	94.75	96.93	98.76	98.61	98.33
2016	97.73	98.83	n.a.	99.36	98.10	98.80	90.70	95.41	99.06	97.75	98.90

The trend in the above three-year data highlights satisfactory product compliance results in all companies, 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.

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

PRODUCT SAFETY

As with quality, the safety of Sofidel products is a fundamental and essential value, in line with the company mission. To strengthen this concept, the Product Safety Department was set up in 2017 within the Corporate Quality Department to coordinate and control this process. At production level, the entire supply chain is involved in this issue and, for over fifteen years now, the Group's plants have been gradually adopting self-controlled health-hygiene systems which ensure, in addition to compliance with the mandatory regulations for the tissue industry, the application of the principles established by the voluntary standards British Retail Consortium (BRC) *Consumer Products Personal Care and Household and International Food Standard* (IFS) *Household and Personal Care Products* and the requirements of the main retailers. At the end of 2018, 17 production sites were BRC or IFS certified, covering 76.96% of total Sofidel Group production. With regard to uncertified plants, the self-controlled system implementation process is continuing and will involve, in 2019, the Sofidel Sweden, Sofidel Greece and Sofidel Hungary plants. The self-controlled systems implemented at plant level reflect the commitment to safety, quality and legality of products in the Self-Controlled Health-Hygiene Policy approved by the Legal Representative of each company. The Policy requires a risk assessment which allows, for

each phase of the production cycle, starting with research and development, the potential risks of physical, chemical and microbiological contamination of the product and the process to be identified and measured. The risk analysis is carried out according to the principles of the Hazard Analysis and Critical Control Point (HACCP) method, applying the Severity times Probability algorithm, which is the basis for identifying and implementing Good Manufacturing Practices (GMP) in order to eliminate or at least reduce to acceptable levels the potential risks to consumer safety. In plants where the self-controlled health-hygiene system is implemented (81% of European plants), 100% of the product categories are subject to assessment of the impact on the health and safety of products, while GMP are implemented at all sites. In addition to specific activities, such as cleaning and inspection programmes, traceability and recall tests and the application of hygiene rules, chemical and biological tests are also performed by accredited external laboratories in compliance with the main applicable regulations and guidelines. The testing plan is constantly updated taking into account the development of the regulations and/or the special requirements of the relevant market. A great deal of attention is also paid to the supply chain, with Sofidel requiring declarations of compliance with applicable legislation and of suitability of raw materials for use in Sofidel items.



OPERATIONS

Governance

- Company structure
- Organisational structure
- Internal control system
- Risk management and monitoring
- Management systems

The environment

- Environmental policy
- The environment and technological innovation
- Climate change and the Science Based Target programme
- Sofidel and its positive CDP score
- Sofidel and plastic
- Sofidel and forestry certifications
- Governance

- Sofidel and Environmental Management System certifications
- Energy efficiency
- Management of greenhouse gas emissions
- Protection of water resources
- Protection of forest resources
- Packaging and other raw materials
- Constant improvement of waste management
- Ecological products
- The figures on environmental management at Sofidel Group plants

Suppliers and the supply chain

- Supplier map
- Supplier qualification, selection and assessment
- New challenges

Sofidel governs and manages the organisation with particular attention to sustainability along the supply chain and throughout the entire production process.

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 with an age range that extends from 50 to 90. 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 2018-2020 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.	

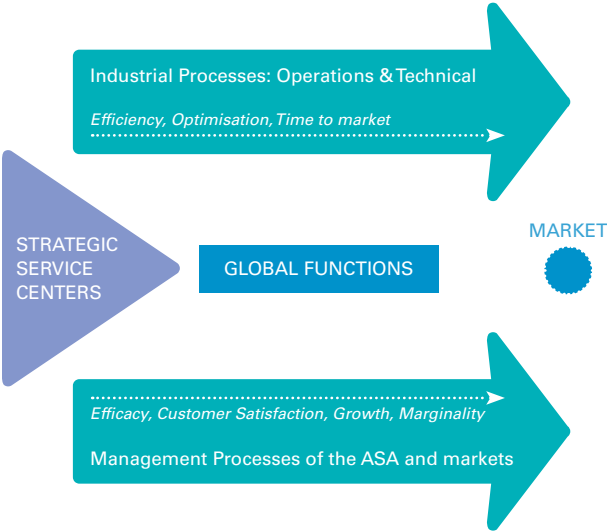
At present, there are no formal channels for the employees to send recommendations to the Board of Directors, but the constant presence of the Chairman and the CEO in the Group's companies enables good interaction with staff. The Sofidel BOD is flanked by the Board of Auditors, composed of professionals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

ORGANISATIONAL STRUCTURE

The organisational model adopted by the Sofidel 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. choosing the most appropriate mechanisms for integration and control, as well as the organisational culture best suited to ensuring the effective operation of the overall global structure.



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

4. Industrial process characterised by a matrix organisation with two macro units, **Operations** (COO) and **Technical support and engineering** (CTO) with distinct objectives in terms of efficiency, optimisation and time to market.
5. **Management process for Strategic Business Areas (ASAs) and markets** organised by line of business with distinct objectives in terms of efficiency, customer satis-

faction, growth and profit margins.

6. 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.
7. Corporate **Strategic Service Centres** which oversee and supervise support processes and staff.

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

SOFIDEL GROUP ORGANISATIONAL MODEL



The **industrial processes** are overseen by the following organisational units:

- **Operations:** 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:** oversees the technical development of investments and engineering.

Marketing & Sales oversees the management processes for strategic business areas and markets organised into four lines of business: Brand, Private Label, Away-From-Home (AFH), 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 organised by geographical area/region.

Global Functions comprise the following functions:

- **Supply Chain:** oversees production planning and procurement of raw materials, management and traceability of raw materials and the finished product, organisation of transport services and minimisation of the relevant cost.
- **Purchasing:** supervises the process for managing suppliers and the purchase of strategic raw materials (cellulose and pulp) with the aim of creating economic and financial opportunities and responding to strategic market needs.
- **Quality:** responsible for proposing, disseminating and managing certifications, and ensuring quality as the Group develops and grows, with the aim of bringing satisfying products to market.
- **Business Improvement & Innovation:** 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** include 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 organisation, 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 organisational 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 with the Code of Ethics, which sets out the principles underlying fair and lawful business conduct, and internal procedures, issued in accordance with international best practices and local regulations, to ensure that company objectives are met. In addition, the Group's rules, in compliance with the principle of separation of duties and responsibilities between the people deciding, executing and checking activities, ensure the traceability and, therefore, ex-post verifiability of the processes for decision-making, authorisation and performance of the company's activities. Based on the Organisational, Management and Control Model adopted by Sofidel under Italian Legislative Decree No. 231 of 8 June 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 and the various Management Systems adopted carry 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 tool for monitoring the compliance of company processes and activities with the best practices adopted by the Group as well as the achievement of company objectives. It is therefore used by corporate functions as a tool for managing various types of company risks.

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 that 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, since 2018 an implementation plan for the

new international ISO 37001 standard has been adopted. The Group's Ethics & Compliance Programme, i.e. the management model for the prevention of corruption, has been drawn up. To date, the document has been adopted by the Italian and French companies, which have also appointed the functions responsible for overseeing its implementation and ensuring its constant adaptation and updating. In Italy and France, training has been provided to employees involved in areas sensitive to corruption. Information and training activities on the subject will continue next year. These will be accompanied by a series of control and monitoring activities focused on sensitive activities, carried out based on the control plans adopted by the Antibribery Compliance Officers.

RISK MANAGEMENT AND MONITORING

Economic and financial strategies and risks

From Integrated Finance Organisation 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 its administrative/accounting and financial

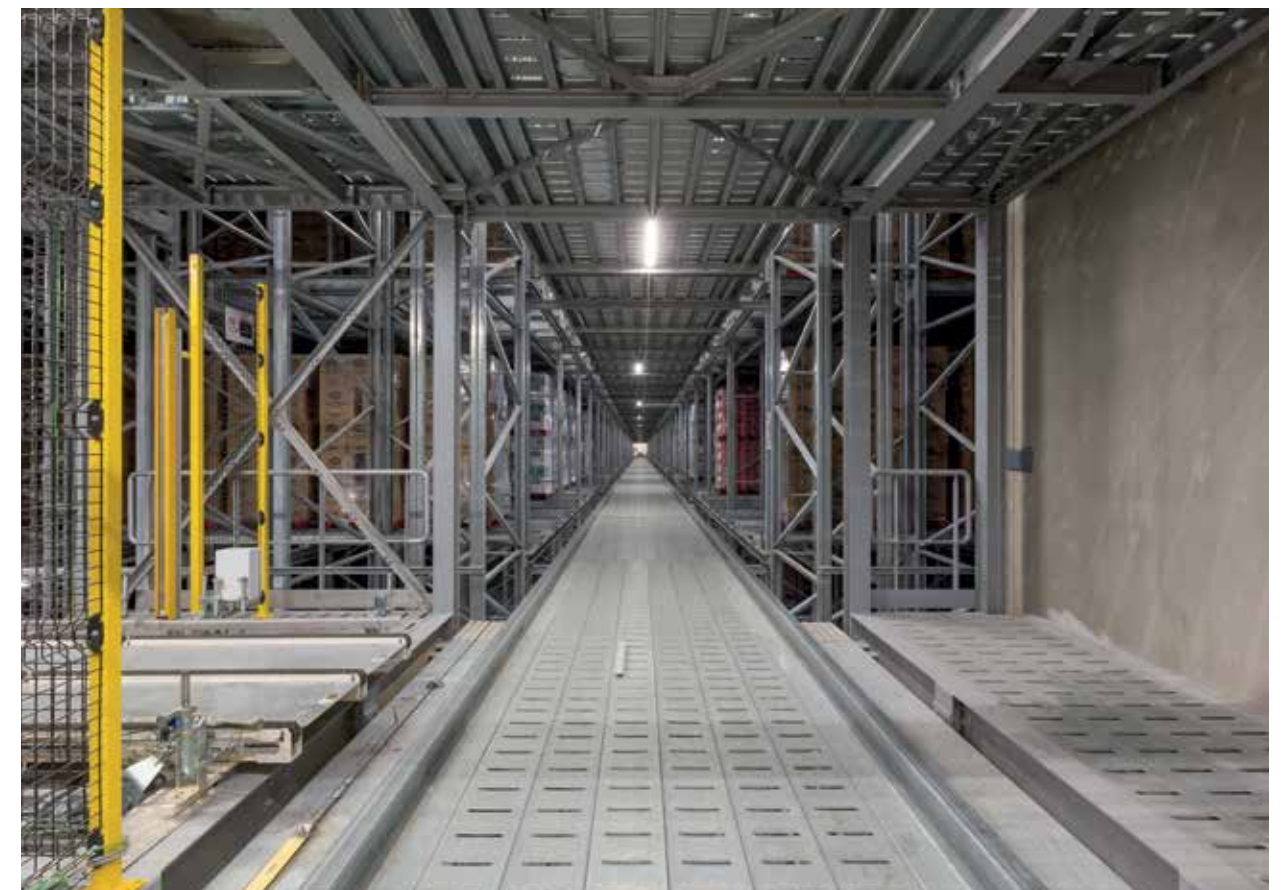
procedures and uses a unique, integrated ERP SAP management program at all Group companies.

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 the implementation of the "Integrated Business Planning" (IBP) framework. The latter 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 based on the achievement of predefined levels of economic/financial performance.

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

- the strategic planning sets the guidelines;
- the operational 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, as a framework for business planning, management and control.



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 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> <ol style="list-style-type: none">1. taking out insurance policies with leading international insurance companies;2. diversifying on a country to country, company to company and sales channel basis;3. observing insurance thresholds;4. requiring advance payments where there is no insurance coverage;5. a policy to minimise concentrations of credit;6. quantifying the risk under analysis at budget level using the IFO model and subsequently sharing the budget data with insurance companies;7. using the Grade issued and updated by the insurance companies as an indicator of short-term solvency for customers requesting credit lines;8. compliance with payment terms by suspension of orders for customers in arrears for more than ten days;9. 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> <ol style="list-style-type: none">10. 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 allow the Group to reduce the risk of exposure on a pro-rata 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) have had no direct impact on Group operations;</p> <ol style="list-style-type: none">11. forced withdrawals of bank funds (Bail-in operational from 1 January 2016), whose risk is mitigated by the policy of minimising deposits by using credit lines for current account overdrafts. <p>Further information is given in the notes to the 2018 Consolidated Financial Statements.</p>
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. Accordingly, 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>To mitigate the change in electricity and gas prices, 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 searches for suppliers able to offer the best price based on the same guarantees of continuity of supply;· obtains energy certificates for the individual plants in order to minimise the effects of unfavourable trends in energy prices;· constantly monitors the energy markets and adopts hedging strategies for gas and electricity volumes;· monitors and participates in all possible opportunities for subsidies and reductions in energy costs.

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
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 in 2018 mainly concerned the procurement of raw materials (cellulose), assets (plant and machinery) and securities (US Treasury Bills and Notes), which matured naturally during the year.</p> <p>FX-All is also adopted as the single electronic third-party trading platform through which almost all the transactions of the various Group companies flow fully automatically.</p> <p>Further information is given in the notes to the 2018 Consolidated Financial Statements.</p>
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 risk is mitigated by taking out new fixed-rate loans, continuing the corporate strategy of previous years. The continuing trend of very low and relatively constant rates has led management to evaluate the use of hedging instruments as unnecessary.</p> <p>Further information is given in the notes to the 2018 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 (this includes the start of a new in-house banking relationship between Sofidel S.p.A. and Soffass S.p.A.).</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 2018 Consolidated Financial Statements.</p>
Legal/compliance/reputational risk	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, with 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 continues 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, in order to enable a better level of monitoring throughout the company.</p> <p>Among the tools used, it is important to mention 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, implementing management solutions in the treasury area for the handling of 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 incoming and outgoing instructions from the company to banks, including, among other things, payments to suppliers, payment of taxes (except in some countries where Internet banking is still used) 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>A project to redefine roles and SAP authorisations continued during 2018 with the aim of bringing them into line with the Group's organisational structure. The extraordinary projects started in 2018 were:</p> <ul style="list-style-type: none">· roll-out of the new SAP Vistex tool for managing promotional costs and year-end bonuses to Sofidel France and Sofidel Benelux;· completion of the TNSJ software extension for managing the travel approval process and expenses for the Group's foreign countries;· implementation on SAP of the tool for generating and sending electronic invoices to the Italian tax authorities;· implementation of the SAP VIM module for the automatic receipt of supplier invoices and inclusion of a dashboard in the system to monitor the status of the invoices received;· implementation of the Ingentis software for the design and reporting of company organisation charts;· implementation of the Qradar software in compliance with the new GDPR, with the aim of logging the activities of system administrators;· confirmation of the commitment to the 27001 certification project for the security of company data. Various procedures and rules were prepared including the Group's new IT rules;· active participation in the project needed to bring the Group into line with the new European personal data principles (GDPR).

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” section on page 62.

Product quality depends on the quality of the company system

The Group has implemented quality management systems at its companies since the mid-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 by 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 and the trend in household disposable income and, therefore, private consumption.	The Group does not operate in 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 better understand consumers’ needs.										
		<table><tr><td>United Kingdom</td><td>17.20%</td></tr><tr><td>USA</td><td>16.90%</td></tr><tr><td>Italy</td><td>16.00%</td></tr><tr><td>Other European Countries</td><td>49.90%</td></tr><tr><td></td><td>100.00%</td></tr></table>	United Kingdom	17.20%	USA	16.90%	Italy	16.00%	Other European Countries	49.90%		100.00%
		United Kingdom	17.20%									
		USA	16.90%									
		Italy	16.00%									
		Other European Countries	49.90%									
	100.00%											
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, Away-From-Home and e-commerce), seeking to offer increasingly high performance and innovative products and dedicating specific internal resources to each of these.										
		<table><tr><td>Parent Reels</td><td>5.78%</td></tr><tr><td>Away-From-Home (AFH)</td><td>14.75%</td></tr><tr><td>Brand</td><td>25.37%</td></tr><tr><td>Private Label</td><td>54.10%</td></tr><tr><td></td><td>100.00%</td></tr></table>	Parent Reels	5.78%	Away-From-Home (AFH)	14.75%	Brand	25.37%	Private Label	54.10%		100.00%
		Parent Reels	5.78%									
		Away-From-Home (AFH)	14.75%									
		Brand	25.37%									
		Private Label	54.10%									
	100.00%											
Production risks	These are the risks of unexpected breakdowns or downtime, loss of plant efficiency, fire, flood and theft.	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. With regard to the production side, the existence 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 constant technological renewal of the paper mill and converting production structure which has recently involved various Group plants.										

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risks associated with distribution logistics	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;· accurate logistics planning to minimise inefficiencies, monitored 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 over-dependence on certain customers.	In this area, management policies aimed at consolidating and developing own brands - involving the strengthening and implementation of existing brands - and at consolidating relationships with the large-scale distribution chains - involving stakeholder engagement measures to create long-term partnerships and the launch of products that are consistently innovative and 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’s primary objective is to have a supply chain with no reputational risk. This goal has been broken down into two lines of action: assessment of suppliers’ sustainability strategies and performance and adoption of a sustainability model in purchasing. The tool chosen for supplier sustainability assessment is the TenP platform 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 involvement of all suppliers allows the Group to further improve its performance, minimising reputational risk.
Supplier dependence risks	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 dependence is negligible.
Risks associated with the digitisation 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 technology used in the management systems the Group, despite having an integrated ERP management system for all areas (SAP), uses alternative suppliers for accessory programs which are, nonetheless, of primary importance (Tagetik, Sales Force, Piteco, etc.);· for the technology used in 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 in question.

Strategie e rischi associati al personale e all’ambiente

THE RISKS: PROTECTION OF RESOURCES TO GUARANTEE LONG-LASTING SOCIAL AND ENVIRONMENTAL BENEFITS				
TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY		
Risks associated with employees and the safety of the working environment	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 implementation of the best safety standards for machines and equipment, and by conducting training programmes and providing information. Careful attention is paid to the choice of personal protection equipment (PPE) in order to constantly check its efficiency and continually improve its effectiveness so as to ensure ever better levels of protection and comfort. Adoption of these measures has made it possible to minimise risks, as confirmed by the results recorded in 2018 on the Frequency Rate (FR)* and Severity Rate (SR)**.		
		FREQUENCY RATE AND SEVERITY RATE, at 31/12/2018		
		Index	Frequency Rate (FR)	Severity Rate (SR)
			12.98	0,41
		<i>* (FR): number of accidents/hours worked x 1,000,000</i> <i>** (SR): days of absence due to accidents/hours worked x 1,000</i>		
<i>The values of the accident rates shown do not take account of accidents while travelling or those causing less than three days’ absence. In addition, only accidents which caused the worker to leave the work position are counted.</i>				
Lastly, 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. For further information, refer to the “Management Systems” section on page 76. 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 updates 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 and in recent years has had the following trend.		
ANNUAL SPECIFIC WATER WITHDRAWAL OF THE SOFIDEL GROUP PLANTS				
		2018	2017	2016
Withdrawal (m³/t paper)		7.1	7.1	6.8
Data do not include the Sofidel America Circleville plant.				
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. The risk of unplanned interruptions in the energy supply is mitigated by the effect of continuous monitoring of the state of financial health of the energy suppliers and through maintenance and continual updating of plants in accordance with technical standards in the energy field.				

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risks associated with cellulose availability	These are the risks associated with the availability of cellulose, the main material in the production process, both in terms of quantity and quality. In fact, the entire production cycle can be slowed down by shortages or delays in the delivery of cellulose, or by damage due to the low quality of the cellulose.	In this area, the Group protects itself in accordance with its policy: <ul style="list-style-type: none">· through careful selection of suppliers aimed at identifying business partners able to guarantee quantity and delivery terms, as well as quality of the fibres (understood as the intrinsic quality of the materials and as a guarantee of eco-sustainable management of forest resources);· by entering into supply contracts, including multi-year contracts, in order to obtain better economic conditions by exploiting greater contractual force. In 2018, all purchases of cellulose came from certified or controlled sources.

MANAGEMENT SYSTEMS

The voluntary adoption of Management Systems is considered a strategic element by Sofidel for the continuous im-

provement of the organisation’s performance and a resource capable of giving timely responses to the needs of the different stakeholders.

ISO 9001:2015	for the Quality Management Systems
ISO 14001:2015 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 trading

* As a result of the gradual divestment of the Horwich plant (completion date March 2019), the following certifications were only partially active in 2018. In particular: BRC certification active until 20 February 2018, BS OHSAS 18001 active until 31 August 2018 and ISO 9001 until 16 April 2018.

THE ENVIRONMENT

ENVIRONMENTAL POLICY

Actions to improve and promote the Sofidel Group's environmental sustainability were taken in 2018 following the guidelines contained in both the Code of Ethics and the Sustainability Charter, i.e. the main documents that define the rules of conduct and the commitments to be assumed in the field of environmental and social protection. The activities and main goals achieved during the year, however, were also influenced by other important factors, chief among which are the objectives of the UN's 17 Sustainable Development Goals (SDGs). Sofidel is constantly striving to achieve at least seven of the 17 SDGs (see "Building an inclusive and sustainable future based on the UN's 17 sustainability goals" section on page 27). Alongside these principles, Sofidel draws inspiration from macroeconomic and political trends which, in addition to strongly influencing the regulatory landscape, play a key role in the preferences of citizens, consumers and business.

THE ENVIRONMENT AND TECHNOLOGICAL INNOVATION

2018 brought important developments both in terms of the company's internal changes and the introduction of new

legal provisions proposed by the European Commission. At the end of 2017, the first tissue production line with NTT technology went into operation at Sofidel Poland's plant. Start-up took place in the fourth quarter of 2017, but the effects on production were seen only during 2018. With this technology, developed by Valmet - a world leader in tissue machines, Sofidel aims to combine the high quality of a "structured" product with the energy consumption of a conventional machine. In 2018, two production lines were started up in succession at the US plant in Circleville (Ohio) as well as another production line at the Buñuel plant in Spain, all using NTT technology. Sofidel's production capacity therefore increased by a further 260,000 tonnes per year during 2018. The two lines that went into operation at Circleville were equipped with two gas turbines, capable of producing almost all the thermo-electric requirements of the new installation with natural gas as the only fuel. This co-generation plant is fully integrated with the paper drying section and its design promises significant savings, both in economic and carbon emission terms, compared to the more traditional options. This investment fits in perfectly with Sofidel's strategy to combat climate change.

The new integrated plant in Circleville (Ohio)

Built on over 1 km² of land in an area with ample water availability, the Circleville production site is an integrated plant. Paper is produced using two Valmet Advantage NewTissue Technology (NTT) 2000 paper machines, with a total production capacity of 130,000 tonnes per year, for both conventional and textured paper. This modern paper plant has introduced various innovations such as the co-generation of electricity and steam, which is an example of advanced technology and efficiency.

Circleville co-generation plant

The Circleville co-generation plant is equipped with two turbines, both with a nominal electrical power of 7.6 MW, and is capable of producing over 120,000 MWh of electricity per year; it will reduce emissions at the plant by more than 25,000 tonnes per year compared to a non-co-generation facility, under stable operating conditions and at maximum capacity. The special advantage of this technological solution lies in full exploitation of the heat generated by the turbo engines which, in addition to being converted into steam as in a traditional co-generation plant, is first used for drying paper by direct contact. In other words, with the combustion of natural gas the installation is able to produce almost all the electricity and heat needed for the paper process. The core feature of this innovation is the integration of the turbine with the drying section of the paper machine, known as the "drying hood". The technology allows maximum exploitation of the heat that the turbo engine is not able to convert into electricity. After the first heat exchange, the hot air will release more heat to produce steam. The entire system will have thermoelectric efficiency of over 80%. In 2018, about €8 million was invested in this plant, in addition to the amount invested in previous years. The entire investment amounted to approximately € 24 million.

SOFIDEL HAS INVESTED SIGNIFICANT RESOURCES IN:

► optimising management of energy resources

OVER **€100** MILLION (2008-2018)

► reduction in water impact

OVER **€10** MILLION (2008-2018)

CLIMATE CHANGE AND THE SCIENCE BASED TARGET PROGRAMME

In the area of climate change, Sofidel has joined the international Science Based Target (SBT) programme, an initiative arising from cooperation between the international non-profit organisation CDP, the United Nations Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The WWF International initiative, which Sofidel has adhered to since 2008, recognises the SBT initiative and encourages its partners to join; therefore, the two programmes are fully compatible and integrated. In December 2018 Sofidel submitted its goals for analysis, following a review in accordance with the indications of the SBT programme, and, at the time of writing this Report, Sofidel's proposal is being analysed by the technicians of the World Resources Institute. If approved, these goals would be in line with the forecast to limit the global temperature increase to 2 °C.

SOFIDEL AND ITS POSITIVE CDP SCORE

In 2018, Sofidel responded to a request by the international non-profit organisation, CDP, to fill in the Climate Change and Forests Timber questionnaires for operations during 2017. Over 7,000 companies responded to CDP's invitation to complete the long questionnaires in 2018 and the majority chose to respond regarding climate change. Sofidel was awarded a score of A- for climate and forest management, demonstrating once again its transparency and ability to demonstrate a robust system for assessing and managing its risks associated with these aspects. The previous year's score remained at B for both indicators. In addition, for a small group of companies that responded to their questionnaires, CDP has drawn up a list of world leaders for supplier engagement on climate change. Sofidel is the only company in the tissue industry to have been recognised as such for the 2018 year.

CDP

CDP is an international non-profit organisation present in 50 countries. It provides companies, cities, states and regions with a global system for measuring, disseminating, managing and sharing information about environmental impact, ensuring that financial investors have data that they can use in their decisions. CDP has over **650 institutional investors** with a managed value of **\$87,000 billion**. The 2018 research assessed over 7,000 companies worldwide.

Sofidel, one of the world's leading manufacturers of toilet and household paper, has further improved its performance in the 2018 CDP Report. The Group, known in Italy in particular for the Regina brand, obtained a score of A- in the Climate Change category and A- in the Forests Timber category, in both cases being placed in the highest (Leadership) band in the Report.

Sofidel ranks among the top 7 companies in the Climate Change category for its sector, Paper & Forestry, above the global (C) and European (B-) industry average, and among the top 7 companies in the world in the Forests (Timber) category, above the global (B-) and European (B-) industry average.

In addition to these important forms of recognition, Sofidel has been identified as a global leader in carbon reduction strategies and climate change actions throughout its supply chain. For this reason, it has been rewarded with inclusion in the **Supplier Engagement Leader Board** under the rating scheme set up by CDP. **Sofidel ranks among the 3% of companies that have been awarded a leadership position** in recognition of the actions taken with their suppliers to reduce pollutant emissions and risks related to climate change. The Supplier Engagement Leader Board ranking was published in the "Global Supply Chain Report 2019" produced by CDP and Carbon Trust. The research reveals that indirect greenhouse gas emissions, i.e. those from the supply chain, are on average 5.5 times higher than companies' direct emissions and that in the last decade there has been a radical change in companies' awareness of this issue as well as in the actions taken to contain the environmental impact of their supply chain.

SOFIDEL AND PLASTIC

In early 2018, the European Commission published a communication entitled "A European Strategy for Plastics in a Circular Economy." The document describes the actions that the Commission would subsequently adopt in the text of the proposed directive on reducing the impact of certain plastics within the European Union. In response to these events and the consequent media impact, Sofidel immediately activated a programme to reduce consumption of its plastic packaging through optimisation measures and by choosing packaging materials with thinner film. This activity, which has been going on for many years, has been accompanied by a plan to replace plastic with alternative materials. In the third and fourth quarters of 2018, paper-packed tissue products were finalised and these were well received by many customers (for more information, see the "Packaging and other raw materials" section on page 92).

SOFIDEL AND FORESTRY CERTIFICATIONS

Sofidel Group's products on the European market have been awarded ecological quality marks, especially those certify-

ing that they meet the criteria of good forest management (FSC®, PEFC™).

Sofidel has increased the presence of products with forestry Chain of Custody certification, also in the United States, and sets itself apart in terms of the sustainability and innovation of its commercial range. In 2018, all raw materials of forest origin purchased by Sofidel were certified in accordance with the Chain of Custody schemes or with good forest management certifications. More than 65% of the cellulose purchased has FSC® certification, a significant increase over the previous year. This scheme is, therefore, the one most highly represented among Sofidel's supplies (for further details, see "The protection of forest resources" section on page 89).

GOVERNANCE

Choices and objectives concerning environmental sustainability are the responsibility of the organisation's main operating body, the Executive Board. This board sets out the main objectives for the next three years, the performance indicators and the priority accorded to the actions required in order to implement these objectives.

Each company belonging to the Sofidel Group has its own internal structure dedicated to improving environmental performance, managing legal compliance, and training and raising awareness among all professional figures related to both environmental aspects and day-to-day operations. Overarching the individual companies is the Environment Department of the Sofidel holding company, which coordinates activities to prevent environmental risks and promotes good practices for implementation in both the industrial and product areas, with the aim of involving the main market operators and other stakeholders of the Sofidel Group.

SOFIDEL AND ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATIONS

The reliability of this organisational structure is confirmed by the various Environmental Management System certifications obtained under ISO 14001:2015, a guarantee of proper management aimed at continuous improvement. In 2015, the revised version of the ISO 14001 standard was issued. Implemented by all certified plants, this contains important amendments, requiring an assessment of company risk for all aspects related to the environment (reputational risks, continuity of supply, relations with local communities, the market, etc.) and also giving greater weight to the relationship with external stakeholders. In 2018, the Soffass Val Fegana plant (Italy) also achieved ISO 14001 certification: now all the European paper mills and integrated plants are certified. In 2018, maintenance of the existing organisation involved management cost almost € 1,300,000; more than € 450,000 was spent on consultancy and environmental and energy certification.

More than 1,500 hours of specific training were provided, almost all of which was aimed at the correct application of the procedures forming part of the Environmental Management Systems.

During 2018, the Sofidel Group received three environmental complaints. The first was received from the Leicester city council and referred to the management of some waste within the Sofidel UK Hamilton site, while the second, received from the Neath port authority, complained of insufficient outdoor lighting to ensure safe navigation in the vicinity of the plant: both have already been resolved with some

management improvements. The third, related to excessive noise emissions at the Sofidel UK Lancaster plants, is under analysis and the technical improvements required to resolve the problems highlighted are being studied.

Sofidel is careful to comply with environmental laws and during 2018 was not involved in any infringement of environmental legislation and was not subject to any significant fines or penalties in this regard.

ENERGY EFFICIENCY

The year 2018 saw a significant increase in the prices of energy commodities.

The rise in the price of natural gas was influenced by several factors: the increase in the price of oil and the particularly harsh winter coinciding with a low level of stockpiles and the low availability of nuclear energy in France, with consequent increased demand for gas from thermoelectric power plants. The low inflow to Europe of LNG (Liquefied Natural Gas), increasingly diverted to the Asian market, also had an effect.

The price of electricity has risen as a result of rising oil, gas and coal prices and the dramatic increase in the price of CO₂ emission allowances, which rose to more than three times the price at the end of 2017.

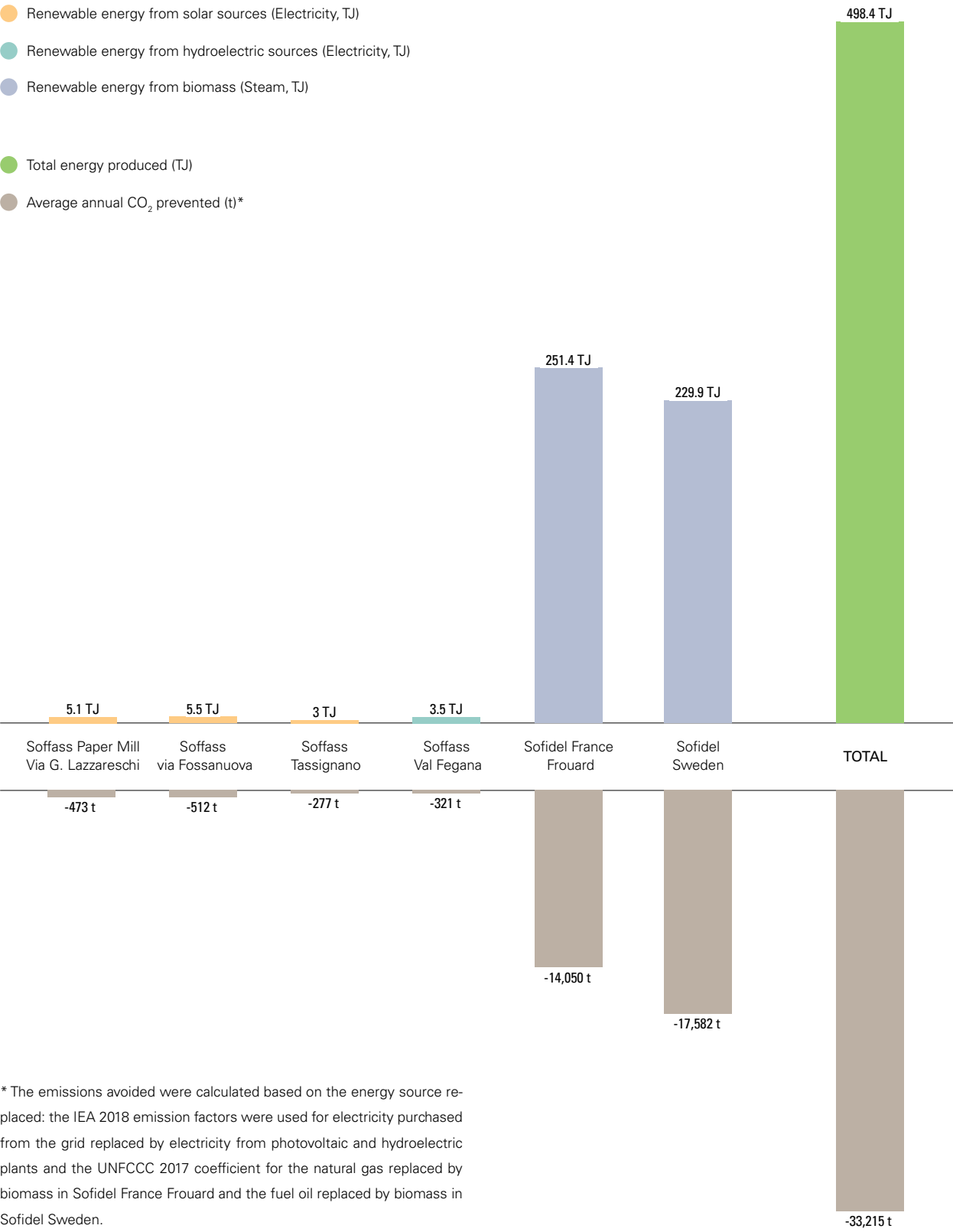
In 2018, the high price of the energy basket had a strong impact on the cost of the paper production process, an activity that is highly energy-intensive.

To mitigate the effects of this increase in energy prices, Sofidel continued to invest in energy efficiency during 2018.

The Group has invested € 1.9 million to install devices that, when placed between medium voltage transformers and low voltage general switches, optimise the flow of current and voltage, thus allowing a reduction in energy in transit without affecting user performance (energy savings). In addition, these devices reduce non-functional harmonics in the system, helping to clean the waveforms, reducing heat loss and consequently reducing stress and wear on machinery and cables downstream.

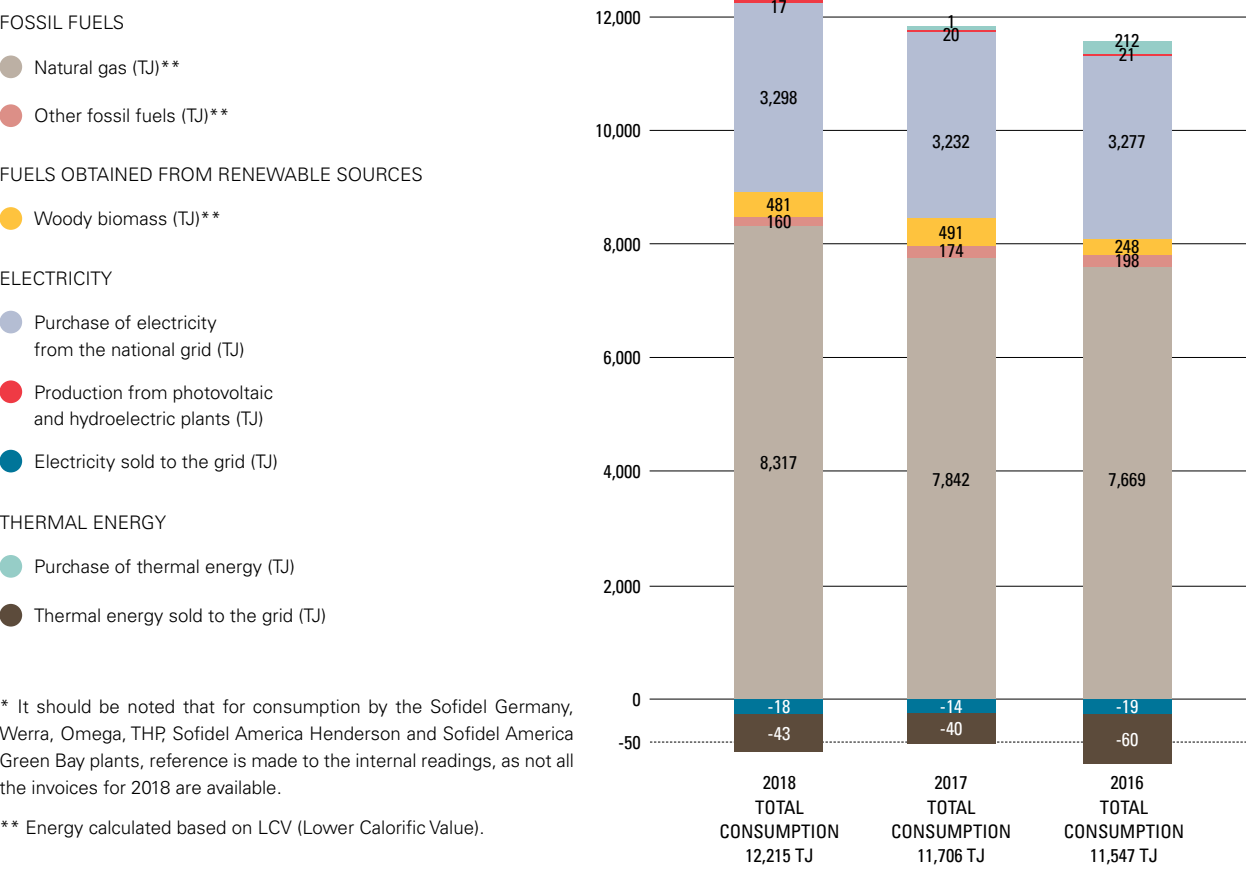
This investment and the co-generation project at the US Circleville plant were the major initiatives to improve energy efficiency in 2018. Both investments will be supported by energy efficiency bonds, in accordance with the incentive scheme in force in Italy and in the United States.

SELF-PRODUCTION OF ENERGY FROM RENEWABLE SOURCES – 2018



* The emissions avoided were calculated based on the energy source replaced: the IEA 2018 emission factors were used for electricity purchased from the grid replaced by electricity from photovoltaic and hydroelectric plants and the UNFCCC 2017 coefficient for the natural gas replaced by biomass in Sofidel France Frouard and the fuel oil replaced by biomass in Sofidel Sweden.

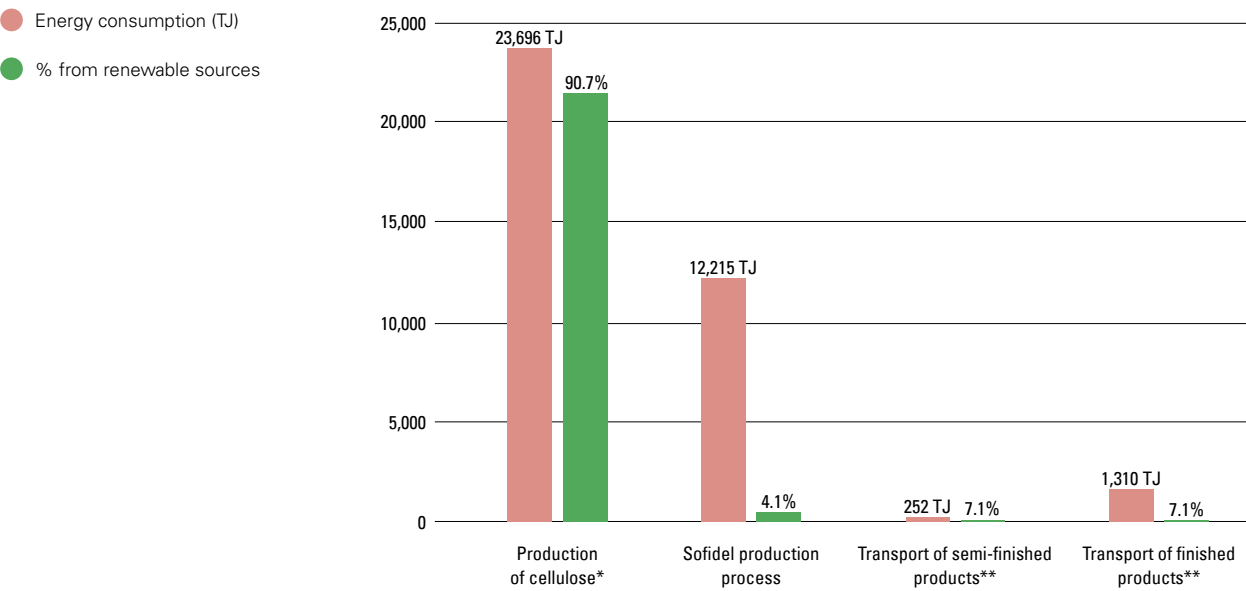
SOFIDEL GROUP ENERGY STATEMENT*



The total energy consumption of the production plants in 2018 was in line with that for 2017, amounting to 11.8 GJ/t paper compared to 11.7 GJ/t paper 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, followed in 2017 by the English plants of Sofidel UK Hamilton and Intertissue Baglan.

In 2018, the last paper mill in the United Kingdom, Sofidel UK Lancaster, was 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 four years or, alternatively, to have Energy Management Systems certified by third parties. Extending 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 to generate the energy required.

SOFIDEL GROUP ENERGY CONSUMPTION – 2018



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

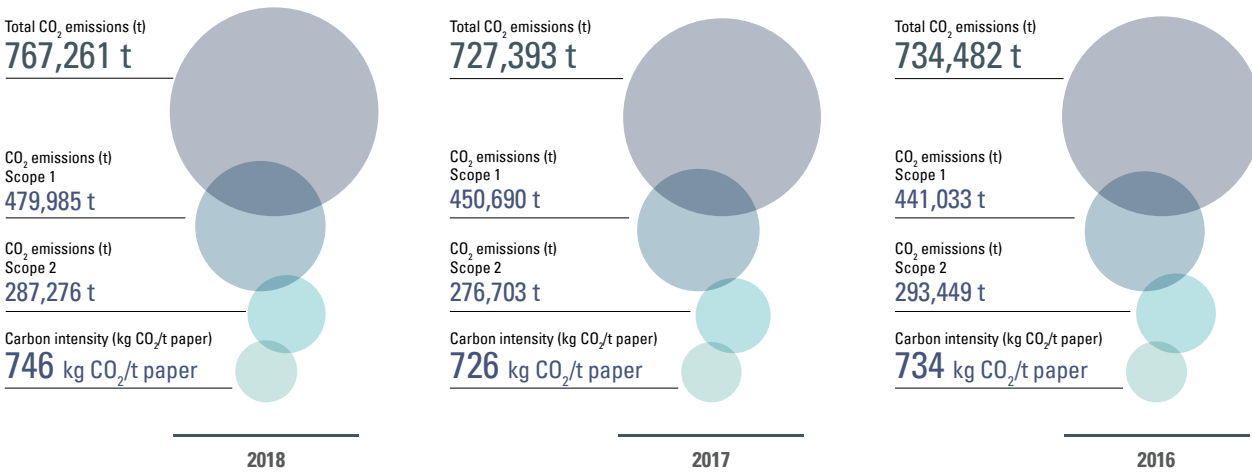
** Consumption coefficients obtained from the GHG Protocol-Mobile Guide v.1.3 (21/03/2005). The percentage of renewable energy was obtained from “Share of renewable energy sources in transport” (Source: Eurostat).

MANAGEMENT OF GREENHOUSE GAS EMISSIONS

Some important studies on the global effects of climate-changing emissions were published at the end of 2018. The World Meteorological Organization’s analysis, published on 22 November 2018, showed that the level of carbon dioxide concentration in the atmosphere has reached a new high, reaching 405 parts per million⁵, after breaking the psychological barrier of 400 p.p.m. the previous year. On 8 October 2018, the “Special Report on Global Warming of 1.5 °C”, prepared by the Intergovernmental Panel on Climate Change (IPCC) after being commissioned in 2015 during the 21st Conference on Climate Change in Paris (COP21), was made available to provide authoritative scientific guidance to the governments involved: the results obtained from the study show that, even if the action plans of the Paris Agreement are implemented, the temperature in 2100 will be 3 °C higher than levels before the industrial revolution. Policymakers must therefore set more ambitious targets, reducing CO₂ emissions by 45% by 2030, compared to 2010, and achieving zero emissions by 2050. Furthermore, from 2 to 15 December 2018, the COP24 was

held in Katowice (Poland): although the information contained in these two publications was already available, collaboration between all the parties involved was complicated by conflicting economic interests that led, first, to the duration of the event being extended and, finally, to only some of the expected results being obtained. The COP21 (Paris Agreement), which will come into force in 2020, was ratified, but only a few countries (European Community, Argentina, Mexico, India, Canada, Ukraine, Jamaica and China) have committed themselves to revising the goals for 2020 and making them more ambitious. As regards the results achieved in terms of reducing emissions, this last year was a period of intense production expansion, with 4 paper machines going into operation between the end of 2017 and 2018. This increased the Group’s production capacity by more than 25%, however, starting up such complex machines inevitably requires a period of fine-tuning, characterised by low productivity and therefore low efficiency. This affected the Group’s specific emissions, leading to poorer performance compared to 2017, despite the investments made to increase efficiency in the other production plants.

CO₂ EMISSIONS - SCOPE 1 AND 2



For all the years shown, from 2016 to 2018, 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 2012-2014, 2013-2015 and 2014-2016 respectively.⁶ Direct emissions from combustion in the production sites (Scope 1) are instead calculated in accordance with the European Union Emissions Trading Scheme (EU ETS), which regulates CO₂ emissions in Europe for industrial sectors with higher emissions.⁷ 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 include the most significant downstream components for 2018 in the report. Thus the emissions arising from the distribution of both semi-finished and finished products were calculated, total-

ling 144,853 t CO₂, corresponding to 147 kgCO₂ /t paper.⁸ In addition, the impact of the use of the packaging (paper and plastic packaging) was assessed, and amounted to 141,154 t CO₂, corresponding to 144 kgCO₂ /t paper.⁹

Other emissions into air

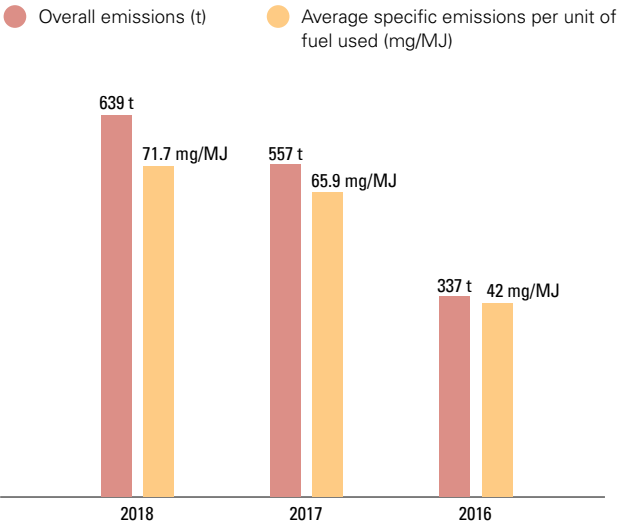
In addition to CO₂, other significant emissions from production are nitrogen oxides (NO_x): this group of emissions comes from combustion processes, in the presence of air, that occur in the paper production process, i.e. boilers and sheet drying systems. The calculation of nitrogen oxide is normally based on measurements made at chimneys in accordance with the methods required by current legislation in individual countries, while performance in other factories (Sofidel Benelux, SofidelAmerica Haines City, Sofidel America Circleville, Sofidel France Roanne, Sofidel Germany, Sofidel Sweden, Sofidel Greece, Sofidel UK Hamilton, Sofidel UK Lancaster,

5. WMO Greenhouse Gas Bulletin (GHG Bulletin), “The State of Greenhouse Gases in the Atmosphere Based on Global Observations through 2017”, No. 14, 22 November 2018.
6. International Energy Agency, “Statistics 2018 Edition – CO₂ Emissions from Fuel Combustion.”
7. Scope 1 emissions from non-ETS plants were estimated using the UN-FCCC 2017 coefficient of the Italian national inventory. The same coefficient has been applied for the calculation of other less significant emis-

sions not regulated by the ETS, such as those related to the use of forklifts and heating of work environments.
8. 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.
9. The emission factors used are taken from the Ecoinvent 3.4 database.

Intertissue Baglan and Sofidel Poland) have been estimated using the Group average.
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 SOFIDEL GROUP PLANTS



In addition, 320 kg of SO_x were emitted in connection with the use of biomass in boilers at the Sofidel France Frouard plant. Emissions of other greenhouse gases, such as leaks of fluorinated refrigerating gases equivalent to emissions of about 283¹⁰ tonnes of CO₂, were negligible, being extraneous to the Group's typical business.

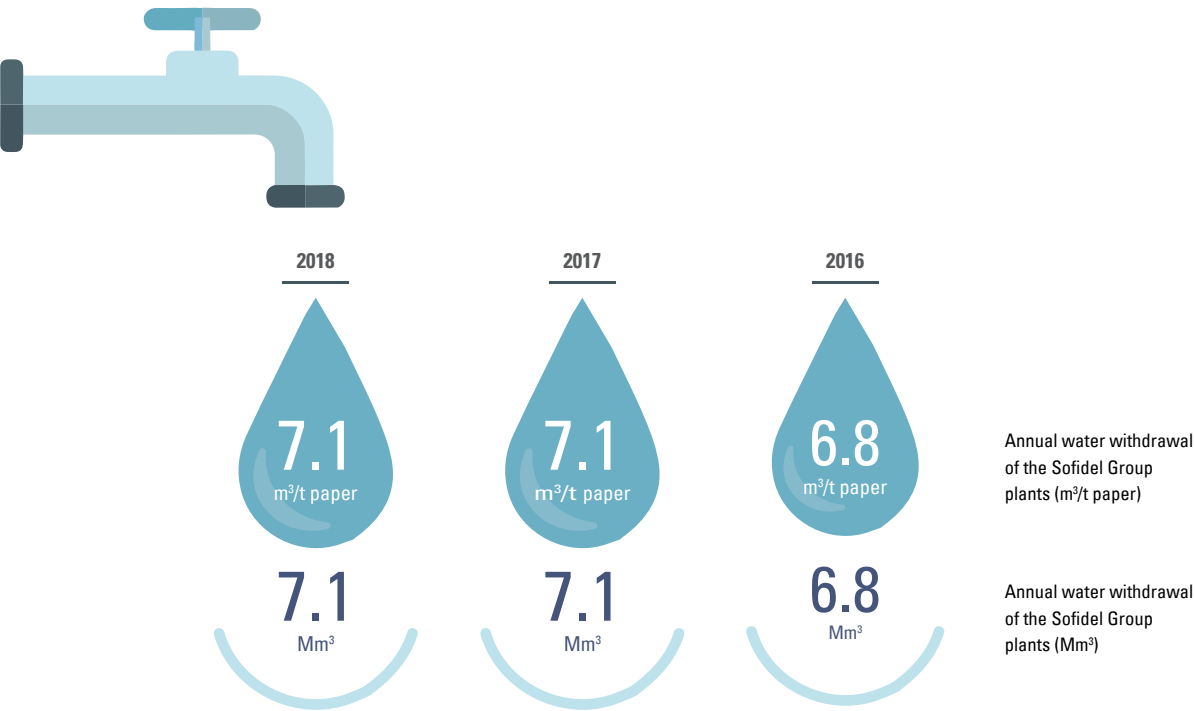
PROTECTION OF WATER RESOURCES
The availability and quality of water is changing all over the plant as a result of anthropogenic factors, i.e. human activities. Even areas traditionally rich in this resource, such as the Scandinavian peninsula and the United Kingdom, are beginning to show worrying shortages. Throughout Europe, the scarcity of water in recent years has led to an increase in droughts (involving 11% of the population and 17% of the territory). By 2030, it is very likely that half of Europe's catchment areas will be affected.
In such a framework, Europe therefore needs to promote water reuse: of the more than 40,000 million m³ of waste water in Europe treated by sewage systems, only 964 million are immediately reused. Greater incentives could increase the amount by at least 6,000 million m³ each year by 2025: in May 2018, the European Commission proposed new rules to stimulate and facilitate the reuse of water in the irrigation sector, while in September a public consultation was launched to update the Water Framework Directive (2000/60/EC). In this context, and also to protect its production capacity, a fundamental role is played by Sofidel's pursuit of objectives to reduce water consumption through both management measures and investments. 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 are worthy of note.

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



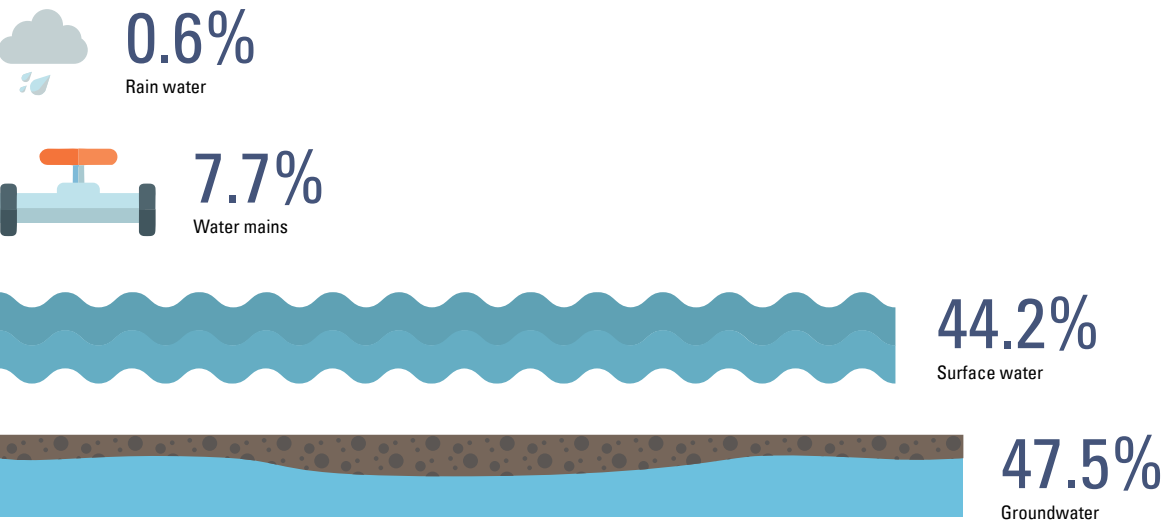
WATER WITHDRAWAL OF THE SOFIDEL GROUP*

* Due to the recent commissioning of the Sofidel America Circleville plant, the data do not include performance for this plant.



WATER SUPPLY SOURCES* – 2018

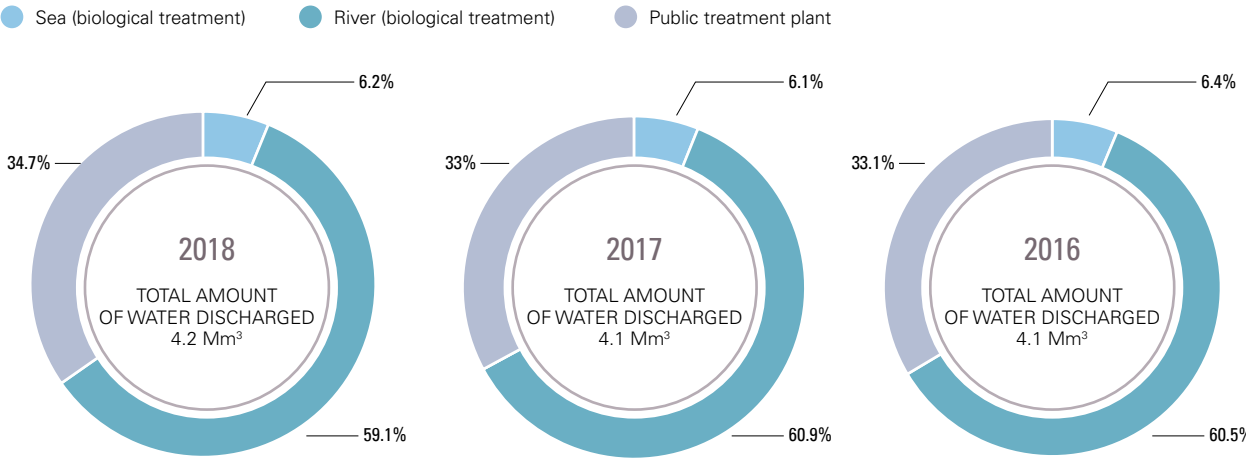
* Due to the recent commissioning of the Sofidel America Circleville plant, the data do not include performance for this plant.



The 2018 data are close to the excellent performance of 2017, considering the size of the Group and the variability of production.

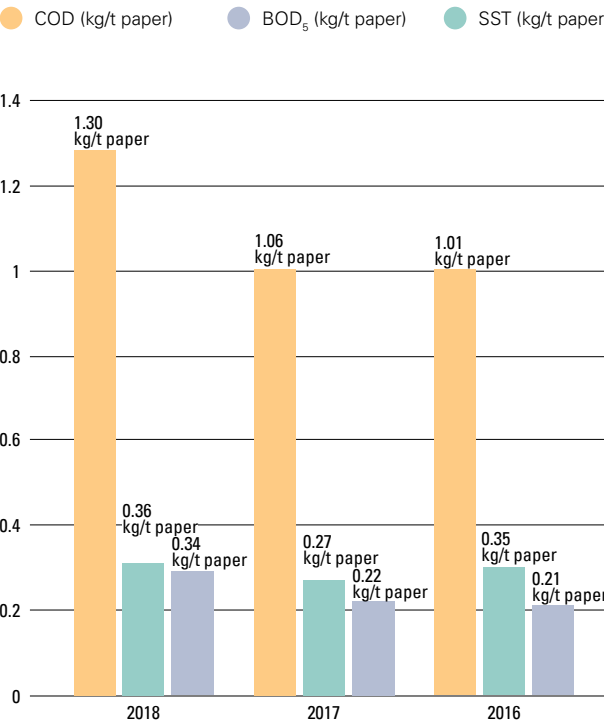
The percentage of water recycled in Sofidel paper mills can be estimated as above 96.5%.¹¹

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



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. The total amount of water discharged in 2018 shows a slight increase owing to the installation of the new plant in Spain and the coming on stream of the Polish plant, which started at the end of 2017. These plants discharge into external treatment plants, increasing the share of wastewater managed by public treatment plants (34.7% in 2018, compared to 33% in 2017). For the latter, the statistics produced by Sofidel give poorer quality data, because the wastewater is analysed before the external treatment. Nevertheless, the Group value of 1.30 kg/t paper falls well within the range identified by the European Commission, which can be obtained by applying the best technologies to the paper industry¹², which extends from 0.15 to 1.5 kg/t paper for the COD parameter.

SPECIFIC EMISSIONS OF POLLUTANTS INTO WATER



11. The recycling rate has been calculated using the method given in the publication “Methods for measuring water recycling in paper mills” (Asso-carta - Confindustria - Aticelca), February 2019.

12. Best Available Techniques (BAT) Conclusions for the Production of Pulp, Paper and Board.

PROTECTION OF FOREST RESOURCES

As the **second** most important European producer of tissue paper and the **seventh** 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. On this point, Sofidel has adopted a specific policy for protecting forest resources, as the Group’s main raw material for procurement, which establishes the following.

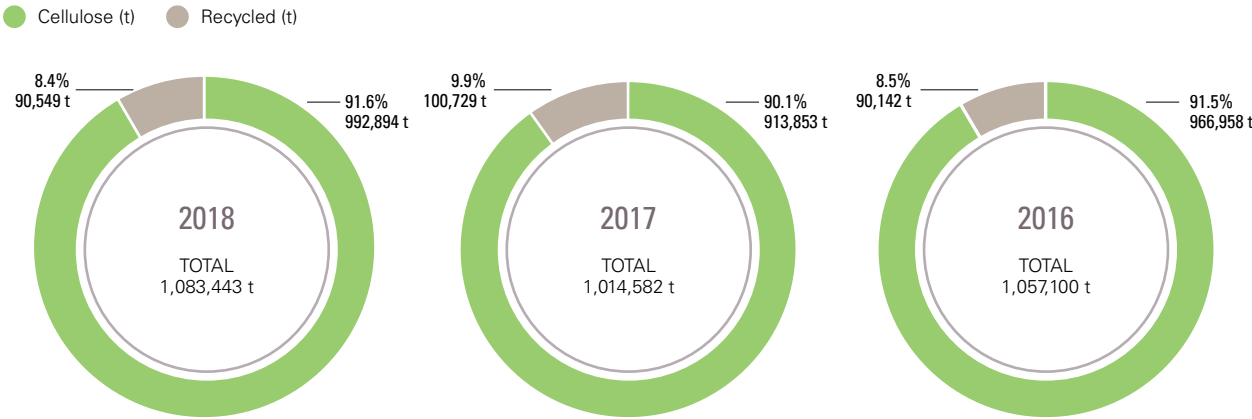
Fibrous raw material procurement policy

- 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 the use of sustainable forest management systems, certified in accordance with recognised, 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.

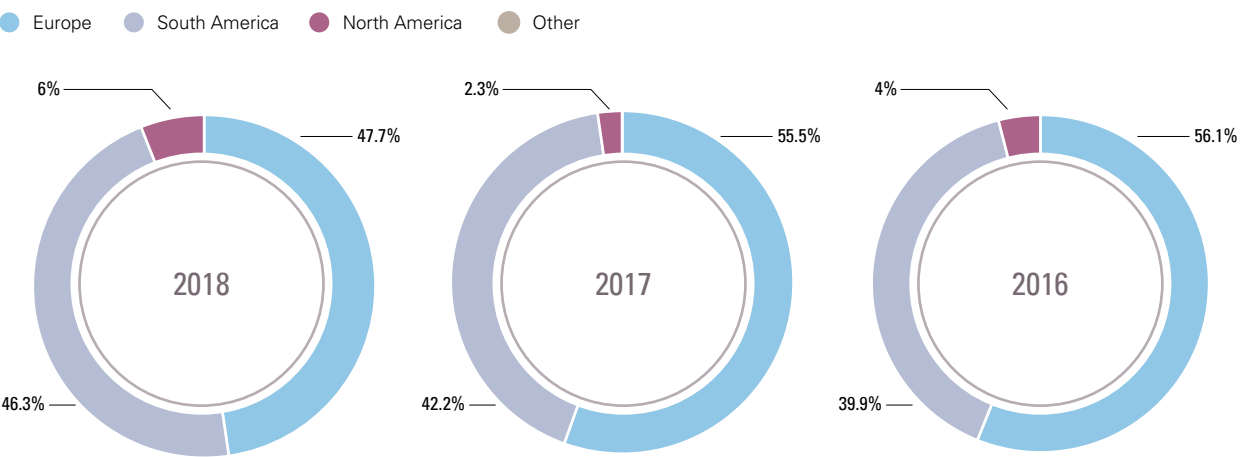
The predominant use of raw material composed of virgin wood fibre and knowledge of the role that the forests play in protecting the global environment and maintaining and enriching biodiversity have driven the Sofidel Group to adopt a precise policy for the purchasing of fibrous raw materials. In 2018, Sofidel purchased **992,894** 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 (**47.7%**) confirms this. Sofidel participated again this year in the CDP Forests Report: “Deforestation-free supply chains: from commitments

to action.” The company scored **A-** on a scale between A and F, a result that once more places it above the industry average for the year. As regards the commercial use of the FSC® (Forest Stewardship Council) and PEFC™ (Programme for Endorsement of Forest Certification) quality forestry brands, in 2018 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 plant is now able to produce and market tissue products under the PEFC™ brand, while Sofidel America Circleville and Sofidel Turkey do so under the FSC® and PEFC™ brands.** These new certifications will allow greater production flexibility and a more effective response to the demands of customers and consumers who want guarantees of forestry sustainability for their products.

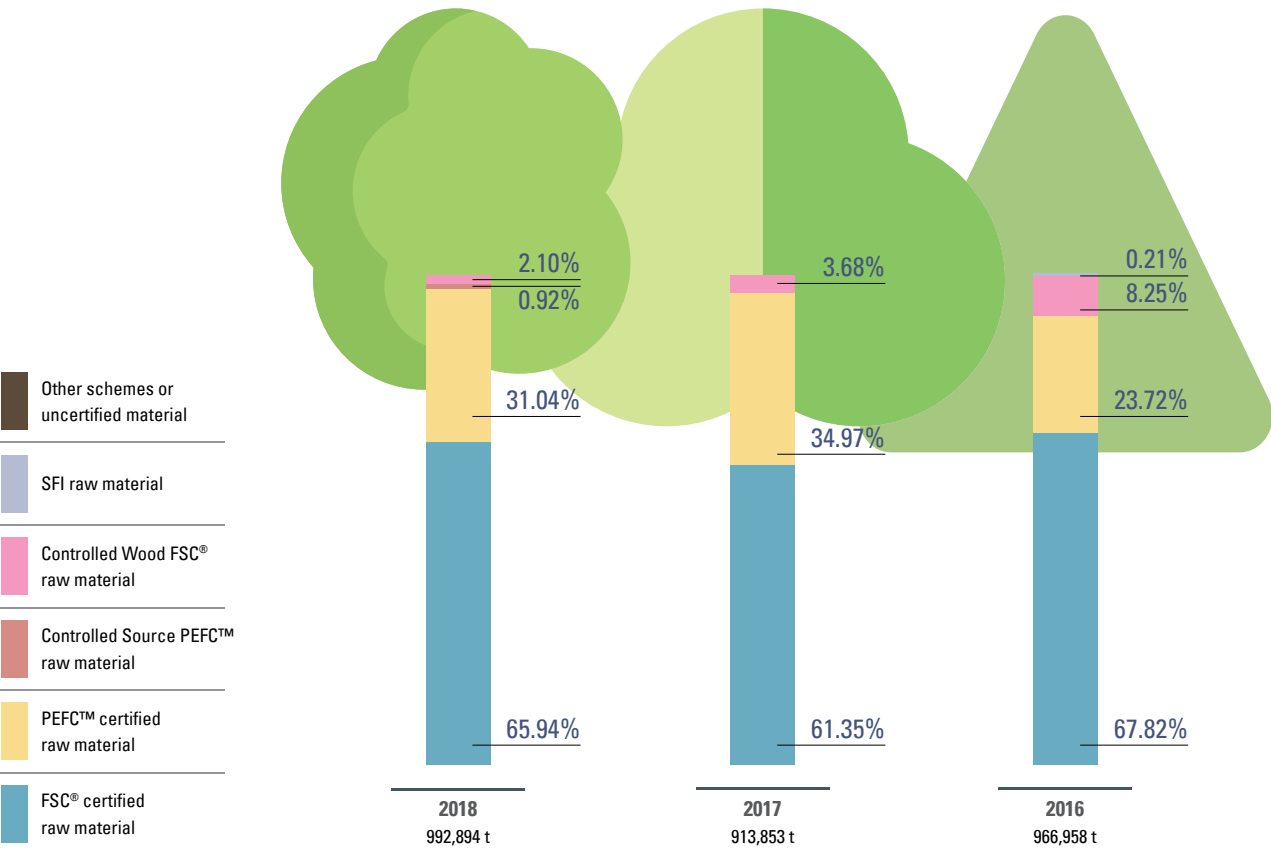
BREAKDOWN OF THE VIRGIN FIBROUS AND RECYCLED RAW MATERIAL PURCHASED



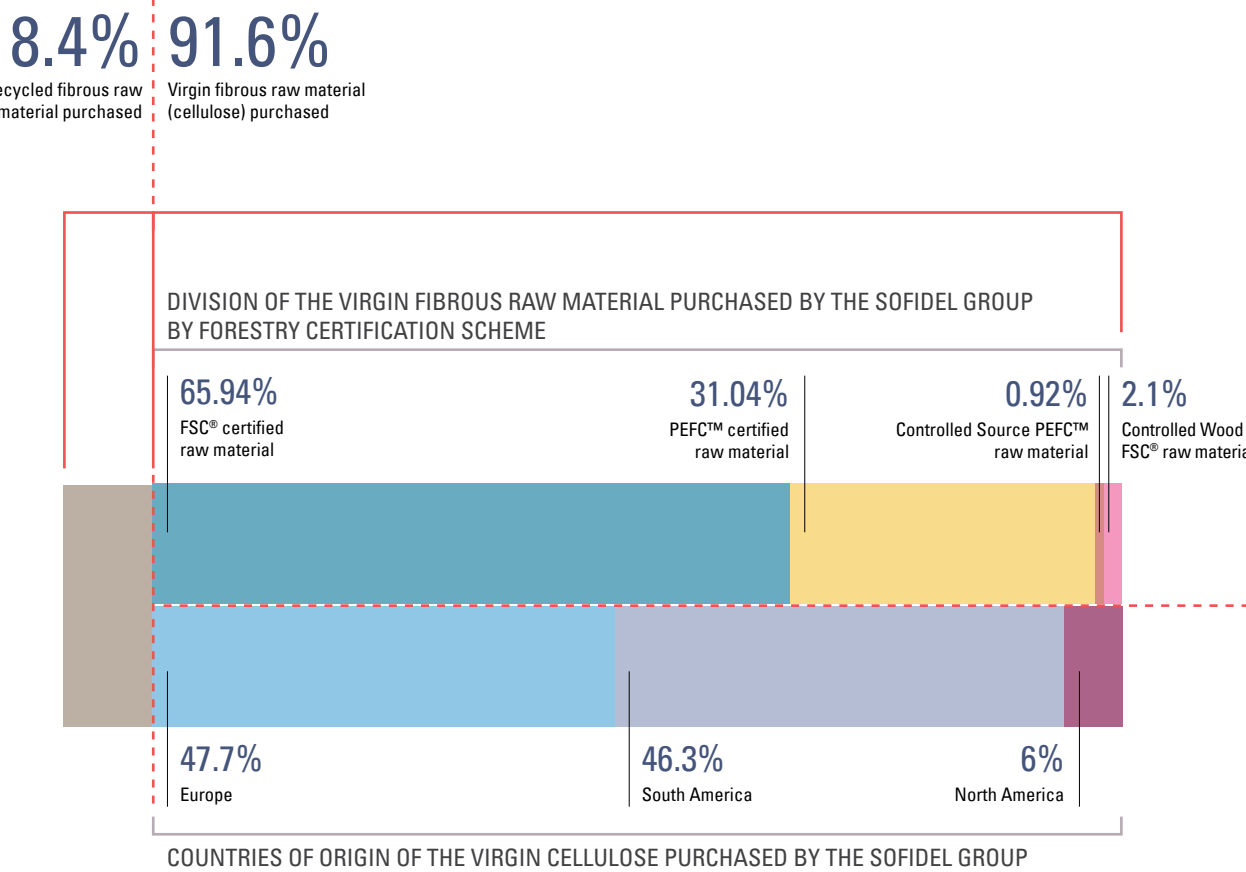
COUNTRIES OF ORIGIN OF THE VIRGIN CELLULOSE PURCHASED



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



2018 SUMMARY



PACKAGING AND OTHER RAW MATERIALS

On 16 January 2018, the European Union launched a new management strategy for certain disposable plastic products: the aim is to change the way in which products are designed, manufactured, used and recycled in European coun-

tries, creating new investment opportunities and new jobs. According to the new plans, all plastic packaging on the EU market will have to be recyclable by 2030, the use of disposable plastic bags will be reduced and the intentional use of microplastics will be limited.

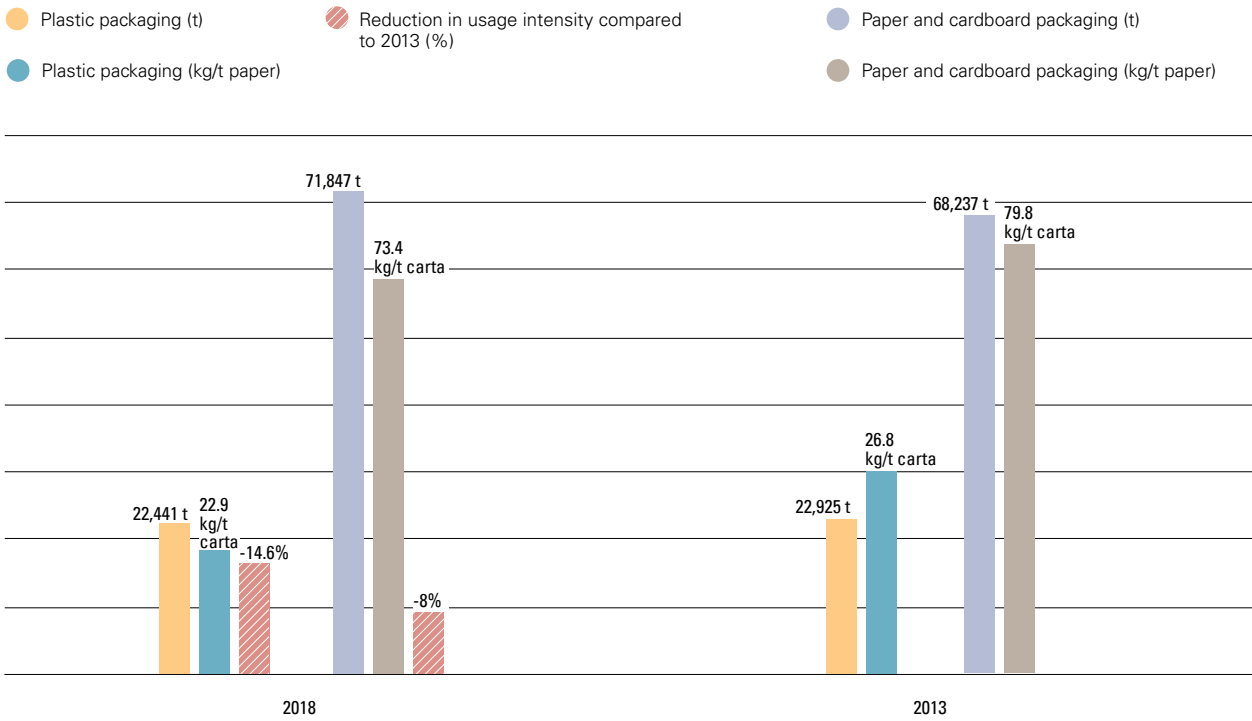
Plastic

Over the past fifty years, the role and importance of plastic in our economy has grown steadily. World production of plastic has increased twentyfold since the 1960s, reaching 322 million tonnes in 2015, while annual consumption of plastic in the European Union is around 49 million tonnes. In Europe, the potential for recycling plastic waste remains largely untapped. Reusing and recycling of plastic at the end of its life remains very low, particularly compared to other materials such as paper, glass or metals. Every year about 25.8 million tonnes of plastic waste are generated in Europe. Less than 30% is collected for recycling. A significant proportion of the latter leaves the EU for processing in third countries, where different environmental standards may be applied. At the same time, landfill and incineration rates for plastic waste remain high, at 31% and 39% respectively. Over the last ten years, the amount sent to landfill has decreased and incineration has increased. Large quantities of plastic waste contaminate both land and marine environments, causing significant economic and environmental damage. Globally, 5 to 13 million tonnes of plastic end up in the oceans every year. Plastics are estimated to account for over 80% of marine litter. In the European Union, 150,000 to 500,000 tonnes of plastic waste enter the oceans every year. This represents a small percentage of global marine litter. However, plastic waste from European sources ends up in particularly vulnerable marine areas, such as the Mediterranean Sea and the Arctic Ocean. For these reasons Sofidel has decided to start reducing its consumption of plastic as packaging for items it places on the market. Since 2013, the share of plastic in the total weight of Sofidel paper products has decreased by around 15%, with a further reduction to 20% planned to take place by the end of 2020. Paper has recently been introduced as an alternative packaging material, as it is more widely recycled, comes from a renewable resource and, if accidentally dispersed in the environment, biodegrades in a few months.

Sofidel has anticipated these programmes, analysing packaging consumption for many years and launching and completing many projects to reduce the use of plastic materials: most of the items produced now have packaging with optimised thickness and innovative product lines without cardboard cores have been put on the market. In the coming months, packaging in renewable materials (such as Kraft

paper or plastic produced from raw materials of vegetable origin) will be gradually introduced to replace oil-based plastic materials. In recent years, thanks to this strategy, consumption of packaging has shown a distinctly positive trend, confirmed once again in 2018, when a 14.6% reduction in usage intensity was recorded for plastic packaging and a 8% reduction for paper and cardboard packaging compared to 2013.

CONSUMPTION OF PACKAGING* - 2018 AND 2013



* Data extracted using ERP software.

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	84,103
Chemical additives	34,451
Oils and lubricants	268

* Data extracted using ERP software.

In 2018, the contribution of recycled raw materials was 162,396 tonnes, i.e. 12.5% of the total¹³; the total of the raw materials obtained from renewable sources was 1,239,393 tonnes, corresponding to 95.5% of the total.

CONSTANT IMPROVEMENT OF WASTE MANAGEMENT

Waste management in every Sofidel Group plant follows detailed procedures to increase the separation of the materials into homogeneous categories and facilitate their delivery to recycling centres.

The refuse produced by paper-making mainly consists of sludge, deriving from the production waste of processes that use 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 waste transport and intermediation are subject to frequent checks to verify their work both inside and outside the plants.

Sofidel did not carry out any cross-border shipping of hazardous waste.

The costs associated with the treatment of waste amounted to about € 4.7 m in 2018. In 2018, there were no significant spills.

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

WASTE PRODUCED BY THE SOFIDEL GROUP



AMOUNT OF NON-HAZARDOUS WASTE (T)

Amount of non-hazardous waste sent for recycling (t)*
2018: 81,772
2017: 89,346
2016: 77,820

Amount of non-hazardous waste sent for dumping or disposal (t)*
2018: 22,559
2017: 25,599
2016: 28,481

AMOUNT OF HAZARDOUS WASTE (T)

Amount of hazardous waste sent for recycling (t)*
2018: 449
2017: 461
2016: 491

Amount of hazardous waste sent for dumping or disposal (t)*
2018: 244
2017: 292
2016: 304

* The statistics on the final destination of the waste refer to the treatments described in Annexes I and II of Directive 2008/98/EC. Following the criteria of a European regulation, the data do not include the Sofidel America plants.

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 “Packaging and other raw materials” section (page 92), has certainly had a beneficial impact in terms of a lower proportion 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 Group’s Brand products now carry the FSC® label, 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 Sofidel Group’s entry into the Economic Chamber of FSC® International and FSC® Italy. Also in 2018, fulfilling the commitment it has made, Sofidel has constantly increased production of products with an ecological trademark (FSC®, PEFC™, Ecolabel, Swan Label, Blue Angel), due both to the demand from customers, who are proving to be increasingly sensitive to environmental issues, and due to the media pressure that Sofidel exerts daily through its communication and dissemination tools. In 2018, the Group produced articles with at least one ecological trademark totalling about 650,000 tonnes, an increase of over 100% compared to 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.

The issue of the circular economy is considered an important driver in EU product policies, but also in the selection criteria of distribution companies and consumers. Sofidel has decided to invest in its products both to reduce the amount of packaging and to introduce materials with greater recyclability and renewability. During 2018, many products were developed with paper packaging, instead of traditional plastics, without a cardboard core or with compostable packaging. The launch of these solutions is expected in 2019 with appropriate media coverage. Institutionally, Sofidel co-operates 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. For 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 environmental 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 scheduled to be completed in 2019.



THE FIGURES ON ENVIRONMENTAL MANAGEMENT AT SOFIDEL GROUP PLANTS

● Integrated plant

● Converting plant

● Paper mill

	Water consumption (m³)	Consumption of fossil fuel (TJ)	Energy from biomass (TJ)	Consumption of electricity (TJ)	purchased from national grid (TJ)	self-produced by co-generation (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 solids (t)	Emissions of nitrogen (t)	Phosphorus emissions (t)	NO _x emissions (t)	SO _x emissions (t)	CO ₂ emissions - Scope 1 (t)	Total waste disposed of (t)
Soffass via G. Lazzareschi (IT)	462,045	1,172.5	-	372.9	133.7	234.1	5.1	0.0	0.0	0.0	54.4	n.a.	5.5	3.7	3.5	170.5	-	69,693	2,022
Soffass Tassignano (IT)	5,387	0.0	-	26.7	23.7	0.0	3.0	0.3	0.0	0.0	-	-	-	-	-	-	-	0.0	1,226
Soffass via Leccio (IT)	264,964	603.2	-	177.2	57.2	120.0	0.0	0.0	0.0	0.0	52.7	0.5	5.7	1.2	0.0	3.8	-	33,334	704
Soffass via Fossanuova (IT)	10,915	1.0	-	31.2	25.7	0.0	5.5	1.2	0.0	0.0	-	-	-	-	-	-	-	57	1,741
Soffass Valdottavo (IT)	220,661	363.8	-	115.8	13.7	102.1	0.0	15.2	0.0	0.0	14.9	1.1	1.2	1.1	0.2	2.3	-	19,822	334
Soffass Monfalcone (IT)	223,887	362.5	-	106.7	18.2	88.6	0.0	0.6	0.0	0.0	11.2	0.9	1.8	0.0	0.0	37.1	-	20,139	530
Soffass Val Fegana (IT)	134,840	206.6	-	51.2	4.5	43.3	3.5	0.2	0.0	0.0	6.9	0.7	0.9	0.6	0.1	6.9	-	11,377	298
Sofidel France Frouard (FR)	527,722	541.7	251.4	439.5	439.5	0.0	0.0	0.0	0.0	0.0	31.0	1.8	3.2	1.7	0.2	52.2	0.3	30,454	2,016
Sofidel France Roanne (FR)	218,558	203.3	-	113.2	113.2	0.0	0.0	0.0	0.0	0.0	90.3	29.7	40.7	0.9	0.2	18.9	-	11,587	573
Sofidel France Ingrandes (FR)	2,040	5.9	-	12.9	12.9	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	330	583
Sofidel Hungary (HUN)	7,867	0.4	-	7.4	7.4	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	25	857
Sofidel Poland (PL)	479,168	724.5	-	293.7	169.9	123.9	0.0	0.3	3.3	43.4	170.3	59.2	32.7	5.6	0.8	40.7	-	40,254	1,160
Sofidel Spain (ES)	455,100	256.4	-	131.7	131.7	0.0	0.0	0.0	0.0	0.0	53.5	n.a.	5.5	1.9	0.0	6.9	-	14,492	1,912
Sofidel Germany (DE)	296,593	402.4	-	232.6	232.6	0.0	0.0	0.0	0.0	0.0	27.0	1.9	3.4	0.1	0.1	37.9	-	22,071	1,501
Werra (DE)	266,698	125.8	-	75.4	75.4	0.0	0.0	0.0	0.0	0.0						4.9	-	7,061	21,104
Omega (DE)	578,695	232.2	-	167.9	167.9	0.0	0.0	0.0	0.0	0.0	400.4	96.8	185.3	2.5	3.1	10.9	-	13,009	43,846
THP (DE)	241,218	185.2	-	133.8	133.8	0.0	0.0	0.0	0.0	0.0						11.5	-	10,348	288
Sofidel Greece (EL)	142,639	173.7	-	81.5	81.5	0.0	0.0	0.0	0.0	0.0	37.8	9.7	5.1	0.9	0.0	15.6	-	9,678	151
Sofidel Benelux (BE)	735,735	558.8	-	267.8	267.8	0.0	0.0	0.0	0.0	0.0	36.4	1.5	5.5	4.9	0.3	20.9	-	31,592	1,835
Sofidel Romania (RO)	315,961	231.8	-	135.8	135.8	0.0	0.0	0.0	0.0	0.0	26.3	7.1	5.4	2.4	0.3	13.4	-	12,736	17,559
Sofidel Sweden (SE)	385,498	128.2	229.9	217.2	217.2	0.0	0.0	0.0	0.0	0.0	74.8	22.3	5.9	1.4	0.0	30.6	n.a.	9,327	1,304
Intertissue (UK)	323,032	373.6	-	212.9	212.9	0.0	0.0	0.0	0.0	0.0	21.2	1.1	4.3	1.9	0.3	40.9	-	21,268	1,908
Intertissue Horwich (UK)	249	6.7	-	8.4	8.4	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	380	100
Sofidel UK Hamilton (UK)	381,410	405.3	-	195.7	195.7	0.0	0.0	0.0	0.0	0.0	107.9	33.5	28.4	1.2	0.1	40.1	-	23,064	802
Sofidel UK Rothley Lodge (UK)	n.a.	2.8	-	30.5	30.5	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	176	547
Sofidel UK Lancaster (UK)	172,628	212.3	-	83.5	83.5	0.0	0.0	0.0	0.0	0.0	15.7	3.5	3.2	0.2	0.1	19.6	-	12,147	194
Sofidel Turkey (TR)	5,147	0.6	-	3.5	3.5	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	35	331
Sofidel America Haines City (US)	213,342	750.5	-	240.2	82.9	157.3	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	35.6	-	41,960	n.a.
Sofidel America Circleville (US)	n.a.	239.3	-	144.6	137.2	7.4	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	17.9	-	13,378	219
Sofidel America Henderson (US)	7,960	1.7	-	12.1	12.1	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	111	2,277
Sofidel America Hattiesburg (US)	6,450	0.0	-	23.6	23.6	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	0.0	606
Sofidel America Tulsa (US)	n.a.	0.0	-	16.2	16.2	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	2.0	3,225
Sofidel America Green Bay (US)	n.a.	1.2	-	27.7	27.7	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-	-	77	5,433



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.

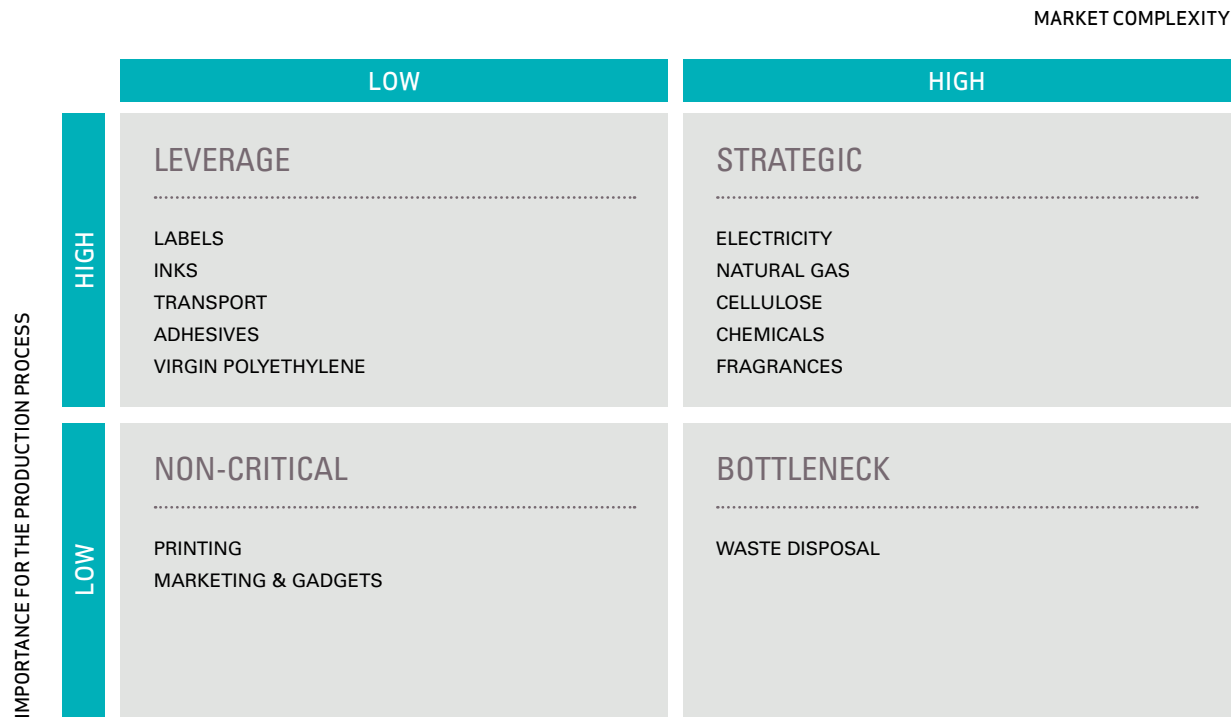
The tool chosen for supplier sustainability assessment is the TenP platform. Developed by the Global Compact Network Italy Foundation, TenP provides a prequalification system for assessing individual suppliers in terms of working conditions, respect for human rights, environmental protection and the 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 reputational risk that define the portfolio of critical suppliers and critical turnover (turnover associated with product categories with reputational risk). The target, for the year 2018, was to pre-qualify on the TenP platform those suppliers that contribute to the achievement of 90% of the critical turnover: the percentage reached was 86%.

During 2018, the target for the percentage of critical turnover to be associated with pre-qualified suppliers on the TenP platform was revised: the threshold was set at 85% of critical turnover in each category with reputational risk.

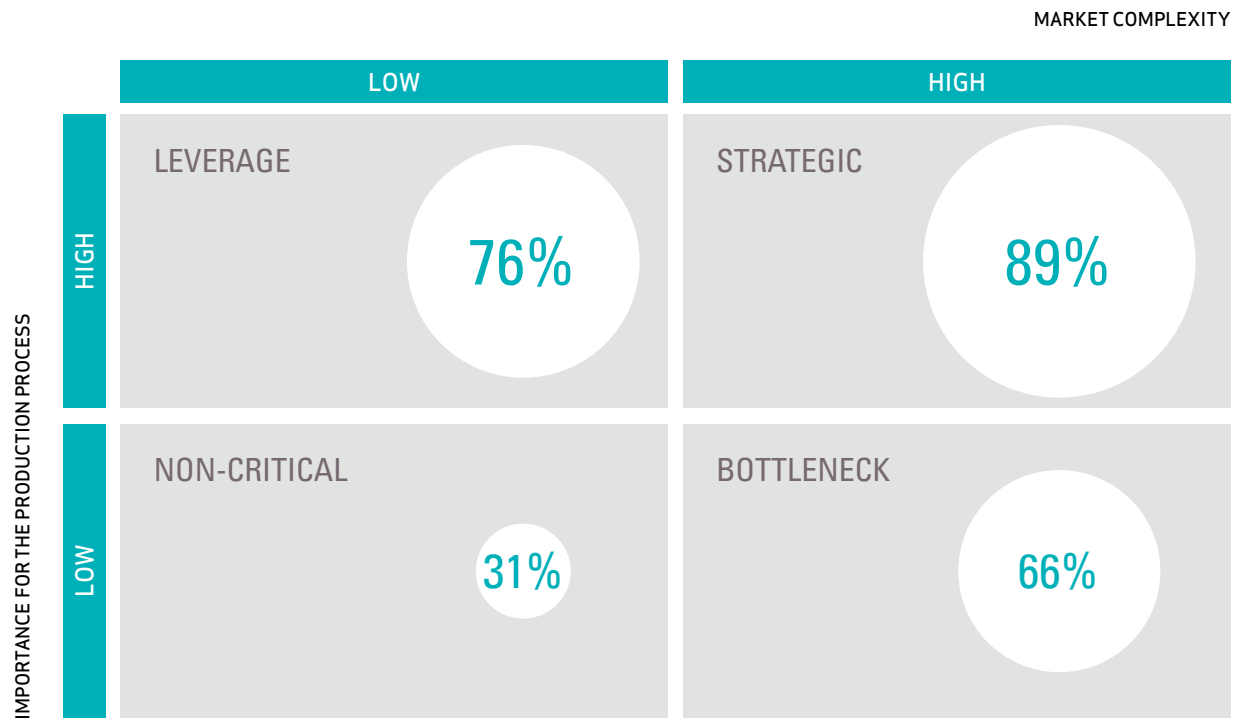
The product categories with reputational risk can be classified according to the Kraljic matrix, shown below.

KRALJIC MATRIX: DISTRIBUTION OF RISK CATEGORIES



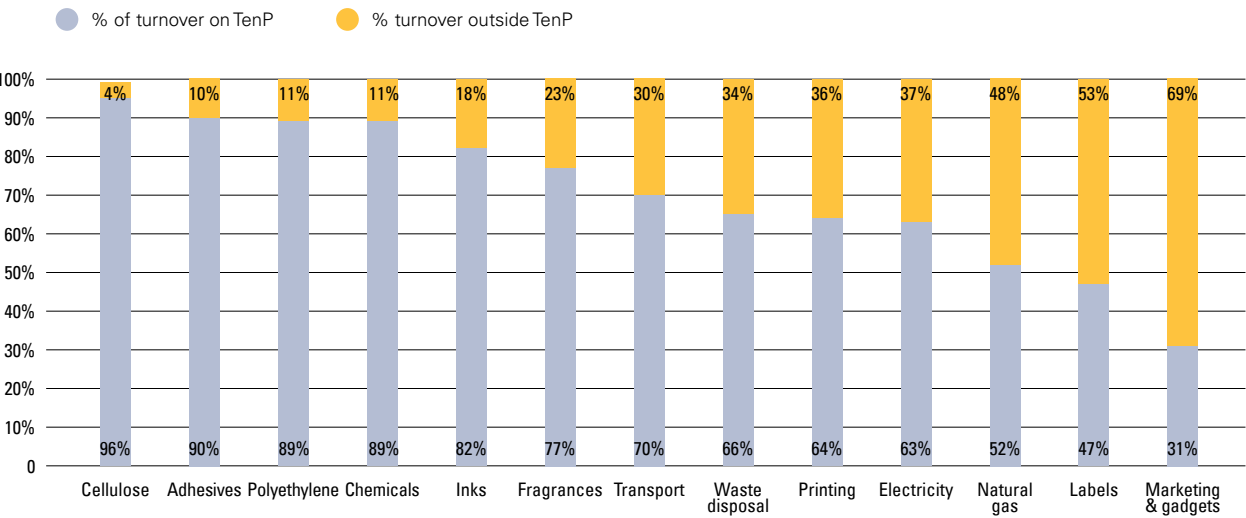
The critical turnover associated with each area of the Kraljic Matrix is generated as a percentage of prequalified suppliers on the TenP platform. The percentages achieved for the year 2018 are distributed as follows.

KRALJIC MATRIX: DISTRIBUTION OF THE CRITICAL TURNOVER COVERED BY TenP



Finally, the overall target is verified on the basis of the turnover for the individual product category with reputational risk. The distribution of the percentages reached in 2018 is shown below.

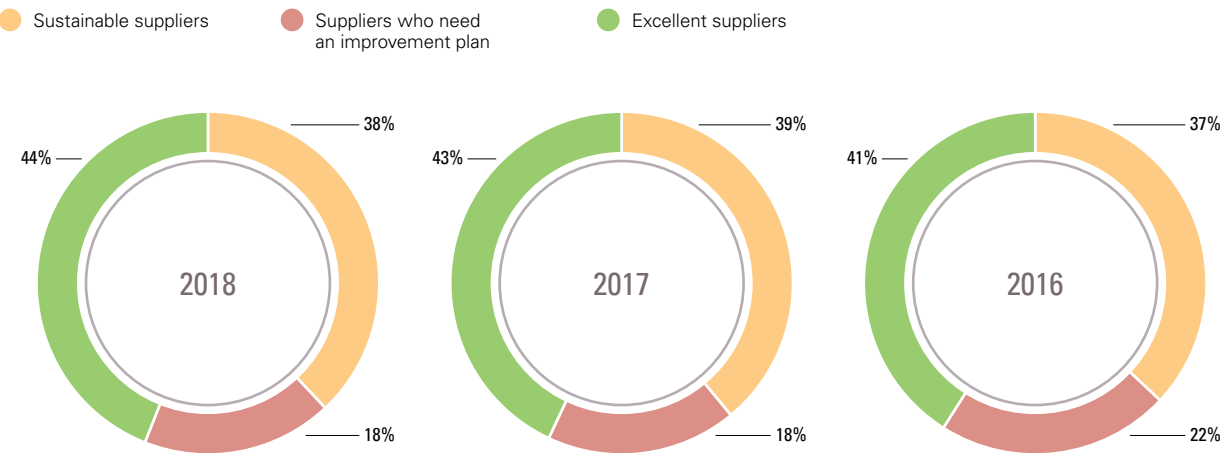
CRITICAL TURNOVER COVERED BY TenP



Based on the new target set for 2019, the product categories Cellulose, Adhesives, Polyethylene and Chemicals exceeded the coverage threshold.

In 2018 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).

SOFIDEL GROUP SUPPLIERS

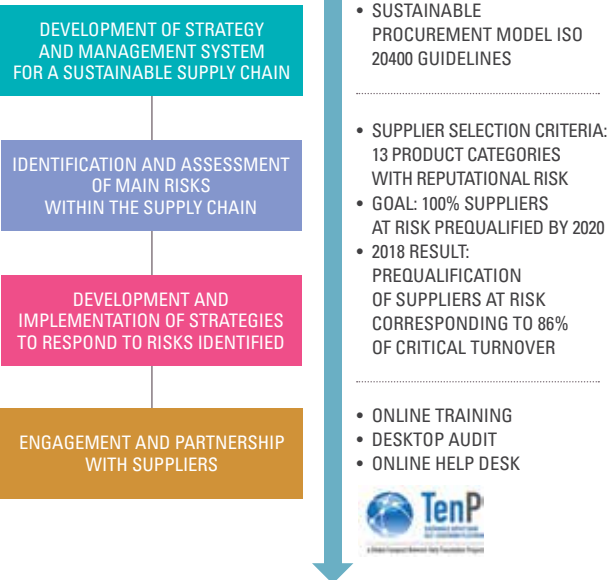


The assessment of suppliers’ sustainability performance is objectified by a Desktop Audit programme supported by a third party (SGS).

Sharing the results obtained is a moment of celebration with the Sofidel Suppliers Sustainability Award (3SAward): the event was created to encourage, disseminate, enhance and reward best practices and improvements made by the Group’s suppliers in the field of environmental and social sustainability. The third Sofidel Suppliers Sustainability Award was held in Columbus, Ohio (USA), and was attended by around 300 suppliers in 2018.

The event took place one day after the inauguration of the Circleville integrated plant, also in Ohio, the Group’s largest, most modern and sustainable plant. Luigi Lazzareschi, Chief Executive Officer of the Sofidel Group, said: *The opening of our new facility in Circleville, Ohio, was an opportunity for us to bring the 3SAward to the United States and present our idea of sustainable development directly to our US suppliers. We consider the development of fully collaborative relationships with our suppliers as strategic and we therefore work to identify common objectives and paths. The modernity and efficiency of the plant inaugurated yesterday, as well as our commitment to continuous improvement, is also the result of their collaboration.*

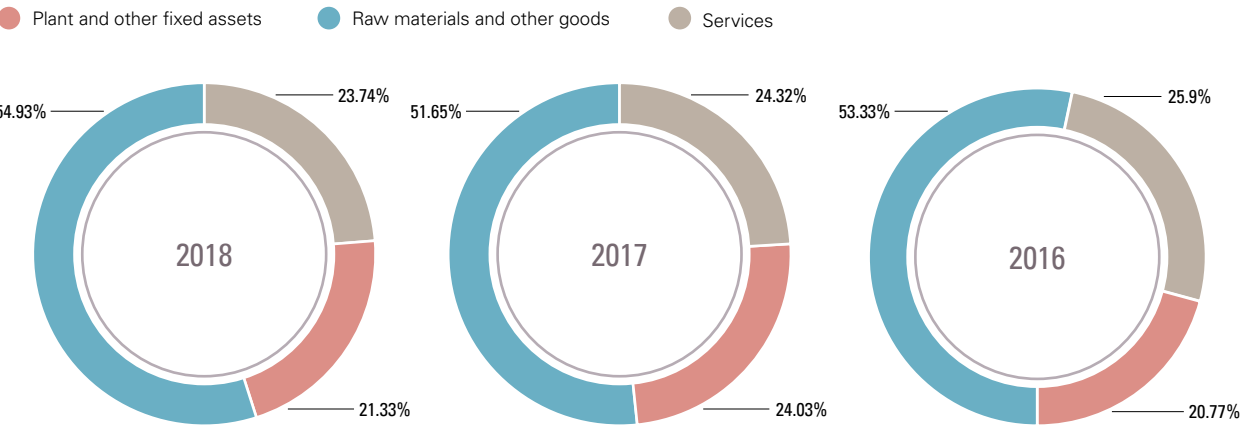
Sofidel has structured its purchasing sustainability model in line with the ISO 20400 Sustainable Procurement guidelines. In 2018, the Sofidel Group obtained a renewed certification from SGS Italia confirming that the sustainable purchase model complies with the reference standard.



SUPPLIER MAP

In 2018 Sofidel mainly purchased raw materials, with a total value amounting to 54.93% of total supplier turnover.

TURNOVER - SOFIDEL GROUP SUPPLIERS



SUPPLIER QUALIFICATION, SELECTION AND ASSESSMENT

In the first quarter of 2018, the Sofidel Group completed implementation of the SAP Ariba platform: the go live of the

Supplier Lifecycle and Performance Management (SLP) module has effectively initiated the new integrated supplier pre-qualification process.

FROM QUALIFICATION TO PRE-QUALIFICATION



The SLP module is the sole interface between the Sofidel Group and its suppliers and the channel for the structured collection of information required for the prequalification process. The integrated prequalification process is divided into two distinct macro phases, both subject to approval by the Sofidel Group:

- Registration;
- Qualification.

The macro registration phase allows the supplier profile to be recorded and ensures that the supplier signs up to the integrated framework of policies that the Sofidel Group has defined by adopting the main international standards and guidelines.

The macro qualification phase is differentiated based on the product category that the supply belongs to: suppliers con-

nected to 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. The macro qualification phase is therefore the link that integrates the TenP platform and the Ariba platform, creating a single prequalification process. Final approval of the macro qualification phase gives the supplier “qualified” status on SAP Ariba.

The new process is integrated into the Group’s management system with the issue of a purchasing management procedure that introduces the selection of a prequalified supplier as a necessary condition for the start of a purchasing cycle: prequalification becomes the standard within the Sofidel Group.

NEW CHALLENGES

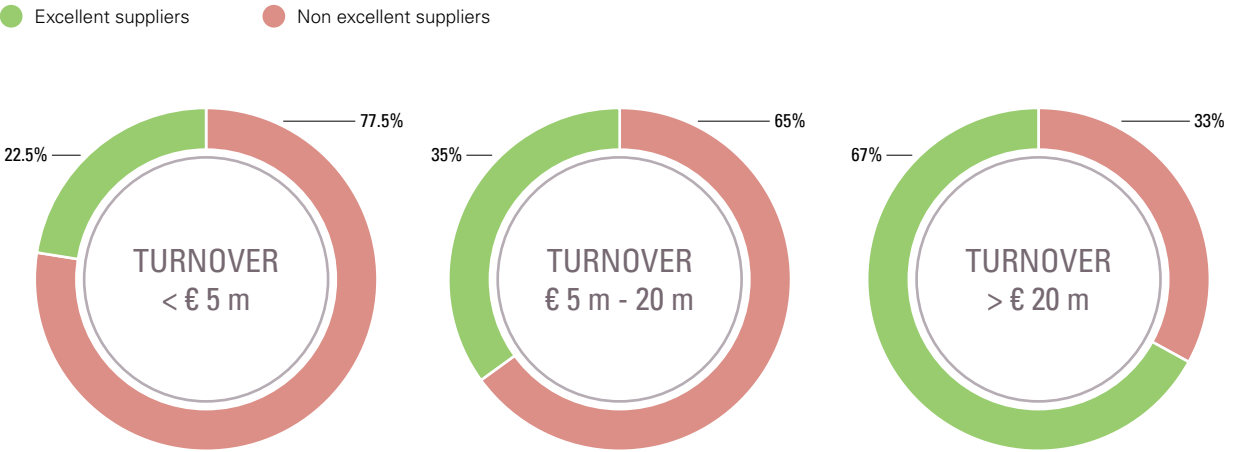
The goal of having a supply chain with zero reputational risk means that the Sofidel Group has to continually monitor and stimulate sustainability all along its supply chain.

Analysis of the current supplier portfolio from a sustainability viewpoint clearly indicates the new challenge ahead for the Group: encouraging the transformation in a sustainable direction of the small and medium sized enterprises (turnover of less than €20 m) belonging to the Group’s network of suppliers.

This transformation is achieved through the implementation

of an online training service and an online help desk to support these companies with their improvement plans and in their adaptation to meet Sofidel standards. In particular, comparison with 2017 data indicates that this transformation has started in the sector of medium sized companies (turnover € 5 m - 20 m), while the change of pace expected within small companies (turnover < € 5 m) has so far failed to materialise. The Group will therefore focus its attention on this type of company to support their transformation and help reduce the gap that separates them from other companies within the Group’s network of suppliers.

THE SME CHALLENGE – 2018



The Sofidel Group intends to launch a training campaign in 2019 aimed at top-level suppliers on the TenP platform: the tool chosen to improve their performance is the SAP SuccessFactors platform through specific e-learning modules. Stimulating sustainability throughout the supply chain means extending pre-qualification on the TenP platform to second-tier suppliers. The complexity of the market is a critical factor that has not helped to achieve this objective. However, the Sofidel Group intends to pursue the challenge of a qualified second-tier supply chain.

The goal that the Sofidel Group intends to pursue in 2019 is

to make the Ariba platform the only tool for monitoring supplier performance, including in terms of sustainability.

The supplier onboarding phase, after the platform’s physiological running-in, lasted six months in 2018 and occupied the second half of the year: 443 suppliers successfully completed the integrated prequalification process on the Ariba platform in this period.

The goal for 2019 is to prequalify suppliers on the Ariba platform who have developed a turnover with the Sofidel Group of more than € 10,000 in the two-year period 2017-2018 and who are included in the tool’s scope of application.



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
Staff training and development
Health and safety
Industrial relations

The Sofidel Group's approach to the management of human resources focuses on the development of its employees and their integration into the company organisational culture.

MANAGEMENT OF HUMAN CAPITAL

The Sofidel Group's approach to the management of human resources focuses on the development 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 Code of Ethics and the Group's guidelines for Human Resources Management, which focus on the key role of human capital in the value creation process as a strategic asset for the company, and promote respect for equal opportunities and diversity as forms of wealth to be cultivated, alongside the values of equal treatment, development of individual abilities, teamwork, 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 9.32 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 methodologies 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 this area, the Performance Evaluation project moved forward at Group level during the year. In addition, also during 2018, the Evaluation Card project was continued, 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 groups of staff and joined 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 2018 the Human Resources Department implemented the Job Internal Recruitment project successfully, 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 policies already in place and applied for years against every form of harassment and/or discrimination within Group companies.

In 2018, the seventh "International HR & H&S Meeting" of the Group was organised, attended by all the country HR Managers at European level. 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, in order to increasingly involve and develop the Group's workforce, HR strategies and new projects for implementation were defined at a global level. These projects include the "Remote Working" project and a new "Performance Appraisal" project that will be developed during 2019.

COMPANY WELL-BEING

The "Sofidel People" project, launched following the 2016 survey on organisational well-being, continued in 2018. The three areas identified concern improving internal com-

munication flows, improving the spread and knowledge of company processes and procedures and optimising human resource management.

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:

- an Intranet where employees can find communication and information tools, an area dedicated entirely to human resources and a series of tools to facilitate their daily work;
- the *Soft & Green* newsletter in order to develop the company's culture on sustainability issues;
- Sofidel Channel, an internal communication channel present in the Italian plants, to reach those who do not work in the offices.

Sofidel People. Spread and knowledge of company processes and procedures

The project relating to expanding knowledge of processes and procedures is being implemented through various initiatives. One of these was the purchase and implementation of a proprietary e-learning platform. This tool allows a more rapid, organised, widespread and traceable dissemination of company procedures that require training. The platform has been active for the entire Group since January 2018 and during the year was used to distribute company documents, tutorials and training courses. Another project, already underway and scheduled for launch in 2019, aims to make it easier for employees to access information on the company's organisational structure. It is a software application that dynamically interacts with the SAP HR management system. This tool allows users to view and search for information related to the employee's organisational profile and other operationally useful details.

Sofidel People.
Optimising human resource management

Defining the distinctive Sofidel leadership style is one of the improvement projects in the Sofidel People initiative. It aims to promote greater uniformity and effectiveness in the management of human resources and represents a challenging and long-term project for the Group. The project testing phase in the HR area was completed in 2018. With the active involvement of the HR Managers of the various European countries, Sofidel's ten principles of good leadership were translated into actual behaviours to be applied in the day-to-day activities of the area in question, in the various fields involved. Some of the projects that arose from the need to translate the ten principles into practice include: new performance review, job rotation, remote management, recruiting and induction. These projects continued in 2018 with the division of the HR International Team into different subgroups, coordinated by five Project Managers, based on the guidelines received from Corporate. Project Managers regularly reported on the progress of their work at the HR meetings held during the year.



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. The protection of workers' health is ensured by constant

monitoring of working environments, with implementation of the best safety standards for machines and equipment, and by conducting training programmes and providing information. In this regard, during the year Sofidel continued the **Workplace Health Promotion (WHP)** and **Welfare** projects.

Workplace Health Promotion (WHP).



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 well-being 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 concerns the adoption of good practices in relation to diet, physical activity, smoking and alcohol. During the year, the issues developed in the previous year in relation to nutrition and physical activity were further implemented and training was added with regard to combating harmful alcohol consumption and other addictions. 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 otherwise, from the Sofidel workforce. In addition, the event "La salute vien camminando" (Walking for health) was organised, in collaboration with the North West Tuscany Local Health Authority, with the aim of spreading information and medical training on the benefits of physical activity. To raise awareness of the WHP programme among the company population, a special section has been created on the corporate Intranet, where employees can consult the relevant information material. The Workplace Health Promotion programme will be rolled out to the other Group countries in the coming years. The experimental project "Peer Health Promoters" has been developed, again in collaboration with the North West Tuscany Health Authority, in order to promote health and healthy lifestyles in the workplace and raise awareness and a sense of responsibility in a group of workers by developing, through experiential training, personal, relational and cognitive skills so as to create peer support.

Welfare. Programme based on supporting the costs of employees for socially useful activities

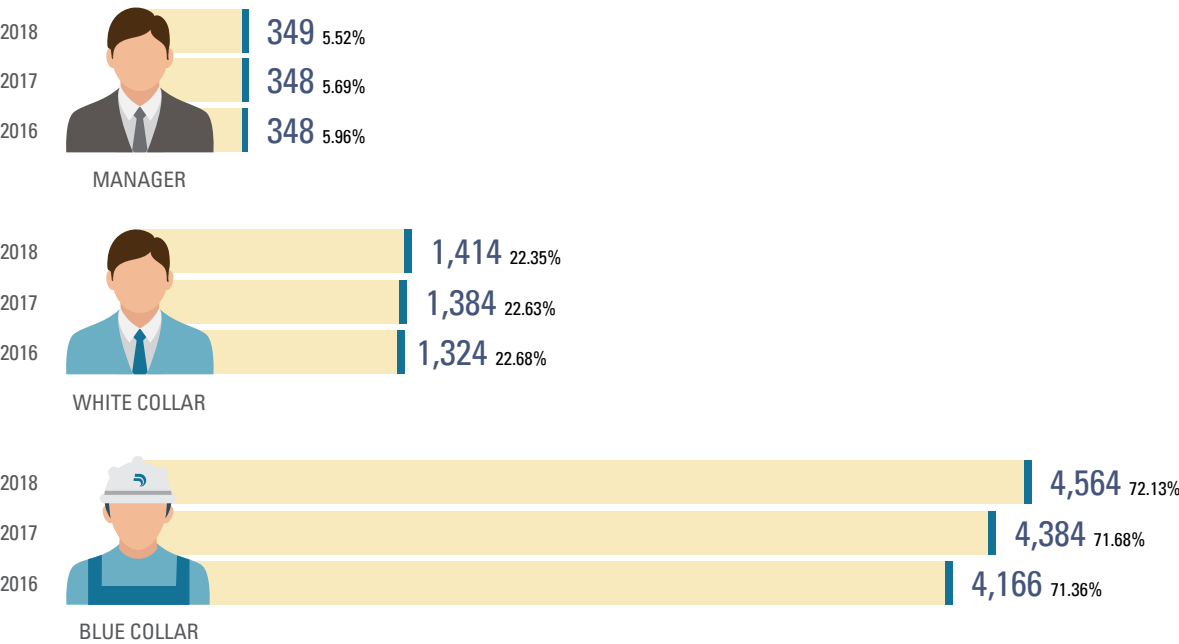
With this project Sofidel has made available to workers a basket of essential goods and services (from education, assistance, health and supplementary pensions to the "shopping trolley"), guaranteeing them the possibility of tax advantages and significant discounts while continuing to use their preferred supplier. This project was successfully implemented in Italy in 2018 and will continue in 2019. The possibility of extending it to other subsidiaries of the Group will also be considered.

STAFF COMPOSITION AND DISTRIBUTION

The results of the Sofidel Group were contributed to by 6,327* people, of which 72.13% were blue collar, 22.35% white collar and 5.52% managers. The number of employees increased compared to the previous year, mainly due to the growth of the US plants. The Group's 6,327 employees work in 13 countries.

* The data for personnel and the relevant breakdown for 2017 and 2016 are at 30 November, while the data for 2018 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 – 2018

	Belgium	Germany	Spain	France	UK	Hungary	Greece	Italy	Poland	Romania	Sweden	Turkey	USA	TOTAL
Blue Collar	104	563	152	520	626	124	44	774	236	206	135	27	1,053	4,564
Managers	16	30	27	57	44	9	6	112	19	6	8	8	7	349
White Collar	51	151	49	120	141	51	9	392	138	50	39	27	196	1,414
OVERALL TOTAL	171	744	228	697	811	184	59	1,278	393	262	182	62	1,256	6,327

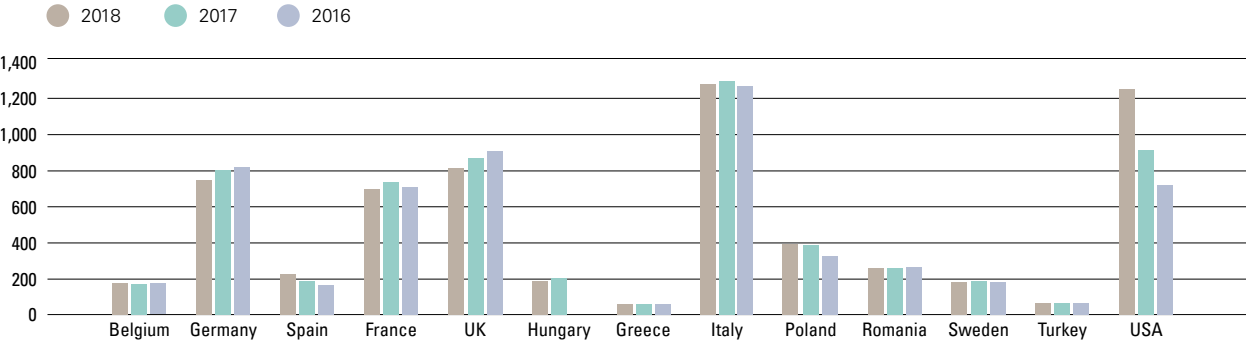
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2017

	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 SOFIDEL GROUP EMPLOYEES BY GEOGRAPHICAL AREA



The data highlights the preponderance, albeit very slight, of Italian staff in the Sofidel Group (20.19%), making up a majority of managers (32.09%) and white collar staff (27.17%), while the majority of blue collar staff are American (23.07%). The next biggest groups, at Group level, are employees in the USA (19.85%), United Kingdom (12.82%) and Germany (11.76%). During 2018, in order to further improve its production efficiency and strengthen the competitiveness of its business in the United Kingdom, Sofidel continued the restructuring operation started in 2017 - after giving prior notice to the trade union representatives - 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 a reduction in site personnel in the United Kingdom. The close connection between the company and the local area surrounding its operations was again confirmed in 2018. 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 senior managers come from the relevant local community.

TYPES OF CONTRACT

The absolute majority of contracts are open-ended (95%, while almost all employees (98.40%) have a full-time contract.

Part-time working, as regulated by the current work contracts, is recognised 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 AND TYPE OF CONTRACT – 2018

Level	FULL-TIME			PART-TIME		
	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	430	4,116	4,546	4	14	18
Managers	61	283	344	2	3	5
White Collar	516	820	1,336	71	7	78
OVERALL TOTAL	1,007	5,219	6,226	77	24	101

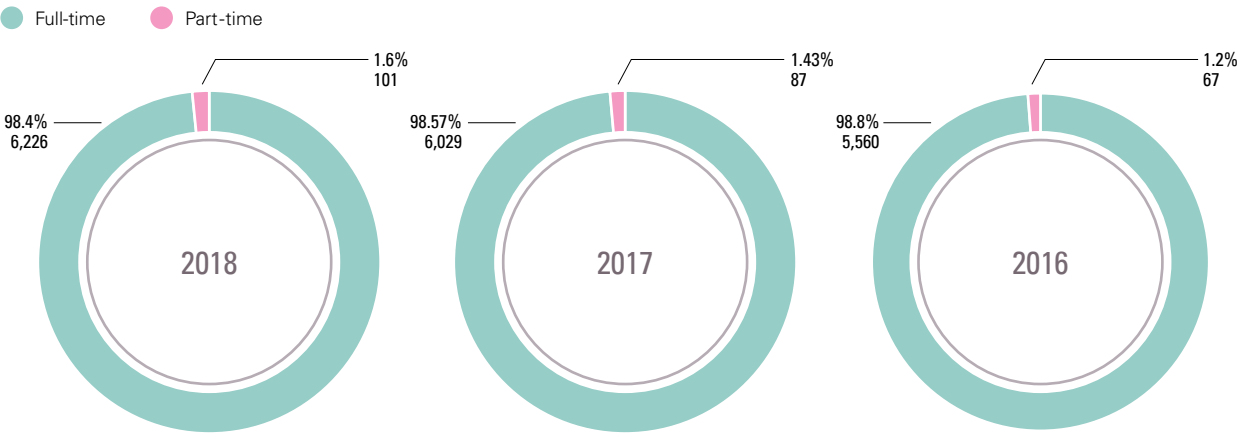
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND TYPE OF CONTRACT – 2017

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 AND TYPE 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 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 – 2018

Level	AGE < 30 YEARS			AGE 30-50 YEARS			AGE > 50 YEARS		
	Women	Men	TOTAL	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	62	642	704	244	2,401	2,645	128	1,087	1,215
Managers	3	7	10	41	155	196	19	124	143
White Collar	66	87	153	422	537	959	99	203	302
OVERALL TOTAL	131	736	867	707	3,093	3,800	246	1,414	1,660

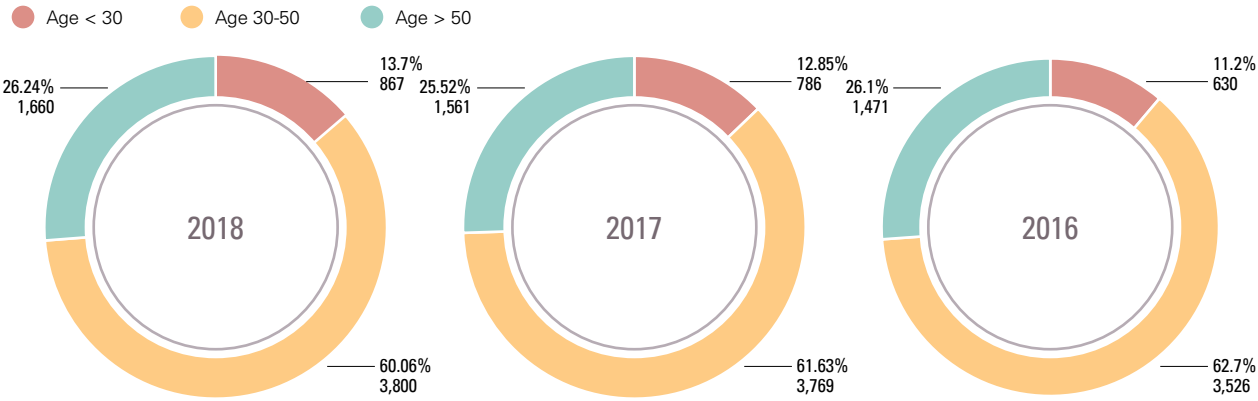
BREAKDOWN OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE - 2017

Level	AGE < 30 YEARS			AGE 30-50 YEARS			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 YEARS			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 SOFIDEL GROUP EMPLOYEES BY AGE

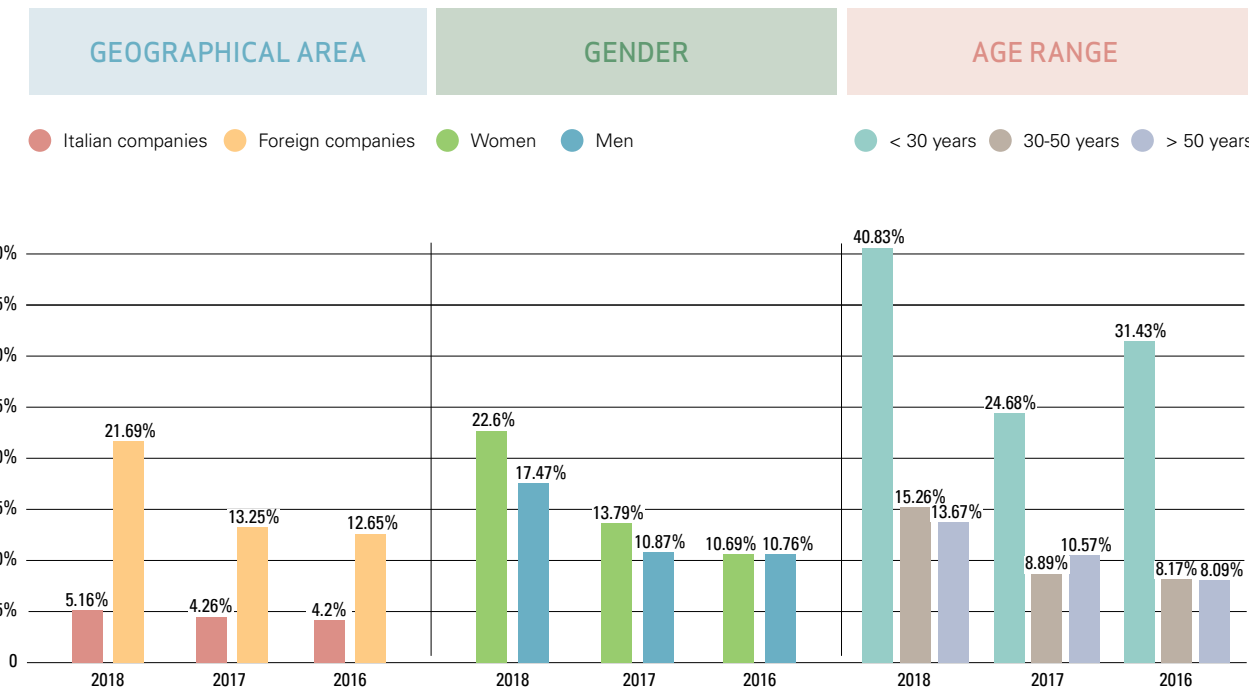


The majority (60.06%) of the Sofidel Group population is in the middle age range of 30-50. The number of workers over 50 years of age is also significant and their management will require the application of appropriate tools in the future. As part of the “Lifelong Employability & Company Welfare” workgroup, 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 within the company.

TURNOVER

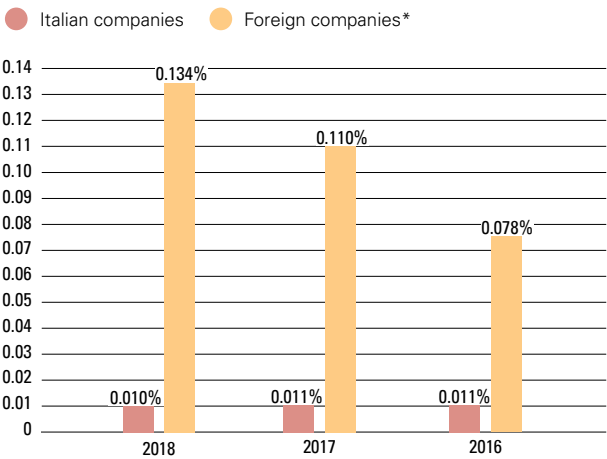
The rate of turnover¹⁴ of the Group shows low values again for the 2018 year. The percentage value is higher abroad.

RATE OF TURNOVER OF THE SOFIDEL GROUP
BY GEOGRAPHICAL AREA, GENDER AND AGE RANGE – 2018



The data alongside have been calculated on the basis of voluntary resignations by Sofidel Group employees, divided by geographical area.

RATE OF TURNOVER OF THE SOFIDEL GROUP -
VOLUNTARY RESIGNATIONS



14. 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

Sofidel bases its work on the principles of the Fundamental Conventions of the International Labour Organisation and supports the principles of the Global Compact promoted by the UN and the ethical criteria set out in the OECD Guidelines for Multinational Enterprises.

Sofidel’s Code of Ethics establishes full respect for human rights, the health and safety of people and the well-being of the local communities in which it operates, and it condemns child or forced labour and any gender, religious, cultural, ethnic or sexual discrimination, or physical, psychological, verbal or sexual harassment.

People are the core of the company’s activity, both employees and collaborators who interact with Sofidel at various levels and the communities in the territory in which the company operates. Workers are free to exercise their right to form or join trade unions or other organisations for collective bargaining, or to abstain from membership of such organisations.

Personnel selection, recruitment, training and career planning are carried out without discrimination of any kind. In addition, Sofidel is committed to fostering a work environment that is free from prejudice, respects workers’ individuality and dignity and is free from harassment.

Where compatible with overall work efficiency, Sofidel favours flexibility in work organisation which helps maintain a work-life balance, including flexible working hours and part-time work contracts. 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’s Code of Ethics and human rights policies. In this regard, Sofidel has adopted specific regulations against discrimination, sexual harassment in the workplace and bullying. 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 busi-

ness is not carried out in areas defined as at risk.

The company reaffirms its commitment to promoting respect for human rights in all situations in which there is an effect on its business and, more specifically, towards key stakeholders such as customers, suppliers and the community.

Meeting customer needs and requirements is one of the Group’s main objectives, which is pursued with competence, professionalism, transparency and fairness. To enable customers to make informed decisions, product information is accurate and comprehensive and advertising and other communications are truthful.

The supply chain is also chosen on the basis of sharing the principles and values established in Sofidel’s Code of Ethics; all suppliers are required to accept the Code as a prerequisite for collaboration with Group companies. In addition, the supply chain is also selected based on the ten principles of the United Nations Global Compact. The objective is to make suppliers aware of issues such as human rights, labour, the environment and the fight against corruption, through a self-assessment system that allows them to assess their sustainability performance.

Relations with the community are inspired by the principles of transparency, fairness, impartiality and independence. Companies in the Group do not make any direct or indirect contributions to parties, movements, committees or organisations of a political or trade union nature, or to their representatives, and refrain from putting any direct or indirect pressure on political parties.

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 2018, there were 58 employees in these groups - 8 women and 50 men. It should also be noted that most of the protected categories are currently employed in Italy, in compliance with existing legal obligations. The overall percentage of female staff in the Sofidel Group is 17.13%, with relative percentages of 18.05% among managers, 41.51% among white collar staff and 9.50% among blue collar staff, confirming the prevalence of men, particularly among blue collar workers, due to the nature of the jobs performed.

BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2018

Level	Women	Men	TOTAL
Blue collar	434	4,130	4,564
Managers	63	286	349
White collar	587	827	1,414
OVERALL TOTAL	1,084	5,243	6,327

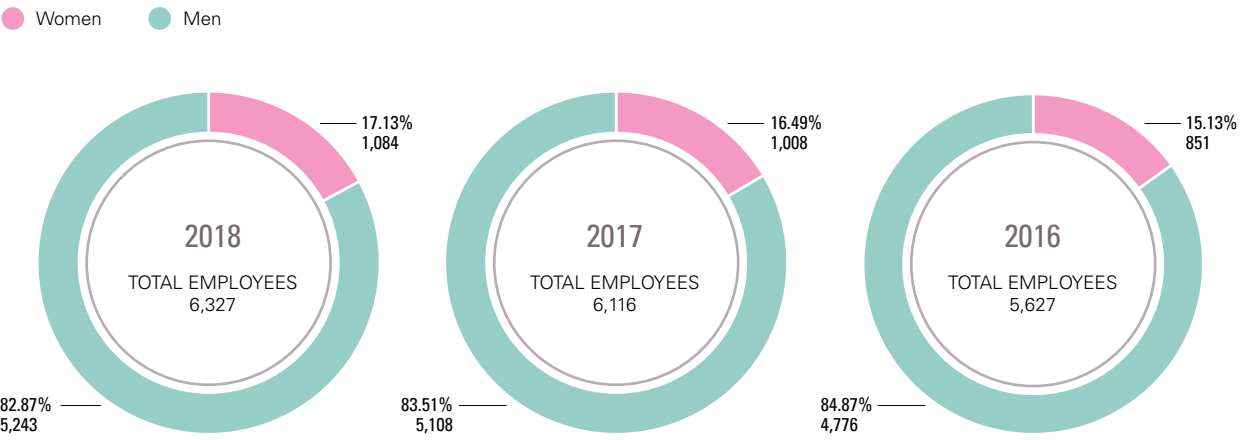
BREAKDOWN OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2017

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 GENDER



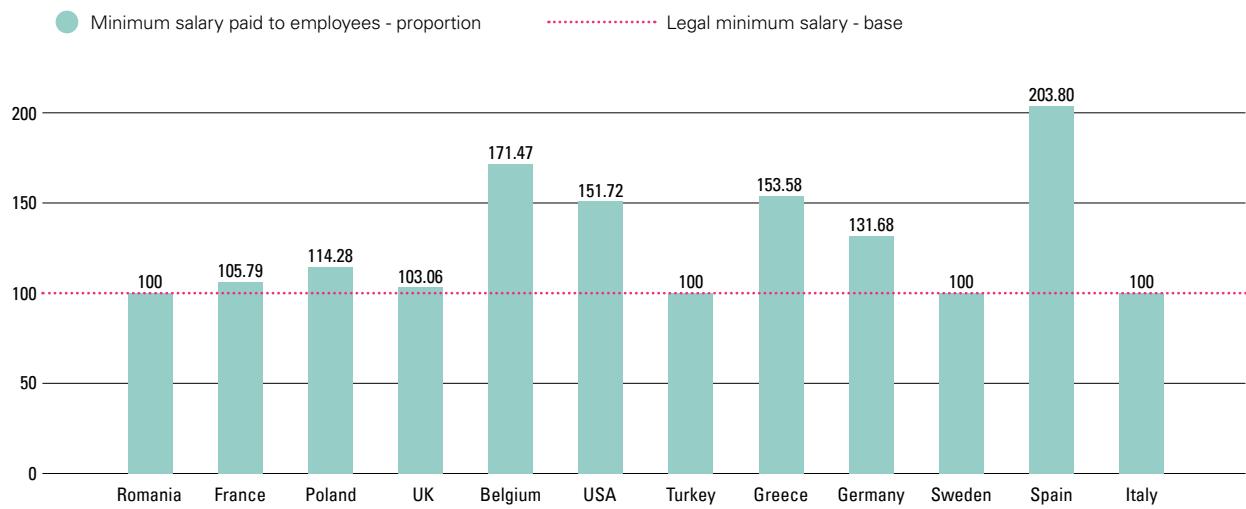
In 2018, 58 employees in Italy, 29 women and 29 men, took parental leave (optional absence for maternity/paternity) while in the foreign companies the number was 100, 46 women and 54 men. Only four workers decided to leave the Group at the end of their maternity leave.

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 – 2018



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 2018, 77.41% of Group company employees benefitted from increases in their pay and 68.70% 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 pension 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 Programmes

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 proven 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 corrections designed to improve it.

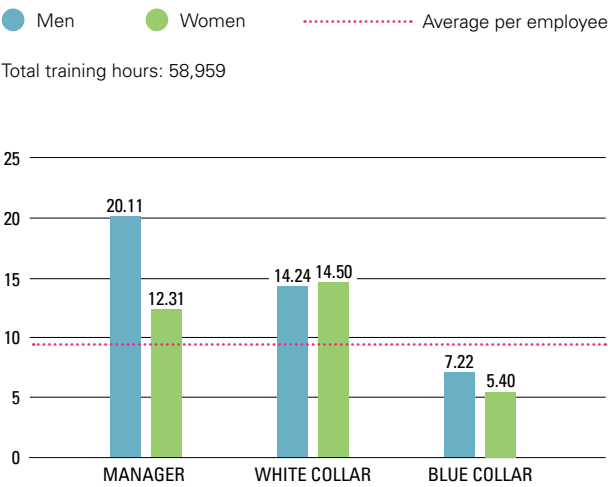


STAFF TRAINING AND DEVELOPMENT

In 2018, a total of 58,959 hours of training were provided overall; the average hours provided for each company level were 20.11 for male managers and 12.31 for female ones, 14.24 hours for male office staff and 14.50 for female office staff, and 7.22 for male factory hands and 5.4 for female factory hands.

Furthermore, the average number of hours of training provided per employee was 9.32.

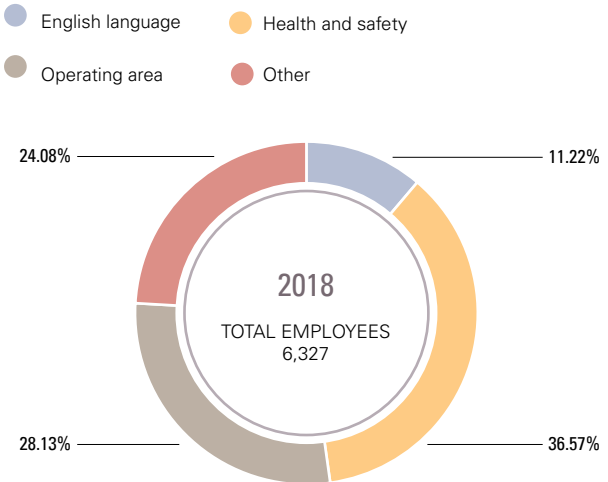
AVERAGE HOURS OF TRAINING FOR SOFIDEL GROUP STAFF BY GENDER AND QUALIFICATION – 2018



The areas which attracted greatest interest, other than workplace health and safety, were English language studies, best

practices in the operating area for the introduction of new machinery and technical and production improvements. Other training topics concerned specific areas and technical, IT and management system updates.

TRAINING TOPICS



A company owned e-learning platform was implemented at the start of 2018 to supplement traditional training methods. The distance learning method reaches recipients spread across the organisation without them having to leave their place of work to follow the lessons in person, thus facilitating the use and dissemination of knowledge, especially for organisations such as Sofidel with multiple locations in different countries.

The training packages distributed through LMS have been created by the company's organisational units using advanced models or more traditional methods such as presentations and video recordings depending on the content to be conveyed.

The new method has proven to be particularly effective for distributing corporate regulations and procedures that affect a large number of users, such as those relating to the proper management of business travel and the use of IT equipment.

Since its launch at the beginning of the year, 541 hours of virtual teaching have been delivered.

For trainers, Sofidel made use of the specific skills already available within the company for 48% of the total, as well as qualified external agencies, for the rest.

The investment in training totalled € 1,332,576.89. In terms of valuing human resources, in 2018 the Italian companies of the Group saw one 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 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.

Sofidel has drawn up a specific policy in which it recognises health and safety at work as a primary value without which it is not possible to plan sustainable, effective and lasting developments. To achieve this objective, Sofidel has adopted a health and safety management system in accordance with the BS OHSAS 18001 standard, through which it undertakes to guarantee the safety of its employees and all other stakeholders who interact with the company. In 2018, the Sofidel UK Lancaster plant obtained BS OHSAS 18001 certification of its management system.

The protection of workers, contract workers and visitors is ensured by constant monitoring of working environments, with implementation of the best safety standards for machines and equipment and by conducting training programmes and providing information. To this end, careful attention is paid to the choice of personal protection equipment (PPE) in order to constantly check its efficiency and continually improve its effectiveness so as to ensure ever better levels of protection and comfort.

The health and safety culture is disseminated through communication activities, participation and consultation within the workplace.

In 2018, audits were carried out by the corporate Health & Safety 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. Every year, the Group offers training plans in all its companies: in 2018, 21,562.76 hours of training were delivered on health and safety topics. The training sessions mainly concerned, for both new recruits and existing employees, aspects required by national legislation, such as 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, organisation of company prevention and the rights and duties of the different company figures.

In addition to compulsory training, specific training sessions were provided on issues related to the adoption of active and healthy lifestyles, such as proper nutrition, physical activity, combating harmful alcohol consumption and other addictions.

In addition, on-the-job training and safety awareness programmes are defined at plant level for each category of worker.

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) focused 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.

72% of the Group's employees are represented by Health and Safety Committees, made up of management representatives and workers' representatives at plant level, so that workers are aware of and involved in the dissemination of the relevant policies.

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 Rate¹⁵ (FR) and the Severity Rate¹⁶ (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.

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

FREQUENCY RATE (FR) AND SEVERITY RATE (SR) FOR GROUP COMPANIES BY COUNTRY (accidents with absences of 3 or more days)						
Country	FR			SR		
	2018	2017	2016	2018	2017	2016
Belgium	4.07	8.22	0.00	0.07	1.49	0.00
France	17.07	22.64	17.03	0.51	0.42	0.53
Germany	37.23	33.42	26.11	1.29	1.36	0.54
Greece*	10.32	0.00	18.90	0.08	0.00	0.64
Italy	13.00	10.09	11.62	0.22	0.27	0.28
Poland	20.54	29.67	12.84	0.31	1.30	0.47
Romania	0.00	0.00	2.07	0.00	0.00	0.06
Spain	32.49	37.37	27.58	0.66	0.81	0.42
Sweden	17.26	17.34	10.68	0.16	1.13	0.40
Turkey	9.30	13.82	0.00	0.06	0.06	0.00
UK	3.80	6.00	3.28	0.50	0.11	0.25
Hungary	16.78	30.32	n.a.**	0.61	1.90	n.a.**
USA	3.42	n.a.**	2.42	0.17	n.a.**	0.15
TOTAL SOFIDEL GROUP	12.90	16.26	11.37	0.40	0.60	0.33

* FATALITY: A fatal accident occurred at the Sofidel Greece plant in the paper mill department, and the Group’s Safety Alert process was immediately activated.

** n.a. = data not available. For Sofidel Hungary the data for 2016 are not available because it is a recent acquisition. For Sofidel USA the 2017 data are not available because the hours worked have not been received from the USA HR Department..

For completeness of reporting, the following are the total values for accidents with absences of three days or less and commuting accidents.

These data are reported as a whole because, given the small number of people, they would otherwise be insignificant.

Frequency Rate (FR) and Severity Rate (SR) of Group companies for accidents with absences of less than 3 days*	FR			SR		
	2018	2017	2016	2018	2017	2016
TOTAL SOFIDEL GROUP	1.17	0.57	0.28	0.002	0.001	0.001

Frequency Rate (FR) and Severity Rate (SR) of Group companies for commuting accidents*	FR			SR		
	2018	2017	2016	2018	2017	2016
TOTAL SOFIDEL GROUP	1.52	0.45	0.56	0.036	0.003	0.008

* Excludes US data.

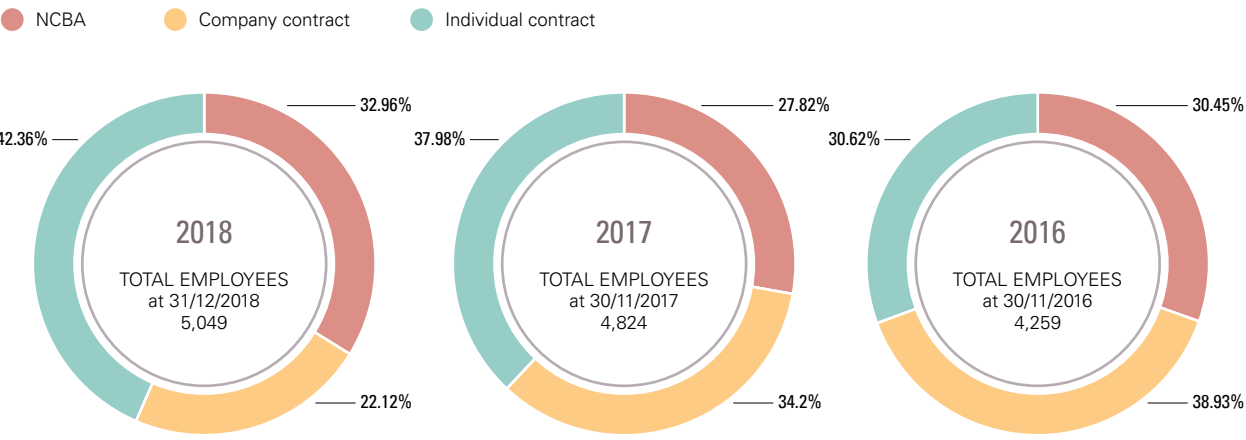
INDUSTRIAL RELATIONS

Sofidel shares with the various trade union organisations an industrial relations system based on constant and constructive dialogue, in compliance with the principles of 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 32.96% 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 method of operation of the same, without having found, at the moment, an agreement.



MARKET & CORPORATE BRANDS

Corporate Brand strategy and communication

Markets and customers

- Our markets
- Product innovation
- Lines of business
- The Sofidelshop E-Commerce portal
- Service quality
- Management of complaints

Community

- Community relations
- Investments to benefit local communities

For us, there's a lot more behind every sheet of paper. We are aware that what we do must leave an imprint on people's lives and not on the planet.

CORPORATE BRAND STRATEGY AND COMMUNICATION

Sofidel adopted a branding and communication strategy three years ago with the aim of further increasing its reputation and thus bringing value to the Group, sharing its strategies, commitment and projects better and more fully. Today Sofidel addresses all its stakeholders in different ways depending on the stakeholder, and it does so by focusing attention on the media, institutions, financial communities, customers, suppliers, its own employees and the community as a whole.

The methods of dialogue with its employees have also multiplied: from the house organ to the Intranet, from screens in the plants to frequent notices, from e-learning to the newsletter on sustainability issues. Finally, by coining the concept of “One Company, One Brand” and creating events such as the Family Day or the Running Team, we have also tried to make the people in our geographically and culturally diverse workforce feel more united.

The names of most of the Group companies were revised and a single Sofidel brand visual identity was definitively approved back in 2016.

Sofidel’s visibility and reputation have increased thanks to:

- good relations with the media, with significant press coverage in Italy as early as 2016, together with coverage by the European press since 2017 and more recently the American press since 2018;
- the redesigned website and social media activity that focuses particularly on quality;
- measured, but targeted, advertising campaigns;
- the relaunch of the *Soft & Green* newsletter;

- printed materials, photo shoots and videos.
- Sofidel’s reputation is “high” (75.4 on a scale of 0-100), as also recognised by the Reputation Institute, which in 2018 ranked us among the top 17 companies in Italy and identified us as the eighth Italian company. In 2017, Sofidel was the 44th Italian company. This is all the more interesting since from 2017 to 2018 90% of companies in Italy and 95% in the world actually lost reputation, while Sofidel climbed 30 positions.¹⁷
- We believe that three main types of activity contributed to our achievement of these results (see “Significant events during the year” on page 17 and “Initiatives to promote dialogue with stakeholders” on page 36):
- stakeholder engagement events and multiple public speeches made by our CEO and some Group executives in important institutional contexts;
 - our publications (for example, the 50th anniversary book, the two e-books, etc.);
 - greater synergy between corporate communication activities and product brands;
 - the organisation of various Sofidel events in Italy and abroad with the participation of exceptional speakers such as Gunter Pauli or Ellen MacArthur (see 3SAward, the prize for the most sustainable suppliers, on pages 21 and 100).

17. Reputation Institute is a world leader in reputation measurement and consulting through the main indicator RepTrak®.

Perhaps you didn't know that we at Sofidel have been working for years for a sustainable future with two exceptional partners: **WWF and WaterAid**.

With WWF, participating in the **"Climate Savers"** program, we have been working for over 10 years to reduce CO₂ emissions and increase the percentages of energy produced through renewable energy sources. Having signed a three-year agreement with WaterAid, we have strengthened our commitment to protect water resources and we aim to bring **clean water and sanitary facilities** to everyone, everywhere by 2030. We realize that these objectives, related to the **17 Sustainable Development Goals** promoted by the United Nations, are important and ambitious. But we also know that, working with the right partners, no challenge is impossible. www.sofidel.com

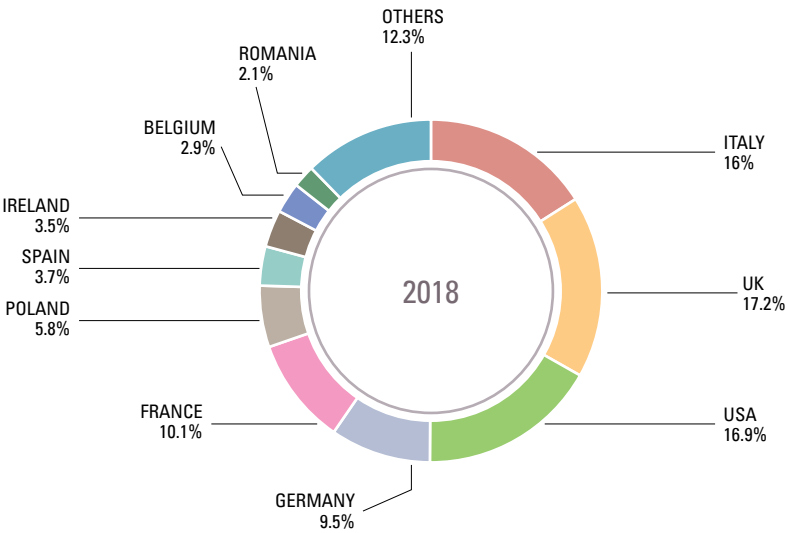
MARKETS AND CUSTOMERS

OUR MARKETS

Sofidel markets its products in the countries where it produces them for reasons of strategic proximity to its customers,

lower environmental impact and lower logistics costs. The chart below shows Sofidel's reference countries and breakdown of turnover by country.

BREAKDOWN OF TURNOVER BY COUNTRY



PRODUCT INNOVATION

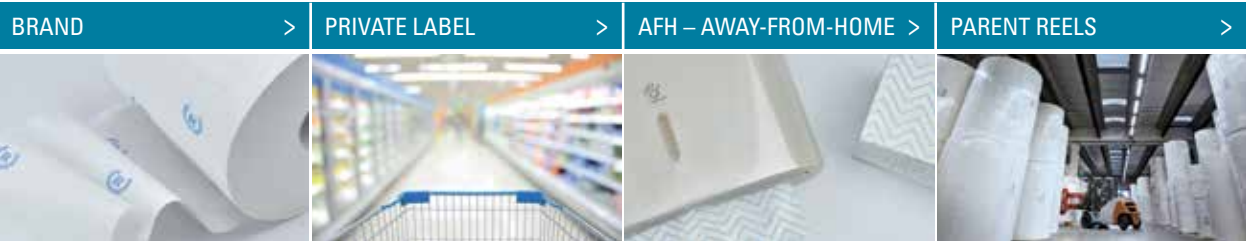
Innovation is a key component of Sofidel products. Even in an apparently “low-level” product category, there is in fact substantial research and development work in order to give consumers ever better performing, more hygienic and more sustainable products. A case in point is Rotoloni Regina, the product that has most contributed to Sofidel's success. It was introduced on the market in the early 1990s: Rotoloni were in fact the first maxi-rolls on Italian shelves, with larger diameter rolls and a more than double the number of sheets compared to its direct competitors (500 compared to 200-230). This resulted in the invention of a new Nielsen product category, the reference for consumer goods distribution. Rotoloni have been a successful innovation that has been received favourably by large retailers, who have been able to optimise the shelf yield, and by consumers, thanks to a lower frequency of roll replacement. An innovation that has also brought environmental benefits,

with the handling of larger quantities of paper for the same transport volume. Sofidel is now again working to develop, together with its partners, a new generation of products. Focusing on multiple factors - from the quality of the fibre mix used to the new technologies available, from further improvements in logistics services to strengthening collaboration with large retailers at points of sale - the Group is working on the thickness and number of paper layers in order to offer the market products with the highest level of performance and greater efficiency during the production process, with consequent advantages in terms of environmental sustainability. To date, implementation is still in its initial stages and it will take time, not least because the aim of the project is to offer advantages to all stakeholders in the supply chain, based on an approach that maximises benefits for all those involved. In this sense, the “new Sofidel product” will also be innovative in terms of creation, development and implementation processes, supporting a corporate approach focussed on the creation of shared value along the entire chain.

LINES OF BUSINESS

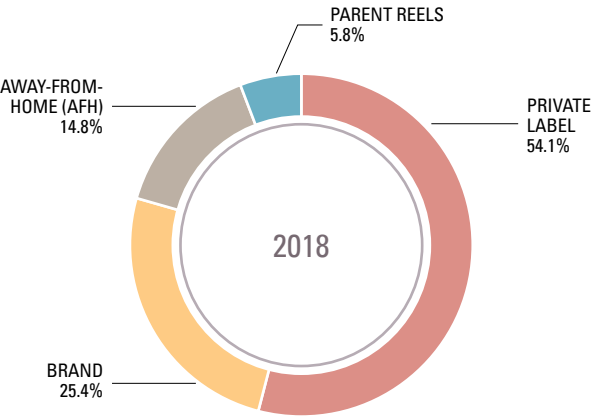
Sofidel produces tissue, the type of paper that, being soft and strong, can be used to make toilet paper, kitchen towel or all-purpose absorbent paper, serviettes, paper handkerchiefs and facial tissue.

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 (AFH)** and **Parent Reels**.



The chart below shows the breakdown of Group turnover by line of business.

BREAKDOWN OF TURNOVER BY LINE OF BUSINESS



The rise in the price of cellulose

Before addressing the subject of the market and the marketing of Sofidel products in 2018, it is useful to take a look at the cost of raw materials. In the last two years, the price of cellulose has risen considerably, while net wholesale prices for the finished product have remained stable. There are several reasons that explain the continuation of this trend: the global economy, the war on plastics, increased demand from China and Asia, population growth, migration flows and, last but not least, erroneous market forecasts that have often distorted demand. Unfortunately, it is difficult to imagine that the cost of cellulose will go back down in the short term and therefore Sofi-

del has already started to implement two solutions: optimisation 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 is characterised 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, and 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 a roll longer than the market average, more than twice as long as normal toilet rolls, and Carta Camomilla - soft, strong and with a delicate scent of chamomile, which has struck a chord with small children thanks to the colourful design and Milla, the ant which stars in its advertising spot.

Asciugoni Regina, together with Regina di Cuori, Blitz, and Wish, which allows waste to be reduced 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.

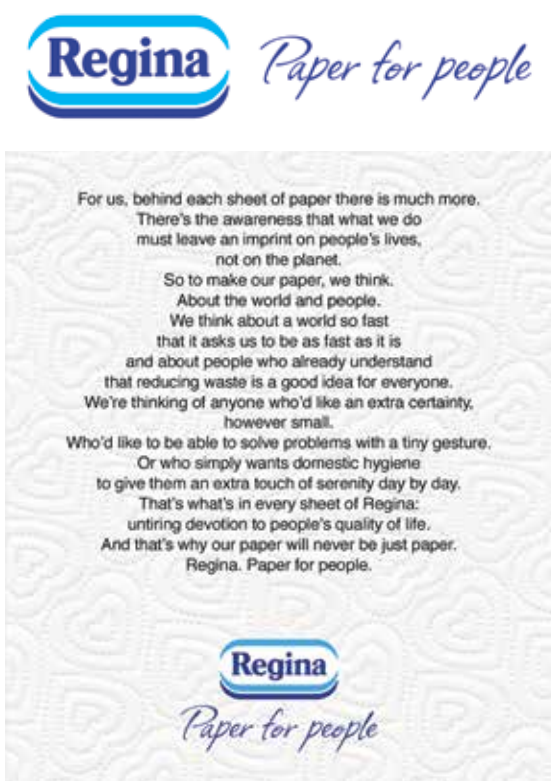
The Regina brand is a leader not only in Italy but also in Europe. Today Regina is the only brand in the tissue sector that is marketed in around 30 countries, a widespread distribution network that is the result of the commercial strategy, which has aimed to develop a single brand identity over the years. In particular, Regina holds leading positions in very important markets such as the United Kingdom/Republic of Ireland (Regina Blitz, Regina XXL, Regina Softis) and Poland (Regina Rumiankovy, Regina Delicatis, Regina Najdluzszy).

Regina. Paper for people

Since last 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” relates 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 summarises all the values of Regina. The multi-product campaign, which has been on-air in Italy, Poland, Eire and the United Kingdom, has so far featured Asciugoni Regina, Regina Blitz and the new Regina Wish, the kitchen towel which allows paper wastage to 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 the 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/Republic of Ireland and KittenSoft® in the Republic of Ireland, Cosynel and Nalys in Benelux, Soft & Easy® in Poland, Onda® and

Volare® in Romania, Forest in Hungary and Lycke in Sweden. With its advertising support and continual investment in product quality, Sofidel has worked to enhance the goodwill that these brands had already acquired in the various countries, without losing the bond 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 2018 for the Sofidel Group’s brands was the launch in several countries of a new product concept with the name 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 “Innovation in the Sofidel Group” section on page 45, and “Product innovation” on page 128).

At the moment it has been launched in Italy, the United Kingdom, Eire, France, Belgium, Netherlands, 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 the Balkans and Eastern Europe.

Investment in advertising

The development and growing use of digital devices have led to a shift of resources from television to the web, rebalancing the Group's advertising investments between on and offline. 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 made to support the launch of Regina Wish® and consolidate the Regina Blitz® and KittenSoft® brands;
- 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 made 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 its choice of suppliers and has researched and created forms of advertising which show respect for the competition and are in line with its own Code of Ethics.

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.

In the most developed markets, PL has become an essential component of the consumer's shopping cart.

The highest penetration of PL products is concentrated at European level in the market for tissue and hygiene products. Products like toilet paper and kitchen towel are relatively simple products in terms of both 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

The strategy pursued in 2018 focused on three main concepts:

- the development of "tailored" products;
- the development of sustainable products (for example ones 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.

Marketing in general

In the Italian market, large-scale retailers' and distributors'

strategy continues to focus more and more on Private Label and, more especially, high-end Private Label products.

Though recovering slightly, the contraction in average prices is still strong due to the growth of discount retailers in Italy. Against this background, Sofidel has decided to stand out by focusing on innovation: with unconventional embossing, such as positive embossing, and with paper packs and core-less rolls that consider the environment.

In the **UK market**, there was a further increase in sales in the private label segment, driven in particular by the growth of discount retailers Lidl and Aldi. This factor is prompting supermarket chains to change their assortments in order to take advantage of new opportunities. Sofidel's strategy is to accompany this trend with the creation of new distinctive and innovative products, focusing in particular on new and exclusive embossing.

Furthermore, 2018 was the year in which all major UK retailers publicly declared war on plastic. Once again Sofidel reacted effectively and, in December, it launched Nicky Elite 9 rolls, a flagship product packaged in paper, on the market. There will be range extensions and other sustainable innovations in 2019.

In **Poland**, sales were fairly stable. The new paper machine has started to produce paper and has thus increased this country's production capacity. In the second half of 2018, a series of products that were being processed in Germany owing to a lack of production capacity started to be produced again in Poland and this operation should end in early

2019. Lastly, a number of commercial proposals have been launched with the most important retail distribution chains, with a fairly good potential for success and which should see Sofidel's sales increase from the beginning of 2019.

In **Scandinavia**, the market was stable in 2018. Sofidel's strategy has been to increase sales by around 10% and to work together with Planning and Operations to optimise product families and format changes so as to bring all the production for sale in Scandinavia back to the Kisa plant, and this became a reality in the last month of 2018.

In **Germany**, Private Label continues to represent the preferred choice of German consumers, contributing positively to the image of the large retailer that is able to offer its own high quality products.

Despite the fact that turnover of toilet paper fell slightly in 2018, the volume market share of Private Label remains close to 90%.

The sharp rise in the cost of raw materials in 2018 forced Sofidel to change strategic direction, favouring large-scale retail and drugstores at the expense of large discount stores, which, however, continue to grow throughout Ger-

many, Austria and Switzerland.

The new commercial strategy of 2018 was characterised by the launch of new innovative products, capable of generating high added value.

This choice has been a key element both in terms of cementing the loyalty of existing customers and the acquisition of new distributors.

Sofidel's long-term vision, shared with its customers and focused on end consumers who are sensitive to innovation and product quality, was decisive for the success of this strategic move.

In 2018 the **French market** was characterised by strong competition resulting, on the one hand, from pressure from Spanish producers and, on the other, from the very aggressive approach taken by brand producers, who make heavy use of promotional leverage and launch new products very quickly. This forces Private Label to keep its market share at low prices, at a time when margins are being eroded due to the increasing costs of raw materials. On the other hand, there have been major changes in the **Spanish market**, which is seeing a sharp increase in production capacity



as a result of investments by major players (Sofidel, ICT and Navigator). These huge investments will transform this market, traditionally an importer of finished products into an exporting market, and this will eventually have repercussions on neighbouring countries such as France.

Tensions on the **Hungarian market** are high due to price increases and the consequent loss of volumes. Sofidel has taken logical steps, seeking to recover the higher costs with good customers in order to guarantee adequate margins. Some unprofitable contracts have been closed. Thus, after a process of reorganisation and rationalisation, during the third quarter of 2018 sustainable volumes were restored, raising hopes for a satisfactory recovery in 2019.

The **Romanian Private Label market** also experienced a difficult year in 2018: owing to the increase in the price of cellulose, it was not possible to follow a strong growth trend as was the case in 2017. Commercial efforts were directed towards recovering higher production costs and, for at least six months, new expansion projects were frozen. From the third quarter of 2018 onwards, some of these sustainability projects were resumed with major customers. These activities will be concluded during 2019. With regard to the **Balkan market**, in particular **Slovenia**, the first stages of sustainability projects have been completed and will continue during 2019 in order to strengthen partnerships with key customers.

The **strategy for smaller countries** was to strengthen our

local position by consolidating the Nicky B-brand in collaboration with local distributors. Sofidel America's sales results were significant this year too, with an increase of 13%, and are nearing 190,000 t/year.

Sofidel America's immediate growth is linked to the retail channel with the Private Label business. This year the growth rate was +50% and reached 80,000 tonnes compared to 50,000 tonnes the previous year. In the last quarter, the negotiating basis was laid for multiple supplies of private label products, which will see significant development in 2019. Sofidel is now in contact with all major customers. This will allow us to submit very concentrated offers in the first half of next year. The list of retailers in the American market is particularly large, but Sofidel believes that, thanks to its territorial coverage and increased production capacity, it is able to guarantee service that is increasingly fast and accurate.

New NTT technologies (see "Environment and technological innovation" on page 78), as an alternative to TAD technology, will offer real innovation in terms of efficiency and sustainability, as well as continuing to meet more traditional demands. Having started up two paper machines at the Circleville paper mill, Sofidel is also organising to support the Parent Reels business (large reels of tissue paper which are sold to converting companies). This will complete the commercial offer and provide a good basis for additional future production capacity, already planned for the coming years.

Away-From-Home (AFH)

The US market

The AFH team has consolidated its business by focusing on the most important and profitable national customers. Room for growth is considerable and, once Sofidel has finally reached the expected production capacity and is able to supply all the States of the American territory this year, a significant development of the business can be predicted in the short term.

The Papernet brand demonstrates the Group's capacity for brand management and creating service and value, and the results achieved highlight the considerable experience gained in product development for the Private Label segment.

The European market

As far as the European market is concerned, the year will end on around 90,000 tonnes, a decrease of around 9% in volume and 3% in turnover compared to the previous year. The better performance on turnover is due to the price increases made on several occasions in order to maintain a good average for the Group's margins, continually eroded by the increase in raw material costs.

The volumes lost are low-margin volumes which, due to the increase in the costs of raw materials, were no longer in line with the company's plans and expected results.

Sofidel confirms its strong commitment to launching innova-

tive products, with an expansion of the dispensing products offered with a view to recovering the volumes lost as a result of the price increase on the most important customer brand tenders and, of course, on our Papernet brand. The strategy remains focused on the sale of added value, i.e. those product lines under the Papernet brand for which paper becomes a vehicle for solutions for the user, solutions that also lead to a reduction, not so much in the cost of the product, as in its cost of use, which is what most interests large professional end customers.

The "transport" sector continues to develop, with impressive results thanks to new requests for collaboration and partnerships with the world's main operators, who well understand the value of our high value-added products (Biotech and Dissolvotech).

We laid the foundations during 2018 for the development of the Spanish market (new plants and a new dedicated commercial structure) for the AFH channel, immediately acquiring a supply contract from one of the most important groups in the country, heralding further developments that should soon give us good visibility.

Large users/end customers continue to be monitored through the creation of task forces dedicated to strategic customers in all the most important sectors of the market, such as Horeca, Health Care and Cleaning, and a new focus on the Food Service channel in preparation for the launch of interleaved napkins at the beginning of 2019.



Freshen Tech

Freshen Tech is an exclusive range of products that **does not cover unpleasant odours but actually eliminates them**. The innovative technology adopted modifies the molecular structure of the substances that generate bad smells, thus neutralising them. Using **Freshen Tech** products saves on purchases of other commonly used products such as deodorant sprays. A single product provides a solution that also allows the user to reduce the time and cost of using alternative products, with a **significant benefit to the environment in terms of reducing emissions of CO₂ and gases that are harmful to the atmosphere**. The lotion that eliminates unpleasant odours is sprayed directly onto the cardboard core of the rolls and not onto the paper: this makes the product, which is dermatologically tested, very safe.



Parent reels

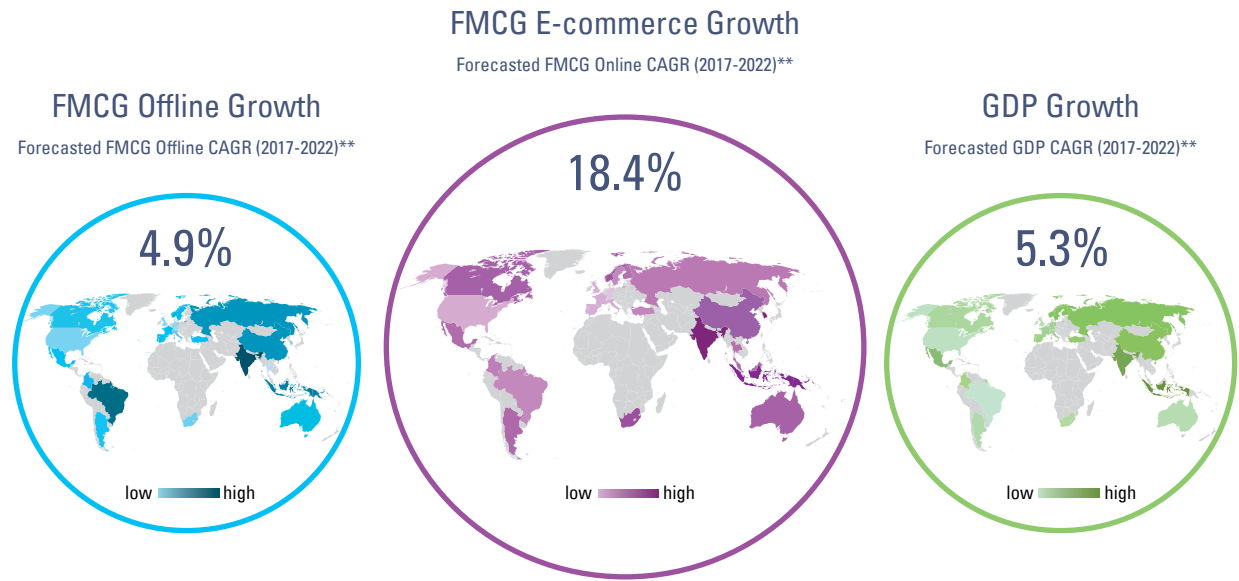
In 2018, semi-finished products continued to account for a small proportion of total production, accounting for 10.4% of the total volume of European paper mills and 9.6% at global level. This performance is in line with the company’s strategy.

THE SOFIDELSHOP E-COMMERCE PORTAL
Sofidel’s e-commerce strategy

E-commerce is at the development stage, with further growth expected. According to Nielsen’s data on the growth of e-commerce in the Fast Moving Consumer Goods (FMCG) sector, global online sales in 2017 stood at 6-7% of total sales. In particular, looking at some of the main countries in which we operate, e-commerce sales in the United States represent 5.6%, while in Europe they are led by the United Kingdom and France, with 6.3% and 6.1%

respectively, followed by all the other European countries that stop between 1% and 3%. Within the FMCG, the toilet paper and paper for sanitary use product categories reach even higher percentages, such as 9% in the UK and 7% in France. In this market context, and for the last two years, the Sofidel Group, for which innovation has always been a strategic factor for development, has launched its own digital strategy to better address the inevitable multi-channel distribution. Sofidel is experimenting with a more direct relationship between consumer and product with continuous and careful monitoring and analysis activities that allow the performance of the products, their positioning in terms of price compared to the competition and the effectiveness of advertising and promotional campaigns on our customers’ websites to be evaluated daily. These activities are carried out using the digital tools that are essential for growing the internal culture of e-commerce.

FMCG ONLINE TO GROW ~4X FASTER THAN FMCG OFFLINE & GDP*

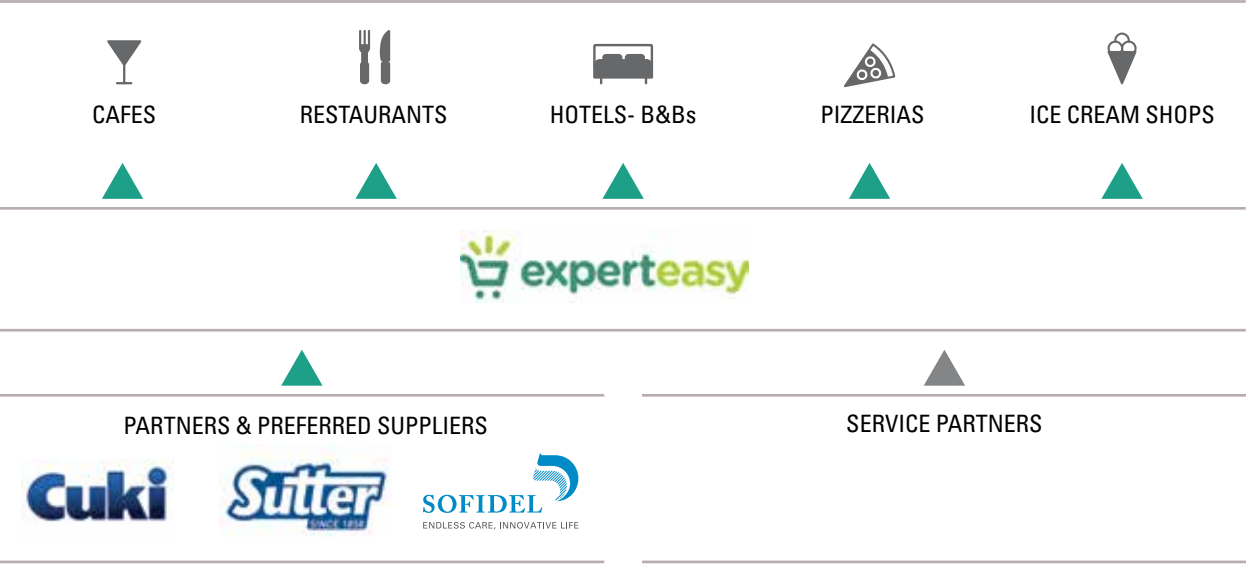


* Nielsen forecasts based on 34 countries.
** CAGR: Compound Annual Growth Rate.

Experteasy

After a long gestation process, the Experteasy project, a joint venture with Sutter Industry and Cuki, was launched in Italy in 2018. Experteasy.it is a company dedicated to online sales for the B2B sector. In particular, the service is aimed at the small-medium Horeca (food service) industry. The aim is to establish a direct business relationship with customers/potential customers that guarantees “intelligent” forms of communication on digital channels and a personalised and easy-to-use shopping experience. The initial product range is supplied by the three partners and, to complete the range, by a series of preferred suppliers. Focusing on four macro categories - cleanliness, hygiene and care, disposable, take-away and storage - this offer will be

expanded soon. Moreover, thanks to the collaboration with portals dedicated to the provision of services, in the main Italian cities it will be possible to purchase, in addition to the products, some related services, such as cleaning and minor maintenance. In this way Experteasy wishes to present itself as a sort of one-stop shop to solve the problems of small to medium-sized businesses. In this sense, it is interesting to see that the website has a configurator that aims to direct the operator to as informed a choice as possible, according to business size and type of activity. Experteasy guarantees deliveries in 2-3 working days throughout Italy and a customer care service is always active during working hours for reporting problems, requesting information, returns management, etc.



Marketplace

The relationship with Amazon is becoming closer and closer, since it has become an important player in the FMCG sector and is capable of leading traditional retail towards e-commerce. New lines of branded and private label products have been introduced across the whole of Europe. Amazon is an ever more important partner.

Sofidelshop

The Sofidelshop website is also part of the digital and communication strategy in Italy, however it is easily replicable in other countries. On the website it is possible to find all the products of the Regina range, the Milla products and a corner dedicated to

Emulsium detergent products and Cuki aluminium containers, thanks to a co-marketing operation. In 2018, engagement activities were also developed through point collections and prize competitions, in particular the “Win in a Flash” competition, linked to Blitz and Colori, and the “Discover Nature” competition, linked to the purchase of Regina WWF paper handkerchiefs. The various couponing operations carried out with cash back platforms, on which important national brands are present, have had an excellent impact in terms of conversions. The cash back comes in the form of credits to be used for purchases within the circuit of affiliates including Regina. Compared to 2017, the website has seen an increase of +15% in terms of visits and +24% in terms of turnover.

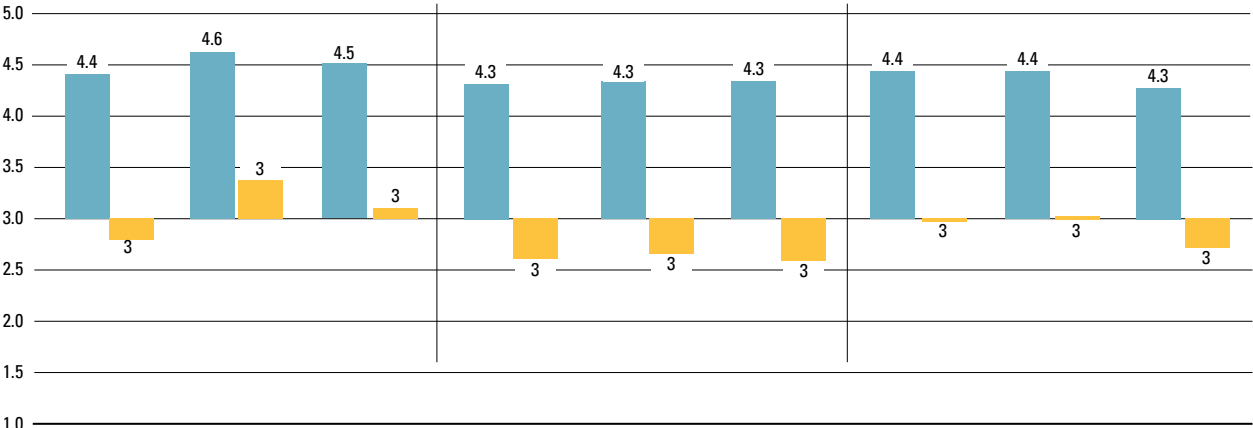
SERVICE QUALITY

Customer satisfaction is, for the Sofidel Group, an indispensable element in terms of continuous improvement of stakeholder engagement, Understanding customers’ desires and requirements, with the aim of providing 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 2018 are very positive, with 1,835 questionnaires sent compared to 2,219 in 2017, of which 919 (about 50.1% of the questionnaires sent) were correctly completed and returned. The customers who filled in and sent back the questionnaires represent 53.4% of the turnover of the Sofidel Group. This figure, after a very negative 2018 due to problems with the service rate, is on the rise, although it has not reached past values, which were around 80% of turnover. As can be seen from the chart below, the outcome of the replies given in 2018, despite the still limited number, has improved slightly, reaching 4.4 compared to 4.3 the previous year, out of a maximum score of 5. This result is perfectly in line with the three previous years (4.3).

SALES DEPARTMENT				SERVICE AND SUPPLY CHAIN DEPARTMENT		OPERATIONS AND PRODUCTS		
Is it easy to contact our offices?	Is the behaviour of our staff (courtesy and attitude) satisfactory?	Is the skill of our staff satisfactory in responding to your requests?	Is the response time to your requests satisfactory?	Is fulfilment of the orders (errors or missing products) satisfactory?	Is respect for the delivery times satisfactory?	Is the quality level of our products satisfactory?	Is the quality level of our products sufficiently consistent in different supplies?	Is the quality of the packaging (coating, pack, etc.) satisfactory?

AVG*	4.4	4.6	4.5	4.3	4.3	4.3	4.4	4.4	4.3	4.4
DEV**	3	3	3	3	3	3	3	3	3	3



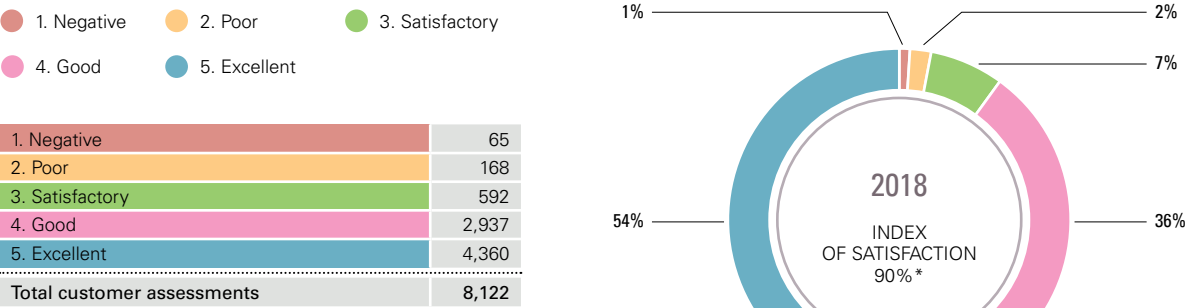
● AVG ● DEV

* AVG = Average

** DEV = Standard deviation

Further analysis of the results of the Customer Care Survey shows that, after the drop in 2017, where the overall satisfaction fell to 87%, it has returned to the level of previous years in 2018, reaching 90% once again.

INDEX OF OVERALL SATISFACTION WITH THE SOFIDEL GROUP



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

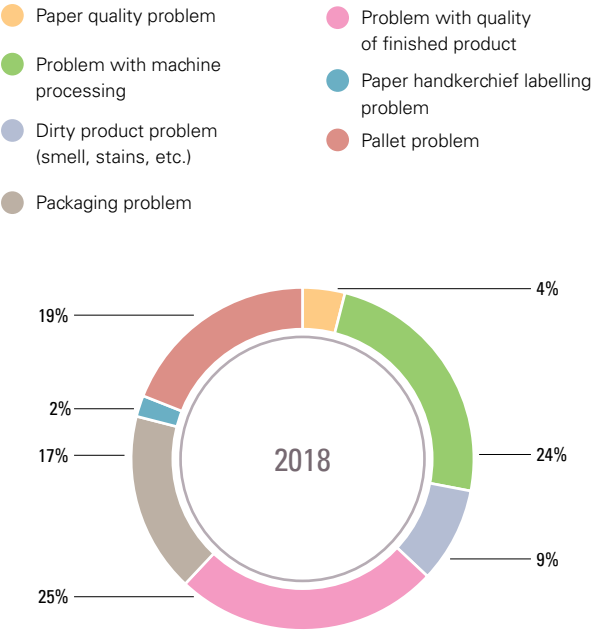
The aims of the Customer Care Survey service for the next five years will continue to be developed, both for quality, with the consolidation of the high levels of satisfaction through direct engagement with the customers that expressed dissatisfaction, and quantity, with the implementation of criteria to improve the representativeness of users asked 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. The service employs around 90 people within the company and can be found in all the countries where the Group operates. The Customer Care service is coordinated centrally, but in organisational 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 complaints and any claims from customers, whether distributors or final consumers. This type of interface 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 2018, an overall 3,474 complaints were received compared to 3,977 in the previous year. Therefore, compared to 2017, there was a slight reduction in technical complaints from customers and consumers.

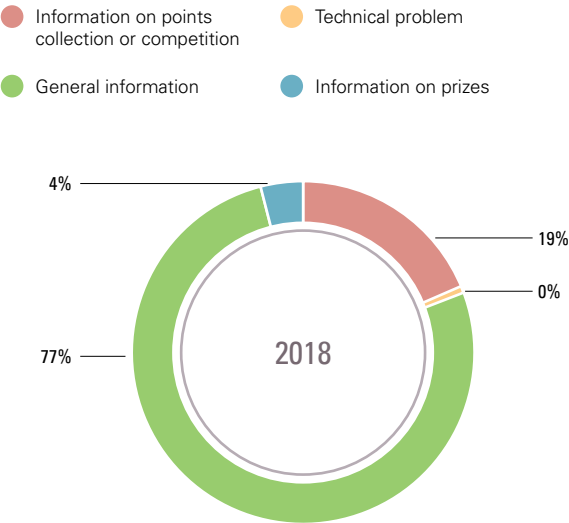
DISTRIBUTION OF COMPLAINTS BY TYPE



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 Trèfle, Sopalin and Volare) and for Nicky products. 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 2018, which fell from 1,029 in 2017 to 291 in 2018.

DETAIL OF CALLS TO FREEPHONE NUMBER



COMMUNITY

COMMUNITY RELATIONS

Sofidel is particularly attentive to responding to the needs of its local community and supporting the social causes promoted internally by its employees. In fact, the company assesses, on a case-by-case basis, which associations to support, also through special sponsorships and by granting its spaces free of charge for activities in the local area.

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 the city 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 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 e WaterAid

Sofidel's three-year partnership with WaterAid continued in 2018. WaterAid is a 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 focused on limiting water consumption within its production processes, is 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. Over the last two years, the ambitious WaterAid Healthy

Communities project has been launched in Mali, one of the world's hottest countries, to bring clean water, decent sanitation and good hygiene quality to the districts of Kati and Bla (see the "Our main sustainability partners" on page 29). Between 2017 and 2018, we were able to ensure that 20,341 people in the two districts had access to drinking water. 38,588 people now have access to decent sanitation and 44,637 people have been helped to achieve a good level of personal hygiene.

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 taking action firstly 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, given our awareness of the importance that this resource has in terms of well-being and hygiene, represents another way of taking responsibility for an area of global interest together with a well-known NGO like WaterAid.

Luigi Lazzareschi, AD Gruppo Sofidel

Sofidel and WWF

The partnership with WWF, both in Italy and France, to promote responsible forest management continues.

Sofidel is committed to promoting FSC® (Forest Stewardship Council) certification in the Italian and French markets. The agreement provides for the introduction of the WWF logo on products bearing the Regina trademark and on Sopalin and Le Trèfle products, as a guarantee of FSC® certification.

Today, 100% of Sofidel's products in the consumer sector in Italy, the United Kingdom, Spain, France and Benelux (Belgium, the Netherlands and Luxembourg) bear the FSC®Chain of Custody forestry mark.



Regina and the educational project "I care for you"

2018 saw the fifth year of the digital educational project realised by WWF Italy with the support of Sofidel "I care for you, everyone's gesture for everybody's planet."

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.



Nicky with the Telethon Foundation in Italy

Through the Nicky brand, since 2012 Sofidel has been supporting the Telethon Foundation in promoting excellent scientific research in Italy on rare genetic pathologies. 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 Dulbecco Telethon Institute (DTI) and calls for tender reserved for the best researchers.

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



Nicky with the Woodland Trust in the United Kingdom

Thanks to its partnership with the Woodland Trust, an organisation for the conservation of woodland heritage in the United Kingdom, Sofidel 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.



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. Over time, the organisation 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, headteachers and deans 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.

The experience of school-work alternation and the offer of internships to students in preparation for their degree thesis are of particular importance.

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 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 16 years in Lucca and which Sofidel has helped to relaunch as an international qualification with teaching content closer to the real needs of the sector.

The possibility of establishing, in collaboration with Confindustria and other companies in the sector, an ITS (Technical High School) entirely dedicated to the paper industry is currently being studied.

Changing course. Sustainability and Success Stories

In 2018, with the support of Sofidel, the book *Cambio rotta. Storie di sostenibilità e successo* (Changing Course. Sustainability and Success Stories), was published in 2019 by Mondadori Electa/Focus. Written by young authors who have travelled around Italy in search of virtuous stories, this book is part of a broader communication action launched by Sofidel to help new generations better understand the importance of socially and environmentally responsible development. The aim was to show how sustainability is a real and practical opportunity to create new and successful economic activities.



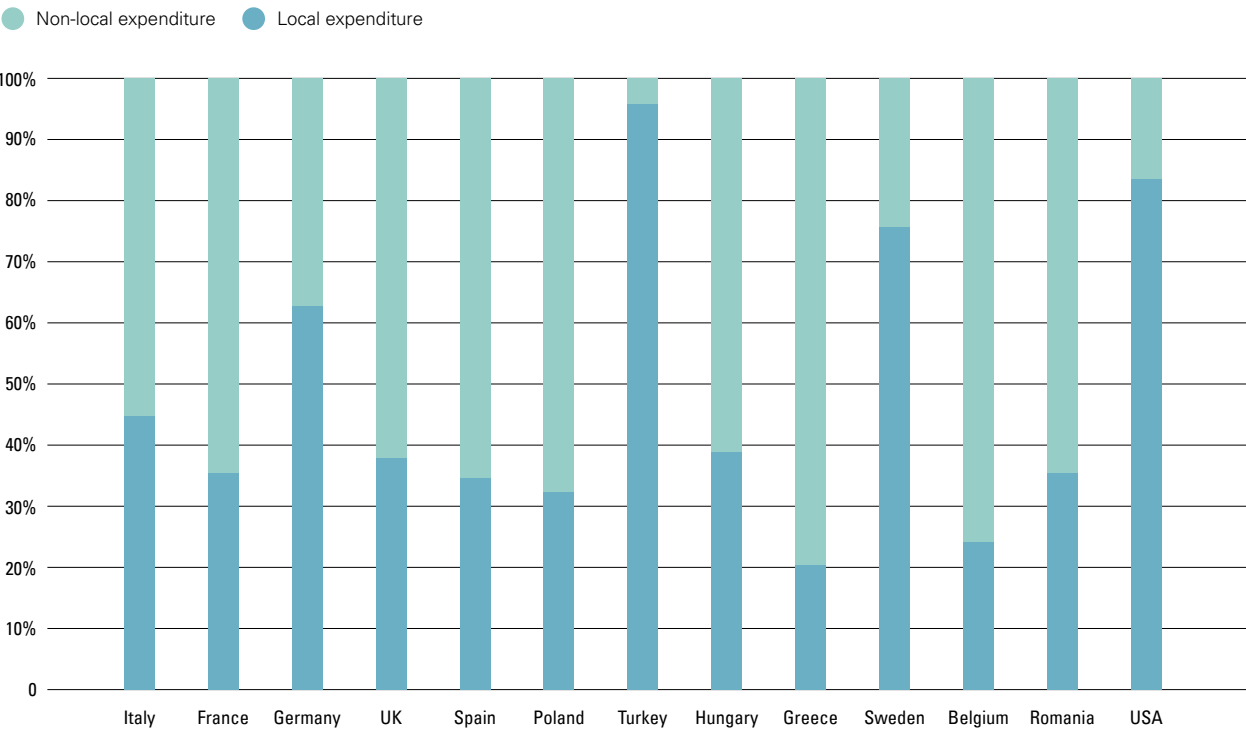
INVESTMENTS TO BENEFIT LOCAL COMMUNITIES

Sofidel's commitment to local communities is expressed mainly through two objectives: an attentive environmental policy and a redistribution of wealth in the local area. 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 pos-

sible, 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 present, except for raw materials suppliers, for reasons connected to the nature of the cellulose market. In 2018, Sofidel purchased on average 55.12% of goods and services from local suppliers.

CONCENTRATION OF EXPENDITURE ON LOCAL SUPPLIERS BY COUNTRY* – 2018



* "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 confirma-

tion of the importance paid to local communities, asks Group companies to give priority to donations and sponsorships designed to strengthen the social fabric of the areas in which they are situated.

In Italy, for example, Sofidel supports the good cause "Fairy Children", whose aim is to promote social and research projects, aimed at children and young people with autism and disabilities.



METHODOLOGICAL NOTE

Reporting process
Report boundary
Assurance
GRI performance indicators

REPORTING PROCESS

The eighth edition of the Sofidel Group's Integrated Report has been prepared according to specific principles and methodologies set out in the most recent standards published in 2016 by the Global Reporting Initiative (GRI Standards - Core option), integrated, as in the previous reporting year, with the guidelines of the International Integrated Reporting Committee (IIRC)¹⁸, better known as the IR framework.

The GRI Standards represent the main global reference standards for an organisation's or an enterprise's Sustainability Reporting. This Report has been prepared in accordance with the principles of balance, comparability, accuracy, timeliness, reliability and clarity as set forth in the GRI.

The guidelines of the "Framework for Integrated Reporting and the Integrated Report" of the Integrated Reporting Committee (IRC) of South Africa are 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, looking to the future and the 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 uses or influences.

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.

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.

According to the British convention, in this Report commas are used to separate thousands and points to separate decimals.

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 for 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. and it contains the corporate simplification operations that took place during the year (for all details see the Consolidated Financial Statements and the Explanatory Notes).

The reference period is the 2018 financial year, which coincides with the solar year running from 1 January to 31 December 2018, except where otherwise specified in each section.

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, please contact:

Mr Antonio Pereda (antonio.pereda@sofidel.com)
Ms Susanna Bellandi (susanna.bellandi@sofidel.com)



ASSURANCE

DNV GL

Sofidel SpA – Integrated Report 2018 Independent Assurance Statement

Introduction

DNV GL Business Assurance Italia S.r.l. ("DNV GL") was commissioned by the Management of Sofidel SpA ("Sofidel") to undertake an independent assurance of the company's Integrated Report 2018 ("the Report") in accordance with the Global Reporting Initiative ("GRI") Sustainability Reporting Standards.

For details on the composition of Sofidel and its reporting boundary, reference should be made to the information in the relevant section of the Report.

Sofidel is responsible for the collection, analysis, aggregation and presentation of the information contained in the Report. The assurance engagement assumes that the data and information provided in good faith by Sofidel are complete, sufficient and authentic.

Our responsibility in conducting the work commissioned from us, in accordance with the terms of reference agreed on with Sofidel, is solely towards the management of Sofidel.

This Independent Assurance Statement is intended solely for the information and use of Sofidel's stakeholders, and is not intended to be and should not be used by anyone other than these specified parties.

Scope of Assurance

The scope of work agreed on with Sofidel included the following aspects:

- Analysis, according to a *Moderate level of Assurance*, of the business and its data on sustainability, for the period January 2018 to December 2018, as contained in the Report.
- Assessment of the reporting standards referred to in the GRI Sustainability Reporting Standards, in accordance with the "Core" option.

Our audit was conducted in February, March and April 2019 at the head office in Porcari (LU).

The information and economic data were obtained from the certified 2018 Financial Statements of Sofidel SpA and were not included in the scope of our audit.

Audit methodology

Our assurance engagement was planned and conducted in accordance with the VeriSustain audit protocol of DNV GL, which is based on our professional experience and international assurance best

In accordance with the Protocol, available on request from our website*, the Report has been evaluated according to the following criteria:

- Adherence to the principles of the GRI Sustainability Reporting Standards;
- GRI Sustainability Reporting Standards, with respect to requirements for the Core option;
- ISAE 3000, for the audit of non-financial information;

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 18 company representatives involved in the operational management of the aspects described in the Report.

Conclusions

In the opinion of DNV GL, the Sofidel's Integrated Report 2018 provides an accurate and impartial representation of the sustainability strategies, management systems and performance of the Organisation.

Based on the work undertaken, nothing came to our attention to suggest that the Report is not in line with the Core requirements of the GRI Sustainability Reporting Standards.

Further conclusions and observations on the adoption of the reporting principles and information on specific areas of performance are given below.

* <https://www.dnvgl.com/assurance/reporting/index.html>

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

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.

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 contents of the Report are the result of a consolidated mapping of stakeholders and a structured process for identifying the topics they considered relevant.

Completeness: The Report enables stakeholders to evaluate Sofidel's sustainability performance in 2018 and to understand its sustainability strategies and goals. The information contained in the report refers to the structure defined in the boundary; in the case of data attributed to a more limited boundary, the document identifies such restrictions.

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.

Balance: 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 2018 in a balanced manner, consistent with its company strategies.

Clarity: The information presented in the report is understandable, accessible and usable by Sofidel's stakeholders.

Comparability: The information reported enables stakeholders to analyse changes in the organization's current economic, environmental, and social performance against the organization's past 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.

Timeliness: Sofidel reports regularly once a year making information available in a timely manner, to allow stakeholders to make informed decisions.

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:

- We recommend to further structure the information flows and the management of data ownership in relation to the disclosure of environmental information coming from production plants located abroad.

Competence and independence of DNV GL

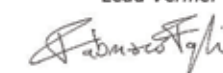
DNV GL is a leading provider of sustainability services, including the verification of sustainability reports. Our environmental and social assurance specialists operate in over 100 countries.

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.

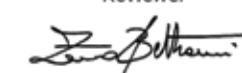
DNV GL expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Assurance Statement.

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

Fabrizio Foglia
Lead Verifier



Zeno Beltrami
Reviewer





Vimercate (MB), 11th July 2019



GRI PERFORMANCE INDICATORS

Reference was made to the “GRI Standards - Core option” for reporting of the economic, social and environmental performance of the Sofidel Group, integrated with the principles of the IR framework.












The table below shows the correspondence between the GRI indicators, the Sustainable Development Goals (SDGs) and their position in the text, highlighting the level of coverage reached with the Integrated Report.

TABLE OF GRI PERFORMANCE INDICATORS

	GRI STANDARDS	SDGs
LETTER TO STAKEHOLDERS	GRI 102-14	
GROUP PROFILE		
Sofidel Group in figures	GRI 102-1, GRI 102-2, GRI 102-3, GRI 102-4, GRI 102-5, GRI 102-6, GRI 102-7, GRI 102-8, GRI 102-9, G4 - 56, <IR> 4.4, <IR> 4.34	
Sofidel in the world		
Mission and vision		
Culture, ethics and values		
SUSTAINABILITY		
Sustainability strategy		<div></div>
Strategic sustainability tools	GRI 102-11, GRI 102-12, GRI 102-32, GRI 102-16, GRI 102-17, GRI 102-18	
Main inspirations of the Group sustainability model	GRI 412-2, GRI 408-1, GRI 409-1	
Our main sustainability partners	GRI 102-13	
Materiality analysis and dialogue with stakeholders		
Key stakeholders	GRI 102-40, GRI 102-41	
Materiality analysis	GRI 102-45, GRI 102-46, GRI 102-47, GRI 103-1, GRI 102-48, GRI 102-49, <IR> 3.17	
Management of relations	<IR> 3.10	
Initiatives to promote dialogue with stakeholders	GRI 102-43, GRI 102-44, GRI 103-2	
STRATEGY AND BUSINESS MODEL		
The strategy for growth (includes Circular Economy)		
Key elements of the model and flow diagram	<IR> 3.3, <IR> 4.10, <IR> 4.23, <IR> 4.27, <IR> 4.34	
Distinctive factors		
Outlook and strategic objectives		
Innovation in the Sofidel Group (includes Digital Company)		

	GRI STANDARDS	SDGs
GROUP ECONOMIC AND FINANCIAL PERFORMANCE	GRI 201-4, <IR> 4.30	
PRODUCT		
Products	GRI 102-2	
Tissue production process		
Product quality and safety	GRI 417-1, GRI 417-2, GRI 416-1, GRI 416-2	
OPERATIONS		
Governance		
Company structure	GRI 102-5, GRI 102-18, GRI 102-19, GRI 102-20, <IR> 4.8	
Organisational structure		
Internal control system		
Leadership and decision-making processes		
Risk management and monitoring	GRI 102-31, GRI 201-1, GRI 201-2, GRI – 201-3, GRI 205-1, GRI 205-2, GRI 416-1, GRI 416-2, <IR> 4.23	
Management systems	GRI 102-29, GRI 102-30, GRI 102-31, GRI 102-32	
The environment		<div></div>
Objectives and results	GRI 102-18, GRI 102-51, GRI 102-53	
Energy efficiency	GRI 302-1, GRI 302-2, GRI 302-3, GRI 302-4, GRI 302-5	
Management of greenhouse gas emissions	GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4, GRI 305-5, GRI 305-6, GRI 305-7	
Protection of water resources	GRI 303-1, GRI 303-2, GRI 303-3	
Protection of forest resources	GRI 301-1, GRI 301-2, GRI 304-1, GRI 304-2, GRI 304-3, GRI 304-4	
Waste management	GRI 306-1, GRI 306-2, GRI 306-3, GRI 306-4, GRI 306-5, GRI 306-6, GRI 306-7	
Ecological products		
Suppliers and the supply chain		
Objectives and results		
Supplier map	GRI 102-9	
Supplier qualification, selection and assessment	GRI 308-1, GRI 308-2, GRI 412-3, GRI 414-1, GRI 414-2	
Contract management		
Supply chain management	GRI 412-2, GRI 407-1, GRI 408-1, GRI 409-1, GRI 410-1, GRI 204-1	

NOTES

PEOPLE	GRI STANDARDS	SDGs
Objectives and results		
Management of partners/collaborators	GRI 401-1, GRI 401-3, GRI 405-1, GRI 408-1, GRI 408-2, GRI 103-2	
Training and professional development (includes Human capital)	GRI 404 -1, GRI 404-2, GRI 404-3	 
Protection and safety	GRI 403-1, GRI 403-2, GRI 403-3, GRI 403-4, GRI 412-2, GRI 410-1	
Pay and incentives	GRI 202-1, GRI 202-2, GRI 401-1, GRI 405-2	 
Industrial relations	GRI 402-1, GRI 103-2, GRI 407-1	
MARKET & CORPORATE BRAND		
Customers		
<i>Objectives and results</i>		
<i>Service quality</i>	GRI 416-1, GRI 416-2, GRI 418-1	
<i>Customer satisfaction survey</i>	GRI 102-43	
<i>Management of complaints</i>	GRI 102-43, GRI 418-1	
Markets		
<i>Group companies and brands</i>	GRI 102-2, GRI 102-4, GRI 102-6, GRI 102-7, <IR> 4.4	
<i>Lines of business</i>	GRI 102-2	
<i>Main activities and markets</i>		
<i>Operating environment and market position</i>		
Community		    
<i>Community relations</i>	GRI 203-1, GRI 203-2, GRI 411-1, GRI 413-1, GRI 413-2	
<i>Investments to benefit local communities</i>		
METHODOLOGICAL NOTE		
Reporting process		
Report boundary	GRI 102-50, GRI 102-51, GRI 102-52, GRI 102-53, GRI 102-54, GRI 102-55, GRI 102-56, GRI 102-56	
The principles applied and the reporting process		
Assurance		
GRI performance indicators		
Contacts		

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provided in order to make it available for a wider audience.
However, the original Italian version should be understood
as the prevailing text.

