

2016

INTEGRATED REPORT



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LETTER TO STAKEHOLDERS

2016, Sofidel's 50th anniversary, a golden opportunity to reflect on our identity and look to the future with drive

Sofidel celebrated 50 years in 2016.

It was a year marked by celebrations, lived as a time for reflection and growth of identity and renewed verve for the future, in the form of the implementation of significant investment in both Europe and the United States.

In many ways, this was the perfect synthesis of our history, where adherence to specific values - attention to technological innovation, the search for quality, and the construction of stable, lasting relationships with stakeholders - combined with investment horizons linked to industrial logics and constant, positive opening to the future have been decisive growth factors.

The 50th anniversary was thus seen firstly as the golden opportunity to assert and promote the Sofidel identity in full. This choice, summarised in the slogan, 'One company, one brand', stressed the feeling of belonging to a story and universe of common values that make all Sofidel companies around the world recognisable for their ideas, orientations, policies, styles and actions. In this context, it was decided to make the history and values of a company able to develop and grow continuously for five decades better known to the reference public, in and out of Italy. This aim was pursued by starting the national celebrations with a press conference in Milan, supporting a stage in the 'Festival of Growth' in Lucca, celebrating employees with a party held at the same time in all sites all over the world, supporting the production of 'Paper, a never-ending story', a National Geographic documentary previewed in London and broadcast in several European countries, activating a corporate campaign in the leading European financial publications and, lastly, creating a book on our story, the story of the papermaking area of Lucca and the culture of tissue paper, edited by the University of Pisa. All these were even more justified based on the public recognition acknowledge including the visit of Matteo Renzi, President of the Council of Ministers of Italy, to the Sofidel headquarters, and a mention by Barack Obama President of the United States of America, during an event on foreign investment in the United States.

Alongside the work linked to the value roots and the increase in the recognisability and fame of the Sofidel brand, 2016 was also the year of another, significant projection into the future. It was the start of a new strategic stage of growth (the fourth) which sets out different paths of development for Europe and the United States. The dissemination of production plants close to the market in the Old Continent can be said essentially to have terminated so Sofidel's development will move to organic growth, i.e. the increase in production capacity of current production sites (in some cases, doubled or even tripled), with possible, rare opportunistic acquisitions. In the USA, however, where there is the dual need to increase production capacity and geographic coverage, and where more extensive growth margins are expected, development will be through the repeat of the strategy already successfully applied in Europe i.e. through a mix of greenfield investments and acquisitions.

The installation of a new, modern production capacity in Poland (active by the end of 2017), is among the main operations of the year to be recalled at least here. There was also the acquisition of a company branch and the Forest brand in Hungary, considerable investment for the technological innovation of the converting lines (Constellation Perini technology) which will

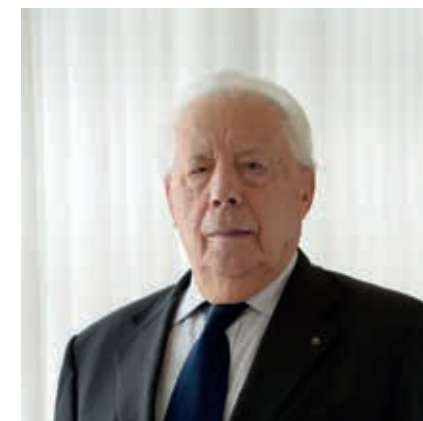
enable the quality of product on rolls to be raised even higher, and the start of the construction work on the integrated site at Circleville, Ohio, intended to become the most important in the USA and the most modern of the whole Group.

As far as marketing is concerned there was:

- the decision to continue with FSC certification for 100% of consumer sector products in Italy, Great Britain, Spain, France and Benelux;
- the launch of sofidelshop.com, the Group's first e-commerce portal, in Italy;
- the presentation of the Sofidel brand for the AFH, Papernet sector to the American market;
- the implementation of many stakeholder engagement actions, aimed at sharing common goals and building more and more solid co-operation relationships with our travelling companions. We would like to recall the 'Sofidel Suppliers Sustainability Award', set up to raise awareness and stimulate our suppliers to undertake paths linked to sustainable development.

We can once again look to the future with a confident, positive outlook on the basis of these prerequisites. We are aware that the impulse towards tomorrow, meaning also this year attention to technological innovation, working with stakeholders and further implementation of sustainability as a lever of competitive development, will feed our balanced and lasting growth. Something that, in the past, as today, has always been a part of Sofidel's DNA.

In a world where the problems of over-population, the concern about the impact of human activity on natural systems (climate, biodiversity, etc.) and the search for new, more efficient social and economic balances are the new priorities, Sofidel intends to continue to guarantee well-being for all its stakeholders through the creation of shared value, as it is a business able to deal with the demand for 'integral ecology' from the contemporary world. Knowing full well, to quote the famous words from Rainer Maria Rilke's 'Letter to a young poet', that "*The future enters into us, in order to transform itself in us, long before it happens.*"



Emi Stefani



Luigi Lazzareschi

Group profile

- About us
- Mission
- Companies
- Brands
- Composition of turnover
- Some relevant results of the year
- Our main partners for sustainability

ABOUT US

The Sofidel Group was founded in 1966; it has Italian capital and is owned by the Stefani and Lazzareschi families. It is one of the world leaders in the production of paper for hygiene and domestic use. Sofidel co-ordinates the work of 19 companies in Europe and the United States from the headquarters in Porcari (Lucca). It has been operating for 50 years, employs more than 5,500 people, has a production capacity of 1,058,000 tonnes and a consolidated turnover of 1,842 million euro.

50
YEARS IN
BUSINESS

more
than **5,500**
EMPLOYEES

1,058,000
tonnes
PRODUCTION
CAPACITY

1,842
million euro
CONSOLIDATED
TURNOVER

19
COMPANIES

13
COUNTRIES

MISSION

MAKING EVERYDAY LIFE TIDIER,
CLEANER, SAFER, MORE PRACTICAL
AND PLEASANT

BY INVESTING IN

PEOPLE AND INNOVATION AND
PROMOTING CONDUCT BASED
ON SUSTAINABILITY, COMMERCIAL
TRANSPARENCY AND RESPECT
FOR REGULATIONS,

WITH THE AIM OF

CREATING VALUE FOR CUSTOMERS,
EMPLOYEES, PARTNERS, SHAREHOLDERS
AND THE COMMUNITY

THE COMPANIES

SOFIDEL ITALIA

1. Lucca - Porcari IT | Services

SOFIDEL AMERICA

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

SOFIDEL SPAIN

9. Buñuel ES | Integrated Plant

SOFIDEL FRANCE

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

INTERTISSUE

13. Swansea UK | Integrated Plant
14. Horwich UK | Converting

SOFIDEL UK

15. Lancaster UK | Paper Mill
16. Leicester-Hamilton UK | Integrated Plant
17. Leicester-Rothley Lodge UK | Converting

SOFIDEL BENELUX

18. Duffel BE | Integrated Plant

SOFIDEL GERMANY

19. Köln DE | Trading
20. Arneburg DE | Integrated Plant

WERRA PAPIER

21. Wernshausen DE
Werra Papier Holding | Services
Werra Papier | Integrated Plant
Werra Papier | Integrated Plant
Thüringer Hygiene Papier | Integrated Plant
Thüringer Hygiene Papier Logistic | Services

SOFFASS

22. Lucca-Porcari IT | Paper Mill/Converting
Lucca-Porcari IT | Paper Mill/Converting

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

SOFIDEL HUNGARY

24. Lábattlan H | Converting

SOFIDEL SWEDEN

25. Kisa SE | Integrated Plant

SOFIDEL POLAND

26. Ciechanów PL | Integrated Plant

SOFIDEL GREECE

27. Katerini EL | Integrated Plant

SOFIDEL ROMANIA

28. Calarasi RO | Integrated Plant

SOFIDEL TURKEY

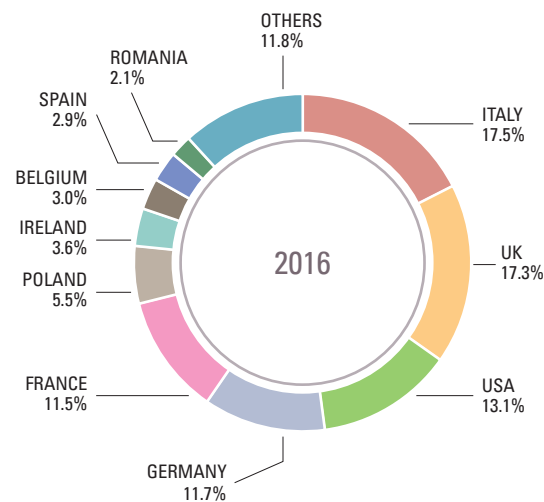
29. Honaz Denizli TR | Converting

BRANDS

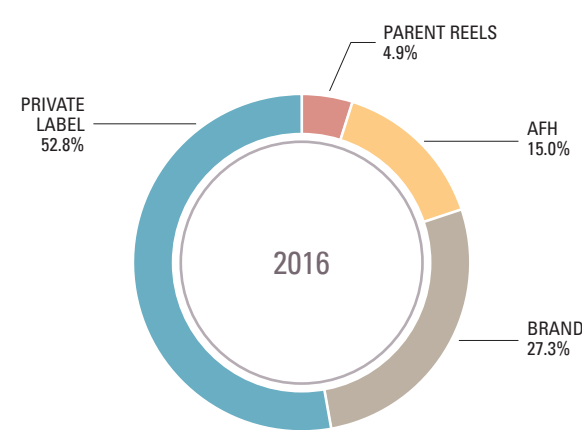


COMPOSITION OF TURNOVER

BY COUNTRY



BY LINE OF BUSINESS



SOME SIGNIFICANT RESULTS OF THE YEAR

“

CEO Luigi Lazzareschi ambassador of the 50th anniversary of WWF Italy

In February, the CEO Luigi Lazzareschi was appointed ambassador of the 50th anniversary of WWF Italy in the context of the ceremony for the start of the association's anniversary celebrations, held in the Chapter Room of the Senate of the Italian Republic before Pietro Grasso, President of the Senate and the world leaders of the WWF. The appointment was a significant recognition of Sofidel's commitment to sustainability. In particular, Luigi Lazzareschi was appointed "for the constant attention to environmental sustainability and the solid commitment alongside the WWF Climate Savers programme for the voluntary reduction of climate-altering emissions, the sustainable management of forestry resources and environmental education in schools."



“

Increase in production capacity in Poland

Sofidel purchased a new generation machine for tissue production for installation in the factory at Ciechanów, Poland. The machine is an Advantage NTT 200 produced by Valmet, world leader in the development and supply of technologies for the cellulose, paper and energy industries. The technology used allows the production of both conventional tissue and textured paper, and enables Sofidel to raise the quality of its offer even higher and further improve the energy efficiency of its production site. It will be active in the 4th quarter 2017 and will have a production capacity of 70,000 tonnes a year.

“

Sofidel open to on-line shopping

The first Sofidel on-line shopping portal was launched in Italy. This is a pilot project started to strengthen the name and visibility of the Regina brand and further investigate consumer needs through direct contact - another of the paths taken by Regina to look towards the new generations and the new lifestyles. It is also a way of extending the levels of service to the consumer, with an offer at competitive prices, the convenience of home delivery with the subscription formula or individual purchase and the guarantee of never being left without paper.

“

100% of Sofidel products in the FSC brand consumer sector

In harmony with the growing attention on the complete sustainability of products spreading in the company, Sofidel decided to focus on the Forestry Stewardship Council (FSC) custody chain brand for 100% of the products in the consumer sector in Italy, Great Britain, Spain, France and Benelux (Belgium, The Netherlands and Luxembourg). The choice of the very appreciated and widespread FSC custody chain certification is the natural evolution of Sofidel strategy in support of environmental sustainability.

“

50th anniversary - two important awards

Among the many important, significant times of 2016, two stand out - the visit to Porcari by Matteo Renzi, head of the Italian government where, in the Sofidel offices, on 10 June, he said, "Proud of a country with businesspeople, workers and such lovely stories," and the mention by Barack Obama, President of the United States of America, who referred to the Sofidel Group as best practice for the construction of the site at Circleville, Ohio, in his speech at SelectUSA Investment Summit (20 June), the most important event on the promotion of foreign investment in the United States.



“

In step with the new technologies - the new lines of Constellation converting

The CEO Luigi Lazzareschi announced the investment of Euro 210 million for the technological renewal of the routine production processes of converting, which will involve several Group sites, during the visit by Matteo Renzi, President of the Italian Council of Ministers. The Constellation Perini technology will guarantee uniform winding from the first to the last sheet with all types of paper and will be used on 23 lines. The availability of cutting edge, efficient production lines is one of the constant factors in Group growth strategy. One of the production sites where the new technology has already been installed is Hattiesburg (MS).

“

CDP receives award from CDP as best unlisted Italian company in the fight against climate change

Sofidel received the Best Voluntary Responder Italy award from the Carbon Disclosure Project (CDP) at the CDP Italy Climate Leadership Awards & Report Launch. Sofidel was the Italian company with the highest score of those who took part voluntarily in the CDP Italy Climate Change Report 2016 programme, disclosing data and performance relating to the fight against climate change. The Group obtained a B rating based on parameters like commitment to the transparency of the information released, the development of relationships based on reciprocal trust, the inclination to discussion and the commitment in the fight against climate change.

“

The CEO Luigi Lazzareschi presents the Sofidel growth plans in the United States at the RISI North American Conference, San Diego

In October, the CEO Luigi Lazzareschi gave the opening speech at the Tissue Seminar of the RISI North American Conference in San Diego, California, outlining the elements underlying the Sofidel growth strategy in the United States. The important passages included the announcement that Sofidel America will start two new Advantage NTT 200 paper mill machines by Valmet and three Constellation Perini in the new factory at Circleville, Ohio, by September 2018.

“

One company, one brand - Sofidel presents itself to Europe

An on- and off-line corporate campaign with a strong focus on community business was launched in the main European publications for the 50th anniversary. The issues includes *Il Sole 24 Ore*, *La Repubblica* and *Il Corriere della Sera* in Italy, *Le Figaro* in France, the *Frankfurter Allgemeine Zeitung* in Germany, the *Financial Times* in the United Kingdom and Eire, and the *Gazeta Wyborcza* in Poland. The pictures chosen were those of a reel of paper that unrolls and forms a 'large 50' in a country scene and a 'tree' in another.

“

Promoting the culture of paper with National Geographic

Once again for the 50th anniversary, Sofidel supported 'Paper, a never-ending story', the branded content created by Fox Networks Group Italy, distributed by SKY on National Geographic channels in 38 million homes in Italy, Great Britain, Germany, France and Poland. A journey through Europe in the company of Tim Shaw, the British presenter, who recounts the secrets of paper production through meetings with experts, historians and master papermakers, and tells us how a world without paper is unthinkable. The programme intends to increase our awareness of the value of a product essential for our daily life by effectively combining scientific information and entertainment.

“

Sofidel for road safety - the 'alcohol free truck' project sets off

Sofidel has strengthened its commitment in the promotion of health and safety through the start of the Alcohol Free Truck project on the monitoring of the alcohol level of lorry drivers when they arrive at its production plants in Italy. The measurement, fully respecting the privacy laws, is made in agreement with the representatives of the supplier companies and takes place in special positions set up in the factories. The project concerns the 35,000 vehicles used for the road transport of Sofidel products in Italy each year.

OUR MAIN PARTNERS FOR SUSTAINABILITY

Sofidel works to integrate sustainability at every level of its business. This is a basic strategic orientation taken with the conviction that, in the medium-long term, this choice favours a virtuous continuous improvement process able to guarantee a competitive advantage and an increase in the quality of the life of all the stakeholders.

An approach which also implies the constant search for partnerships based on specific environmental and social aims with networks/multi-stakeholders and NGOs with recognised value and reputation.

At an institutional level, Sofidel works with WWF, the Global Compact Network Italy Foundation, Sodalitas Foundation, European Agency for Safety and Health at work (EU-OSHA), the International Labour Organisation (ILO) and the Consumer Goods Forum. The Group has also established many relationships through brands and products in different countries (Nicky with Telethon Foundation in Italy, Nicky and Nouvelle

with Woodland Trust in Great Britain, Nicky with Jack & Jill Children's Foundation in Eire, Moltonel with SOS Children's Villages in Belgium, and Papernet with Médecins Sans Frontières).

In Italy, in harmony with this commitment, there is also the support of 'Mi curo di te: il gesto di ognuno per il pianeta di tutti' (I'll take care of you - everybody's gesture for everybody's planet), the digital educational programme for primary and secondary schools created by WWF Italy. This is a completely free three-year training project on the leading environmental topics.



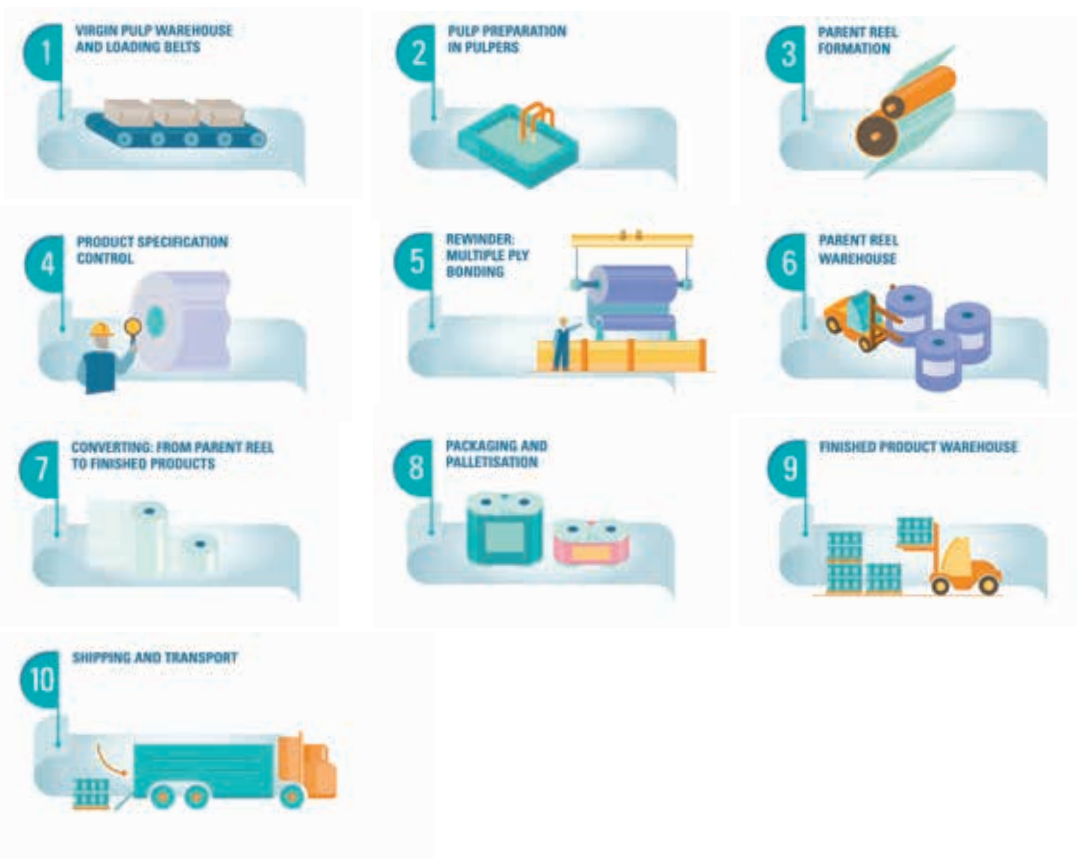


1 The Sofidel Group —

- Tissue production process
- Our lines of business

TISSUE PRODUCTION PROCESS

The Sofidel Group only produces and markets tissue paper, i.e. the paper used for hygiene and domestic purposes in and out of the home - toilet paper, all-purpose absorbent paper, paper serviettes, paper hankies, crepe paper, etc. Group companies oversee the whole production process from manufacture of the tissue to its processing through to the finished product. The whole production chain features constant respect for the principles of sustainability, the basis of the entire Sofidel value creation system.



OUR LINES OF BUSINESS

BRANDS

For some years, the Sofidel Group has produced and marketed Regina® brand products in the leading European markets; the product portfolio consists of a complete range in the tissue market and so toilet paper, paper for use in the home, serviettes, paper hankies and tissue paper. The leading products in the toilet paper sector include Rotoloni and Carta Camomilla, Asciugoni, Regina di Cuori and Blitz; in the sector of paper for use in the home, Cinquestelle and Provence serviettes and the new 'WWF Collection' range in the paper hankies sector.

Strengthened by the continuing differentiation process, the Group flanked the Regina® brand with others that have been acquired and/or launched in recent years - Soft&Easy® in Poland, Yumy® in Turkey, Onda® and Volare® in Romania, Softis® in Germany and Austria, Le Trèfle® and Sopalin® in France, Thirst Pocket in the UK, KittenSoft in Eire, Cosynel and Nalys in Benelux and Forest in Hungary. In this way, Sofidel intends to valorise the recognition capital that these brands have in the relevant individual countries and the link they have estab-

lished with their regular consumers. For this reason, investment in communication over the financial year was extended to some of these brands, trying to continue interaction with consumers in the style of each product.

Looking to the coming years, the Sofidel Group confirms its growth strategy focusing on:

- innovative products that increase service to the consumer, are more sustainable and/or create new use options,
- penetration of new markets, like Spain and the Scandinavian countries, and strengthening of market shares in countries where the expected results have not yet been achieved (Turkey, the Balkan countries and Eastern Europe).

The most significant event of 2016 for the Sofidel Group was the start of production with the new lines using 'Constellation' technology which guarantees uniform winding from the first to the last sheet of all types of paper (see the paragraph 'Some significant results of the year' for more information).



INVESTMENT IN ADVERTISING

Precise communication in the brand line of business enabled the support of sales to achieve the results obtained. The investment involved all the European countries where the Group has its brands. The main European trend was consolidated as audiences desert generalist television for topical channels and the so-called 'Second Screen' like computers, tablets and smartphones. This trend inevitably moves resources from television to an increasing integration of means and messages which all need specific assessment in relation to the optimal mix to use.

In 2016, advertising investment was made in Italy, Germany, Austria and Poland with the aim of consolidating the market shares. In France, communication on the Le Trefle® brand and the relative advertising in the market gave a new impulse to sales. In the UK market, investment was made to consolidate the Thirst Pockets® brand while the investment in Eire aimed at the relaunch of the KittenSoft® brand, also through the new commercial. In addition, still in Eire, part of the budget was aimed at supporting Regina Blitz®, which has the Best Product Performance in the range of brands in Europe. Investment continued in Belgium and The Netherlands in support of the rebranding process from Lotus and Moltonel (licensed brands) to the new brands Nalys® and Cosynel®.

Sofidel created the programme 'Paper, a never-ending story' with National Geographic with the aim of promoting the culture of paper. This new method of communication enabled Sofidel to move into the modern world of communication where the classic commercial advert is flanked by more structured models of value information which harmonise company and product values with quality editorial content typical of a leading broadcaster like National Geographic (see the paragraph 'Some significant results of the year' for more information).

Although Sofidel is not a direct member of any self-regulation body for advertising and marketing codes, it has paid the greatest attention to the choice of its suppliers and has developed and created forms of advertising respecting the competition and in line with its Code of Ethics.

Private Label (PL)

The Private Label (PL) market continued the sustainability path in 2016 starting a renewed relationship of in-depth partnership with its customers with the final aim of developing and consolidating joint social, environmental and economic sustainability. In recent years, the PL tissue paper market has seen a marked increase in the quotas of discounters in

various European states (see the German and Italian markets) and this contributes to keeping prices stable but very low.

In 2016, Sofidel continued its production reorganisation and delocalisation policy for some strategic products offered to European mass retailing in the search for logistic optimisation and continual improvement of the service. This strategy led to an increase in the volumes with the leading mass retailers which recognise Sofidel's leadership in terms of quality, service and sustainability. In this area, the strong growth of Italian discounts, which had a decisive effect on the exceptional growth of the Italian PL market (+30% compared to the previous year) should be noted.

A lot of work was done in the French market on the optimisation of the range with the aim of improving its efficiency, quality and results. The Spanish market was quite stable and new technologies, which will enable Sofidel to be clearly distinguished from its competitors from 2017, have been available since the end of the year. Scandinavia is an area of special interest for Sofidel. At the end of 2015, significant investment was made in a new production plant, which is now producing at full capacity, and this enabled the increase in sales of more than 83%, at the same time reducing emissions due to a closer localisation of the factories to the places of delivery. Sales are also growing in Poland as the installation of the new machinery is awaited. This will lead not only to increased availability of products but also a rise in their quality. In the UK, growth was underlined by the renewal of some of the most important contracts and the development of new, latest generation embossing which will sustain the development of the private labels. The Balkan area, where the market is expanding strongly, is another front of great interest for Sofidel. In the early months of 2016, the Group completed the acquisition of the company branch of Forest Papir (now Sofidel Hungary). This expansion further strengthened the PL sector through the Hungarian company's presence in some leading international mass retailing groups. At the same time, Sofidel continued its growth in the Romanian PL market with an increase of about 41% compared to the volumes of the previous year.

Away From Home (AFH)

The closing forecast for the Away from Home (AFH) channel in 2016 was around Euro 138 m turnover and about 90,000 tonnes in volume, thus reconfirming the 2015 values. The low profitability volumes were cut (about 5,000 tonnes) and replaced with sales of added value products which will enable closing with profit results across the Group that are both average and well above those of the previous year. Sofidel continues to orient the whole AFH sales organisation towards the offer of Papernet brand products and, in particular,

the technical ranges (Dissolveteck and Bio-tech are the key items in the commercial offer) which, supported by international recognition and patents, have met with significant approval in almost all European areas.

The strategy is to move away from mere price-oriented competition to protect the identity of the Papernet business with exclusive products. The recent success of Biotech and Dissolveteck in the transport sector (leading European air and rail transport companies) confirm that focusing on high added value products is strategic and winning for both Sofidel and its customers. The European sales organisation was reviewed during the financial year with the creation of global key accounts focused on Transport, Hospitality and Health Care. Once again, the intention is to apply the push-pull strategy to the market and lead large end users to the purchase of our products and then use our customers such as Bunzl, Inpacs and all the office channel for the distribution of the business acquired.

The logic of the product sold with the customer's brand (PL) only persists for large groups in the cleaning and office channels, with a view to using PL as a tool to spread Papernet products. To note is the referencing of three Papernet products within the NHS in Great Britain (a group of about 2,000 private hospitals which manage health in the UK) which will allow the development of the British Health Care business. The excellent performances in terms of growth with office

customers (in particular Office Depot and Staples), which are involving the AFH organisation more and more in important European tenders, should be noted.

E-commerce

As a result of the development of services and more evolved, secure means of payment, the market has recorded growing demand by consumers for products on-line in recent years. According to Nielsen research, 10% of Italians say they are prepared to buy products for the home on-line. In some countries like the UK and France, the use of digital channels for the purchase of FMCG is already at 10% with an upward trend.

In 2016, Sofidel also started a process of approach to the digital market with the creation of its e-shop www.sofidelshop.com (see the paragraph 'Some significant results of the year' for further information).

Reels

In 2016, the sales of reels in the market confirmed the downward trend that started in 2015 although remaining at a consistent level; sales passed from an incidence of about 12% to 8.9% of the total produced by European paper mills. The above is in harmony with the company strategy marked by the priority of 'organic growth' of which the finished product is the primary driver.



2

Governance

- Company structure of the Sofidel Group
- Internal control system
- Strategic sustainability tools
- Corporate responsibility governance
- Main inspirations of the Sofidel Group sustainability model
- The business model
- Management systems

COMPANY STRUCTURE OF THE SOFIDEL GROUP

Sofidel is governed by a Board of Directors (BOD) consisting of members of the controlling families elected by the Shareholders' Meeting. The BOD currently consists of three men and three women. The members of the BOD are chosen by the shareholders, are all executive and non-independent; they have the skills necessary for the responsible management of the business respecting the aims of sustainable development. The directors assume full responsibility for the economic, social and environmental performance of the Group which is subjected to

the approval of the Shareholders' Meeting every year. The BOD also assigns the role of manager, taking into account the qualifications and skills necessary to implement sustainable strategies. 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, made up of professionals and university lecturers.



INTERNAL CONTROL SYSTEM

The Italian companies in the Sofidel Group monitor the implementation and correct operation of the Organisation, Management and Control models (231 models) adopted, and any need for updating in relation to new offences introduced by the legislator, so that their Internal Control Systems can be adapted for the prevention and management of the risks to the principles already rooted in Group governance and the requirements of Legislative Decree 231/2001.

The 231 models, adopted by the Italian companies, have a general part and a special part. The general part mainly describes the governance model and the organisational structure of the company, the principles, the function of the Supervisory Board (SB), and the sanctions system; the special part describes the offences and the sensitive/instrumental activities in which such offences may be committed.

During the financial year, the SB carried out its work involving all company departments, both with regard to the implementation of the model and its supervision and control. It complied with the information obligations to directors and auditors and exchanged the information considered of most interest with the various company departments, monitored the progress in the action plans drafted for the solution of the gaps found and provided information and training for employees on the principles and contents of the 231 models, also as a result of the operational contribution of the Business Control Department. Further, the SB supervised and checked some processes and work considered sensitive and/or instrumental for the commission of the offences set out by Legislative Decree 231/2001 directly and through the company departments intended for this.

Once the 231 standards of control on health and safety at work and the environment had been implemented, the Supervisory Boards concentrated their attention on the checks in sensitive/instrumental areas for corporate offences, corruption, IT offences and illegal data processing throughout the financial year. These checks were formalised in new company protocols. The checks made by the SB continued to show extensive awareness of the values and principles in the Ethical Code and model, and no serious breaches of the principles were found nor reports received of them.

In relation to the foreign companies of the Group, the Business Control Organisation Unit carried out many checks, intended to assess the effectiveness and operation of the Internal Control Systems, on the prevention and management

of risks, particularly in the Supply Chain and Operating processes. In detail, the Business Control Department encouraged the drafting of action plans for the solution of critical points and monitored their progress. In addition, it contributed to improving, consolidating and checking the quarterly reports, drafted by the Country Operation Managers and/or Legal Representatives, on the compliance of Group companies (excluding the American ones) to the standards of control defined in the different functional areas and the main risks/critical points in company processes. These reports are periodically scrutinised by the directors.

During the financial year, and through the commitment of the different company departments, the Group succeeded in adopting and implementing new check procedures and consolidating the existing ones, thus contributing to improving the Control Systems operating in each company.

The Business Control Department continued to take part in the anti-corruption work group created within the Global Compact Network Italy Foundation with the aim of creating an opportunity for discussion and further information on the relative systems and company compliance programmes and also activating and implementing discussions with institutions to promote legality and transparency in business relations. The analysis of the risks and control tools adopted by Group companies was made once again for the purposes of preventing corruption.

This also stresses that, during the financial year, the Group was not fined for non-compliance with laws and/or regulations falling within the sphere of application of the legislation concerned.

STRATEGIC SUSTAINABILITY TOOLS

The Sofidel Group has a set of documents/tools that define the reference ethical-social behaviour for each participant in the organisation for the consistent translation of the principles and values into daily practice. These are:

- Ethics Code;
- Sustainability charter;
- Sustainability handbook;
- 'TenP-Sustainable Supply Chain Self-Assessment Platform' for the ethical control of the supply chain (see the paragraph 'Ethical control on the supply chain' p. 55).



CORPORATE RESPONSIBILITY GOVERNANCE

The responsible management of company conduct, found in every aspect of Sofidel's business, is integrated at the highest strategic levels and initially defined, guided and controlled by the BOD, which assumes full responsibility for the economic, social and environmental performance of the Group, subjected to the approval of the Shareholders' Meeting annually. In this framework, Corporate Social Responsibility (CSR) is not 'something else' with respect to the goal of achieving the highest levels of development for the Sofidel Group but the strategic paradigm that enables its fulfilment. The Sofidel BOD exercises its functions of guidance and con-

trol of the topics relating to CSR through the CEO who, in turn, refers to the Corporate Social Responsibility Director, co-ordinator of the Corporate Social Responsibility Committee (CSR Committee), which all the CEO's top executives are part of. The CSR Director also co-ordinates the Sustainability Work Group, set up this year with the aim of facilitating, strategically stimulating and co-ordinating the work of the CSR Committee. The Reporting Team is also concerned with the drafting of the Group Integrated Balance Sheet and is co-ordinated by the CSR Manager, who is also in connection with the CSR Committee and external stakeholders.

MAIN INSPIRATIONS OF THE SOFIDEL GROUP SUSTAINABILITY MODEL

The Sofidel Group sustainability model is inspired by the Sustainable Development Goals (SDGs) approved during the World Summit on Sustainable Development of the United Nations held in September 2015. The largest supranational organisation in the world thus introduced economic, social and environmental sustainability among the priorities on the global development agenda of the next 15 years (until 2030). It thus asserted that the 17 priorities and general purposes indicated by the representatives of the 193 member countries are the essential starting point in dealing with the challenges the world has to face. Like all great, epoch-making transformations, it is something that concerns each citizen of the world intimately, but there is no doubt that states, institutions and companies play a role of decisive driver. In detail, these must align their strategies and measure their contribution to the fulfilment of those aims; this is why Sofidel has been active for a number of years with specific programmes and partnerships to achieve most of them.



“ Global Compact Communication on Progress (COP)



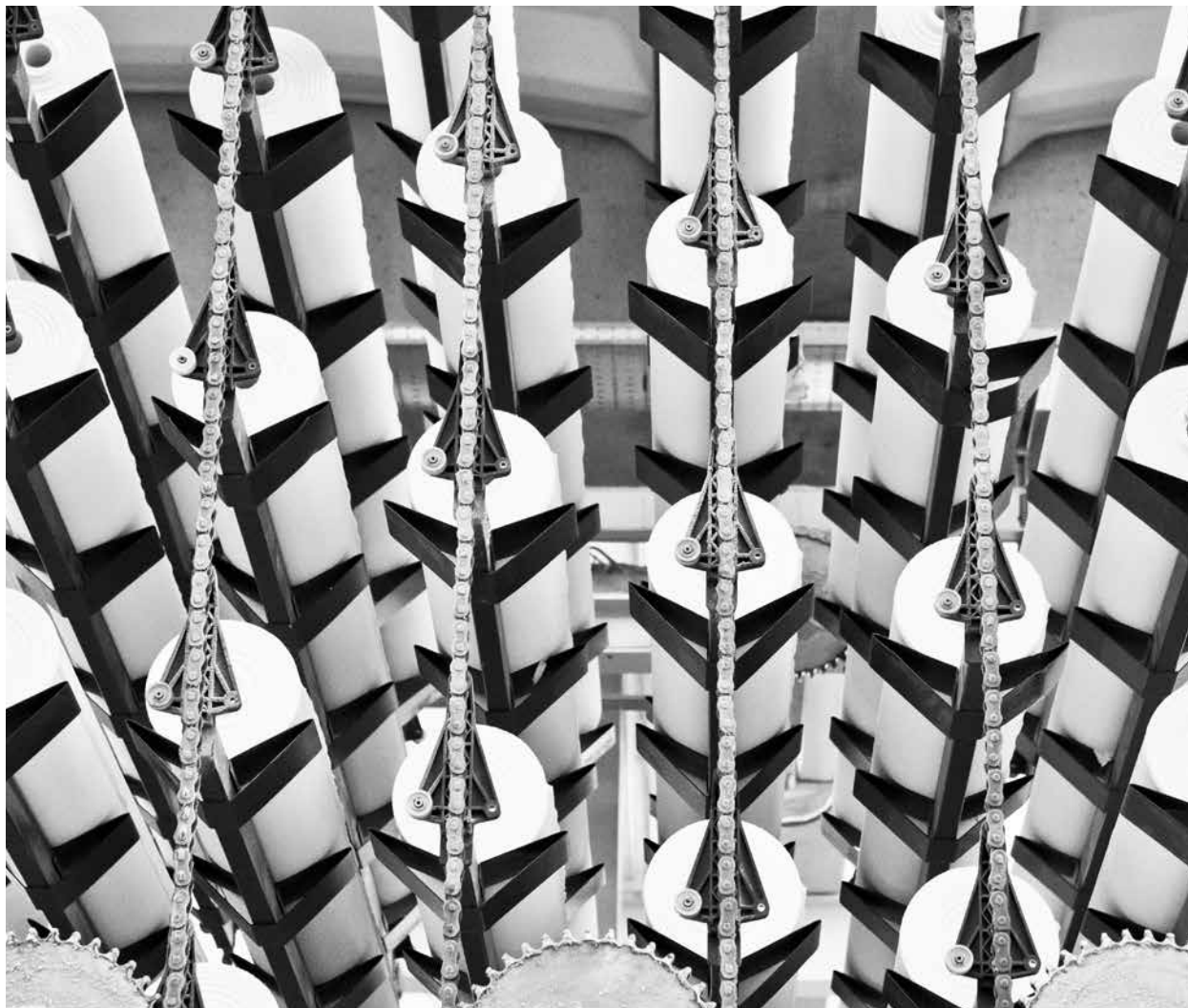
In December 2010, the Sofidel Group formalised its membership of Global Compact, the agreement linking companies committed to aligning their business and strategies to the ten universally accepted principles on human rights, work, environment and the fight against corruption. In particular, the Group is committed to supporting the Global Compact Network Italy Foundation. Sofidel is active in the Foundation in various work groups with other member companies. It is worth highlighting Sofidel's membership of the 'TenP-Sustainable Supply Chain Self-Assessment Platform' initiative for better ethical control of the supply chain. Sofidel's commitment to respecting and promoting the principles of Global Compact is highlighted in the final part of the Report on the Appendices.

THE BUSINESS MODEL

Sustainability is a fundamental constituent element in the value creation process for Sofidel. It is only through a strategy of socially and environmentally sustainable development that long-term economic development, able to generate lasting benefits for all the stakeholders and the environment, can be thought of. This is a basic orientation that Sofidel implements in the application of the philosophy 'Less is More', a commitment to obtaining the highest result with the minimum impact.

THE CREATION AND DISTRIBUTION OF VALUE

Added value measures the wealth produced by the company during the financial year referring to stakeholders who take part in its distribution, respecting low running costs and the expectations of contacts.



CALCULATION AND DISTRIBUTION OF GLOBAL ADDED VALUE

A) Value of Production	2016	2015	2014
1. Revenues from sales and services	1,842,467	1,809,418	1,770,877
- Revenues adjustments or credit depreciations	-348	-19	-545
2. Variations in inventories of work in progress, semi-finished and finished goods	2,743	14,042	-10,728
3. Capitalised Internal works	0	0	0
4. Variations in contract work in progress	0	0	1,879
5. Other revenues and income	22,429	22,503	11,318
Revenues from characteristic production	1,867,290	1,845,944	1,772,800
B) Intermediate costs of production	2016	2015	2014
6. Consumption of raw material, consumables and goods for resale	776,087	792,348	710,138
- Variations in inventories of raw materials and consumables	-9,775	-10,803	-7,155
7. Costs of services	505,046	518,747	511,130
8. Costs for use of third-party assets	33,070	30,539	28,054
9. Risk provision	2,410	1,773	660
10. Other provisions	0	0	0
11. Sundry operating charges	15,024	19,673	12,440
Typical production costs	1,321,861	1,352,277	1,255,267
GROSS CHARACTERISTIC ADDED VALUE	545,429	493,667	517,533
C) Accessory and extraordinary items	2016	2015	2014
12. +/- Accessory balance of operations	-2,346	2,683	3,123
Accessory revenue	1,187	1,066	1,483
- Accessory costs	-3,533	1,617	1,640
13. +/- Balance of extraordinary items	0	0	3,619
Extraordinary revenue	0	0	14,586
- Extraordinary costs	0	0	-10,967
GLOBAL GROSS ADDED VALUE	543,082	496,350	524,275

DISTRIBUTION OF ADDED VALUE

	2016	2015	2014
A) Human Resources remuneration	303,769	283,055	262,165
Self-employed	12,557	13,883	12,650
Employee			
a) direct remuneration	239,802	219,356	201,365
b) indirect remuneration	51,410	49,816	48,150
B) Loan Capital remuneration	9,368	9,881	17,385
Financial expenses	9,368	9,881	17,385
C) Public Administration and Society remuneration	29,673	26,294	43,064
Current/Deferred taxes	35,528	34,267	49,288
Grants received	-6,432	-8,609	-6,749
Charitable donations	577	636	525
D) Company remuneration	200,272	177,119	201,661
Profit (loss) for the period	83,114	63,614	83,920
Depreciation	117,158	113,505	117,741
GLOBAL GROSS ADDED VALUE	543,082	496,349	524,275

MANAGEMENT SYSTEMS

The voluntary adoption of the management systems is considered a strategic element by the management for the continuous improvement of the organisation's performance and company profitability, a resource able to give timely responses to the needs of the different stakeholders.

- ISO 9001:2008 for the Quality Management Systems;
- ISO 14001:2004 and EMAS (Community Regulation 1221/2009) for the Environmental Management Systems;

- OHSAS 18001:2007 for the Health and Safety at Work Management Systems;
- BRC Consumer Products and IFS Household and Personal Care for the Health-Hygiene Control Systems;
- FSC-PEFC: ensure responsible, sustainable management of the forests the products of wood origin, like pure cellulose, come from;
- ISO 50001: 2011 for the energy management system;
- 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 & safety	Environment							Energy
	BRC	IFS	ISO 9001	BS OHSAS 18001	ISO14001	EMAS	Ecolabel	Der Blaue Engel	Swan Label	FSC	PEFC	ISO 50001
Intertissue Baglan	•		•	•	•					•		
Intertissue Horwich	•		•	•	•					•		
Soffass Paper Mill 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 Tulsa											•	
Sofidel Benelux	•		•	•	•					•	•	•
Sofidel France Frouard		•	•	•	•		•			•	•	•
Sofidel France Ingrandes		•	•				•			•	•	
Sofidel France Roanne		•	•				•			•	•	
Sofidel Germany		•	•		•				•	•	•	•
Sofidel Greece			•	•	•							
Sofidel Hungary			•							•		
Sofidel Poland		•	•	•	•				◻	•	•	
Sofidel Romania			•				•			•	•	
Sofidel Spain		•	•	•	•					•		
Sofidel Sweden			•		•		•		•	•	•	•
Sofidel Turkey												
Sofidel UK Hamilton, Leicester	•		•	•	•					•		
Sofidel UK Lancaster					•					•		
Sofidel UK Rothley Lodge, Leicester	•		•	•	•					•		
Thüringer Hygiene Papier		•	•	•	•		•			•	•	•
Thüringer Hygiene Papier Logistik			•	•	•							•
Werra Papier (Omega Plant)		•	•	•	•		•	•		•		•
Werra Papier (Werra Plant)			•	•	•		•	•	•	•	△	•

◊ Only for reels ◻ Only finished product △ Only trading



3

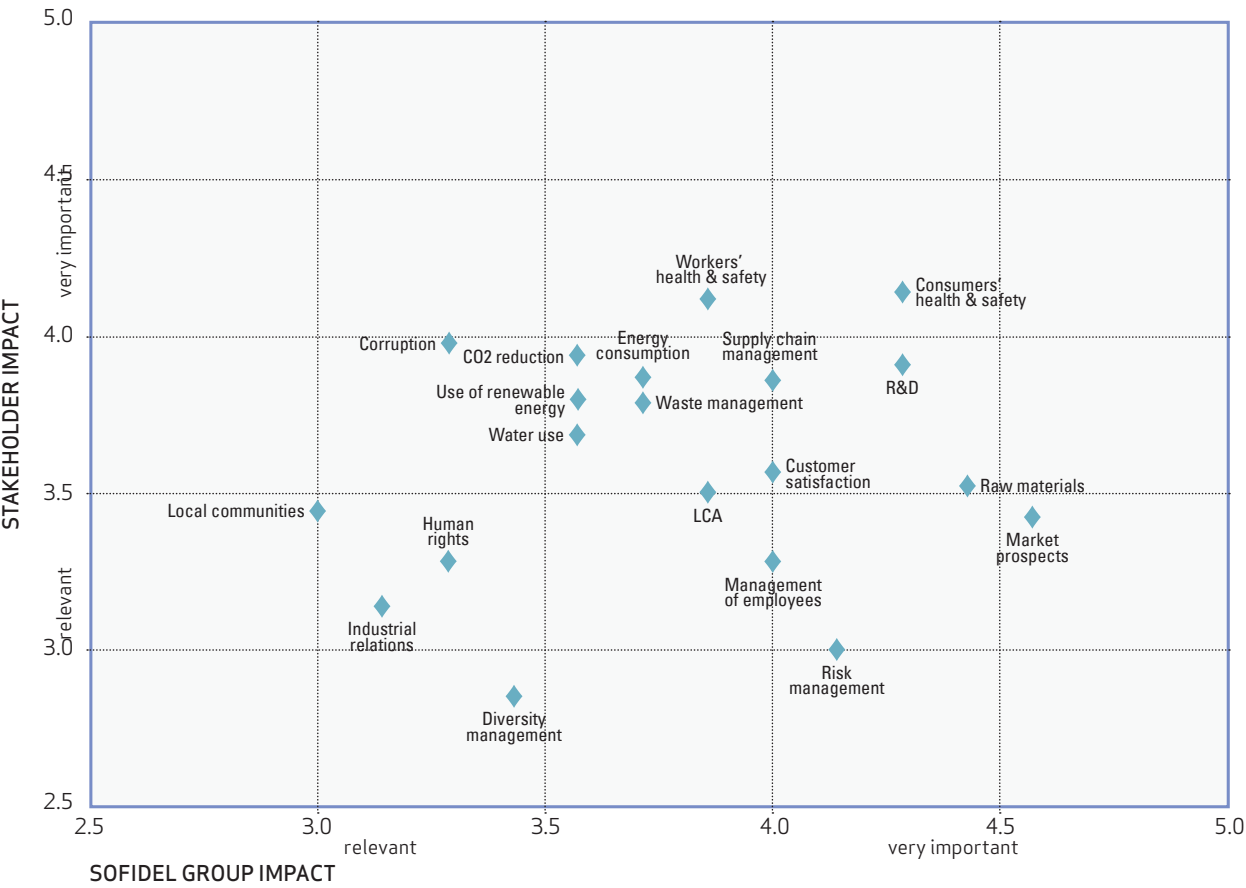
Materiality analysis and relationships with stakeholders

- Materiality analysis
- Management of relationships
- Communication and exchange with stakeholders
- Stakeholder engagements

MATERIALITY ANALYSIS

Over the financial year, Sofidel revised its materiality analysis through the involvement of the top management of the company and the main suppliers of the Group. This analysis was made in compliance with the ‘AA1000-Stakeholder Engagement Standard’ guidelines at each stage of indication, mapping and priority indexing of the stakeholders. The aim is to determine which subjects are considered important and enable the Group to continue creating value for its stakeholders in the short, medium and long term. The study was carried out using a matrix showing the expectations and priorities of stakeholders on one axis and the impacts that these impacts have on the company on the other.

As can be seen from the matrix below, some material aspects are perceived differently from the first materiality analysis carried out by Sofidel, both because, in the light of the current context, top management reassessed the sustainability, and the invaluable, essential point of view of the suppliers is still partial with respect to the Group’s strategies and internal decisions. Nevertheless, Sofidel gave a true representation of the results arising from this involvement which helped to reflect on some aspects and take decisions on how the Group can improve awareness on sustainability along its supply chain.



MANAGEMENT OF RELATIONSHIPS

Sofidel’s true capital is its stakeholders with whom it is committed to developing relationships centred on transparency, loyalty and co-operation, considered essential requisites for achieving those aims which the company could not attain on its own.

Customers, mainly consumers and distributors, whose needs are constantly monitored and taken over by the Group (see the ‘Our lines of business’ paragraph and the ‘Customers’ chapter), are particularly important among the stakeholders.

The details of public financing received by the Group are shown below:

Loans/benefits received (thousands of Euros)	2014	2015	2016
Sofidel Spain	66	-	11
Sofidel Germany	1,298	1,361	820
THP Logistik		3	
Sofidel Poland	75	68	60
Delicarta	1,010	933	-
Sofidel France	150	150	452
Werra	-	6	-
Sofidel	14	22	20
Intertissue			534
Sofidel Uk			1,043
Sofidel Benelux	480	383	305
Sofidel Romania	157	67	304
Sofidel Sweden	3	17	14
Sofidel America	3	119	120
Soffass	126	531	904
TOTAL	3,382	3,660	4,587

Sofidel’s membership, as founder-member, of the ‘Forum permanente sull’impresa sostenibile’ (Permanent Forum on the Sustainable Company) of Northern Tuscany Confindustria continues. This Forum is a useful workshop of transverse design and innovation in the area for the start of activities that contribute to the development of companies which have integrated the principles of environmental, social and economic sustainability into their way of working and relationships with their contacts.

There is a clear and considerable percentage increase of up to 68% in the contributions intended for innovation and incentives in the environmental and energy spheres; about 23% was used for the innovation of company processes and an increase in production capacity. The remainder went to professional growth through training, instruction, research and internship plans.

COMMUNICATION AND EXCHANGE WITH STAKEHOLDERS

Changes in the names of some Group companies

The procedure for the updating of some of the names of Group companies was started. This is another stage in Sofidel's path for the development of an increasingly strong corporate brand recognisable in all markets - Sofidel, a single entity for all Group companies globally. The aim is to promote the recognisability and consistency of action of the Group with respect to its stakeholders. Implementation of this process for all Group companies will take some months.

The corporate communication campaign

The corporate communication campaign 2016 was launched in the main media, both on-line and, for the Anniversary Day, on paper. The Group's anniversary was celebrated through the picture of a large roll of paper that unwinds and becomes a large 50, recalling the values of respect for the environment and people that have guided Sofidel's growth.

The book on company history: 'Sofidel - 50 years of growth into the future'

The book was written by the research group of the Economics and Management Department of the University of Pisa co-ordinated by Prof. Silvio Bianchi Martini. Using direct accounts and photographs, it reviews the history of Sofidel, the story of a company which started in the countryside near Lucca and has expanded into Europe and the United States. The volume also contextualises Sofidel's work in the wider development of the paper industry in Lucca, telling an important collective story for the Italian economy and, more generally, the evolution in the habits and lifestyles of many people. It is the reconstruction of 50 years of collective memory of the Tuscan tissue industry able to compete and win in international markets. The volume was published in Italian and English.

Media relations

The 50th anniversary was also the opportunity to intensify media relations. Luigi Lazzareschi, the CEO, gave many interviews to the Press and other on- and off-line media, both Italian and international. This was a way of reviewing the 50-year history of the Group, outlining the various strategic stages and stressing the role of technological innovation and environmental commitment in its growth.

WWF Environmental Paper Awards for sustainability in the paper industry

Sofidel's commitment to sustainability was recognised by the WWF during the assignment of the Environmental Paper Awards 2016. The award is made to brands in the paper industry which stand out for environmental performances and paper producers committed to guaranteeing the transparency of the footprint of their products and the constant effort to improve environmental performance. Three Sofidel products received the WWF Environmental Paper Award 2016 in the Best Environmental Performance Paper Brands category, an award given to companies which published the performance of their brands certificated by an independent third party, and obtained a score of more than 80% based on the 'Check your Paper' method. This was developed by the WWF to recognise and encourage the commitment of companies to reducing the footprint in paper production in terms of forestry procurement, use of water and climate-changing emissions. The products receiving the award, which obtained a score of 85%, were Mini Jumbo Toilet Tissue Kraft, Papernet Centre-feed Hand Towel and Papernet Dissolve Tech v-folded Hand Towel.

STAKEHOLDER ENGAGEMENTS

Sofidel Suppliers' Sustainability Award - the new prize that enhances our partners' best practices

Consistent with the Group's commitment to the promotion of sustainable development, the Sofidel Suppliers' Sustainability Award was launched in November for the 50th anniversary. The award has been created to give incentives to, spread and valorise the best practices and improvements

of suppliers in environmental and social sustainability. More than 300 companies from Italy and abroad took part. The Award certifies how a 'sustainable event' of the ISO 20121 standard will be repeated in the years to come as an effective way of creating long-term value and building a relationship of trust with the supply chain.



Then, take part in the first Sofidel Suppliers Sustainability Award

On the occasion of the 50th Anniversary of its foundation, Sofidel, being in line with the sustainable development objectives, announces and presents the first edition of the **"Sofidel Suppliers Sustainability Award"**. This will take place on next 24th of November. The award is a yearly acknowledgement to promote the best practices and improvement actions on social and environmental responsibility, carried out by Sofidel Group Suppliers. It is addressed to the Group Supplier Companies that stand out for their sustainability standards in responsibly managing the whole value chain, and is focused on the "TenP - Sustainable Supply Chain Self-Assessment Platform" project. More details can be found in the participation announcement on the "Sofidel Suppliers Sustainability Award" online page: www.sofidel.com/en/sofidel-suppliers-sustainability-award. We hope that our same commitment for the future of everyone will be shared by many of you. Thank you for your contribution and cooperation.

GLOBAL PARTNER



PREMIUM PARTNER



OFFICIAL PARTNER



MEDIA PARTNER





Sofidel rewards its most sustainable suppliers

Sofidel awarded the winners of the first edition of the **Sofidel Suppliers Sustainability Award**, the recognition that the Company, first in the tissue sector, established to promote, disseminate and enhance the best practices and improvement measures implemented by its suppliers in the field of social and environmental sustainability. The award is based on the TenP platform, a self-assessment tool designed and sponsored by the Global Compact Network Italy Foundation, of which Sofidel is a founding member and promoter. In addition to congratulating the winners of the three categories, we extend our thanks to all the suppliers who participated and to the partners Elettris 90, Fabio Perini, SODRA and Heral Global Partner, SAP, Putrac and icP (Premium Partners), Treadom (Official Partner) and TWM (Media Partner), who contributed to the event's success.

Best Supplier



Best Improver



Best Sustainable Project



The Festival of Growth - a stimulus to think

Sofidel took a stage in the Festival of Growth, devised and promoted by the sociologist Francesco Morace “to create a virtuous circle between the leaders of growth and development,” to Lucca. The event not only talked about Sofidel but also ideas, experiences and values. Two days of meetings and events open to the public in which companies, creative people, institutions (Stefania Giannini, the Italian Minister of Education, University and Research was among the speakers) and intellectuals spoke, as ‘ambassadors’, about how they have positively dealt with the challenge of development through sustainability, education, innovation and creativity. An event that intended to recount an idea of ‘happy growth’, supported by courage, trust and responsibility which the Group recognises for itself.

DOXA Study - what Europeans think

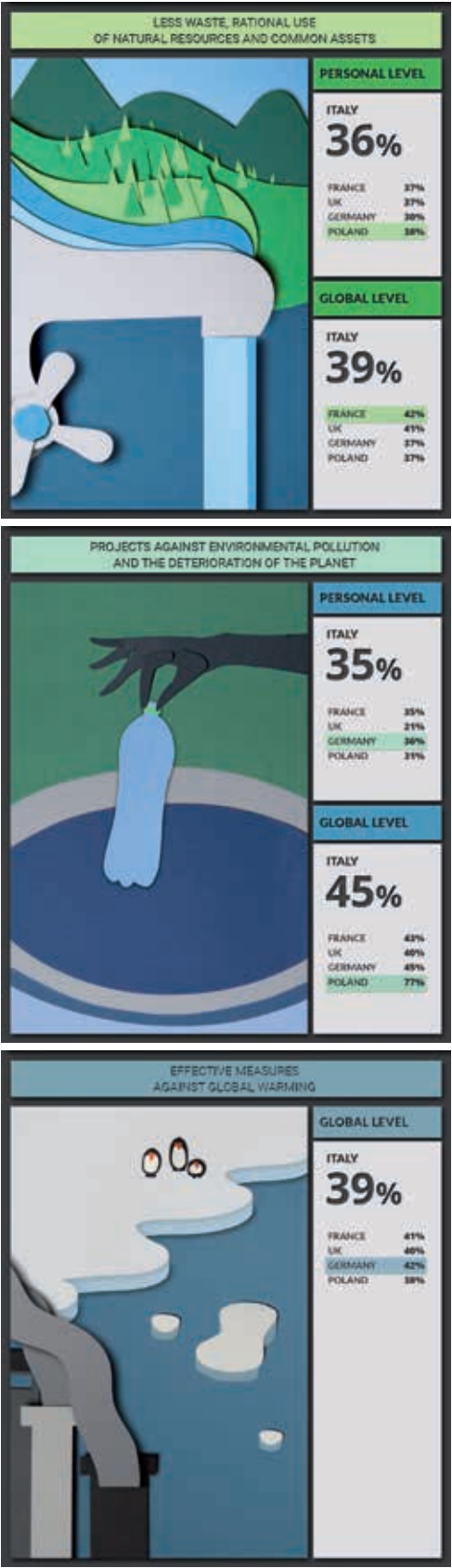
Sofidel started working with the research institute Doxa Marketing Advice for its 50th anniversary to discover what people wanted and the level of trust in the future in five different European countries - Italy, France, Great Britain, Germany and Poland, with a representative sample of 5,500 people. The study had two points of analysis - time (today and in 10 years) and distance, vicinity/remoteness (near and far worlds). This social research intended to understand better the attitude of public opinion and business communities on economic, social and environmental sustainability.

The topics with greatest relevance that emerged were **less waste and rational use of natural resources and common assets** in relation not only to the hometown but also the country and the planet where we live. There is very high ecological awareness in Italy, France and the United Kingdom, where the highest values were found on both aspects.

Projects against environmental pollution and degradation of the planet were also strongly felt both country- and worldwide.

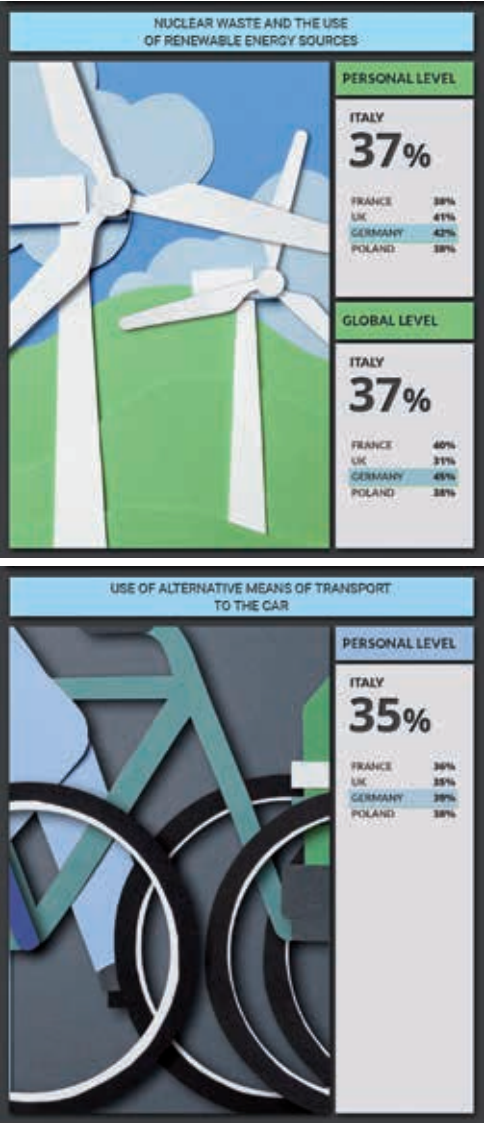
The priority for about 4 out of 10 Europeans is **effective measures against global warming** through the adoption of effective measures to reduce climate-changing emissions.

Rejection of nuclear power, and use of renewable energy sources: this is another important subject relating to environmental sustainability and how that stands out in Europeans’ perception. There was a double measurement in this case with one aspect focused on the local context and the other the global



one. In both cases, Germany showed the highest values. In Italy, the topic is seen as relevant by more than one person in three responding with similar values in the near and far context.

Use of alternative transport to the car: about 4 out of 10 responding in all five countries involved in the study thought this was a priority. Although the values in Italy were not dissimilar to foreign competitors, there was less sensitivity on this point, also because the population is less concentrated in large urban centres and there is deep-rooted prejudice against the quality and extent of public transport.



Sofidel People

The ‘Sofidel People’ project was one of the initiatives on the enhancement of places of work that Sofidel started to hear employees’ points of view. A survey on organisational well-being was made in 2016 through a questionnaire given to all European employees of the Group. The managers and office staff also took part in work groups whose outputs enriched the numeric survey with data on quality. The initiative, in which 82% of the Group population took part, will be repeated over a number of years.

Sofidel & Friends, the celebration with Sofidel customers

For the 50th anniversary of the Group, the fifth edition of Sofidel & Friends, the annual meeting shared with customers on the Group’s results and projects, was held in the church of Pieterskerk near Amsterdam. The event had the highest participation ever, a clear sign of customers’ growing interest in it. For the first time, some of the leading partners of the Group in the social context spoke of their relationship with Sofidel, from Woodland Trust to the Jack & Jill Children’s Foundation, and Médecins Sans Frontières to Telethon - and the customers too!

Médecins Sans Frontières

Sofidel’s partnership with Médecins Sans Frontières continued through the Papernet brand. More than 100,000 vaccines against measles, a disease which still kills a child under 5 every 4 minutes in Africa, were donated to Médecins Sans Frontières through this partnership. The M&S Corporate team from Papernet took part in an important event at the European Training Centre of Médecins Sans Frontières in Brussels with some of its European customers to involve and raise their awareness on such relevant subjects. Customers were involved in an interesting training exercise during the event to help them understand the operational methods of Médecins Sans Frontières in emergencies.



4

Future aims

· Strategic aims

STRATEGIC AIMS

“

Water consumption
per litre/kg of paper must be
6.9 in 2017



“

Reduction in specific
Scope 3 CO₂ emissions of 13%
by the end of 2020 compared
to the figures for 2010

“

Reduction in specific
Scopes 1 and 2
CO₂ emissions of 23%
by the end of 2020
compared to the figures
for 2009



5

Customers

—

- Customer satisfaction
- Management of reports and the Freephone number

CUSTOMER SATISFACTION

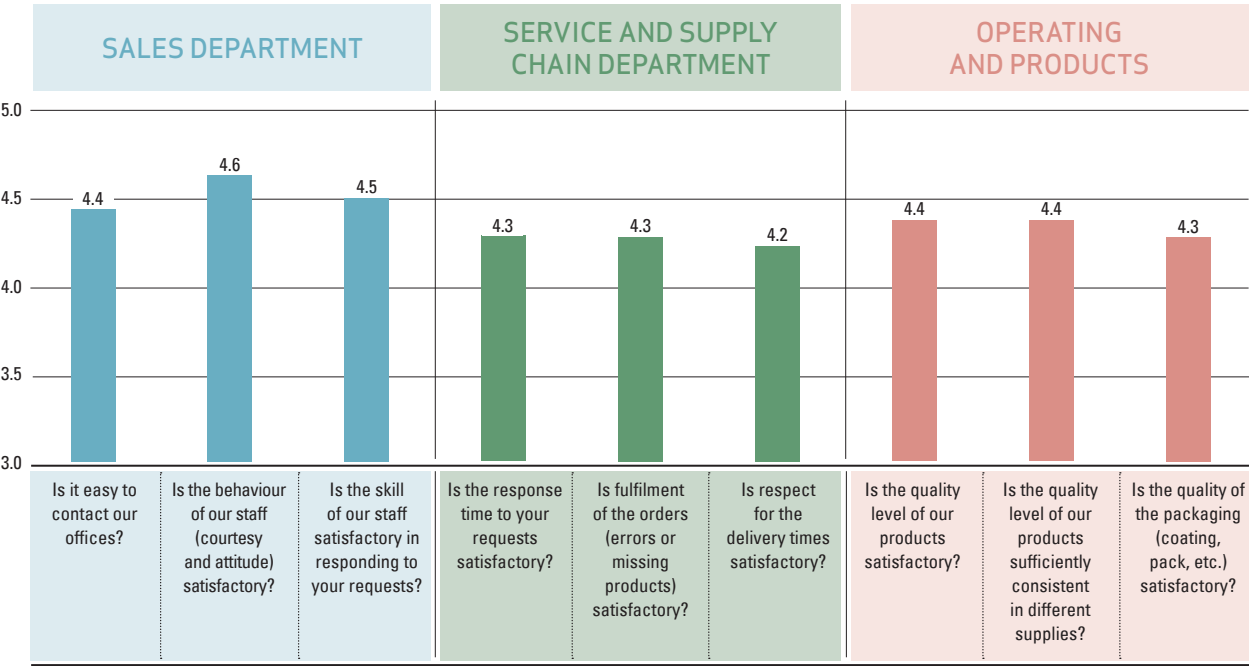
Customer satisfaction is an essential element for the Sofidel Group thinking of the continuous improvement in exchanges with its stakeholders.

Understanding the wishes and needs of customers so that a product that responds to their real requirements can be offered is intrinsically connected to the measurement of their satisfaction. Many initiatives have been implemented by Sofidel to collect and assess the degree of customer satisfaction with Group products and services and have always been based on the principles of listening, transparency and exchange.

A number of years ago, the Sofidel Group acquired a special IT management tool with the aim of extending the number of responses to customer satisfaction questionnaires as much as possible so that the data obtained could be more repre-

sentative. Through this, the results of customers were also very important for 2016 with 1,978 questionnaires sent, of which 1,536 (about 77.7% of the forms sent) were correctly completed and returned compared to the 1,499 of the previous year. The customers who completed and returned the forms represented 91.1% of Group turnover, a result never previously achieved.

As can be deduced from the graph below, the analysis of the answers given in 2016 showed a slight improvement of the level reached (4.4) compared to the preceding three years (4.3) out a maximum score of 5.



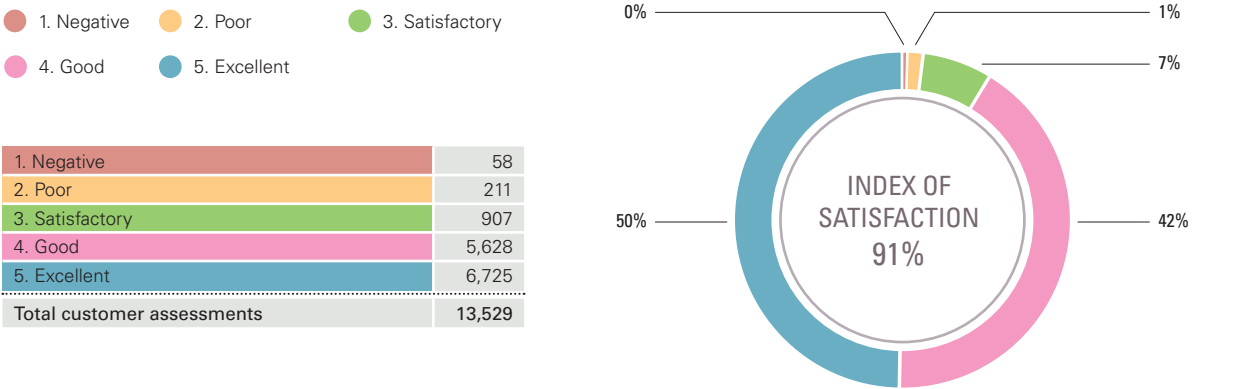
A further analysis of the results of the Customer Care Survey shows that, in line with the trend in improvement recorded in 2013-15 (from 88% in 2013 to 90% in 2015), the positive assessments for 2016 are around 91.3%*.

*Percentage obtained from the sum of the individual assessments received of between 4 and 5 points out of the total assessments

The aims of the Customer Care Survey service for the next five years will develop both for quality, with the consolidation of the high levels of satisfaction by working through direct exchanges with the customers that gave a dissatisfied as-

essment, and quantity, with the implementation of criteria of improvement in the representative nature of the users called on to indicate their satisfaction with the products and services offered by the Group. In addition, Sofidel Group offers a Customer Care service that follows the customer from the time of the order through to processing its payment. This service employs a total of 85 people in the company and can be found in all the countries where the Group operates. The Customer Care service is co-ordinated centrally but organisationally responds to the local managers so that presence in the area is more solid.

INDEX OF OVERALL SATISFACTION WITH THE SOFIDEL GROUP



MANAGEMENT OF REPORTS AND THE FREEPHONE NUMBER

The other side of the coin is the management of reports and any complaints from customers, whether they are distributors or final consumers. This type of interface, in particular, is of fundamental importance in both the management of the relationship of trust with these stakeholders and the management of aspects linked to product quality. Complaints are managed through an electronic workflow which involves the different departments concerned. An internal 'claims management efficiency' tool analyses all complaints and divides them by type (consumer complaint and retailer complaint), monitoring the relative response time based on internal procedures drafted to improve efficiency. In 2016, an overall 4,698 complaints* were received compared to 4,142 in the previous year. So the positive effect of awareness raising with customers and consumers continued for 2016 with the intention of further improving the quality of Sofidel products.

Over the year, no reports were received on cases of breach of privacy or loss of consumer data.

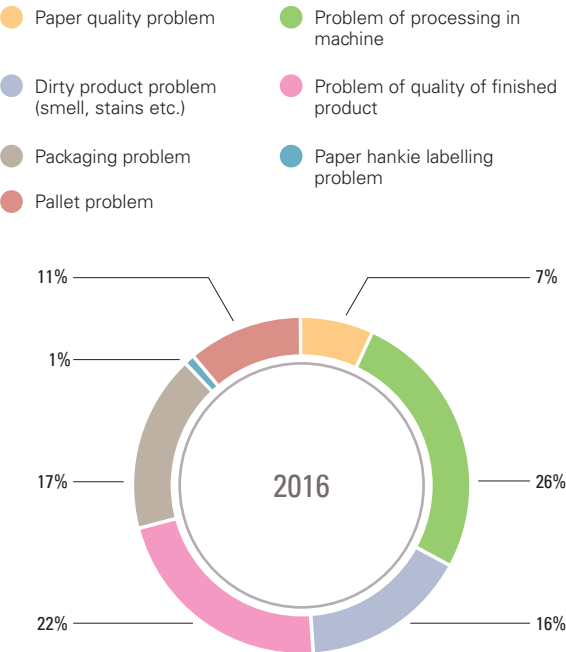
FREEPHONE NUMBER

The Sofidel Group continued its development work on the tools for exchanges with its consumers. To date, the relative Freephone numbers for both the main brands of the Group (Regina, Softis, Le Trefle, Sopalin and Volare) and Nicky for the B-Brands are active.

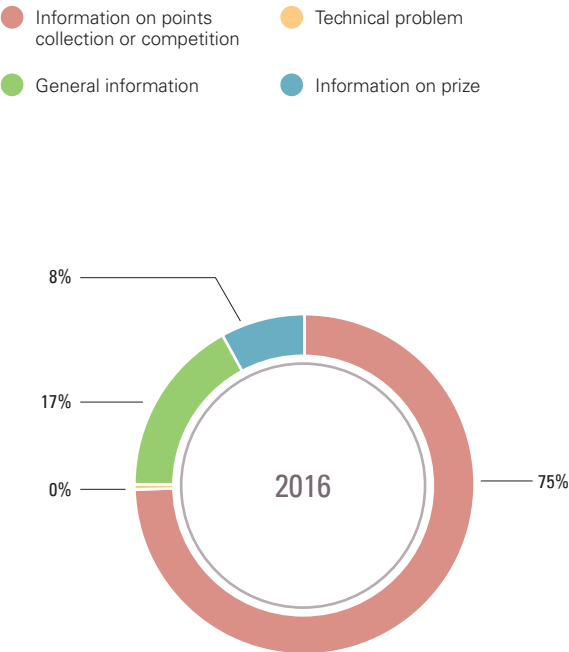
Following the reduction in the number of competitions held by Group brands, there was also a decrease in the number of Freephone calls for information in 2016 - 2,742 requests for info about competitions in 2015 against just 769* in 2016. So total requests went from 5,062 calls/mails in 2015 to just 1,029* in 2016.

*November data estimated at 31.12

DISTRIBUTION OF COMPLAINTS BY TYPE



DETAIL OF CALLS TO FREEPHONE NUMBER





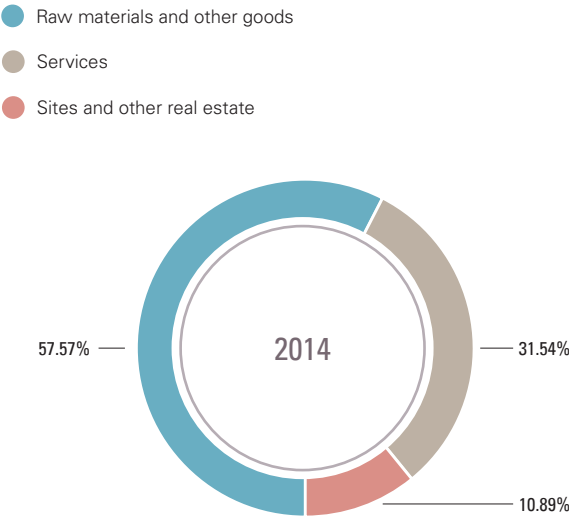
6 Suppliers

- Suppliers
- Ethical control on the supply chain

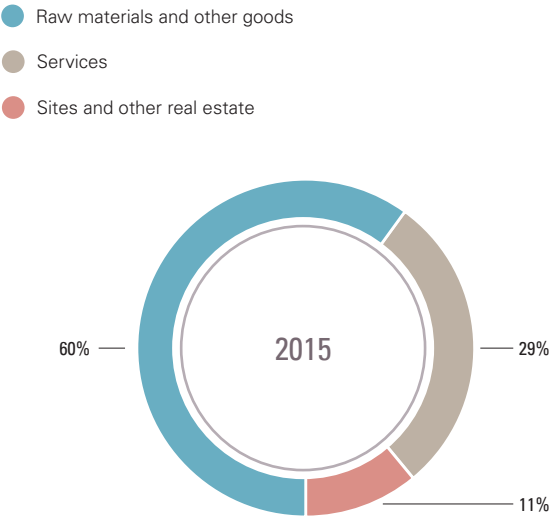
SUPPLIERS

In 2016, Sofidel purchased mainly raw materials accounting for 53.33% of the overall value of total expenditure.

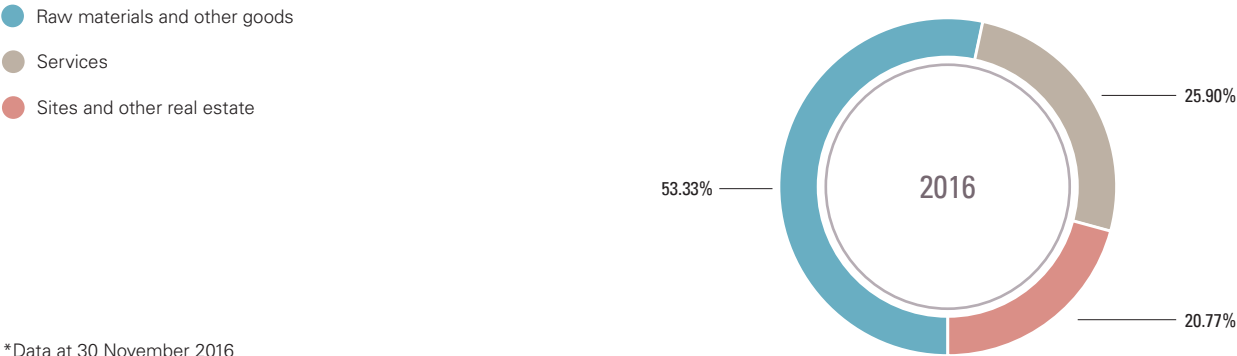
2014
TURNOVER - SOFIDEL GROUP SUPPLIERS



2015
TURNOVER - SOFIDEL GROUP SUPPLIERS



2016
TURNOVER - SOFIDEL GROUP SUPPLIERS*



*Data at 30 November 2016

ETHICAL CONTROL ON THE SUPPLY CHAIN

In 2016, the Sofidel Group further strengthened its initiatives connected with the monitoring, support and stimulus of sustainability in its supply chain. In detail, the Group reinforced its commitment to promote the use by its suppliers of the 'Sustainable Supply Chain Self-Assessment Platform', developed in the context of the 'TenP' (Ten Principles) project by the Global Compact Network Italy Foundation of which Sofidel is a founder-member. The aim is to raise the awareness of suppliers in four specific topical areas - human rights, work, environment and the fight against corruption, through a self-assessment system which enables the evaluation of the sustainability performance.

Other large companies, in addition to the Sofidel Group, are members of the TenP project (A2A, ACEA, Ansaldo STS, Edison, ENI, Italcementi Group and Nestlé Italia) with the purpose of increasing the assessment ability of the sustainability performance of supplier companies. Partner companies invite suppliers to complete a self-assessment questionnaire, drafted on the basis of the ten principles of Global Compact and the most important international standards and conventions on sustainability, through the platform.

In addition, there was also an analysis of the social and environmental risk assessment connected with the different supplies of the Group, with the aim of highlighting potential consequences on Sofidel's reputation if such risks are not managed by the suppliers. For 2017, the Sofidel Group will develop specific action for continuous improvement of the sustainability performance of the entities in its supply chain, based on the degree of risk and the type of suppliers involved. Further, this work will enable Sofidel to optimise the monitoring of its suppliers through the TenP platform and rationalise the pre-qualification system.

In 2016, about 350 invitations were sent to suppliers who needed to update their questionnaire or had to make the first access. Altogether, 197 questionnaires were completed; another 57 can be added from suppliers who completed the questionnaire spontaneously, a further demonstration of the catalysing effect of the policies adopted by the

Sofidel Group on sustainability topics. As a result, the total percentage of questionnaires completed by Sofidel Group suppliers in 2016 was 72.57%. Sofidel will solicit completion of the questionnaire, on penalty of possible commercial repercussions, from suppliers who did not respond to it as they are in classes of medium-high risk for the product sector and/or country.

Each supplier is given a score, from 0 to 100, relating to the four areas indicated above - work conditions, respect for human rights, environmental protection and fight against corruption. They can then check their positioning with respect to other participants and compare their sustainability performance with that of similar companies. In parallel, the Sofidel Group has developed a rating system in which each supplier is put into a different category (green, yellow and red) based on the score obtained. The supplier is started on specific supervised training in relation to the system of monitoring and assessment of the sustainability performance and based on the category assigned:

- Suppliers in the red band are invited to review the responses given and, if an immediate change is impossible, agree an improvement plan suggested by Sofidel. In 2016, 20 suppliers moved from the red band to the subsequent one.
- Suppliers in the yellow band are advised of recommendations defined on the basis of the analysis of the areas where the score is lowest.
- Suppliers in the green band are excellent suppliers from the sustainability point of view. No training path is suggested to them but they are potential partners for specific sustainability initiatives.

In 2016, 22% of the questionnaires completed fell into the red category, 37% in the yellow and 41% in the green one. Sofidel's commitment to consolidating the ethical control of its supply chain and stimulating its suppliers to improve the social and environmental aspects of their business was further consolidated with the establishment of the 'Sofidel Suppliers Sustainability Award' (see 'Stakeholder engagements' on p. 39 for further information).



7

The social side

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- Management of Human Resources
- Human rights
- Work practices

MANAGEMENT OF HUMAN RESOURCES

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

The human resources management policy is firmly based on the principles set out in the Ethical Code, promoting respect for equal opportunities and diversity as wealth to be cultivated, and also the values of respect, equal treatment, development of individual abilities, the Group’s work, open communication and continuous learning. The development of technical and managerial skills is a strategic factor for the Sofidel Group, which supplies an average of 19.11 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 the transfer of consolidated methods and culture of the result to operational staff in the production sites.

The strategic value of human resources is also highlighted by the Performance Management objective. In 2016, the Evaluation Card project was carried forward, establishing the direct connection of quality performance with the reward system, enabling a medium-term assessment of the quality results, followed by a shared action plan for the professional and personal maturity of the employee.

The Sofidel Group has also implemented specific management policies targeting the two minority age ranges of staff,

joined the ‘Lifelong Employability & Company Welfare’ work-group promoted by the Sodalitas Foundation, with the aim of finding effective solutions of lifelong employability and sustainable management of human resources. Similarly, the Group started the structuring of an ‘Induction’ process at Group level for the management of newly-hired employees.

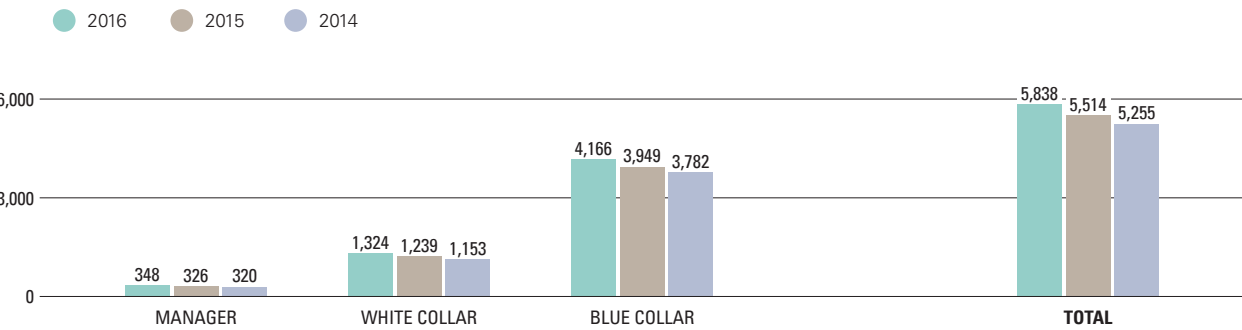
The Group Human Resources Director, who reports directly to the CEO, is the highest position in the Sofidel Group with responsibility for the organisation of Human Resources and also a member of the Group Executive Committee. Many Business Units report to the Director of Human Resources; some of these are directly connected with Human Resources management:

- Human Resources Administration and Management
- Organization, Processes and Procedures
- Training and Internal Climate

The procedures and guidelines for Human Resources Management are defined in agreement with the different structures reporting to the Human Resources Director, seen and approved by the Executive Committee, and then applied locally by the local HR Managers, who report to the Group Human Resources Director.

At 30 November 2016, the total number of Sofidel Group employees was 5,838, an increase of 324 resources with respect to the previous year. The increase in numbers is mainly due to the development of the American sites and the acquisition of the new subsidiary Sofidel Hungary, in Hungary.

DIVISION OF SOFIDEL GROUP STAFF BY LEVEL



The Tables below show the division of Sofidel Group employees, with indication of the data on a three-year basis. (Please note that the divisions relating to staff data refer to 30 November and do not include Sofidel Hungary, acquired during the year.)

DIVISION OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2014

Level	Women	Men	TOTAL
Blue collar	267	3,515	3,782
Manager	49	271	320
White collar	455	698	1,153
OVERALL RESULT	771	4,484	5,255

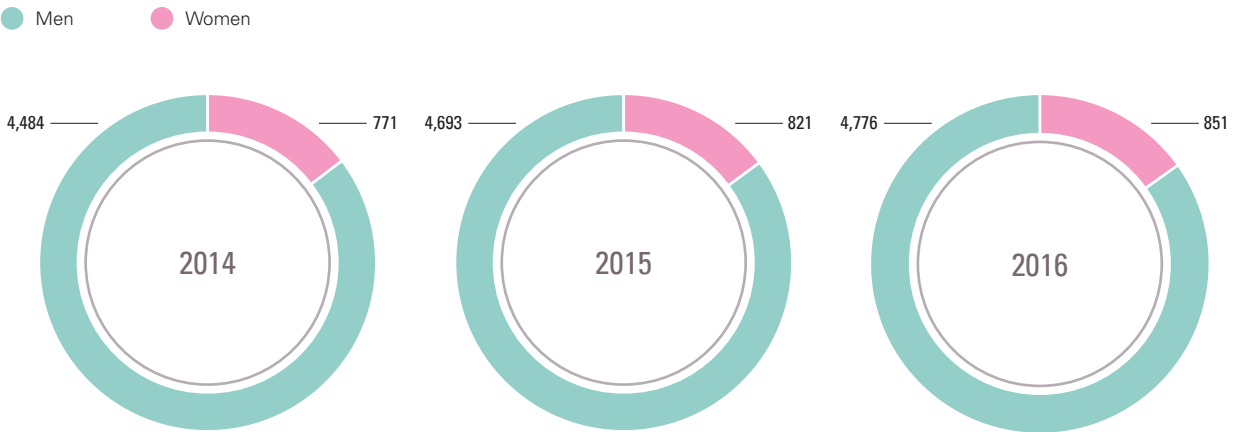
DIVISION OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2015

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

DIVISION OF SOFIDEL GROUP EMPLOYEES BY LEVEL AND GENDER – 2016

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

DIVISION OF SOFIDEL GROUP EMPLOYEES BY GENDER



The overall percentage of female staff in the Group is 15.12%, with relative percentages of 16.96% among the managers, 40.31% among white collar staff and 6.94% among blue collar staff, confirming the prevalence of men, particularly among blue collar workers because of the nature of the jobs performed.

DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2014

	Belgium	Germany	Spain	France	UK	Greece	Croatia	Italy	Poland	Romania	Sweden	Turkey	USA	RESULT
Blue Collar	112	594	80	515	738	43		769	174	201	112	29	415	3,782
Manager	12	30	20	51	50	6		104	19	8	9	8	3	320
White Collar	53	151	37	109	166	8	6	333	114	52	29	30	65	1,153
OVERALL RESULT	177	775	137	675	954	57	6	1,206	307	261	150	67	483	5,255

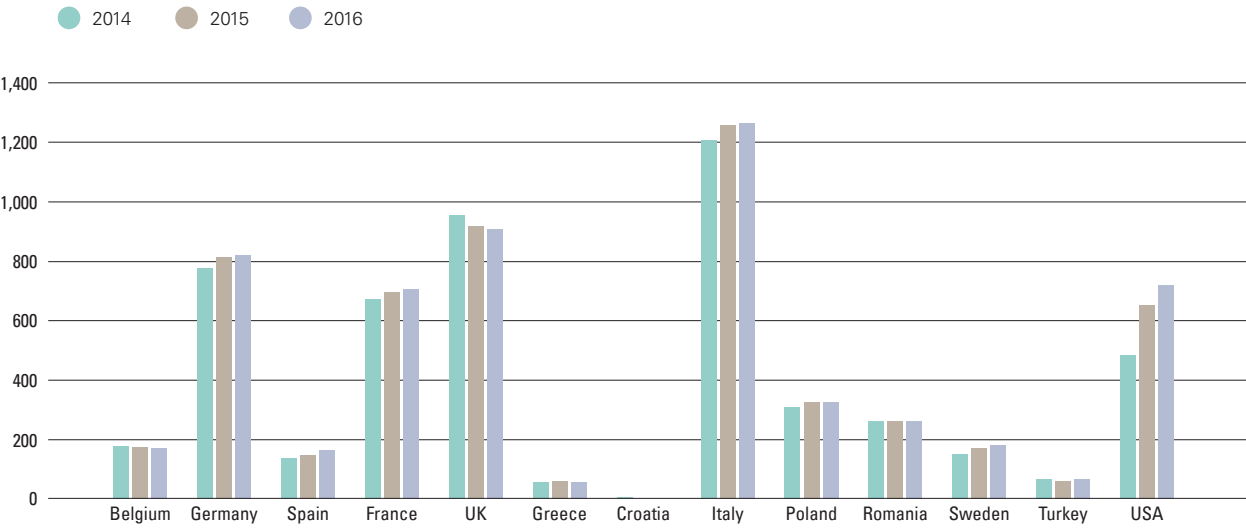
DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL AND GEOGRAPHICAL AREA – 2015

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

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

	Belgium	Germany	Spain	France	UK	Greece	Italy	Poland	Romania	Sweden	Turkey	USA	RESULT
Blue Collar	106	632	101	536	691	42	774	188	202	136	28	581	4,017
Manager	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 RESULT	171	817	162	705	905	56	1,262	325	261	180	66	717	5,627

DIVISION OF SOFIDEL GROUP EMPLOYEES BY GEOGRAPHICAL AREA



The data highlights the preponderance of the Italian component (22.42%) in Sofidel Group staff, with a majority of managers (31.81%), white collar (29.92%) and blue collar staff (19.26%). In the Group, the following countries have numerically consistent communities, UK (16.08%), Germany (14.51%), USA (12.74%) and France (12.52%).

Human Resources Meeting

The fourth ‘International HR & H&S Meeting’ of the Group was organised during the year to promote reciprocal knowledge and the continuous exchange of ideas and information in the Human Resources Division. All the HR and H&S Managers from European countries took part in

the meeting. During the meeting, the global HR strategies and projects to implement were defined, including those relating to ‘Talent Management’ and ‘Workplace Health Promotion’. Further, with reference to the management of

talents and the growth of internal staff, the Human Resources Division published and distributed two new policies, one on ‘Managerial Development’ and the other on ‘Staff retention’, both valid at Group level, during 2016.

DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND TYPE OF CONTRACT - 2014

	FULL-TIME			PART-TIME		
Level	Women	Men	TOTAL	Women	Men	TOTAL
Blue Collar	265	3,504	3,769	2	11	13
Manager	48	269	317	1	2	3
White Collar	408	695	1,103	47	3	50
OVERALL RESULT	721	4,468	5,189	50	16	66

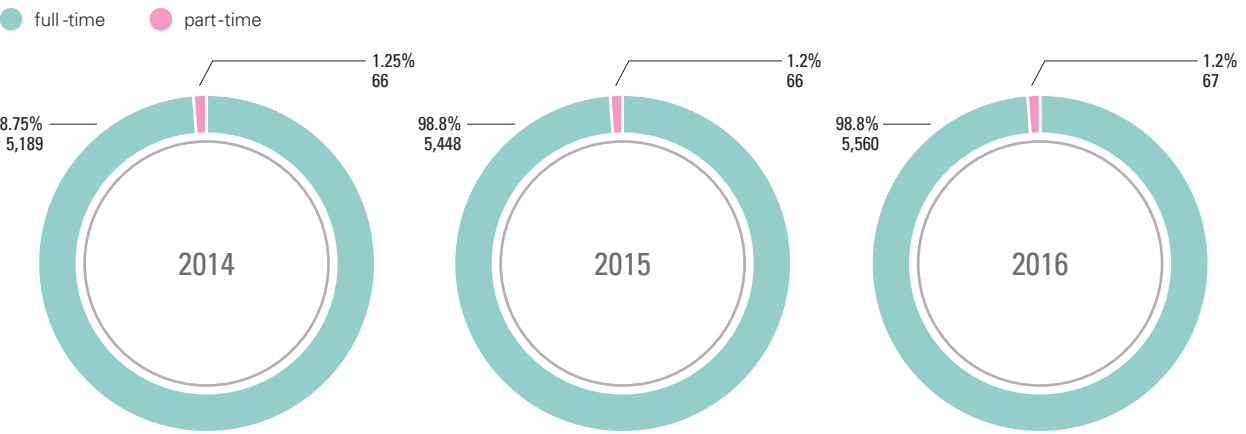
DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND TYPE OF CONTRACT - 2015

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

DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND TYPE OF CONTRACT - 2016

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

DIVISION OF SOFIDEL GROUP EMPLOYEES BY TYPE OF CONTRACT



The percentage of Sofidel Group employees hired with an open-ended contract is 94.93%, almost all (98.80%) with

a full-time contract. The close connection between the company and the re-

gion was also confirmed in 2016. 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 through the limitation of

the home-office journey. The company has always aimed at valorising local resources trying to find the best-qualified professionals; more than 95% of the senior managers are from the local reference community.

DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE – 2014

Level	AGE < 30			AGE 30-50			AGE > 50		
	Women	Men	RESULT	Women	Men	RESULT	Women	Men	RESULT
Blue Collar	19	381	400	150	2,297	2,447	98	837	935
Manager	1	6	7	40	171	211	8	94	102
White Collar	73	61	134	314	490	804	68	147	215
OVERALL RESULT	93	448	541	504	2,958	3,462	174	1,078	1,252

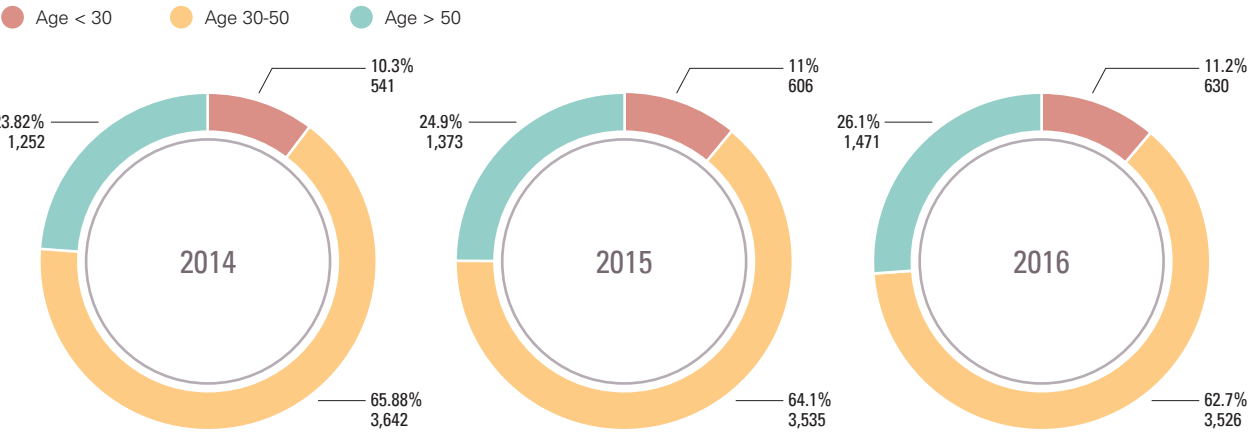
DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE – 2015

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

DIVISION OF EMPLOYEES OF SOFIDEL GROUP COMPANIES BY LEVEL, GENDER AND AGE – 2016

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

DIVISION OF SOFIDEL GROUP EMPLOYEES BY AGE



The graph highlights that most (62.66%) of the Sofidel Group population is in the middle age range of 30-50.

In addition, the number of workers over 50 years of age is significant and their management will require the appli-

cation of appropriate tools in future. On this point, Sofidel continued its membership of the ‘Lifelong Employability & Company Welfare’ workgroup, promoted by the Sodalitas Foundation, in 2016, taking part in some meetings with other leading multi-national companies. The purpose of

this project is to assess and collect the best practices in Italy and abroad oriented to the maintenance of an active role and adequate motivation of older workers in the company context, creating new personnel management policies and techniques.

HUMAN RIGHTS

EQUAL OPPORTUNITIES, DIVERSITY AND NON-DISCRIMINATORY PRACTICES

In the management of human resources, the Group promotes respect for equal opportunities and diversity as wealth to be cultivated, in compliance with the principles and values expressed in the Group Ethical Code and the regulations on human rights. More than 200 hours of training* by e-learning on these subjects were given to Group employees. In addition, Group companies have been provided with specific anonymous reporting mechanisms, which enable workers to disclose any episodes of breaches of human rights, so that discriminatory events of any kind can be prevented. No reports of discrimination were received during the year.

To date, the Group has not considered it necessary to carry

out specific assessments on human rights as company business is not carried out in areas defined as at risk.

In 2016, 29 employees in Italy, 20 women and 9 men, made use of parental leave (optional absence for maternity/paternity) while in the foreign companies there were a total of 88 people, 33 women and 55 men, on parental leave. Only one female worker of the Group decided to leave work at the end of maternity leave.

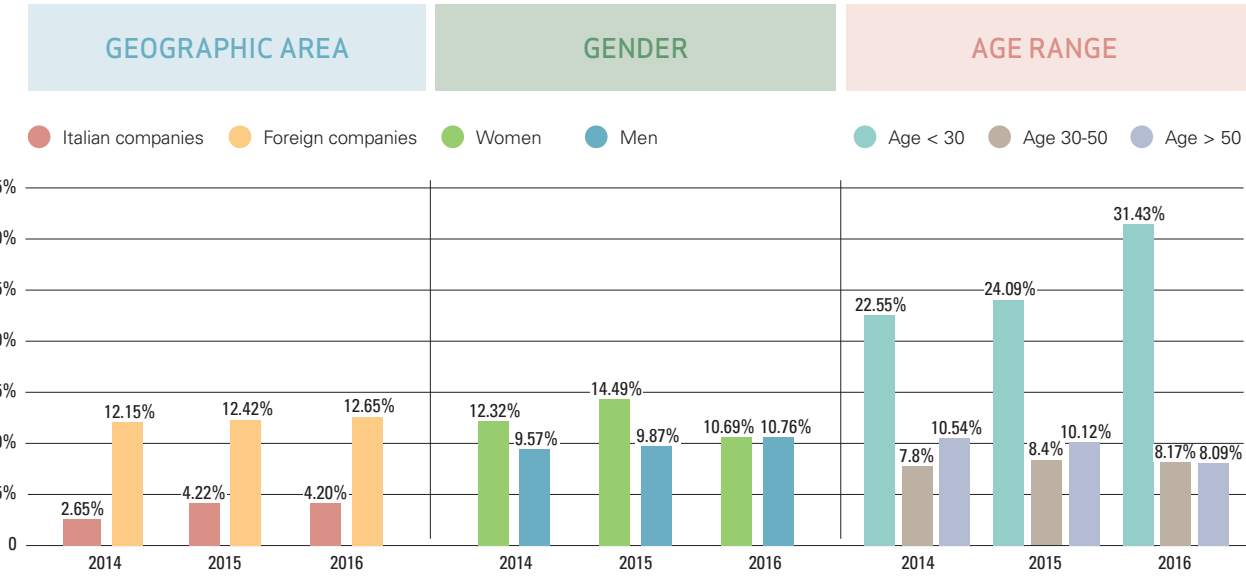
As far as the protected groups are concerned, the Group fulfils the obligations set out by the legislation in force on the subject in the countries where it operates. In 2016, there were 58 employees from these groups - 7 women and 51 men.

*Excluding Sofidel America because of different legislation and Sofidel Hungary acquired in 2016

WORK PRACTICES

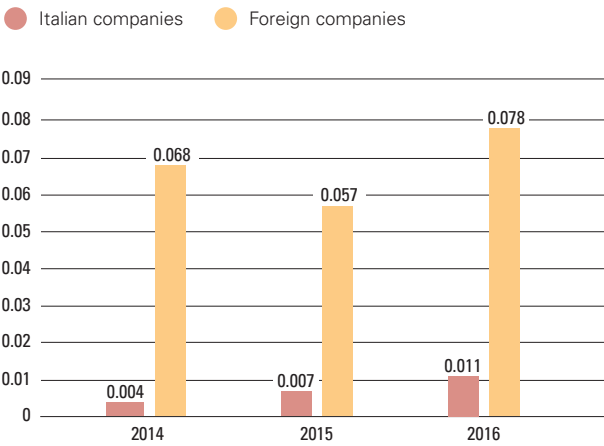
TURNOVER

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



The Group's rate of turnover had quite low values in 2016; the graph above shows the data calculated considering the total number of employees who left the company voluntarily, through retirement or termination of employment. The data shown alongside, however, has been calculated on the effective hypothesis of voluntary resignation by Sofidel Group employees, divided by geographic area:

RATE OF TURNOVER OF THE SOFIDEL GROUP - VOLUNTARY RESIGNATIONS

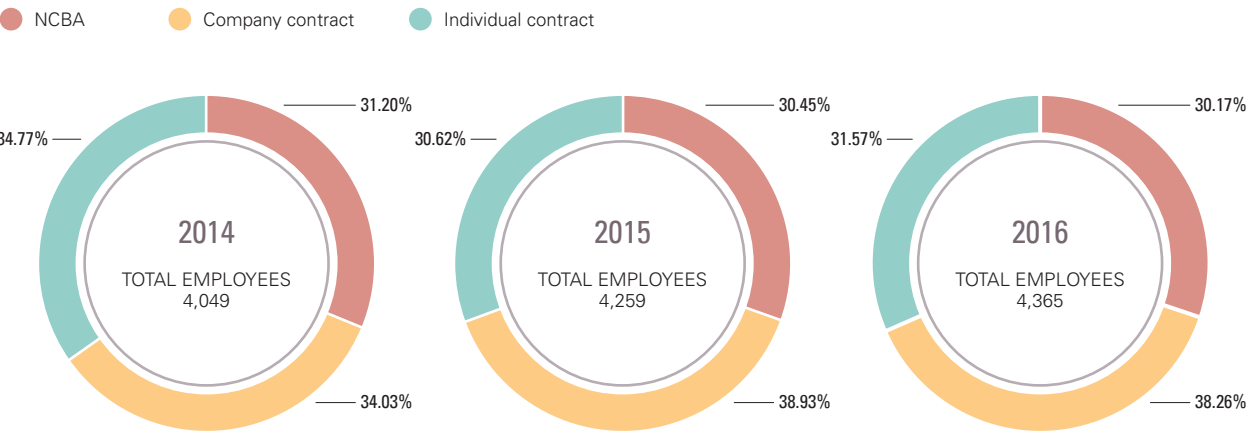


INDUSTRIAL RELATIONS

Sofidel shares an industrial relations system based on constant, constructive discussion with the various trade unions in compliance with the principles in the contracts managed. The National Collective Bargaining Agreement (NCBA) is applied for all employees, in compliance with current law, in

the Italian companies of the Sofidel Group. The employment contract of employees in the other companies of the Group is regulated by national collective bargaining agreements in 30.17% 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)



Communications relating to organisational changes

Communications relating to organisational changes are made respecting the times and methods established by each national law or the collective bargaining agreements applied.

HEALTH AND SAFETY

Sofidel believes in the promotion of health and safety at work as one of the critical factors for the sustainable development of its staff and business and also as a significant contribution to raising the level of health of the whole of society. The Group respects the principles of the European Network for Workplace Health Promotion and considers that real and lasting improvement in the level of health and safety of workers can only be achieved through the combination of the following elements: improvement in the environment and organisation of work, promotion of active participation, encouragement of personal development and assumption of healthier lifestyles. Therefore, with the involvement of the workers and their representatives, Sofidel has adopted a multi-year programme of 'Workplace Health Promotion' (WHP) as a modern company strategy able to multiply the positive effects arising from the many events on prevention, intended to elevate the decisive factors in the promotion of

health and well-being of the workforce over time. Sofidel will give priority concern to the following topics: smoking, alcohol, diet, exercise and, later, drugs and stress, in line with the topics dealt with by the European network for WHP. In addition, Sofidel's partnership with the European Agency for Health and Safety at Work (EU-OSHA) continues with membership of the new two-year campaign (2016-2017) entitled 'Healthy and safe work environments at all ages', focused on the promotion of sustainable work and ageing in good health from the start of the working life. The Health & Safety organisational unit has sent paper and digital information to all the European plants in the local language to raise the awareness of Group employees on such a relevant topic. Co-ordination of the health and safety policies is delegated to a specific corporate structure, the Health & Safety organisational unit. One of its main jobs is the creation and spread of standards and best practices to disseminate and standardise the prevention and protection measures, work practices and operational procedures to reduce the level of risk for health and safety to all Group sites.

In 2016, audits were carried out by the corporate H&S structure to spread the culture of safety from the technical and procedural points of view and disseminate the Health and

Safety at Work Management Systems. In relation to the development of these systems, the maintenance of the OHSAS 18001 certifications in Group sites continues throughout the year. The aim is to continue in the implementation of the health and safety management systems in all companies. Committees on health and safety have been set up in all Group companies; they consist of representatives of the management and workers in the plants so that workers are involved in the awareness and spread of the relative policies.

Measurement indices on 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 Index and the Severity Index. Measurement of this data is not divided by male-female gender as most of the female staff work in the offices (as can be deduced from the data on the division of Group employees by level and gender) and so has little significance for statistical purposes.

FREQUENCY AND SEVERITY INDICES OF SOFIDEL GROUP COMPANIES BY GEOGRAPHIC AREA*		
Country	IF ¹	IS ²
Belgium	0	0
France	17.03	0.53
Germany	26.11	0.54
Greece	18.90	0.64
Italy	11.62	0.28
Poland	12.84	0.47
Romania	2.07	0.06
Spain	27.58	0.42
Sweden	10.68	0.40
Turkey	0	0
UK	3.28	0.25
USA	2.42	0.15
SOFIDEL GROUP TOTAL (2016)	11.37	0.33

* The hours worked in December are estimated as the average value of the preceding 11 months. Sofidel Hungary is excluded from the calculations as acquired during 2016.

In 2016, the rate of absence in Group companies, i.e. the ratio between the hours of absence from the job for employees and the hours that could be worked was 4.02% because of illness³ and 0.27% for accidents⁴.

Spread of the health and safety culture

Referring to the topic of health and safety, training plans are proposed in all Sofidel Group companies every year. In 2016,

about 25,021 hours of training were given just for health and safety. The subjects dealt with during the training sessions mainly concerned the risks of jobs and the resulting specific prevention and protection measures and procedures for the sector, use of work equipment, management of emergencies and fires, first aid, the organisation of company prevention and the rights and duties of the different company bodies. In addition, on-the-job training by qualified internal staff is planned at site level for each sector of workers.



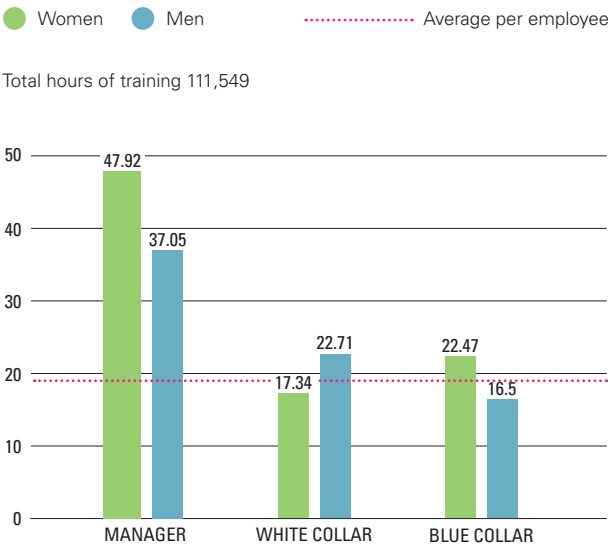
1. IF: number of accidents/hours worked x 1000000
2. IS: days of absence for accident/hours worked x 1000
These indices are calculated referring to the thousands and millions of hours worked unlike the requirements of the LA6 indicator of the GRI as the standard defined at Sofidel Group level. The values of the accident indices shown do not take account of accidents while travelling or those causing less than 3 days' absence. In addition, only accidents which caused the worker to leave the work position are counted.

3. Rate of absence for illness: hours of illness/hours that could be worked
4. Rate of absence for accident: hours of accident/hours that could be worked

TRAINING AND VALORISATION

In 2016, a total of 111,549 hours of training were provided overall; the average hours provided for each company level were 37.05 for male managers and 47.92 for female ones, 22.71 hours for male office staff and 17.34 for females, and 16.50 for male factory hands and 22.47 for females.

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



Further, the average hours of training provided per employee were 19.11. In addition to health and safety at work, the subjects of greatest interest were the best practices operating area for technical and production improvements and the introduction of new machinery, the study of English and updating on the management systems for their implementation and maintenance. The diffusion of the philosophy and principles of Lean Management in the production context continues to have special relevance. The Lean World Class[®] is based on principles of continuous improvement, training and growth of people making use of many tools to achieve the aims of reducing losses and streamlining processes. These tools have been progressively implemented in Group plants. After initial training by an external expert, the employees, whose involvement in the Lean programme is essential, then became trainers for their colleagues, extending Lean methods in the plants. From 2011 to date, 74 methods have been applied on 43 lines in 12 factories in 8 different European countries. In the last year, Sofidel has further raised the level of implementation of Lean, in addition to the application of the tools

in the production departments and having specialised co-ordinators in each tool internally, creating internal certificated auditors through appropriate training who are able to check the correct application of the methods in all sites. In 2016, a programme for the integration of all the Lean tools, named Sofidel Manufacturing System (SMS), was launched. The SMS is the Sofidel integrated system for the management of production sites.

Sofidel made use of the specific skills already within it, in addition to qualified external agencies, for the trainers; a total of 22,262 hours, 59.72% of the total, were provided. There was a significant increase in the number of internal training hours in 2016 due to on-the-job training given to new employees in recently acquired foreign installations.

The investment in training totalled Euro 1,601,413.08.

In 2016, on the valorisation of human resources, the Italian companies of the Group saw two of their colleagues decorated with the honour 'Order of merit for labor', conferred by the President of the Republic for diligence and dedication to work shown in 25 years of uninterrupted work.



REMUNERATION AND INCENTIVE SYSTEMS

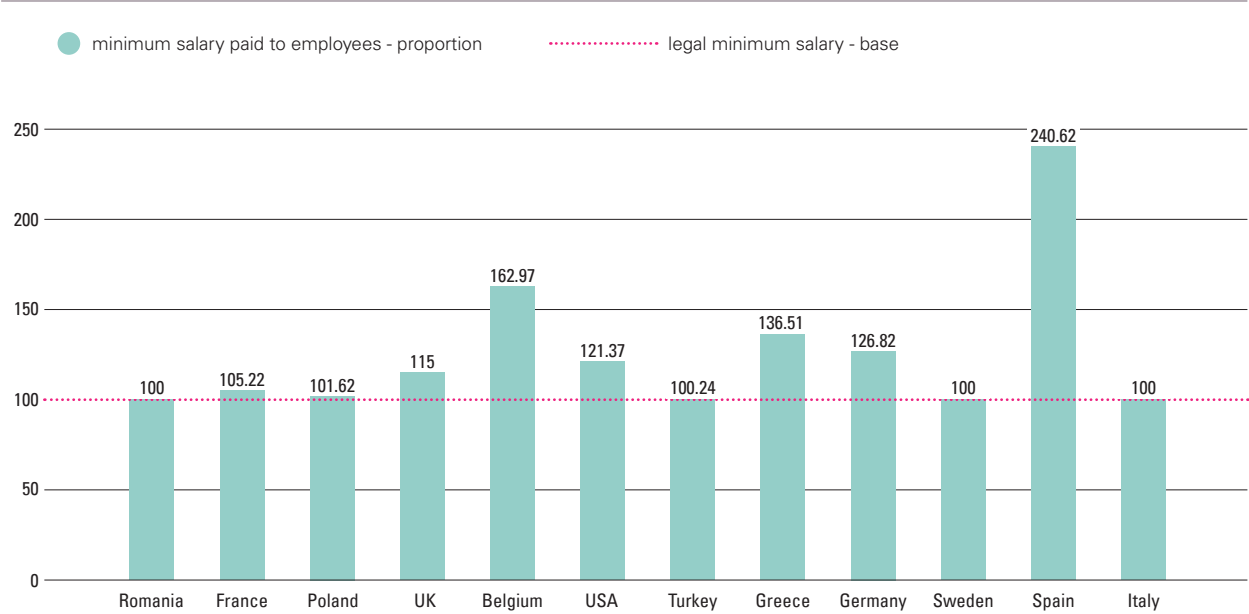
Consistent with its principles, the Sofidel Group decides the salary of its employees respecting the legal standards and guaranteeing respect for the criteria of equality and trans-

parency. An analysis carried out in the countries where the Group can be found showed that minimum salaries, where set out, are amply respected.

different participation percentages. The percentage varies according to the figures established by individual company regulations. In addition, there is also a special Solidarity Fund

in Italy, promoted through the CRAL (Workers' Social Organisation), intended to support those who find themselves in situations of great need.

MINIMUM SALARIES BY COUNTRY - 2016



In addition, there are performance evaluation programmes for every employee who is part of the so-called 'reward system' in almost all Group companies. This consists of an interview based on a questionnaire which considers the strategic aspects of the work performance. In detail, the quality evaluation of the performance is made through the constant measurement of a series of parameters that indicate the work: individual commitment, skills/professionalism, problem solving, quality, ability to work together (team work), communication/interpersonal skills, spirit of initiative, and delegation, control and development of co-workers. The behavioural approach has proved to be very effective in connecting company strategy to the conduct required to implement it. The evaluation also ensures periodic monitoring of performance and a check on its progress and the possibility of making changes and useful corrections to improve it. In detail, many Group companies start reward systems based on the definition of specific, measurable aims that are achievable and shared so that employees are able to influence them with their behaviour. The check on their achievement, which may also include sustainability performances 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 2016, 60.44% of Group company employees benefitted from increases in their salary and 55.87% received a premium or bonus. The benefits given to employees are provided without any distinction between full- and part-time office staff. Although there are policies and payment rules and development of skills based on equality and fairness of treatment between men and women, women generally hold positions of less responsibility meaning they receive lower payments than men. With a view to improving this situation and confirming its commitment on the subject, the Sofidel Group has adopted regulations that envisage flexibility on entry and exit times and joined the Charter on Equal Opportunities at Work promoted by the Sodalitas Foundation. The employment relationship with Sofidel is also marked by the number of provisions and initiatives in favour of workers. Employees in Italy, France, UK, Germany and the United States, for example, have forms of supplementary pensions that operate through the activation of special pension funds that employees of the companies can contribute to with





8

The community

· Operations for local communities

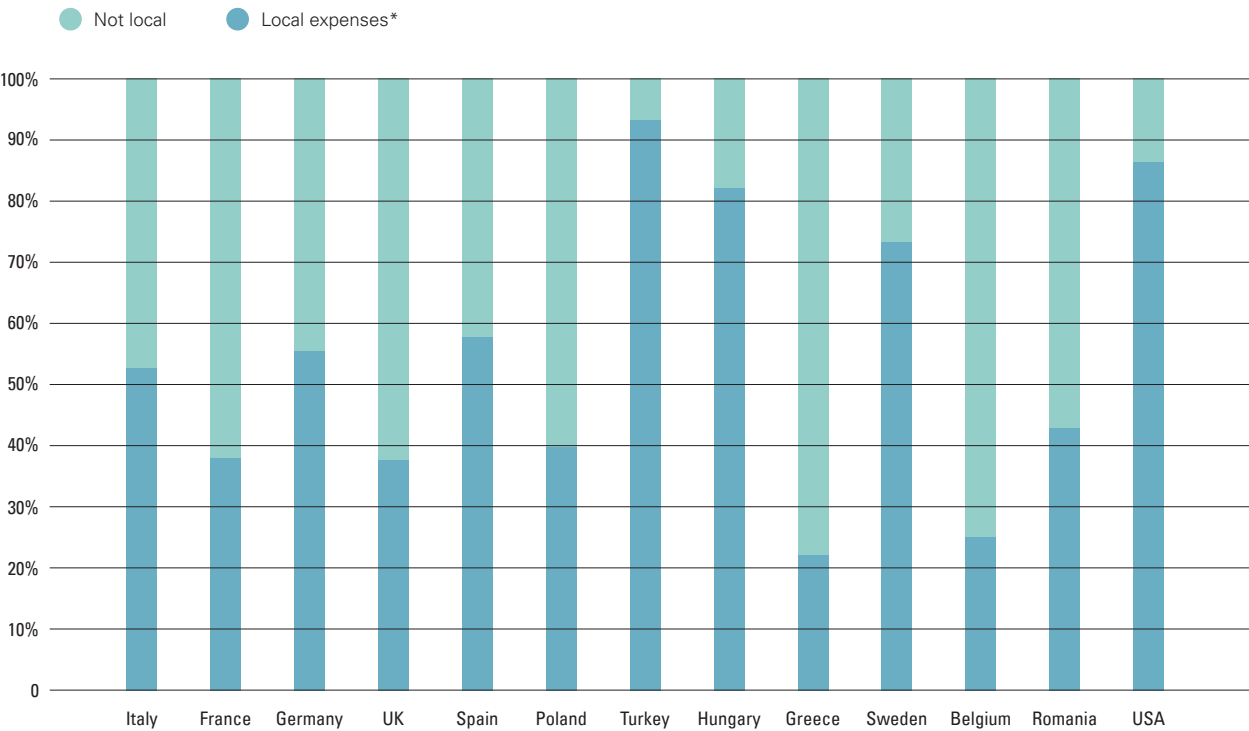
OPERATIONS FOR LOCAL COMMUNITIES

Sofidel’s commitment with local communities is distinguished by an approach to core business that enables the negative external effects on the area to be reduced (mainly in environmental terms) and wealth to be generated and redistributed locally.

This dual aim is put into effect through the use of clean technologies and also planning logistics that enable the reduction of CO₂ emissions preferring, where possible, local purchases, thus contributing to strengthening the relative supply chains.

Sofidel suppliers are mainly in Europe, where there are most of the Group installations, except for raw materials suppliers, for reasons connected to the nature of the cellulose market. In 2016, Sofidel purchased on average 54.97% of goods and services from local suppliers.

CONCENTRATION OF EXPENSES ON LOCAL SUPPLIERS BY COUNTRY - 2016



* Data to 30 November 2016. 'Local' means suppliers in the country of the Sofidel Group site.

COMMITMENT TO COMMUNITIES

Over the year, Sofidel drafted a procedure regulating the management of donations and sponsorships of social activities made by Group companies. The procedure sets out specific rules for both how requests should be presented and the selection and approval criteria; it also indicates the macro destination areas annually, consistent with the mis-

sion to provide families with hygiene, health and well-being. As confirmation of the importance paid to local communities, Group companies are asked to make donations and sponsorships intended to elevate the connective tissue of the areas they are in. This procedure was transmitted to Group employees in Italian and English through the e-learning platform.

SOFIDEL GROUP OPERATIONS SOCIALLY (Euro)	2016	2015	2014
Statement of donations account	499,500	410,100	419,700
Sponsorships	328,562	419,672	470,885





9

The environment side

· Environmental resources

ENVIRONMENTAL RESOURCES

The happy growth of the Sofidel Group, which celebrated its 50th anniversary in 2016, has been constantly accompanied by greater and greater awareness of the problems and improvements which can be implemented for the reduction of its environmental impact. Consistent with this, Sofidel has assumed a significant role in many initiatives aiming to promote environmental sustainability, thus testifying to its real commitment.

Historic decisions on the fight against climate change taken by the international community were also a feature of 2016. The Paris Agreement on Climate, which arrived at the end of 2015, came into force in 2016 with the signature of more than 100 countries responsible for more than 55% of the emissions on the planet. The Agreement sets out measures to maintain the increase in average temperature of the planet at no more than 2°C with respect to the pre-industrial period. Sofidel took part in the Paris event joining the ‘We Mean Business’ coalition and the commitment to achieving the formulation of new aims for the reduction of emissions in line with the ‘Science Based Target’ standard by the end of 2017. In actual fact, this standard sets out exactly what is planned by the Paris Agreement so Sofidel is committing itself to the more ambitious objectives established by the United Nations.

In the meantime, Sofidel’s movement towards achieving the aims already agreed with the WWF ‘Climate Savers’ programme, also part of ‘We Mean Business’, continued. The year closed with a reduction of 19.1%* in specific CO₂ emissions compared to the base year 2009. This effort was rewarded by the Carbon Disclosure Project (CDP) which recognised Sofidel as Best Voluntary Responder Italy (see the paragraph ‘Some significant results in the year’ for further information).

*Data to 31.12.2016

Investments in the environmental field

Most of the investment in 2016 related to operations in the energy context aimed at reducing consumption and increasing efficiency. The company concentrated its attention on cogeneration once more in 2016 - endothermic engines for the simultaneous production of steam and electricity were created at Soffass Val Fegana (start of the plant in November 2016) and Monfalcone (start planned for March 2017). These plants will also allow use of part of the hot water produced to heat the production areas and warehouses, currently not heated or heated with traditional methods. The total of the investment amounts to € 3.5 m for Monfalcone and € 1.85 m for Val Fegana.

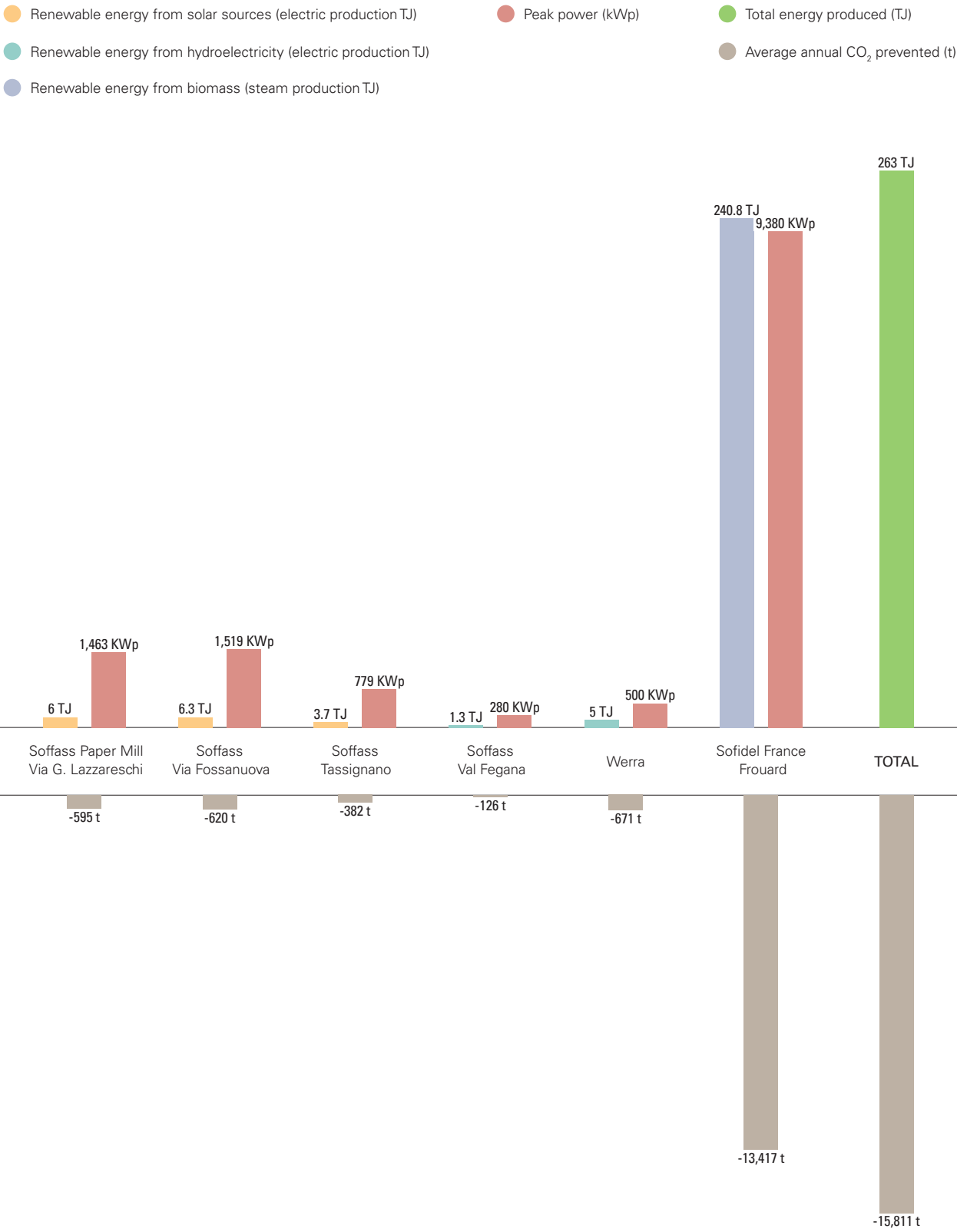
In addition, Sofidel uses an innovative technology to recover energy through hydraulic turbines that exploit the flows of water in the paper production process. Over the year, two were created, one at Sofidel Poland and the other at Soffass Via G. Lazzareschi, Porcari (Italy).

The progressive replacement of traditional lamps with LED lighting systems continued with operations carried out at Sofidel France Roanne, Sofidel Spain and Soffass Valdottavo for a total investment of € 788,000.

There were also many other operations intended to improve the energy efficiency in various factories for a total of € 1,485 m. These include the creation of a new heating system at Soffass Tassignano and system to recover energy from the smoke of the continuous machine at Sofidel France Roanne to heat the new finished product warehouse.

Alongside the investment in energy efficiency, in the past Sofidel invested in renewables, particularly biomass, photovoltaic and hydroelectric, currently reaching a total annual production from renewable energy sources of about 263 TJ.

SELF-PRODUCTION OF ENERGY FROM RENEWABLE SOURCES



The scope of reporting of this section is all the production sites of Sofidel according to an operational control approach. Unless otherwise indicated, the data shown below is the projection of the partial results obtained at the time the balance sheet closed on 31 October 2016.

CLIMATE CHANGE AND THE MANAGEMENT OF GREENHOUSE GAS EMISSIONS


The Sofidel partnership with WWF international continues in the Climate Savers programme which the Group is committed to; this has defined the numerical objectives for im-

provement by the end of 2020 compared to the 2009 levels. In this area, the Group investment on co-generation guarantees a reduction of the overall CO₂ emissions in many countries.

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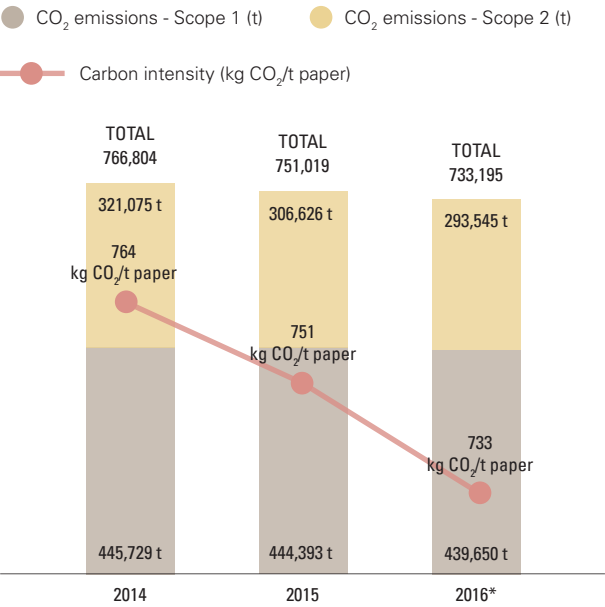
The Climate Savers agreement

Sofidel undertakes to reduce emissions by 23% for every tonne of paper produced compared to 2009, chosen as the reference year for the initiative. For comparison, this corresponds to preventing the emission of about 900,000 tonnes of CO₂, equivalent to the emissions of a fleet of 10,000 TIRs covering 10,000 km a year for 10 years. In addition, Sofidel has not just analysed the greenhouse gas emissions generated directly by its businesses but has also indicated opportunities for the reduction of emissions caused by third parties along its value chain. By 2020, greenhouse gas emissions arising from the supply, packaging and transport of raw materials and finished products will be decreased by 13% for every tonne of paper produced compared to 2010. Lastly, the use of 8% of renewable sources of the annual consumption of fuels is expected by the end of 2020. This is a significant quota for a company operating in a sector with high energy consumption like that of paper.



The graph below shows the results of the emissions reduction policy:

CO₂ EMISSIONS SCOPES 1 AND 2



*Data at 31.12.2016

The emissions from the purchase of grid electricity and heat (Scope 2) in the years shown from 2014 to 2016 were calculated with an approach based on the geographic location of the production factories using the relative average national emission coefficients respectively for 2009-2011¹, 2010-2012¹ and 2011-2013¹. Direct emissions from combustion in the production sites (Scope 1) are calculated in accordance with the European Union Emissions Trading Scheme (EU ETS), which regulates CO₂ emissions in Europe for industrial sectors with higher emissions². On one hand, the ETS sets a maximum for the total level of emissions permitted for all parties involved in the system but, on the other, it allows participants to buy and sell quotas of CO₂ emissions in the market according to their requirements and within the limit defined at European level. As a result of the prolonged economic depression, there was a consistent surplus, equivalent to a year of CO₂ emis-

1. International Energy Agency, "Statistics 2016 Edition – CO₂ Emissions from Fuel Combustion".
2. Emissions not falling within the Emissions Trading System, apart from the fuel used by forklift trucks, were not taken into consideration as minimal.

sions in the trading system³. After three years of stable growth, the volatility of this market was highlighted several times throughout 2016.

From the beginning of January, the continuation of the downward trend in the price per barrel of petroleum triggered instability in all the energy markets, also extending to that of ETS emissions, causing the spot trading price to drop to about 55% of the value in December 2015 in a little over one month. After a period of recovery, which saw the value of CO₂ quotas rise constantly, the unexpected result of the referendum on the United Kingdom's continuing membership in the European Union on 23 June generated a shadow on the future of the EU and, with it, the future of the ETS system. The market price plummeted, reaching a value of less than € 4 per quota. Only the stop for maintenance of some leading nuclear power stations in France, extended beyond the planned time, and an almost simultaneous lack of electricity from renewable sources in the United Kingdom has enabled the price to rise in recent months. This trend allowed Sofidel to buy a large number of quotas to adapt to the greater internal demand arising from the use of many cogeneration systems. Although more efficient and with less impact from the environmental point of view, these systems lead, economically, to the assumption of the costs of the emissions necessary for the production of electricity, otherwise delegated to the producers of the electricity taken from the grid.

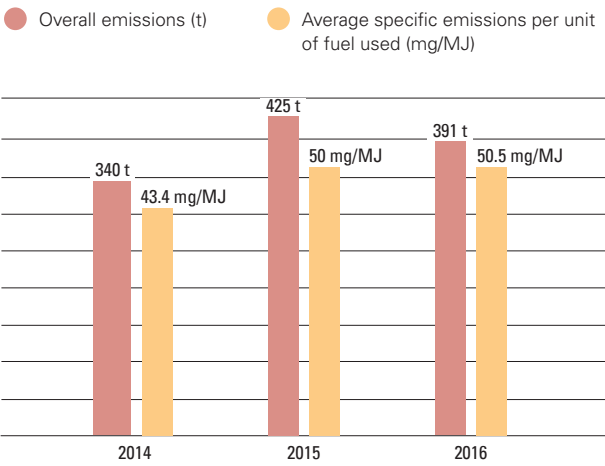
As far as indirect CO₂ emissions are concerned, i.e. those not under Sofidel management control (e.g. those relating to the production of raw material and accessories to production and transport), the most significant components downstream were reported in 2016. Thus the emissions arising from the distribution of both semi-finished and finished products were calculated, totalling 116,235 t CO₂, corresponding to 117 kg CO₂/t_{paper}⁴. In addition, the impact of the use of the packaging (paper and plastic packaging) amounting to 75,551 t CO₂ (76 kg CO₂/t_{paper})⁵ was assessed.

Other emissions into air

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

fers to the consumption of fuel that generates the emission (mainly methane).

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



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

Other greenhouse gases, like the loss of fluorinated refrigerating gases equivalent to emissions of about 317⁶ tonnes of CO₂, were emitted in negligible amounts as extraneous to the Group's typical business.

Energy procurement

In 2016, the significant reduction in the prices of energy commodities, which started in 2015, continued. Gas and electricity followed the downward trend of the price of

3. Trends and projections in the EU ETS in 2016 — The EU Emissions Trading System in numbers.
4. The emission factors used were obtained through 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.
5. The emission factors used are taken from the Ecoinvent 2.0 database.
6. Equivalent emissions calculated using the Global Warming Potential (GWP) coefficients described in European Regulation No. 517/2014.

petroleum, affected by overproduction and, at the same time, a fall in global demand.

The TTF day-ahead price of gas also fell below 12 €/MWh in April when, just two years before, it was well above 22 €/MWh. At the end of the year, prices started to rise again because of the unplanned maintenance of some French nuclear reactors and the consequent reactivation of gas and coal power stations, made necessary to cover the lack of electricity.

During the financial year, Sofidel took part in various initiatives to contain energy costs in its sites. The Italian companies acquired energy and gas through the *Consorzio Toscana Energia* and joined the Rolling Blackout service. The commitment of all Group sites to make the plants more and more efficient was rewarded with the recognition of new energy efficiency ‘shares’ (white certificates), which were added to those already obtained in previous years.

In Germany, energy purchases were made through specialists and the German factories benefitted from both a reduction of the EEG tax (charges on renewables) and

from the deduction of transport costs and the taxes on electricity and gas. In the United Kingdom, France and Belgium, the purchase of energy and gas was made through traders who operate daily in the free market. The French factories also benefitted from the deduction of charges on electricity (CSPE) during the year and the Sofidel France Frouard factory used an additional initiative which enabled the costs of transporting electricity to be almost halved. In 2015, Sofidel Romania took part in a programme of the Romanian government which permitted a reduction of 85% of the quota of green certificates in the electricity invoices for 2016.

Lastly, the turbogas of the Polish site benefitted from the incentive ‘yellow certificates’ and, in November, a new co-generator was started in Val Fegana. The total energy consumption of the production sites in 2016 was less than that of the previous year with a reduction from 11.60 to 11.36 GJ/t paper, equivalent to 2%.

The reduction in energy consumption, with the same production and product quality, is one of the main aims of the technicians and staff in paper production and convert-

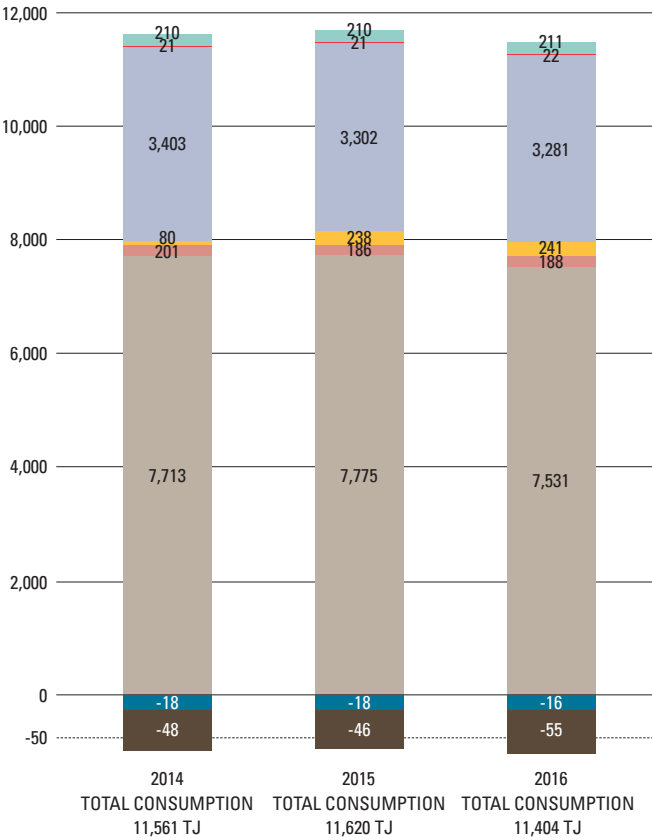
ing. In addition to the investment in plant modifications listed above to improve efficiency, Sofidel also targets the spread of an industrial culture and management systems relating to energy efficiency.

The certification procedure in accordance with the ISO 50001 standard (Energy Management System), started in 2012 at the German and Swedish factories, continued in Belgium in 2013 and subsequently spread to all the Italian paper mills. In 2016, it was the turn of Sofidel France, Frouard factory, taking the number of Group companies certified to 13; extension is planned to the British factories at Leicester and Lancaster in 2017. The aim for the main Group sites to attain ISO 50001 certification is in line with the European Directives on energy saving, in particular the so-called Energy Efficiency Directive which requires all energy-intensive companies to perform energy audits every 4 years or, alternatively, have energy management systems certified by third parties.

From the point of view of energy consumption, a comparative analysis can be made of the impact arising from the paper production process and that relating to transport of products, both semi-finished and finished. The most relevant stage is the production of cellulose which, however, mainly uses renewable sources for the generation of the energy required by the relative process.

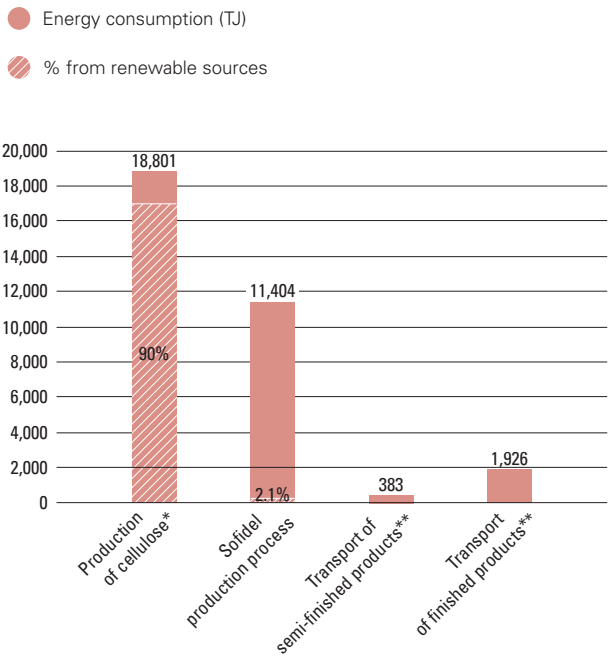
ENERGY BALANCE* OF THE SOFIDEL GROUP

- FOSSIL FUELS
- Natural gas ** (TJ)
 - Other fossil fuels ** (TJ)
- FUEL FROM RENEWABLE SOURCES
- Woody biomass ** (TJ)
- ELECTRICITY
- Purchase of electricity from the national grid (TJ)
 - Production from photovoltaic and hydroelectric plants (TJ)
 - Electricity sold to the grid (TJ)
- THERMAL ENERGY
- Purchase of thermal energy (TJ)
 - Thermal energy sold to the grid (TJ)



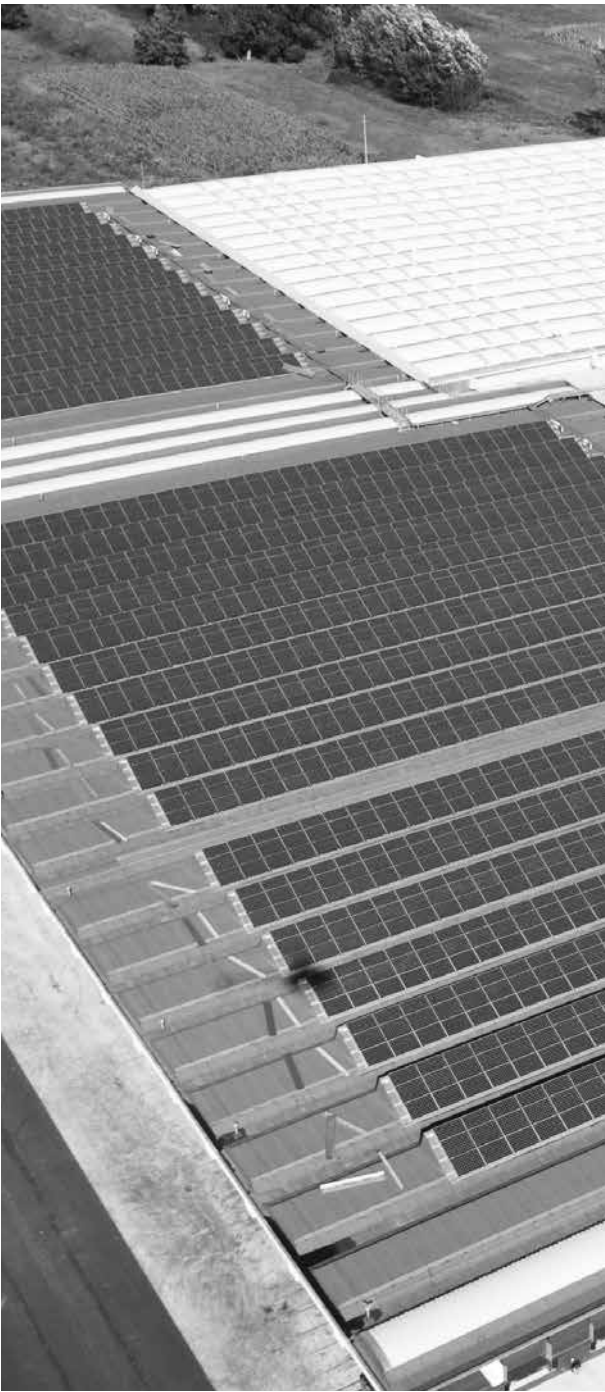
* Projections generated based on the invoices received
** Energy calculated through PC.I.

ENERGY CONSUMPTION



* The data was obtained using the questionnaires completed by the suppliers (97% of the total, the remaining 3% was obtained using an average of the data possessed).

** Consumption coefficients obtained from the GHG Protocol - Mobile Guide v.1.3 (21/03/2005). Both the outward and return journeys were considered. The data was obtained using the most up-to-date questionnaires.

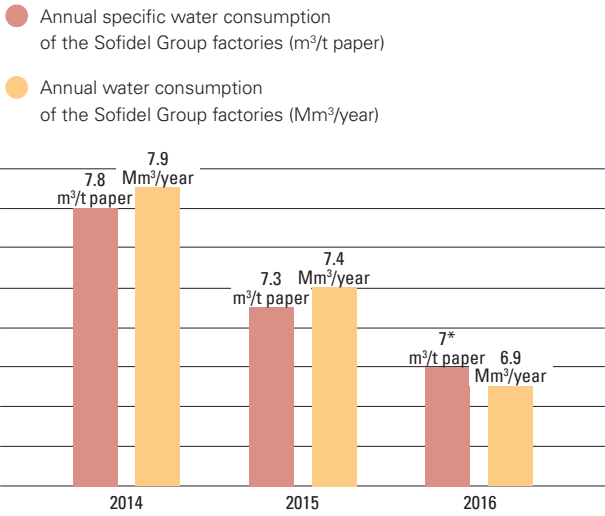


PROTECTION OF WATER RESOURCES

The climate changes also influence the availability of water and its quality all over the planet. Just in the European continent, an increase in the frequency of periods of drought, involving 11% of the European population, has been seen in the last 15 years. The areas traditionally considered to have plenty of water, such as the Scandinavian peninsula and Great Britain, have had worrying deficits. There has also been a change in the type of rainy weather, alternating long, dry periods with very intense periods with the result-

ing floods. In October 2015, the British factory at Lancaster suffered very severe damage because of the flooding of the River Lune and only succeeded in being operative once more in June 2016. Sofidel pursues the aim of a reduction in water consumption, both through management measures and investment. In relation to this, the creation of a waste water recycling plant at Soffass Paper Mill Via G. Lazzareschi and a system for the collection and re-use of rainwater at Intertissue, in the UK in 2014 should be recalled.

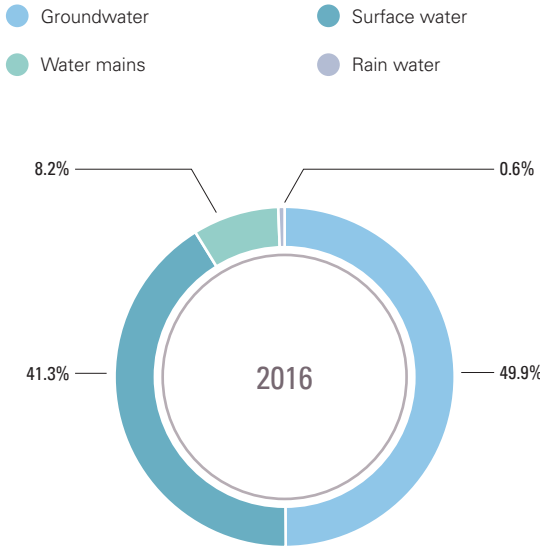
WATER CONSUMPTION OF THE SOFIDEL GROUP



*Data to 31.12.2016

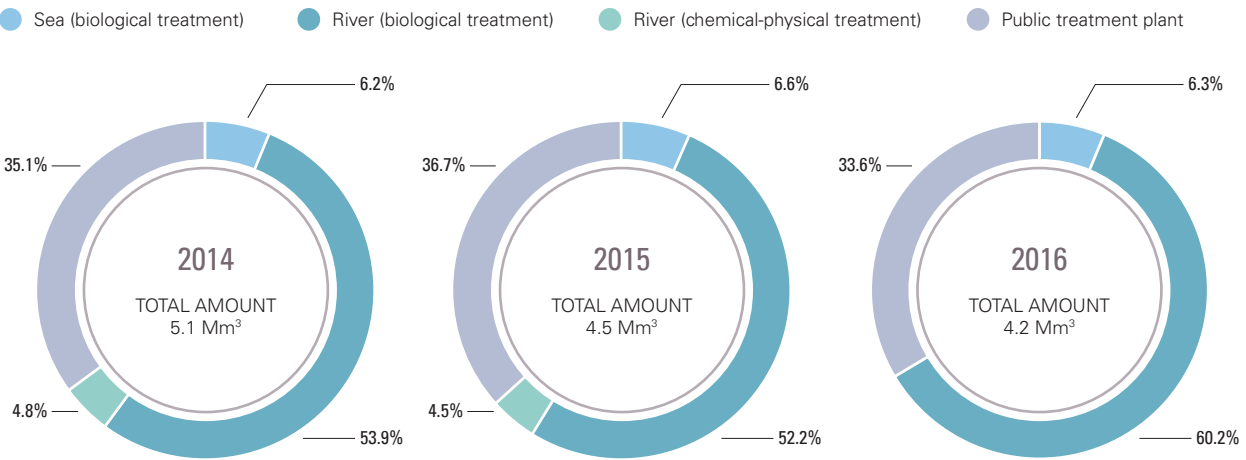


WATER SUPPLY SOURCES 2016 (%)

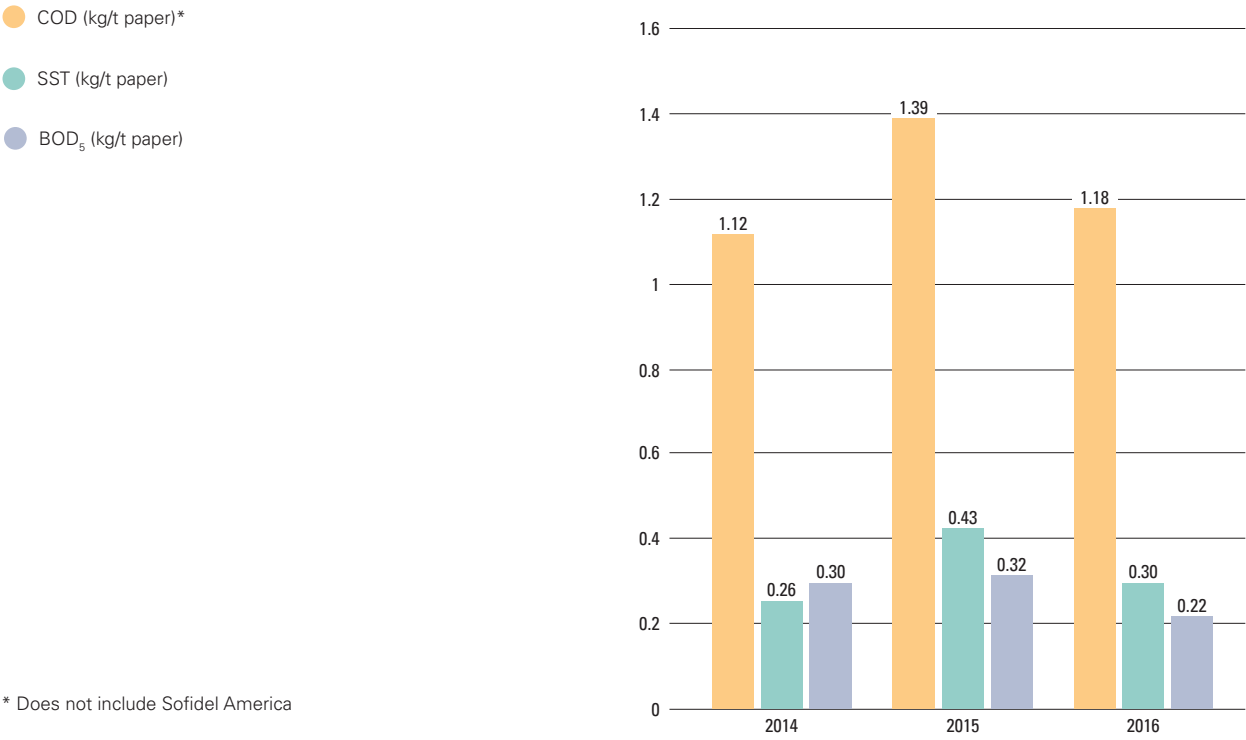


The data shown above confirms the trend in the reduction of specific and absolute consumption. The current value of 7 l/kg is an absolutely important result, considering the size of the Group and the variability of production.

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



SPECIFIC EMISSIONS OF POLLUTANTS INTO WATER



* Does not include Sofidel America

The specific emissions, calculated on the basis of the results of the chemical analyses made, confirm that, generally, the trend in the quality of the emissions in water is around lev-

els of excellence both due to the exclusive use of biological treatment plants and the preponderant use of virgin cellulose as raw material.

PROTECTION OF FORESTRY RESOURCES

As second European producer of tissue paper and sixth in the world, Sofidel carefully assesses its supplies of fibrous raw material and monitors its suppliers through an analytic questionnaire on both the performance of the factories producing pulp and the origin of the wood used for the extraction of cellulose. In any case, purchases of cellulose by Sofidel are made respecting its fibrous supplies policy, shown alongside.

In 2016, Sofidel purchased 966,958 air dry metric tons of virgin fibre and confirmed the seriousness of the commitment to a responsible supply of raw materials having purchased **100% certified by independent third parties with forestry certification schemes**. There is also the strong orientation to choosing geographic areas that give full guarantee of legality and sustainability - the predominance of European material (56.1%) confirms this.

In 2016, Sofidel once again took part in the CDP Forests Report 'Deforestation-free supply chains: from commitments to action'. The company gained a score of 'A-' on a scale of A to F, a result that positions it above the average in the sector once more this year.

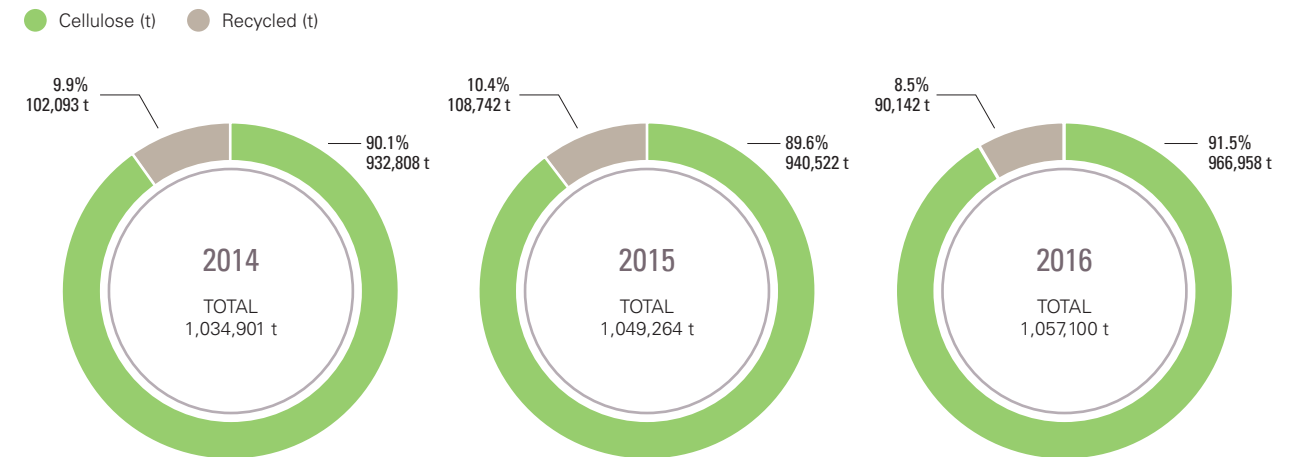
Regarding the commercial use of the Forest Stewardship Council (FSC®) and Programme for Endorsement of Forest Certification (PEFC™) quality forestry brands, in 2016 another company was added to the already numerous list of certified companies in accordance with those forestry custody chain schemes. The Soffass Val Fegana factory is now able to produce and market tissue products with the FSC® brand. These new certifications will enable greater production flexibility and the possibility of responding more effectively to the requests of customers and consumers who want guarantees of forestry sustainability for their products.

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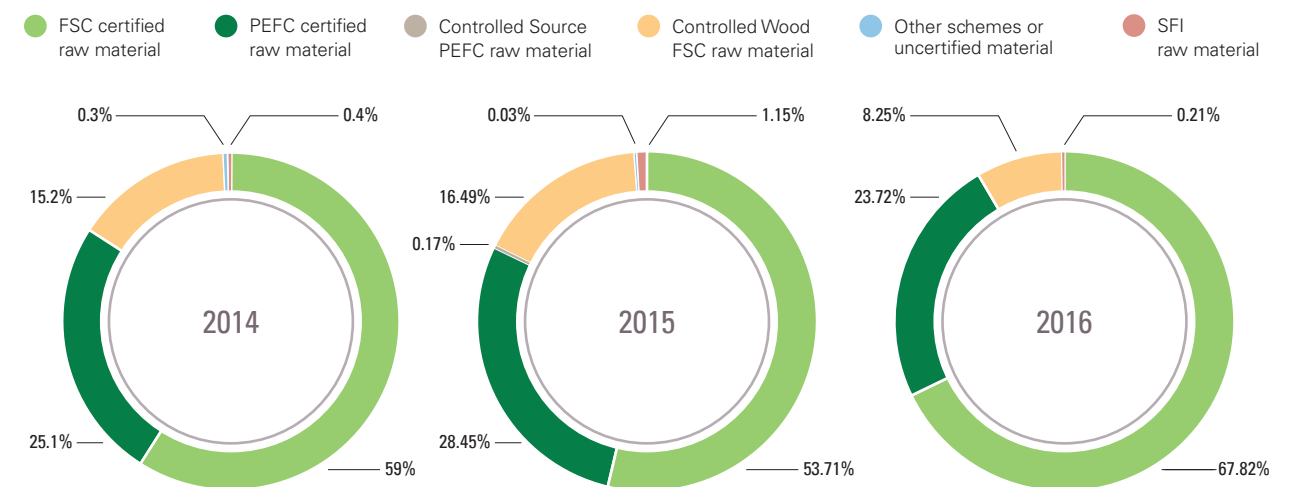
The preponderance of raw material consisting of virgin cellulose and the awareness of the role that the forests cover for the protection of the global environment and the maintenance and enrichment of biodiversity have driven the Sofidel Group to adopt a precise purchasing policy of fibrous raw material as follows:

1. Sofidel condemns the practice of illegal logging and the conversion of natural forests into plantations and works so that its suppliers are able to demonstrate the origin of the wood used for the production of cellulose.
2. Sofidel undertakes to check, as far as possible, the existence of social conflict in the places of origin of the wood, avoiding the purchase from those areas, protected areas or organisms that have been genetically modified.
3. Sofidel believes in the systems of sustainable forest management, certificated in accordance with recognised, credible schemes based on the check of independent third parties.
4. Sofidel encourages its suppliers to certify the source of their forestry resources and prefers suppliers able to show certificates of good forest management.

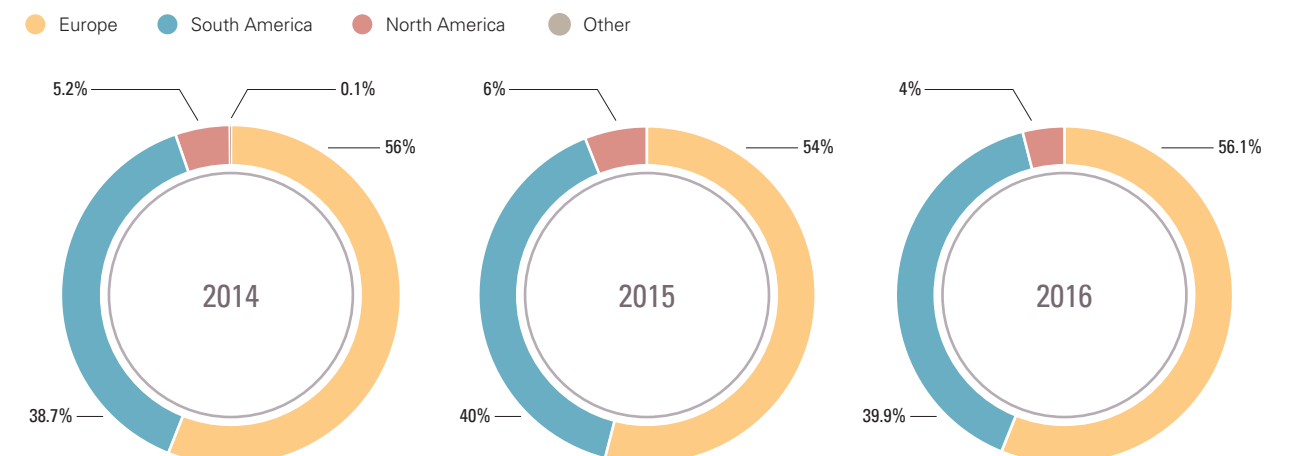
DIVISION OF THE VIRGIN FIBROUS AND RECYCLED RAW MATERIAL PURCHASED



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



COUNTRIES OF ORIGIN OF THE VIRGIN CELLULOSE PURCHASED



Other raw materials

Other raw materials used in significant amounts in 2016 were:

- reels of tissue paper acquired outside the Group (57,372 tonnes);
- plastic packaging (25,362 tonnes);
- paper packaging (77,239 tonnes);
- chemical additives (34,080 tonnes);
- oils and lubricants (346 tonnes).

In 2016, the contribution of recycled raw materials was 167,381 tonnes, i.e. 13% of the total⁷; the total of the raw materials obtained from renewable sources was 1,191,711 tonnes, corresponding to 95% of the total.

Biodiversity

In order to assess the impact of its business on biodiversity, Sofidel carried out a calculation intended to determine the surface of the production sites close to natural areas of great value. This analysis showed that the sites less than 3 km from type SIC and ZPS areas, as defined by Dir. 92/43/CEE and Dir. 2009/147/CE, occupy a total surface of about 194 ha. In 2016, these sites did not generate significant impacts on the biodiversity and habitats.

7. The total is calculated on the consumption of the material listed + the total of the fibre (virgin and recycled) purchased.

FACTORY	Surface [ha]	Distance (km)	Name of area	Class. Area
Soffass Monfalcone	6.8	0.12	Aree Carsiche della Venezia Giulia	IT3341002
Soffass Converting via G. Lazzareschi	28.4	2.00	Ex alveo del Lago di Bientina	IT5120101
Soffass Paper Mill via G. Lazzareschi		2.40	Ex alveo del Lago di Bientina	IT5120101
Sofidel Sweden	19.2	0.12	Föllingsö	SE0230355
Soffass via Fossanuova	14	2.10	Ex alveo del Lago di Bientina	IT5120101
Sofidel France Roanne	28.1	0.60	Milieux alluviaux et aquatiques de la Loire	FR8201765
Sofidel Germany	30.1	0.65	Elbaue Jerichow*	DE3437401
Sofidel Benelux	4.5	0.90	Historischefortengordels van Antwerpen als vleermuis habitat	BE2100045
Intertissue	31	1.85	Crymlyn Bog / Cors Crymlyn*	UK0012885
Sofidel UK Lancaster	2.1	3	Morecambe Bay*	UK0013027
Sofidel Spain	30.0	2.70	Rio Ebro*	ES2200040

* area listed among the Ramsar Wetlands



In 2015, Sofidel UK Lancaster carried out a study on the impact of the water withdrawn at the factory on the ecosystem of the River Lune, concentrating the attention on some river species. The results were presented to the local authorities⁸ and are still being assessed.

WASTE MANAGEMENT

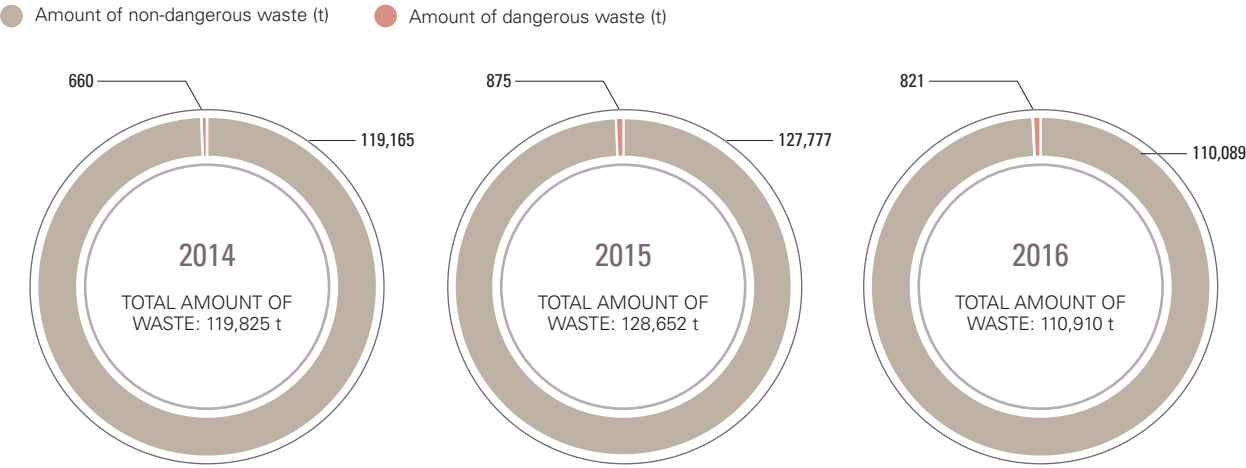
The refuse produced by paper-making mainly consists of sludge deriving from the waste of production that uses pulp as a raw material. This type of refuse is normally valorised in some recycling such as manufacture of bricks or the environmental recovery of areas used for mining. Dangerous waste refers to the ordinary maintenance work of the industrial installations, including fluorescent tubes, used oils, batteries, etc.

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

The operators who carry out the transport and intermediation of the waste are subject to frequent checks to verify their work both in the factories and outside them. In 2016, there were no significant discharges. Sofidel did not make cross-border shipping of waste. The costs associated with the treatment of the waste amounted to about € 11.2 m in 2016.

8. Eels (England and Wales) Regulations 2009.

WASTE PRODUCED BY THE SOFIDEL GROUP



AMOUNT OF NON-DANGEROUS WASTE (t)

Amount of non-dangerous waste intended for recycling (t)*
2014: 89,478
2015: 90,140
2016: 74,130

Amount of non-dangerous waste intended for dumping or disposal (t)*
2014: 26,714
2015: 32,205
2016: 29,679

* Does not include Sofidel America factories

AMOUNT OF DANGEROUS WASTE (t)

Amount of dangerous waste intended for recycling (t)*
2014: 456
2015: 548
2016: 483

Amount of dangerous waste intended for dumping or disposal (t)*
2014: 204
2015: 336
2016: 339

* Does not include Sofidel America factories



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Products

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· The quality and safety of our products

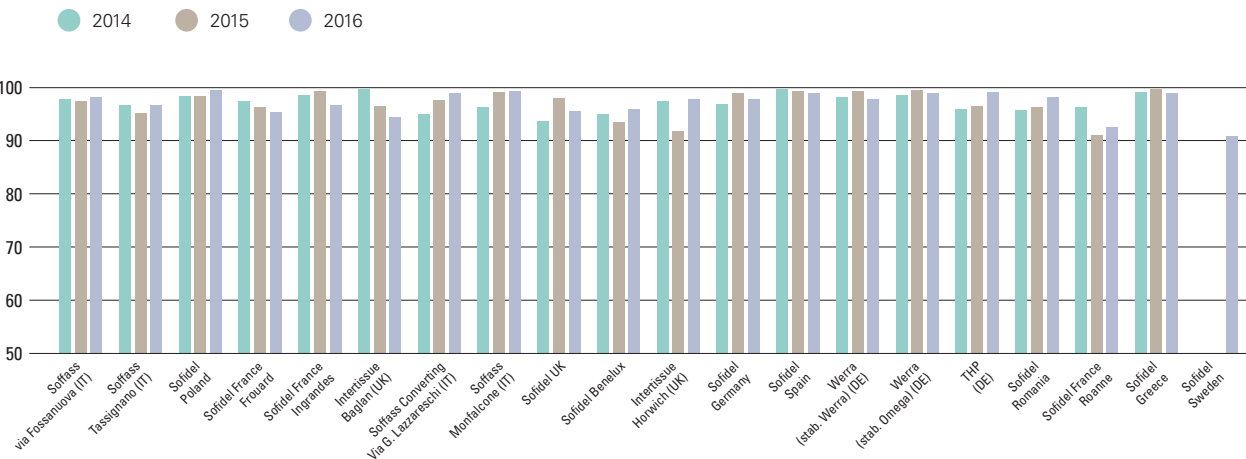
THE QUALITY AND SAFETY OF OUR PRODUCTS

PRODUCT QUALITY

The Sofidel Group implemented the Quality Management Systems in its companies from the mid-1990s, a further confirmation of its interest in the quality of the products manufactured. This is guaranteed by respect for the procedures of our Quality Management Systems, the drive to continuous improvement, the careful and assiduous training of the resources involved and the constant monitoring of our 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 requisites established in

the relevant documentation (procedures, technical specifications, etc.), are weighted according to how serious they are and compared with the total production. The graph below shows the values of this indicator in the Group production sites for the last 3 years. Considering that the maximum value that can be reached by the index is 100 (in terms of 'weight') and that this index is based on stricter criteria than the simple ratio between compliant products and total production, the trend in the three-year data shown below highlights satisfactory product compliance results in all companies.

PRODUCT COMPLIANCE INDEX*



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

PRODUCT SAFETY

Like quality, the safety of our products is a basic, essential value, in line with the Sofidel mission. For many years, our Group has been committed to this subject so that there is the greatest protection of the consumer's health, market demands can be pre-empted and additional opportunities grasped for improvement in the quality of the products manufactured.

The whole supply chain is involved in this. In particular, the Quality System Department, which operates centrally, is the department with responsibility for defining the organisation of the systems and indicators necessary for monitoring the safety and quality of the products put on the market. The local Quality Managers support this work by ensuring respect for central indications in each factory. The Operating Department is the one with the responsibility for implementing what the Quality System Department has defined.

The increasing attention of customers/consumers to product safety aspects has made the progressive implementation of self-controlled Health-Hygiene Systems essential in the different Group sites. In addition to respect for the binding legislation for the tissue sector, the application of the principles established by European voluntary standards such as the BRC - Consumer Products and IFS Household and Personal Care is also guaranteed. Currently, 17 Group production sites are certified according to one of the above-mentioned standards covering 77.12% of the overall Sofidel production in 2016. However, the Quality System Department is constantly called on to define and implement possible new tools for improvement of product safety and always maintain the maximum attention on such an important subject in these factories. The extension of the self-controlled Health-Hygiene Systems to the other Group sites, like Romania and Sweden, where certification is planned by the end of 2017, remains a fundamental aim of the Quality System Department.

The self-controlled Health-Hygiene Systems developed in Sofidel are mainly based on the assessment of the risk in

accordance with the Hazard Analysis Critical Control Point method, which enables the risks of biological, chemical and physical contamination that the product may be subject to to be determined and measured at every stage of the production cycle, starting from Research & Development. Once the most critical stages have been found, checks and action (Good Manufacturing Practices) can be adopted intended to eliminate or, at least, reduce the above risks to acceptable levels and thus increase the guarantee of the quality and safety of the product.

One of the principal points of the Sofidel self-controlled Health-Hygiene Systems is Traceability, i.e. the ability to return to the information on each stage of the process leading to the creation of a product, from the raw materials used to the final distributor and vice versa, so that the withdrawal/recall of a product from a market can be made at any time and thus the consumer's safety guaranteed.

The wholesomeness and quality of products is also monitored through an analysis plan that the Quality System Department prepares each year for all sites and all types of articles manufactured. These tests, made at accredited external laboratories, assess the physical, chemical and microbiological parameters in accordance with the main regulations and international guidelines on paper in contact with food or skin and consist, for example, of checks on suitability for food contact, release of colour, microbiological profile, patch tests, targeted tests on the lack of dangerous substances (SVHC, heavy metals, glyoxal, formaldehyde, bisphenol A, etc.). This plan is re-assessed every time that it is necessary, based on the updates of the legislation, customers' requests and those of the relevant check bodies.

Lastly, Sofidel also places great attention on the supply chain to ensure the safety of the products created. It therefore asks all its critical suppliers for declarations of compliance with the applicable legislation and suitability for use of the component raw materials in our articles with the frequency and method defined by special procedures.



11 Risk management —

· The principal risks and uncertainty factors that could significantly affect the Group's activity and the policies to reduce the Financial Risks and others

THE PRINCIPAL RISKS AND UNCERTAINTY FACTORS THAT COULD SIGNIFICANTLY AFFECT THE GROUP’S ACTIVITY AND THE POLICIES TO REDUCE THE FINANCIAL RISKS AND OTHERS

RISK MANAGEMENT

A sustainable business model

For Sofidel, sustainability is a fundamental part of the value creation process. Indeed, only through a socially and environmentally sustainable development strategy one can think of long-term economic development that can generate long-lasting benefits for all stakeholders and for the environment.

An underlying trend that Sofidel turned into something tangible by applying the philosophy “Less is More”, the commitment to giving more in terms of value by cutting consumption in order to promote growth by respecting the needs of the people of today, without forgetting about the future generations.

STRATEGIES AND RISKS ASSOCIATED TO PRODUCTS AND CUSTOMERS

The strategy: constant search for a sustainable product to serve the community in which the Group operates

Product safety: a fundamental essential value

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

For further information please refer to the relevant sections of this report.

Product quality is conveyed by the quality of the company system

The Group has implemented quality management systems at companies from the middle of the nineties, further confirming its huge commitment to the quality of the products manufactured.

This is guaranteed by compliance with the procedures of quality management systems, the drive towards constant improvement, timely and regular training of the staff involved and constant monitoring of processes.

A compliance indicator was also prepared, in which all non-conformities recorded, i.e. the features of the articles produced that do not meet the requirements in the appropriate documentation (procedures, technical specifications, etc), are weighted on the basis of their seriousness and in relation to total production.

RISKS: PROTECTION OF THE COMPETITIVE ADVANTAGE ACQUIRED OVERTIME

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Country risk	The economic, equity and financial situation of the Group is first of all influenced by a number of political and economic factors that affect macro-economic trends, including, mainly: political and economic instability, the rate of unemployment, the level of consumer confidence, the trend in the disposable income of households and therefore of private consumption, interest rate and exchange rate trends and the cost of energy and non-energy raw materials.	The Group does not operate with countries that are socially, politically and economically unstable. In addition, the geographical distribution in several countries, and from 2012, in several continents, makes it possible to offset the negative economic trends of one country with the positive trends of others. The distribution on a global scale allows the company to be close to the main end markets, especially in Europe, allowing it to benefit from significant savings and allowing it to offer a service on a “global” scale. Lastly, the aforementioned proximity to markets allows the company to more closely understand consumers’ needs.
Sector-related risk	The economic, equity and financial position of the Group is affected by the economic trend in the reference sector: trend in competition, potential new entrants, threat of replacement products...	To this end, the Group has diversified its activities in a number of sectors (Private Label, Brand and Away From Home and, from 2016 is also present in the e-commerce sector), by striving to offer increasingly more higher-performing and innovative products and dedicating specific internal resources to each of these.
Operating risks associated with production	These are the risks of unexpected breakdowns or downtime, loss of efficiency of plants, fire, flood, theft.	The policy of planned maintenance has been in place for years and, with the continuous technological upgrading of plants, minimises the risk of unexpected breakdowns or downtime. By contrast, as regards risks connected with a loss of efficiency of plants and their performance quality, a specific corporate function established at centralised level 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, ...), with leading international insurance companies. With regard to the production side, the recent implementation of procedures for the collection of process data should be noted, aimed at improving the control of inefficiencies and planning of the measures to be taken to eliminate these.
Risks associated with the services offered to customers	These are the risks of inefficiencies linked to distribution, which may lead to disputes with customers and therefore unpaid invoices with them.	In this area, the Group ensures: · careful selection of transport firms, choosing those that provide the best guarantees in terms of continuity and fast deliveries; · continuously monitors performances, 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 customer dependency	These are the risks of customer dependency.	In this context, management policies aimed at consolidating and developing own brands - which involve the consolidation and development of existing brands - and at consolidating relationships with the large-scale distribution - which involved stakeholder engagement actions aimed at creating long-term partnerships and launching products that are always innovative, characterised by high turnover and profit margins - tend to lessen this category of risk. In any event, during the year, concentrations of supplies or situations that render these risks significant were not reported.

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 from a qualitative viewpoint and in terms of environmental sustainability, ethics,...	The Group, in line with its strategy, has a policy to manage supplies which takes account of sustainability criteria. This policy is formalised in the “Guidelines for suppliers” mainly based on the principles and values contained in the Code of Ethics of the Group and makes it possible to involve them in the importance of sustainability. To this end, the Group engages in a careful assessment of said suppliers, which also measures their social and environmental performances; this evaluation is performed in advance for new suppliers, while the evaluation for pre-existing suppliers is performed periodically, through the use of both performance indicators and through specific audits. The involvement of all the suppliers regarding sustainability therefore allowed the Group to further improve its performance, minimising the environmental impacts and reducing its “reputational” risk.
Risks of dependency on suppliers	These are the risks of dependency on suppliers of goods and services.	The fact that suppliers of goods and of services are interchangeable, because the company constantly diversifies its suppliers, at national and international level, means that this risk is negligible.
Risks associated with greater digitalisation of systems	These are the risks of dependency on suppliers due to greater use of technologies in factory systems and in management systems.	The Group protects itself against this risk: · for the technologies used in management systems the Group, despite having an integrated ERP management system on all areas (SAP), employs, for accessory programs alternative suppliers and, nonetheless of primary importance (Tagetik, Sales Force, Piteco, ...); · for the part connected with factory systems the presence of different applications at the individual facilities, then interfaced at corporate level with the SAP management program, makes it possible to greatly reduce the risk under review.

STRATEGIES AND RISKS ASSOCIATED TO PERSONNEL AND ENVIRONMENTAL

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

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Operating risks associated to employees and the workplace	These are 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 through constant monitoring of the working environments, with the implementation of the best safety standards for machines and equipment and by conducting training programmes and by enhancing awareness. Moreover, following the risk assessment, periodic health surveillance is conducted and specific health risk protocols have been created. Attention is paid to the choice of Personal protective equipment (PPE), in order to constantly verify their efficiency and continuously improve their effectiveness to guarantee increasingly higher levels of protection and comfort. Lastly, the Safety function in the Corporate department continued to publish the Best Practices and Group Health & Safety Standards (HSS) in order to disclose the best technical solutions available and implemented at Group level. The adoption of these measures allowed the company to minimise risks, as confirmed by the reduced occurrence of similar events in the year; furthermore, no significant wage claims or actions were taken by employees and staff turnover levels were insignificant.
Operating risks associated with the environment	These include the risk of fines for infringement of the relative legislation, as well as the loss of reputation due to any violations of the law in force and the commitments undertaken.	In this area, the Group focuses the utmost attention on respect for the environmental legislation - both at the time of design of the production sites and during their normal operation, for which important certifications were obtained (EMAS, ISO14001, ISO50001 ...) - as confirmation of the essential absence of disputes or infringements during the year or in the past.



STRATEGIES AND RISKS ASSOCIATED TO ECONOMIC-FINANCIAL ASPECTS

The strategy: economic – financial sustainability through an integrated business planning, management and control model

From the Integrated Finance Organisation (IFO) to Integrated Business Planning (IBP)

Over the last few years, based on international best practices, the Group launched a process for the integration and standardisation of the administrative/accounting and financial procedures and uses a unique, integrated ERP SAP management program at all Group companies. The model the Group based this on is better known in international circles as “Integrated Finance Organisation” (IFO). The proper functioning of the IFO must first be verified prior to implementation of the other model better known as “Integrated Business Planning” (IBP), which is in the process of being implemented. This model is based on the concept that the company (or group of companies) are viewed as a whole and not as a sum of individual elements. Practically speaking, this means translating strategic Group planning into operating objectives to attain pre-established economic-financial performances. In a nutshell, the functioning of the model is based on the

following steps:

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

Therefore, economic-financial sustainability is pursued through the implementation and optimisation of Integrated Business Planning, via the integrated business planning, management and control model.

IAS-IFRS: an accounting language in step with Group internationalisation

The increasingly more extensive presence at global level has fuelled the need to identify and adopt a single accounting language recognised internationally. In this regard, following the adoption of IAS-IFRS in drafting the consolidated financial statements for 2015, the Parent Company’s financial statements were also prepared according to international accounting standards (IAS-IFRS). The voluntary application of the international accounting standards entails first of all a cultural move for the Group, and then an accounting one, given that the financial statements are presented with a forward-looking and dynamic vision, with the contribution from all company functions, in line with the economic-financial strategy: integrated business planning.



THE RISKS: PROTECTION OF ECONOMIC AND FINANCIAL ASSETS

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Credit risk	Credit risk represents the exposure to potential losses deriving from the non-fulfilment of the obligations undertaken by business and financial counterparts. This risk mainly relates to the possibility that the economic or financial situation of a counterpart may deteriorate, or, at worst, the default of the same.	The Group protects itself vis-à-vis commercial counterparties by: <ul style="list-style-type: none">· taking out insurance policies with leading international insurance companies;· diversifying companies from country to country, as well as from company to company and sales channel;· observing insurance thresholds;· providing for advance payments where there is no insurance coverage;· a policy to minimise credit concentrations;· quantifying the risk under analysis at budget level by using the IFO model and subsequent sharing of the budget data with insurance companies. As regards financial aspects, the Group is exposed to credit risk owing to relations in place with financial institutions. These risks are represented by: <ul style="list-style-type: none">· partial or total revocation of uncommitted credit lines in place, which the Group faces:<ul style="list-style-type: none">- potentially having access to a wide range of sources of financing offered by a number of financial institutions, which allow the Group to reduce the risk of exposure on a pro-quota basis;- by developing the use of “committed” “RCF” lines with a duration exceeding one year which, thanks to their flexibility, can be used to stabilise the current coverage of requirements. The Group continues to constantly monitor the phase of ongoing concentration in the European banking system by acknowledging that, as of today, in Italy, only the merger between Banco Popolare and Banca Popolare di Milano has taken place, effective from 1 January 2017, which, as things stand, has had no impact on the Group. <ul style="list-style-type: none">· forced withdrawals of bank funds (Bail-in operational from 1 January 2016), whose risk is mitigated through increasingly greater use of credit lines in the form of current account overdrafts which fulfil the function of reducing excess liquidity.
Price risk	This is the risk that a financial instrument or cash flows associated with it may fluctuate following market price variations of commodities or financial instruments.	The risk of price variations in the commodities purchased (cellulose and energy) may have a significant impact on the Group’s operating and financial results. In this regard, for the purchasing of cellulose, the Group plans procurement which takes account of both the productive requirements and the trend in the market price of cellulose. The change in electricity and gas prices is mitigated: <ul style="list-style-type: none">· by the constant search for suppliers able to offer the best price based on the same guarantees of supply continuity;· through the obtainment of energy certificates for the individual facilities in order to minimise the effects of unfavourable trends in energy prices.
Exchange rate risk	Exchange rate risk derives from the fact that the activities of the Group, which operates in an international context, are also conducted in currencies other than Euro.	The purpose of the Group is to minimise the risk in question by stipulating financial instruments for hedging purposes by centralising the management of exchange rate risk, which it deals with by entering into currency forward contracts as a matter of priority. The items hedged mainly concern the procurement of raw materials (cellulose), plants and machinery (assets). The adoption of FX-All as the single electronic trading platform of third parties, into which the forex transactions of all Group companies flow, saw almost all transactions managed in the platform fully automatically.
Interest rate risk	Interest rate fluctuations in each country, as well as the different value of the same referred to each currency in which the Group operates, affect the company’s cash flows and the level of consolidated net financial charges.	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. As regards medium/long-term transactions, with the completion of the phase of renegotiation of existing transactions, the company strategy continued to focus, in 2016, on stipulating new fixed-rate loans by taking advantage of the favourable opportunities offered by the market. In relation to current activities, also based on studies and consultancy, and having identified stable average interest rates as the main trend in the year, it was not considered necessary to make use of hedging instruments.

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
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 duration and composition of the debt.</p> <p>As regards the assets that contribute to the calculation of the “Net financial position”, note that the Group’s liquidity management is based on prudential criteria. The policy of the previous years is therefore confirmed where cash surplus are targeted at reducing current account overdrafts and/or other types of short-term loans at banks or, alternatively, intercompany current accounts are used to meet the need of the various Group companies.</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>
Legal/compliance/reputational risk (other than environmental)	Legal/compliance/reputational risks regard the possibility of incurring fines and/or financial losses due to infringements of the law, secondary legislation, rules, company standards and codes of conduct.	<p>The Group, in accordance with its principles, works at different levels to limit these risks which extend across different company processes. More specifically, the Group pursues these objectives through:</p> <ul style="list-style-type: none">· proactive management of intangible assets, targeted at creating and protecting its own credibility and maintaining the loyalty and cooperation of all stakeholders (from suppliers, to customers, to consumers);· the integration of sustainability in the business as a strategic line of development. <p>Through a dedicated function, the Group oversees the analysis of compliance risks at all companies; in addition, at the Italian Group companies organisational models were adopted for the prevention of the offences set forth in Italian Legislative Decree 231/2001 through 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 even been investigated by an antitrust organisation operating in the countries in which its companies are located.</p> <p>At the same time, no non-compliance with regulations or codes of conduct, as regards advertising material, promotions or the sponsorship of its own products were recorded.</p>
Reporting risk	Concerns the reliability of the information provided by the internal and external reporting process relating to accounting and non-accounting information.	<p>To guard against this risk, the Group has, implemented and is continuing to implement administrative, financial and management procedures which help to minimise the occurrence of this risk.</p> <p>More specifically, efforts underway seek to make economic and financial planning more integrated and efficient, to enable a better level of monitoring in all areas of the company.</p> <p>The tools utilised in this regard are SAP, Bw Sem, Piteco and Tagetik; in particular, the SAP management software has allowed total integration of the various business areas that can be jointly constantly monitored.</p> <p>The certification of the annual financial statements by a leading independent auditing firm is an additional way to check the process.</p> <p>The Group also introduced the Piteco and Piteco CBC (Corporate Banking Communication) applications a few years ago, for the fully secure handling of Company-Bank connectivity, by implementing management solutions in the treasury area to manage all payment instructions, the complete automation of authorisation workflows, their traceability and the secure management of instruction flows via mobile device 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.</p> <p>In that sense, 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, inter alia, payments to suppliers, payment of taxes and salaries.</p> <p>It is especially significant that Piteco can be integrated with all the main ERPs.</p> <p>To make this platform even more efficient and cut costs, the Group has set up the connection to the Swift network.</p>

TYPE OF RISK	RISK DESCRIPTION	RISK MANAGEMENT POLICY
Risk of in sourcing	These are the risks related to integrating the new acquisitions gradually made into the procedures and information systems that already exist.	<p>Exploiting decade-long experience, when the various acquisitions are being made, the various corporate departments make staff available that are adequately trained to implement the existing procedures (in the financial, administration, management, operating and sales areas) at the new companies and, subsequently, the effectiveness and efficiency of these procedures is monitored by the Business Control department. Lastly, the Information Technology department handles the implementation of existing computer systems (SAP on all of them) in the new acquisitions.</p> <p><u>The last two acquisitions made by the Group saw the start-up of the SAP modules on the day of closing of the transaction.</u></p>
Risks connected with the use of IT tools	Risks related to the use of IT tools regard the protection and the integrity of IT data.	<p>The implementation of the SAP management software, managed on-line at corporate level - also with “business continuity”, “disaster recovery” and “intrusion prevention” systems - represents an important tool for safeguarding against risks connected with the use of IT tools and for protecting data.</p> <p>An accurate and well-defined separation of roles – which is built into the IT system itself through preventive controls (e.g. passwords and authorisations) – also minimises the risk of internal fraud and allows complete traceability of accesses.</p> <p>In order to quantify the risk under review, the Group performs specific audits through an external company targeted at verifying the adequacy of the Information Technology system with respect to international standards.</p>



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Consolidated financial statement

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (values are stated in thousands of Euros unless otherwise indicated)

DESCRIPTION	31/12/2016	31/12/2015
ASSETS		
Non-current assets		
Property, plant and equipment	1,293,791	1,133,329
Investment property	7,415	7,469
Goodwill	88,726	86,477
Trademarks and other intangible assets	48,493	47,508
Investments in associates	1,597	1,395
Other non-current financial assets	5,752	1,413
Deferred tax assets	49,709	34,250
TOTAL NON-CURRENT ASSETS	1,495,483	1,311,841
Current assets		
Inventories	318,383	314,246
Trade receivables	170,651	194,407
Current financial receivables	3,908	11,205
Other current assets	9,904	13,431
Tax receivables	11,504	14,754
Cash and cash equivalents	33,583	30,485
TOTAL CURRENT ASSETS	547,934	578,528
TOTAL ASSETS	2,043,417	1,890,369

DESCRIPTION	31/12/2016	31/12/2015
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	33,000	33,000
Share premium reserve	1,500	1,500
Revaluation reserve	18,250	18,250
Legal reserve	7,159	7,159
Other reserves	594,946	591,998
Profit (loss) for the year	83,114	63,614
TOTAL GROUP SHAREHOLDERS' EQUITY	737,968	715,521
Share capital pertaining to minority interests	72	74
Profit attributable to minority interests	1	-
TOTAL MINORITY SHAREHOLDERS' EQUITY	73	74
TOTAL SHAREHOLDERS' EQUITY	738,041	715,595
Non-current liabilities		
Employee severance fund and other benefits	17,957	17,324
Tax reserve (inc. deferred taxes)	45,721	38,169
Provisions for risks and charges	7,953	6,115
Non-current financial liabilities	540,763	320,548
Part of subsidies and grant received from govern.	37,553	42,593
Other non-current liabilities	41	1,878
TOTAL NON-CURRENT LIABILITIES	649,987	426,626
Current liabilities		
Trade payables	406,781	353,652
Current financial liabilities	81,727	250,344
Current portion of ong - term borrowings	93,959	81,058
Other current liabilities	45,711	39,905
Due to tax authorities	27,211	23,188
TOTAL CURRENT LIABILITIES	655,388	748,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,043,417	1,890,369

CONSOLIDATED INCOME STATEMENT

DESCRIPTION	2016	2015
Revenues		
Revenues from sales and services	1,842,467	1,809,418
Other revenues and income	28,861	31,112
TOTAL REVENUES	1,871,327	1,840,530
Operating costs		
Purchase of raw materials, finished products and changes in inventories	(763,569)	(767,503)
Services	(527,189)	(542,025)
Leases and rentals	(33,070)	(30,539)
Other operating expenses	(29,014)	(33,607)
Payroll costs	(281,627)	(259,777)
EBITDA (GROSS OPERATING MARGIN)	236,859	207,079
<i>Amortisation of intangible fixed assets</i>	<i>(3,109)</i>	<i>(2,700)</i>
<i>Depreciation of tangible fixed assets</i>	<i>(114,049)</i>	<i>(110,805)</i>
<i>Write-downs of current receivables</i>	<i>(348)</i>	<i>(19)</i>
Total amortisation, depreciation and write-downs	(117,506)	(113,525)
Provision for risks and charges	(2,410)	(1,773)
OPERATING INCOME	116,943	91,781
<i>Financial income</i>	<i>1,187</i>	<i>1,066</i>
<i>Financial expenses</i>	<i>(12,323)</i>	<i>(9,881)</i>
<i>Foreign exchange gains and losses</i>	<i>(578)</i>	<i>1,617</i>
Total financial income and expenses	(11,713)	(7,197)
PROFIT (LOSS) BEFORE TAX	105,229	84,584
Current taxes	(28,540)	(22,313)
Deferred/(prepaid) taxes	6,426	1,343
PROFIT (LOSS) FOR THE YEAR	83,115	63,614
<i>Attributable to:</i>		
<i>Minority interests</i>	<i>(1)</i>	<i>-</i>
GROUP	83,114	63,614

CONSOLIDATED CASH FLOW STATEMENT

DESCRIPTION	2016	2015
Profit (loss) for the year	83,115	63,614
Income taxes	22,114	20,969
Financial income and expenses	11,136	8,814
Foreign exchange gains and losses	578	(1,617)
1. Profit/(loss) for the year before income taxes, interest, dividends and capital gains/losses from sale	116,943	91,780
Adjustment of non-monetary revenues	(10,550)	(10,926)
Amortisation/depreciation	117,158	113,505
Provisions	2,758	1,793
2. Cash flow before changes in net working capital	226,309	196,152
Change in trade receivables	23,756	36,972
Change in inventories	(4,137)	(28,151)
Change in trade payables	53,129	42,987
Change in short-term assets/liabilities	6,373	(17,791)
3. Cash flow after changes in net working capital	305,430	230,168
Change in other provisions	8,932	2,854
Collected/(paid) interest	(11,136)	(8,814)
Income taxes (paid)	(28,540)	(22,313)
Other changes	(20,728)	497
Cash flow of operating activities (A)	253,958	202,392
Investments in intangible assets (net of disinvestments)	(3,422)	(1,783)
Investments in tangible assets (net of disinvestments)	(282,835)	(138,119)
Purchase (transfer) of other financial fixed assets	(202)	(137)
Grants received during the year	193	1,542
Business combinations net of cash acquired	(15,230)	(68,954)
Cash flow from investing activities (B)	(301,496)	(207,451)
Opening of medium/long-term loans	316,518	257,249
Redemption of medium/long-term loans	(79,120)	(305,360)
Change in other medium/long-term loans	(6,120)	7,949
Change in loans and other securities	(3,032)	(2,966)
Dividends (and advances on dividends) paid	(20,000)	(20,000)
Changes in capital and reserves	-	-
Cash flow from financing activities (C)	208,246	(63,128)
Increase (decrease) of net cash and cash equivalents (A+B+C)	160,708	(68,187)
Initial net cash and cash equivalents	(209,504)	(141,641)
Exchange rate differences	651	324
Final net cash and cash equivalents	(48,144)	(209,504)



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Assurance statement of the sustainability sections of the integrated report

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ASSURANCE STATEMENT

INDEPENDENT ASSURANCE ON THE LIMITED ASSURANCE ENGAGEMENT OF THE SUSTAINABILITY SECTIONS OF THE SOFIDEL GROUP 2016 INTEGRATED REPORT

SGS Italia S.p.A. (SGS) was commissioned to conduct an independent assurance of the sustainability sections of the Sofidel Group (Sofidel) 2016 Integrated Report. The information in the Integrated Report is the exclusive responsibility of Sofidel.

SGS expressly disclaims any liability or co-responsibility in the preparation of any of the material included in this document or in the process of collection and treatment of the data therein.

Sofidel is responsible for the identification of stakeholders and material issues and for defining objectives with respect to sustainability performance.

SGS affirms its independence from Sofidel, being free from bias and conflict of interests with the Organization, its subsidiaries and stakeholders.

Responsibilities and Scope of Assurance

The responsibility of SGS is to express an opinion concerning the text, the qualitative and quantitative information, the graphs, the tables and the statements included in the Report's chapter related to sustainability issues, within the below mentioned assurance scope, with the purpose to inform all the Interested Parties.

The scope of assurance agreed with Sofidel includes the verification of following aspects:

- the review of the Group's approach to the materiality analysis and stakeholder engagement processes and initiatives;
- the evaluation of the Sustainability elements of the 2016 Integrated Report against the Global Reporting Initiative Guidelines (GRI-G4), with reference to the 'in accordance' Core option;
- Verification of the accuracy and reliability of data.

Assurance methodology and limitations

The verification process started from materiality analysis and stakeholder engagement methodology validation activities and was performed through examination of records and documents, interviews with personnel and management and analysis of policies, procedures and practices adopted within the organization. The texts, graphs and tables included in the Report were verified by selecting, on a sample basis, qualitative and/or quantitative information to confirm the accuracy and to follow the process of data elaboration and synthesis.

Auditing activities were carried out during January 2017 at Head Quarters in Porcari (Italy) and at Ciechanow Sofidel Poland Sp. z o.o. plant (Poland) to assess the reliability of the data reporting process and they referred to data and performance of the whole Group.

The audit team was assembled based on their technical know-how, experience and the qualifications of each member in relation to the various dimensions assessed.

Economic and Financial data is taken directly from the "Sofidel Group Consolidated Financial Statements", already certified by the auditing firm.

Statement of conclusion

On the basis of the methodology described and the verification work performed, SGS confirms the completeness, reliability and accuracy of the information contained in the 2016 Integrated Report, which represents a significant summary of the activities carried out by the Sofidel, as well as an essential tool of communication with stakeholders.

SGS confirms that information included in the Report provides a material and complete representation of the Company's sustainability performance.

The verification process confirmed that the Report was prepared based on rigorous processes.

With regards to the approach of the Group to materiality analysis and stakeholder engagement processes and initiatives, the Audit team provides the following opinion:

- In 2016, the materiality matrix evolved and the materiality analysis have been reviewed by both top management and the main suppliers of the group and it reflects the importance and evolution of sustainability issues in relation to the context in which the group operates.

- Continuous dialogue with stakeholders and new future goals are tangible signs of the integration of sustainability principles into the activities of the Group.

With reference to the GRI-G4 KPIs, the Group satisfies the principles for defining report content and the principles for ensuring the quality, completeness and accuracy of reported information.

Sustainability is perceived as a key strategic business priority and it is extensively applied either through internal policies and a responsible management of the supply chain. The commitment of Sofidel Group in the control of sustainability issues along the supply chain continues and is declined in an increasing number of events and occasions. It continues with the development of initiatives related to the Ten-P platform of Global Compact and strengthens the involvement of suppliers through dedicated events such as the "Suppliers Sustainability Award", established on the 50th Anniversary of the founding of Sofidel. Consistently with the efforts made to the promotion of sustainable development, Sofidel strengthens its role as a company that aims to act as an element of stimulus and awareness all along its supply chain. In the monitoring of supply chain, sustainability is deeply integrated even with the specific needs of the existing management systems, and it is recommended the organization to continue in this direction.

As for the environmental dimension, in 2016, the organization has underwritten important commitments with both international bodies and institutions mainly on issues related to the reduction of greenhouse gas emissions, the protection of forest and energy resources and the reduction of water consumption. The Audit Team notes the thorough work carried out and emphasizes the organization's commitment in environmental investments, primarily in the energy field, focused on reducing consumption and increasing efficiency.

We confirm that the 2016 Integrated Report is aligned with the requirements of the Global Reporting Initiative's (GRI) G4, according to the option 'in accordance' Core.

Milan, 9th March 2017

SGS ITALIA S.p.A.

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Report profile —

- Scope of the report
- The principles applied and the reporting process
- The assurance process

SCOPE OF THE REPORT

The scope of the report on the integrated Balance Sheet includes all the companies controlled by the parent company Sofidel S.p.A.. Corporate simplification operations took place within the scope - for the details see the Explanatory Notes to the Consolidated Financial Statements. The reference period is the financial year 2016 which coincides with the calendar year from 1 January to 31 December 2016.

The method of reporting the information is not different from that used in drafting the Integrated Balance Sheet for previous financial years and thus enables comparison of the data shown in this report. Any reclassifications of the data already presented in the previous edition of the Integrated Balance Sheet has been specifically justified in the text.

THE PRINCIPLES APPLIED AND THE REPORTING PROCESS

The sixth edition of the Integrated Report of the Sofidel Group (the fifth dates to May 2016) was drafted following the indications of the International Integrated Reporting Committee i.e. the organism created by the International Federation of Accountants, the Global Reporting Initiative (GRI) and The Prince's Accounting for Sustainability Project for the development of an integrated reporting scheme of the economic-financial, environmental and social performance of public and private organisations. Reference is particularly made to the guidelines of the 'Framework for Integrated Reporting and The Integrated Report' of the Integrated Reporting Committee of South Africa which, in the absence of the international scheme, still at the preparation stage, is the only reliable benchmark, used moreover by the Johannesburg Stock Exchange as the compulsory reporting model for companies

listed in the equity market. As suggested by the South African scheme better known as 'King III', the Sofidel Group integrated the guidelines of the Global Reporting Initiative, version 4, in the report of its economic, social and environmental performance through the use of Key Performance Indicators (KPI).

For information on the Integrated Balance Sheet and the reporting process adopted, contact Mr Antonio Pereda (antonio.pereda@sofidel.it) or Ms Arianna Vita (arianna.vita@sofidel.it).

Sofidel S.p.A.

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THE ASSURANCE PROCESS

Following the publication of the fourth version of the Global Reporting Initiative, companies which have always published their balance sheets in line with the prescriptions of this Guide are dealing with the new requisites of GRI G4 which mainly consist of:


- a new conception of the report based on a materiality analysis that must be described in the report and originates from the Stakeholder Engagement which has always been a feature of the commitment to the sustainability of organisations;

- focus on some subjects such as assessment of the supply chain, also regarding environmental performances, commitment to reduce greenhouse gases, greater transparency in governance.

In addition, the new version of the GRI sets out:

- indicators of equal dignity (no longer Core or Additional) to report according to the outcome of the materiality analysis;
- the opportunity to declare the Balance Sheet 'In Accordance' with 2 levels - 'Core' or 'Comprehensive'.





Appendices

· Table of KPIs expressed by the GRI

TABLE OF KPIs EXPRESSED BY THE GRI

Reference was made to the ‘Sustainability Reporting Guidelines’ of the Global Reporting Initiative (GRI) for the report on the economic, social and environmental performances of the Sofidel Group. The table of correspondence between the indicators and the information required by the GRI standard and the Global Compact principles and their position in the text, highlighting the level of cover reached with the Integrated Balance Sheet, is shown below.

REPORTING ELEMENTS

Contexts	Page of Balance Sheet	GRI indicator	Omission	Reason for omission
Strategy and analysis	Letter to stakeholders	G4-1		
Profile of the organisation	Group portrait - Group identity Human resources Industrial relations Suppliers Some results in the year The community Our main partners for sustainability	G4-3, G4-4, G4-5, G4-6, G4-7, G4-8, G4-9, G4-10, G4-11, G4-12, G4-13, G4-14, G4-15, G4-16		
Indication of the material aspects and borders	Materiality analysis and relationships with stakeholders	G4-17, G4-18, G4-19, G4-20, G4-21, G4-22, G4-23		
Stakeholder engagement	Materiality analysis and relationships with stakeholders	G4-24, G4-25, G4-25, G4-26, G4-27		
Report profile	Report profile	G4-28, G4-29, G4-30, G4-31, G4-32, G4-33		
Governance	Governance	G4-34, G4-35, G4-36, G4-47, G4-48		
Ethics and integrity	Governance, Strategic sustainability tools, Governance of corporate responsibility	G4-56, G4-57, G4-58		

PERFORMANCE INDICATORS

SPECIFIC STANDARD DISCLOSURES					
Area	Material aspect	Paragraph	Material aspects/ GRI indicators	Global Compact principles	Omission and reason for the omission
ECONOMIC	Economic performance	· The business model · Risk management	DMA Risk Management G4-EC1 G4-EC2 G4-EC3	Principle 8 - To undertake initiatives that promote greater environmental responsibility	
	Financing Public Administration	· Management of relationships	G4-EC4		
	Market presence	· The international context	DMA Market prospects G4-EC5 G4-EC6	Principle 6 - The elimination of all forms of discrimination in employment and profession	
	Indirect economic impact	· Indirect economic impact	G4-EC7, G4-EC8		
	Procurement practices	· Protection of forestry resources · Suppliers · Operations for local communities	DMA Supply Chain Management G4-EC9		
ENVIRONMENTAL DMA		· Environmental resources · Environmental resources (BAT)	DMA LCA DMA R&S		
ENVIRONMENTAL	Raw materials	· Environmental resources · Protection of forestry resources	DMA Raw materials G4-EN1 G4-EN2	Principle 7 - Companies are asked to support a preventive approach with regard to environmental challenges	
	Energy	· Sofidel Group energy consumption · Investments in the environmental field · Energy procurement	DMA Renewable Energy Use G4-EN3 G4-EN4 G4-EN5 G4-EN6 G4-EN7	Principle 7 - Companies are asked to support a preventive approach with regard to environmental challenges Principle 8 - To undertake initiatives that promote greater environmental responsibility Principle 9 - To encourage the development and spread of technologies respecting the environment	
	Water	· Environmental resources · Protection of water resources · Biodiversity	DMA Water Use G4-EN8 G4-EN9 G4-EN10	Principle 7 - Companies are asked to support a preventive approach with regard to environmental challenges Principle 9 - To encourage the development and spread of technologies respecting the environment	
	Biodiversity	· Biodiversity	G4-EN11 G4-EN12 G4-EN13, G4-EN14	Principle 7 - Companies are asked to support a preventive approach with regard to environmental challenges Principle 8 - To undertake initiatives that promote greater environmental responsibility	
	Emissions	· Management of greenhouse gas emissions · Investments in the environmental field	DMA CO ₂ Reduction G4-EN15 G4-EN16 G4-EN17, G4-EN18 G4-EN19	Principle 7 - Companies are asked to support a preventive approach with regard to environmental challenges Principle 8 - To undertake initiatives that promote greater environmental responsibility	
		· Other emissions into air	G4-EN20 G4-EN21	Principle 8 - To undertake initiatives that promote greater environmental responsibility	
		· Protection of water resources	G4-EN22	Principle 8 - To undertake initiatives that promote greater environmental responsibility	

SPECIFIC STANDARD DISCLOSURES					
Area	Material aspect	Paragraph	Material aspects/ GRI indicators	Global Compact principles	Omission and reason for the omission
			List of material aspects indicated responding to the economic, social and environmental indicators shown in the G4 - Disclosure Management Approach (DMAs) guidelines and Indicators		
ENVIRONMENTAL	Emissions	· Waste management	DMA Waste management G4-EN23, G4-EN24 G4-EN25	<u>Principle 8</u> - To undertake initiatives that promote greater environmental responsibility	
	Products and services	· Ecological products	G4-EN27	<u>Principle 7</u> - Companies are asked to support a preventive approach with regard to environmental challenges	
	Packaging	· Ecological products	G4-EN28		
	Compliance	· Environmental management of the organisation	G4-EN29	<u>Principle 7</u> - Companies are asked to support a preventive approach with regard to environmental challenges	
	Transport	· Management of greenhouse gas emissions	G4-EN30		
	General	· Environmental management of the organisation	G4-EN31	<u>Principle 8</u> - To undertake initiatives that promote greater environmental responsibility	
	Assessment of suppliers in relation to environmental criteria	· Check on suppliers' sustainability requisites	G4-EN32, G4-EN33		
	Complaint mechanisms in relation to environmental criteria		G4-EN34		
WORK PRACTICES	Employment	· Work practices - turnover	G4-LA1	<u>Principle 6</u> - The elimination of all forms of discrimination in employment and profession	
		· Remuneration and incentive systems	G4-LA2		
		· Human rights - equal opportunities, diversity, non-discriminatory practices	G4-LA3		
	Industrial relations	· Industrial relations · Communications on organisational changes	DMA Industrial relations G4-LA4	<u>Principle 3</u> - Companies are required to support the workers' freedom of association and recognise the right to collective bargaining	
	Health and safety	· Health and safety	DMA Health & safety of workers G4-LA5 G4-LA8		
		· Measurement indices on trends in accidents	G4-LA6 G4-LA7		
	Training and instruction	· Spread the culture of health & safety · Remuneration and incentive systems · Management of human resources	G4-LA9 G4-LA10 G4-LA11	<u>Principle 6</u> - The elimination of all forms of discrimination in employment and profession	
	Diversity and equal opportunities	· Management of human resources	G4-LA12		
		· Remuneration and incentive systems	G4-LA13		
	Assessment of suppliers in relation to work practices	· Check on suppliers' sustainability requisites	G4-LA14 G4-LA15		

SPECIFIC STANDARD DISCLOSURES					
Area	Material aspect	Paragraph	Material aspects/ GRI indicators	Global Compact principles	Omission and reason for the omission
			List of material aspects indicated responding to the economic, social and environmental indicators shown in the G4 - Disclosure Management Approach (DMAs) guidelines and Indicators		
WORK PRACTICES	Reports received on work practices, dealt with through formal reporting systems	· Management of reports and the Freephone number	G4-LA16		
	Assessment of suppliers in relation to human rights	· Check on suppliers' sustainability requisites	G4-HR1 G4-HR2	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence <u>Principle 5</u> - The effective elimination of child labour <u>Principle 6</u> - The elimination of all forms of discrimination in employment and profession	
HUMAN RIGHTS	Non-discrimination	· Human rights - equal opportunities, diversity, non-discriminatory practices	DMA Human rights/ Diversity G4-HR3	<u>Principle 6</u> - The elimination of all forms of discrimination in employment and profession	
	Freedom of association and collective bargaining	· Industrial relations	G4-HR4	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence <u>Principle 3</u> - Companies are required to support the workers' freedom of association and recognise the right to collective bargaining	
	Child labour	· The main inspirations of the Sofidel Group sustainability model · Human rights - equal opportunities, diversity, non-discriminatory practices	G4-HR5	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence <u>Principle 5</u> - The effective elimination of child labour	
	Forced or compulsory labour	· The main inspirations of the Sofidel Group sustainability model · Human rights - equal opportunities, diversity, non-discriminatory practices	G4-HR6	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence <u>Principle 4</u> - The elimination of all forms of forced or compulsory labour	
	Safety practices		G4-HR7		Not applicable
	Rights of local populations	· Operations for local communities	G4-HR8	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence	
	Operations subject to review or impact assessment of human rights	· Human rights - equal opportunities, diversity, non-discriminatory practices	G4-HR9	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence	
	Assessment of suppliers in relation to human rights	· Check on suppliers' sustainability requisites	G4-HR10 G4-HR11	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence <u>Principle 2</u> - To ensure that they are not accomplices to the abuse of human rights, even indirectly	
	Complaints mechanism in relation to human rights	· Human rights - equal opportunities, diversity, non-discriminatory practices	G4-HR12	<u>Principle 1</u> - Companies are required to promote and respect universally recognised human rights in the context of the respective spheres of influence	

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