Fedrigoni Group

Consolidated Financial Statement and Environment, Health and Safety Report 2019

Fedrigoni Group Consolidated Financial Statement and Environment, Health and Safety Report 2019

FEDRIGONI

Dear Stakeholders,

2019 was a year of great transformation and important results for Fedrigoni, thanks to the many initiatives we launched in all group areas, from product development to geographical expansion, from commercial activities to pricing mechanisms, from purchasing processes to operations.
One of the keys to our 2019 results, which will also be pivotal in achieving the ambitious objectives we have set ourselves for the coming years, was the introduction of many new **managerial figures** in all key roles, which brought in skills that are instrumental to the group's development and which complemented the many existing skills.
The significant development of the management team was accompanied by an equally significant development of the **organisational model**, which saw the two business units become more independent of each other, and saw them supported by a number of stronger group roles that work across both units.
In 2019 we also worked on the **2020–2023 industrial plan** that lays out all the elements of the business plan we are going to apply in the coming years, focusing on growth (both organic and through acquisitions), operational excellence and continuous product leadership, as well as the relative investments necessary.
Important **acquisition** milestones were also reached in 2019. As well as completing the integration of **Cordenons**, which was acquired in the second half of 2018 with the aim of strengthening our European leadership in special papers for *fine printing, luxury packaging* and some technical papers for filters and food use, in October we announced the acquisition of **Ritrama**, another Italian multinational with a global presence.
Thanks to this acquisition, which was finalised at the start of 2020, our *Pressure Sensitive Labels* business unit doubled in size and Fedrigoni Group became the third largest player in the world self-adhesive label sector, with an extensive, diverse offering that combines the excellence of Arconvert and Manter labels, made with special paper, with Ritrama's high technology applied to self-adhesive plastic film.
Another area that has always been and will continue to be important for Fedrigoni Group is the **sustainability** of our whole production chain, from raw materials, where we ensure controllability, traceability and eco-friendliness, to production processes, where we focus on improving energy efficiency and reduction of water consumption and CO_2 emissions.
Our commitment to sustainability will be strengthened from 2020 through an important action plan and relevant investments.
For Fedrigoni, sustainability also means education and culture, so we will continue to support drawing and writing projects for adults and children with Fabriano, and to preserve the legacy and the history of paper making through the Fedrigoni Fabriano Foundation.
In these first few months of 2020, with the spread of **Covid–19** across the world, our group has never stopped. It has shown strength and resilience, ensuring full operational capacity for its clients whilst protecting the health and safety of its 4,000 employees, whom I would like to thank for their effort and professionalism. Over the next few months we will continue to manage the ever-changing situation with the utmost attention and preparation.
The whole management team and I are honoured to be a part of this new chapter in the history of Fedrigoni Group and, after a year of great successes, we are all completely focused on seeing through this ambitious transformation process that we have just started, whilst continuing to meet the needs of our clients and the global market.

My sincerest thanks to you all.
Marco Nespolo
CEO Fedrigoni Group

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F for FEDRIGONI

Fedrigoni has meant excellence
in special papers and labels for
packaging, quality prints, security,
schools and art since 1888.

The Fedrigoni Group

7 The Group

9 The structure

The Group

Fedrigoni Group has Italian roots and heart and a global vision. Its journey began more than 130 years ago and today it is expanding its industrial scope to cover four continents.

It is a story of family traditions that started in a world of print and graphic paper, which over the years developed new products with a strong identity and market position, such as Fabriano paper, with its 750-year history of Italian cultural heritage, and the Cordenons group that produces prestigious packaging paper for international luxury brands.

Foresight and vision have characterised the Fedrigoni Group's journey, and have led it to look at industries that are adjacent to its original business and that are growing quickly, such as the production of self-adhesive labels. Arconvert, a company that processes self-adhesive products and was started more than thirty years ago, has supported important acquisitions in Spain and Brazil, becoming the third largest player in the international Pressure Sensitive Labels market when Ritrama became a part of the Group in February 2020.

Since 2018, Bain Capital Private Equity, a global investment company, has been the main shareholder in the Fedrigoni Group with 90% of the company's share capital, alongside a branch of the Fedrigoni family that holds the other 10%.

The challenge for the next few years is to continue along the path of growth and change, to gain an ever more relevant global position and to be closer than ever to our clients. An essential part of this journey is the people. Thanks to the introduction of new talent, we have an increasingly strong management team that is focused on seizing market opportunities, as well as 4000 people in the group who work with professionalism and passion every day to guarantee the current and future sustainability of our business.

Synthesis by segment

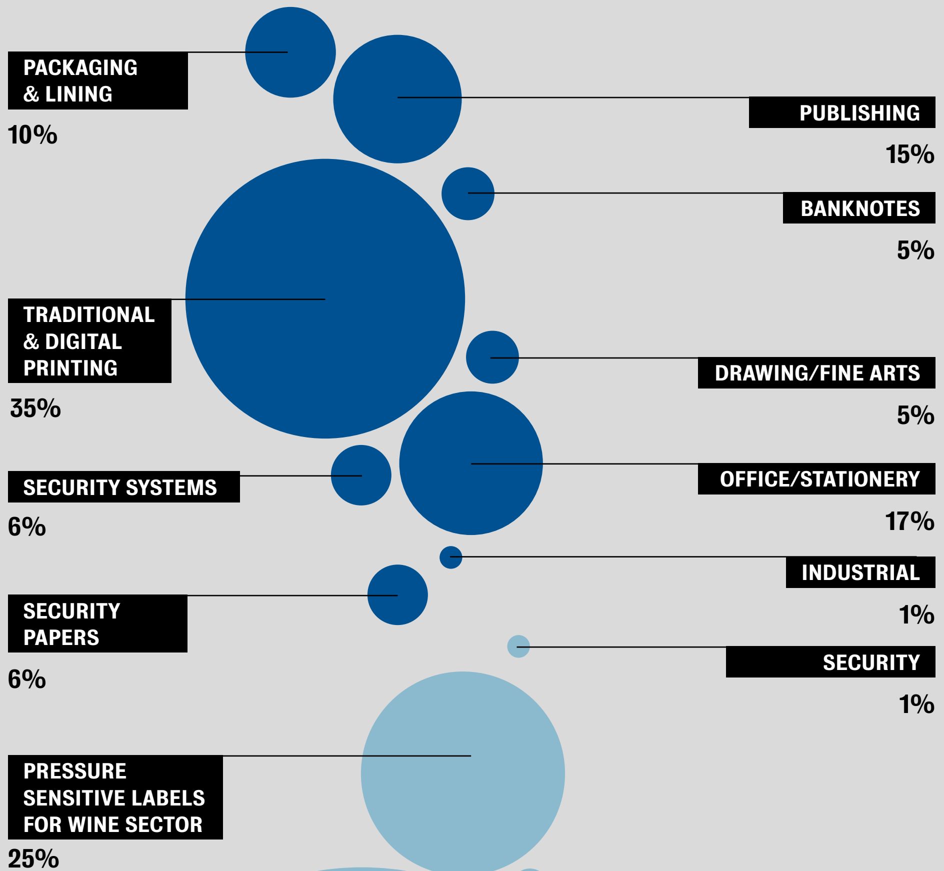
■ Paper & Security ■ Pressure Sensitive Labels

PAPER & SECURITY

67% Group turnover

2,279 employees

469,548 t/y

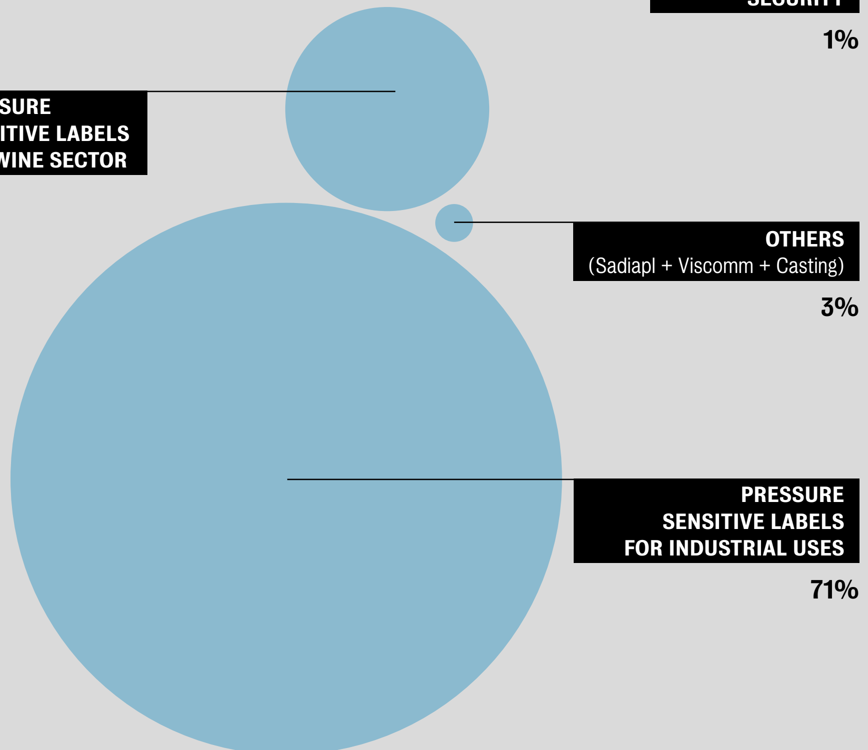


PRESSURE SENSITIVE LABELS

33% Group turnover

631 employees

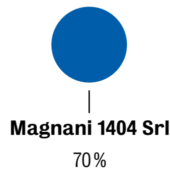
862,706 m²/y



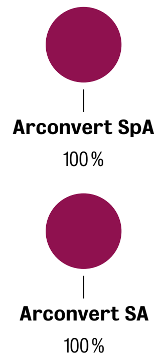
Fabric (B.C.) SpA

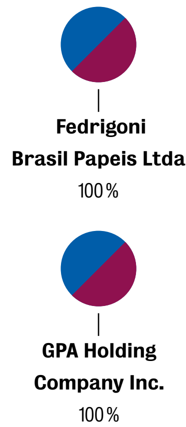
as at 31-12-2019

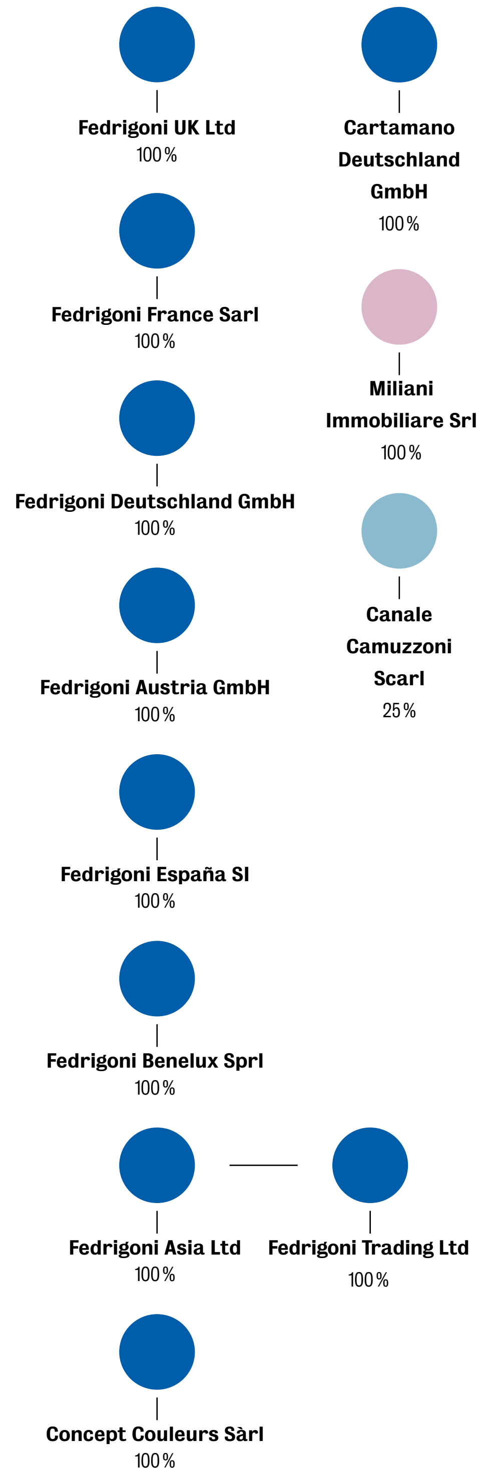
Gruppo Cordenons SpA



Fedrigoni SpA







Paper & Security

Pressure Sensitive Labels

Real Estate

Energy

E FOR EXCELLENCE

Since 1888 Fedrigoni means excellence in paper and today is a multinational group boasting turnover of 1,171.4 million Euros.

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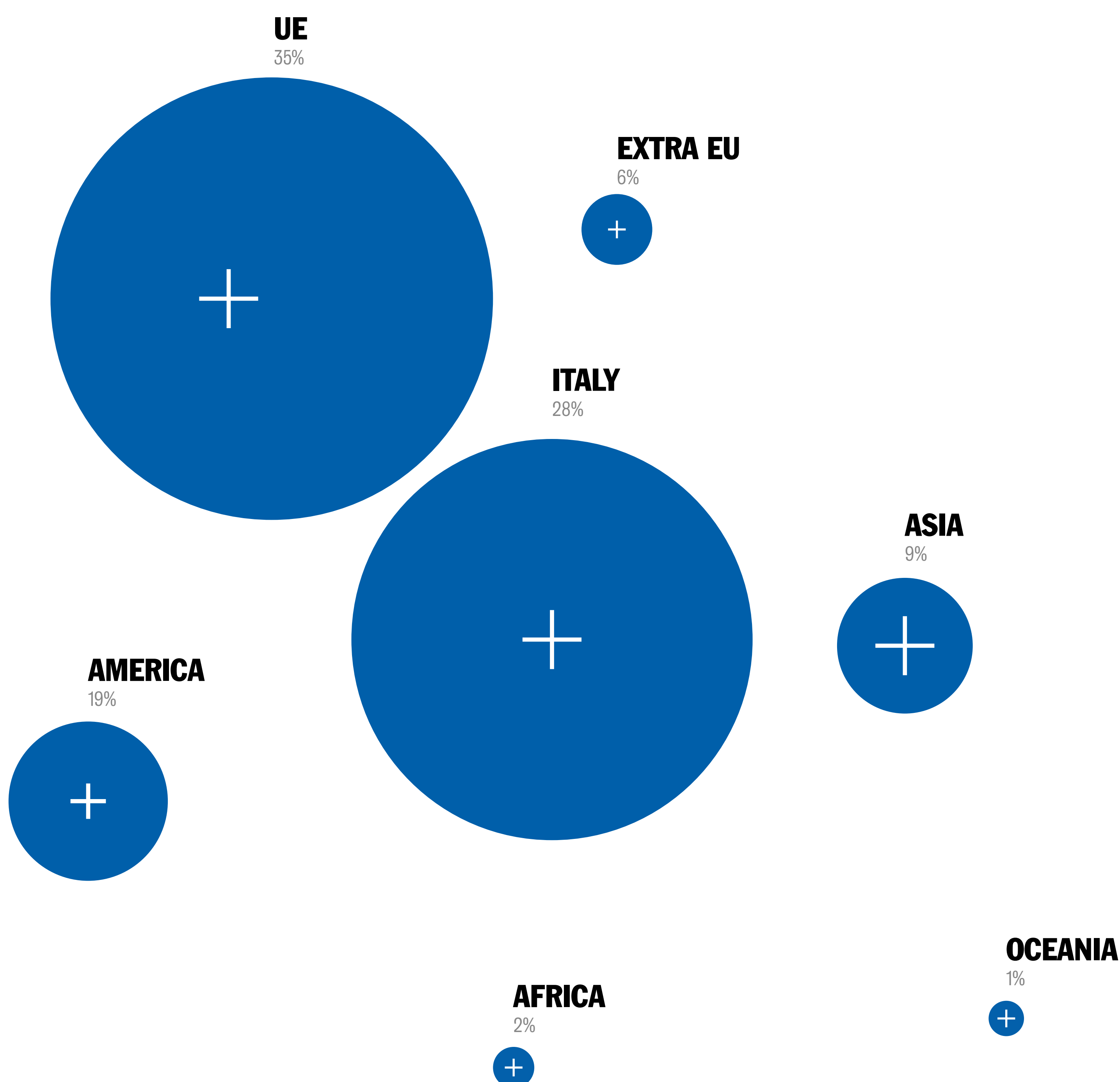
Fedrigoni Group
The Board of Directors
Fedrigoni Holding Limited

IVANO SESSA	Chair of the Board
MARCO NESPOLO	Chief Executive Officer & Board Member
CHIARA MEDIOLI	Vice Chair of the Board & Group Marketing Director
HALVOR MEYER HORTEN	Board Member
GIACOMO MASSETTI	Board Member

Turnover by geographical area



franz
kafka

Data by main segments of activity

Production and conversion of graphic paper and paper used for packaging

Despite the tough market, the Group companies operating in this business segment obtained good results in 2019.

The Group was able to benefit from the favorable trend of fibrous raw material prices and the ability, developed thanks in part to an important sales policy transformation project, to contain the consequential decrease in selling prices.

In keeping with its strategic objectives, during the year the Group's paper product sales mix was improved with a larger proportion of special products. larger proportion of special products.

Production and distribution of security products

In the security segment, the annual results were affected by the decisions of some countries to insource the production of banknote paper, which led to a smaller market accessible to private manufacturers.

This trend is offset in part by growth for other security products (threads and holograms), whose market is expanding in terms of both volumes and complexity, thanks to greater banknote anti-counterfeiting activities.

MARCA DEPOSITATA
PASTIFICIO G. Di Martino
1Kg
PACKED IN ITALY
Product
PASTA DI GRAGNANO I.G.P.
NAPOLI - ITALY
la Famiglia, la Pasta, l'Italia!
Dolce&Gabbana

Production of Pressure Sensitive Labels (PSL)

On a comparable consolidation basis, the PSL segment was characterized by higher volumes and a different product mix.

In this segment as well, the Group benefited from the favorable raw material price trend and the ability to contain the consequential decrease in selling prices.

Thanks to such actions, the results of this segment improved in 2019.

VALORI
Trebbiano d'Abruzzo
VALORI
Bio
VALORI
Cerasuolo d'Abruzzo
VALORI
Bio
VALORI
INKIOSTRO Merlot
VALORI
VALORI
Montepulciano d'Abruzzo
VALORI
Bio

Annual Financial Report

Introduction

We present in this annual financial report (this "Annual Financial Report") certain financial and other information of Fabric (BC) S.p.A. (the "Issuer" and, together with its subsidiaries, the "Group"). Capitalized terms not otherwise defined in this Annual Financial Report shall have the meanings assigned to such terms in the Listing Particulars (as defined below).

COVID-19 Update

The Group has implemented certain health and safety measures and activated business continuity and profit protection plans in reaction to the COVID-19 pandemic. We have established a steering committee consisting of our CEO, CFO and the heads of our human resources, communications, procurement and production divisions in connection with these measures. This steering committee meets daily with the purpose of implementing measures for the safeguarding of the health of our employees and contractors, to ensure business continuity, and to operate our business going forward. All employees whose work permits remote working have been given IT equipment and are working remotely.

Our PSL Segment, which includes the recently-acquired Ritrama, has seen strong sales across all product lines with the exception of some specific product line such Graphics. Our diversified portfolio in the PSL Segment exposes us to markets which are currently experiencing increased demand, such as the food & beverage, pharmaceuticals and logistics markets. The wine & spirits market, in which we recently launched new products and increased our geographic reach, has also seen increased demand. Almost all our facilities in the PSL Segment are currently operating at full capacity, and our Arco facility is operating on a 24/7 schedule in order to meet demand. We assess the financial performance of our PSL Segment as being very good. We continue to work on integrating Ritrama and we consider both progress made and our outlook on synergy achievement to be good.

Our Paper & Security Segment has seen a drop in demand initially in Italy and subsequently in Europe, although we estimate this drop to have been smaller than the drops experienced by some of our competitors. We are implementing certain cost saving initiatives, such as rationalization of our fixed costs and some limited alternating shutdowns at some of our plants which began in April 2020. We are also accelerating certain procurement and operational efficiency initiatives.

The negative impact of the COVID-19 pandemic on our sales revenues for the three months ended March 31, 2020 has been partially offset by the strong sales on the PSL Segment and a strong order book in Paper built prior to the COVID-19 pandemic, although we expect a greater impact on our sales revenues for the six months ending June 30, 2020. Our warehouses, logistics systems, sample service, customer service and all other customer-oriented services remain operational across the Group, and we currently expect them to remain operational. We are also experiencing a slight margin expansion driven by a reduction in the price of pulp due to long-term downward trends and weak demand for pulp. Finally, our overall liquidity position remains extremely robust. See also "—*Risk Factors*" and our Annual Financial Statements (as defined below).

Key Financial Information

The following table provides an overview of our key results for the year ended December 31, 2019, as well as for the year ended December 31, 2018, in each case after giving effect to the Transactions (as defined in the Listing Particulars). Investors should read the following presentation in conjunction with the section titled "*Summary Historical Financial and Other Information—Other Financial Information, Segment and Geographic and Operating Data—Other Financial Information*" in the Listing Particulars including the footnotes thereto.

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Sales Revenues	880.3	1,171.4
Adjusted EBITDA[(1)]	100.1	162.7
Adjusted EBITDA margin[(2)]	11.4%	13.9%
Normalized Capital Expenditure[(3)]		31.3
Adjusted Sales Revenues[(4)]		1,578.3
Pro Forma Adjusted EBITDA[(1)]		209.1
Pro Forma Adjusted EBITDA margin[(2)]		13.2%
Pro Forma Net Financial Debt[(5)]		727.0
Pro Forma Cash Interest Expense[(6)]		27.9
Ratio of Pro Forma Net Financial Debt to Pro Forma Adjusted EBITDA		3.48x
Ratio of Pro Forma Adjusted EBITDA to Pro Forma Cash Interest Expense		7.49x

(1) We define Adjusted EBITDA as net profit before depreciation, amortization and impairment losses, income taxes, finance costs, finance income and certain income and costs that management does not consider to be representative of the underlying operations of the business because they either. (2) Adjusted EBITDA Margin represents Adjusted EBITDA divided by sales revenues for the periods presented. Pro Forma Adjusted EBITDA Margin is defined as Pro Forma Adjusted EBITDA divided by Adjusted Sales Revenues for the periods presented. (3) Normalized Capital Expenditures are defined as investments in intangible assets and property, plant and equipment, net of disposals of property, plant and equipment and intangible assets and excluding Extraordinary Capital Expenditures. Normalized Capital Expenditures for the year ended December 31, 2018 and 2019, respectively, presented in this Annual Financial Report excludes Normalized Capital Expenditures related to our newly acquired subsidiary Ritrama. We expect to include Ritrama normalized capital expenditures data in the future reports. (4) Adjusted Sales Revenues represents sales revenues adjusted to include estimated net sales generated by the Ritrama Group for the twelve months ended December 31, 2019 in an amount of Euro 406.9 million. Net sales of the Ritrama Group have been prepared in accordance with Italian GAAP. Italian GAAP differs in certain respects from IFRS, and so the adjustments representing the contributions of the Ritrama Group may differ if Ritrama's contributions has been calculated on the basis of IFRS. See also "Listing Particulars—Risk Factors—Risks Related to the Transactions—Ritrama's financial statements are not prepared in accordance with IFRS, and there may be differences between Ritrama's financial position and its results of operations as presented in accordance with Italian GAAP compared to a presentation in compliance with IFRS."
(5) Pro Forma Net Financial Debt represents non-current liabilities due to banks and other lenders plus current liabilities due to banks and other lenders, minus Euro 155.7 million of cash and cash equivalents, on an as adjusted basis after giving effect to the Transactions as if they had occurred on January 1, 2019 and Euro 74.5 of financial credits due to the optimization of trade working capital through the use of non-recourse factoring. Pro Forma Net Financial Debt (i) includes Euro 580.0 million related to the issuance of the Existing Notes, (ii) includes Euro 225.0 million related to the issuance of the Notes and (iii) excludes the fair value of the interest rate swap at December 31, 2019. (6) Pro Forma Cash Interest Expense represents the estimated cash interest expense of the Issuer on an as adjusted basis for the year ended December 31, 2019, after giving pro forma effect to the Transactions as if they had occurred on January 1, 2019. Pro Forma Cash Interest Expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would actually have been had the Transactions occurred on January 1, 2019, nor does it purport to project our interest expense for any future period or our financial position at any future date.

Set forth below is a reconciliation of our net profit to Adjusted EBITDA and Pro Forma Adjusted EBITDA, respectively, for the periods indicated:

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Net profit	8.8	14.7
Depreciation, amortization and impairment losses	40.1	61.6
Income taxes	6.7	17.6
Finance costs	41.1	52.8
Income from equity-accounted investments in associates	-	-
Finance income	(20.2)	(18.3)
Non-recurring and certain M&A income and costs[(A)]	23.6	34.3
Adjusted EBITDA	**100.1**	**162.7**
Fabric accounting adjustments[(B)]		(1.9)
Fabric run rate cost savings[(C)]		12.9
Ritrama Acquisition and accounting adjustments[(D)]		27.8
Ritrama non-recurring items[(E)]		(2.4)
Run rate cost savings related to the Ritrama Acquisition[(F)]		10.0
Pro Forma Adjusted EBITDA		**209.1**

(A) Represents adjustments related to (i) Euro 6 million of lay-off costs (ii) Euro 2.1 million of other non-recurring income mainly related to the release of risk provision, (iii) Euro 30.8 million of costs related to transformation projects, (iv) Euro 0.2 million of an insurance reimbursement received by Miliani Immobiliare in relation to the 2016 earthquake in Pioraco, Italy, and (v) Euro 0.1 million of divestment of the shop previously owned by Concept Couleurs S.à.r.l.

(B) Represents accounting adjustments related to (i) losses in connection with fluctuations in exchange rates in an amount of Euro 1.9 million.

(C) Represents the estimated run rate effect on Adjusted EBITDA of cost savings that we expect to realize from (i) estimated annualized run rate cost savings of approximately Euro 12.9 million per year arising from procurement initiatives, (ii) estimated annualized run rate cost savings of approximately Euro 1.3 million per year arising from cost savings related to a planned reorganization of Cordenons' internal functions to maximize efficiency by reducing overlaps in sales, marketing and general and administrative departments, (iii) estimated annualized run rate cost savings of approximately Euro 8.3 million per year arising from reorganization and efficiency projects in operations and (iv) estimated annualized run rate cost increases of approximately Euro 9.6 million per year due to new talents hiring.

(D) Represents Euro 27.8 million run rate adjusted EBITDA contribution of the Ritrama Acquisition, as if Ritrama had been acquired on January 1, 2019, adjusted to include (iii) the negative impact of Ritrama's management adjustments in an amount of Euro 1.7 million in the year ended December 31, 2019 relate to the costs incurred in relation to the Ritrama Acquisition, bad debt accruals, inventory provisions, operating items classified as financial expenses, release of certain provisions, realized gains and losses in connection with fluctuations in exchange rates, operating accruals, nonrecurring income/expenses, consolidated and dormant entities and minorities, income from net recharges of costs to the Ritrama U.S. entities which are not part of the perimeter of the Ritrama Acquisition.

(E) Represents adjustments related to (i) estimated annualized run rate margin reduction of approximately Euro 2.1 due to the loss of certain business transactions, and (ii) estimated annualized run rate cost increases of approximately Euro 0.3 due to normalization of maintenance costs.

(F) Represents the estimated run rate effect on Adjusted EBITDA of cost savings that we expect to realize from (i) estimated annualized run rate procurement savings of approximately Euro 5.0 million per year arising from an alignment in the purchase of certain SKUs (e.g., glassine) common to the Group and Ritrama and suppliers rationalization, (ii) estimated annualized run rate cost savings of approximately Euro 2.0 million per year arising from cost savings related to the rationalization of Ritrama's internal functions to maximize efficiency by reducing personnel overlaps, (iii) estimated annualized run rate cost savings of approximately Euro 1.0 million per year arising from the internalization of Ritrama's paper sourcing to Fedrigoni, (iv) estimated annualized run rate cost savings of approximately Euro 2.0 million per year arising from the installation of a new adhesive kitchen at one of the Ritrama's production facilities, which will result in a raw material cost reduction.

The table below sets forth the calculation of Normalized Capital Expenditures:

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Investments in intangible assets	1.8	4.6
Investments in property, plant and equipment	23.9	39.4
Disposals of property, plant and equipment and intangible assets	(2.2)	(1.0)
Extraordinary Capital Expenditures[A]	(16.2)	(11.7)
Normalized Capital Expenditures	7.3	31.3

(A) Represents capital expenditures related to (i) investments made in relation to the installation of a new cogeneration system and (ii) investments regarding a continuous machine no longer deemed strategic under the new production reorganization plans.

Results of Operations

Financial Statements

The following table provides an overview of the results of operations of the Issuer for the years ended December 31, 2018 and 2019, respectively.

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Sales revenues	880.3	1,171.4
Other operating income	9.6	9.9
Cost of materials	(489.3)	(611.1)
Cost of services	(195.8)	(245.0)
Cost of personnel	(117.6)	(175.7)
Other costs	(13.9)	(10.7)
Depreciation, amortization and impairment losses	(40.1)	(61.6)
Change in inventories	2.4	(11.6)
Cost of capitalized in-house work	0.9	1.0
Operating income	**36.4**	**66.8**
Financial income	20.0	18.3
Finance costs	(40.9)	(52.8)
Net Financial costs	**(20.9)**	**(34.5)**
Share of profits of associates	**0.02**	**0.04**
Profit before income tax	**15.5**	**32.3**
Income tax expense	(6.7)	(17.6)
Net profit	**8.8**	**14.7**
Owners of the parents profit (loss) of the year	8.8	14.7
Non-controlling interests profit (loss) of the year	0.02	0.0

Discussion of the Group Results of Operations

Sales Revenues

Sales Revenues by Reporting Segment and Business Line

Sales revenues increased by Euro 291.1 million, or 33.1%, to Euro 1,171.4 million for the year ended December 31, 2019 from Euro 880.3 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues for the year ended December 31, 2019 recorded an increase in sales in the Pressure Sensitive Labels Segment and in the Paper Business Line and a decrease in sales in the Security Business Line. The table below shows Group's total sales by reporting segment and business line for the years ended December 31, 2018 and 2019, respectively:

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Paper and Security Segment	**625.3**	**810.2**
thereof: Paper Business Line	494.3	677.6
thereof: Security Business Line	131.0	132.5
Pressure Sensitive Labels Segment	**275.4**	**390.9**
Interdivision eliminations	**(20.4)**	**(29.7)**
Sales revenues	**880.3**	**1,171.4**

Sales revenues in the Paper and Security Segment increased by Euro 184.9 million, or 29.6%, to Euro 810.2 million for the year ended December 31, 2019 from Euro 625.3 million for the year ended December 31, 2018. Sales revenues in the Paper Business Line increased by Euro 183.3 million, or 37.1%, to Euro 677.6 million for the year ended December 31, 2019 from Euro 494.3 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in the Paper Business Line for the year ended December 31, 2019 recorded a decrease compared to the year ended December 31, 2018 due to a decrease in commodity paper volumes. Sales revenues in the Security Business Line increased by Euro 1.5 million, or 22.0%, to Euro 132.5 million for the year ended December 31, 2019 from Euro 131 million for the year ended December 31, 2018. This increase was attributable to the consolidation of the Fedrigoni Group and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in the Security Business Line for the year ended December 31, 2019 recorded a decrease compared to the year ended December 31, 2018 due to lower sales of banknote papers, partly offset by higher sales of Security elements. Sales revenues were also impacted by the e-docs business in our Brazilian subsidiary where we shifted our business model from direct distribution to an agency agreement. Sales revenues in the Pressure Sensitive Labels Segment increased by Euro 115.5 million, or 41.9%, to Euro 390.9 million for the year ended December 31, 2019 from Euro 275.4 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in the Pressure Sensitive Labels Segment for the year ended December 31, 2019 recorded an increase compared to the year ended December 31, 2018 due to higher volumes and higher average selling prices.

Sales Revenues by Geographic Area

The following tables show the Group's sales by country and respective reporting segment and business line for the year ended December 31, 2019 and 2018:

	Year ended December 31,	
(Euro million)	**2018**	**2019**
Italy	**254.0**	**332.5**
Paper and Security Segment	206.2	267.4
thereof: Paper Business	189.7	257.0
thereof: Security Business Line	16.5	10.4
Pressure Sensitive Labels Segment	52.8	72.6
Rest of Europe	**350.8**	**480.7**
Paper and Security Segment	224.4	300.5
thereof: Paper Business Line	195.2	269.2
thereof: Security Business Line	29.2	31.3
Pressure Sensitive Labels Segment	141.1	202.2
Rest of World	**275.5**	**358.3**
Paper and Security Segment	194.7	242.2
thereof: Paper Business Line	109.4	151.4
thereof: Security Business Line	85.3	90.8
Pressure Sensitive Labels Segment	81.5	116.2
Total[1]	**880.3**	**1,171.4**

(1) Sales revenues by segment and business line include interdivision sales.

Sales revenues in Italy increased by Euro 78.5 million, or 30.9%, to Euro 332.5 million for the year ended December 31, 2019 from Euro 254 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in Italy for the year ended December 31, 2019 recorded a reduction compared to the year ended December 31, 2018 due to lower sales in the Paper and Security Segment and in the PSL Segment, which recorded higher volumes of sales in 2018 in connection with higher sales of soccer stickers produced for the World Cup championship that took place in that year.
Sales revenues in the Rest of Europe increased by Euro 129.9 million, or 37%, to Euro 480.7 million for the year ended December 31, 2019 from Euro 350.8 million for the year ended December 31, 2018. This increase was primarily due to an increase of sales revenues in the Paper Business Line (Euro 76.1 million, or 33.9%) and the Pressure Sensitive Labels Segment (Euro 61.1 million, or 43.3%). This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in the Rest of Europe for the year ended December 31, 2019 recorded higher sales compared to the same period in 2018 in the Paper Business line and in the Pressure Sensitive Segment due to increased pass thru prices and an improved product mix.
Sales revenues in the Rest of World increased by Euro 82.8 million, or 30.1%, to Euro 358.3 million for the year ended December 31, 2019 from Euro 275.5 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, sales revenues in the Rest of World for the year ended December 31, 2019 recorded a decrease compared to the year ended December 31, 2018 in the Paper and Security Segment.

Other Operating Income

Other operating income increased by Euro 0.3 million, or 3.6%, to Euro 9.9 million for the 12 months ended December 31, 2019 from Euro 9.6 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, other operating income decreased in the year ended December 31, 2019 compared to the year ended December 31, 2018 mainly due to (i) gain from asset disposal and (ii) higher revenues related to the sales of energy to third parties in the year ended December 31, 2018.

Cost of Materials

Cost of materials increased by Euro 121.7 million, or 25%, to Euro 611.1 million for the year ended December 31, 2019 from Euro 489.3 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, cost of materials for the year ended December 31, 2019 recorded a decrease compared to the year ended December 31, 2018 mainly due to higher cost of materials for inventory of finished products in the year ended December 31, 2018 compared to the year ended December 31, 2019 as well as a decrease of average cost of pulp. Cost of materials accounted for 52.2% of our Group's sales revenues for the year ended December 31, 2019, compared with 55.6% for the year ended December 31, 2018.

Cost of Services

Cost of services increased by Euro 49.2 million, or 25.1%, to Euro 245 million for the year ended December 31, 2019 from Euro 195.8 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, cost of services for the year ended December 31, 2019 recorded a decrease compared to the year ended December 31, 2018 mainly due to (i) a decrease of freight costs due to optimizations in the procurement process and (ii) a decrease in rental expenses due to the application of IFRS 16 in 2019. Costs of services accounted for 20.9% of the Group's sales revenues for the year ended December 31, 2019, compared with 22.2% for the year ended December 31, 2018.

Cost of Personnel

Cost of personnel increased by Euro 58.1 million, or 49.4%, to Euro 175.7 million for the year ended December 31, 2019 from Euro 117.6 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, cost of personnel for the year ended December 31, 2019 recorded an increase compared to the year ended December 31, 2018 due to the appointment of a new management team and to lay-off costs related to the reorganization of certain internal functions. Cost of personnel accounted for 15% of the Group's sales revenues for the year ended December 31, 2019, compared with 13.4% for the year ended December 31, 2018.

Other Costs

Other costs decreased by Euro 2.95 million, or 21.3%, to Euro 10.9 million for the year ended December 31, 2019 from Euro 13.9 million for the year ended December 31, 2018. This decrease was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, other costs for the year ended December 31, 2019 recorded a reduction compared to the year ended December 31, 2018 in the costs for provision guarantee arrangements related to the Group's security products and to Financial Transaction Tax recorded in the year ended December 31, 2018, and paid in connection with the Fedrigoni Acquisition. Other costs accounted for 0.9% of the Group's sales revenues for the year ended December 31, 2019, compared with 1.6% for the year ended December 31, 2018.

Depreciation and Amortization

Depreciation and amortization increased by Euro 21.5 million, or 53.6%, to Euro 61.6 million for the year ended December 31, 2019 from Euro 40.1 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, Depreciation, Amortization and Impairment Losses for the year ended December 31, 2019 also recorded an increase compared to the year ended December 31, 2018 primarily due to the application of IFRS 16.

Net Financial Income/Costs

Net financial costs increased by Euro 13.6 million, or 65%, to Euro 34.5 million for the year ended December 31, 2019 from Euro 20.9 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented that also resulted in an increase of interest expense due to acquisition related debt and the assumption of existing debt.

Income Taxes

Income taxes increased by Euro 11 million, or 163.8%, to Euro 17.7 million for the year ended December 31, 2019 from Euro 6.7 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented, resulting in a higher taxable income for the consolidated full perimeter group. On a comparable consolidation perimeter basis, income taxes for the year ended December 31, 2019 recorded an increase compared to the year ended December 31, 2018 primarily due to the participation in the Group tax filing system starting from 2019, offset by a provision in an amount of Euro 2 million which has been set aside with respect to a fiscal audit conducted by the Italian tax authority in relation to the fiscal year 2014.

Key Earning Figures

Operating Income

Operating income increased by Euro 30.9 million, or 84.7%, to Euro 67.3 million for the year ended December 31, 2019 from Euro 36.4 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, operating income for the year ended December 31, 2019 recorded an increase compared to the year ended December 31, 2018 mainly due to an increase in sales and profit margin in the Paper Business Line and in the PSL Segment, partially offset by higher transformation costs related to transformation projects which resulted in improvements in pass through of costs and optimizations in procurement, which is likely affect our future results, and a decrease of products sold in the Security Business Line.

Adjusted EBITDA

Adjusted EBITDA increase by Euro 62.5 million, or 62.5%, to Euro 162.6 million for the year ended December 31, 2019 from Euro 100.1 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, Adjusted EBITDA for the year ended December 31, 2019 also recorded an increase compared to the year ended December 31, 2018 also due to the positive impact of transformation projects.

Adjusted EBITDA in the Paper and Security Segment of our Group increased by Euro 49.9 million, or 67.5%, to Euro 123.9 million for the year ended December 31, 2019 from Euro 74.0 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, Adjusted EBITDA in the Paper and Security Segment for the year ended December 31, 2019 recorded an increase compared to the year ended December 31, 2018 mainly due to an increase in sales and profit margin in the Paper Business Line driven by higher average selling prices, decreasing cost of pulp and an improved product mix, partly offset by a contraction in the Security Business Line.

Adjusted EBITDA in the Pressure Sensitive Labels Segment of our Group increased by Euro 18.5 million, or 75.2%, to Euro 43.1 million for the year ended December 31, 2019 from Euro 24.6 million for the year ended December 31, 2018. This increase was primarily attributable to the consolidation of the Fedrigoni Group and Cordenons and to the impact of these companies' results in the periods presented. On a comparable consolidation perimeter basis, Adjusted EBITDA in the Pressure Sensitive Labels Segment for the year ended December 31, 2019 recorded an increase mainly due to higher sale prices and an improved product mix.

Liquidity and Capital Resources

Overview

The principal sources of the Group's liquidity are cash flows from operating activities, bank credit lines and other forms of indebtedness, including the Revolving Credit Facility. The primary needs for liquidity are to fund working capital, repay debt and make investments to develop our business. The Group believes that the current cash flow from operating activities and existing bank financing will provide it with sufficient liquidity to meet current working capital needs.

Cash Flows

The table below sets forth a summary of the Group's consolidated statements of cash flows for the years ended December 31, 2019 and 2018:

(Euro million)	Year ended December 31,	
	2018	2019
Cash flow from operating activities	47.5	194.2
Cash flow used in investing activities	(625.3)	(42.3)
Cash flow from (used in) financing activities	634.8	(63.3)
Increase/(Decrease) in cash and cash equivalents	**57.1**	**88.6**
Cash and cash equivalents at beginning of period	—	56.4
Effects of exchange rate changes on the balance of cash holdings in foreign currencies	(0.6)	0.2
Cash and Cash equivalents at end of period	**56.4**	**145.2**

In the year ended December 31, 2019, operating activities generated a cash flow of Euro 194.2 million, that was primarily offset by (i) Euro 42.3 million used to acquire new tangible assets, (ii) Euro 29.5 million of interests paid in connection with the Existing Notes, (iii) Euro 26.9 million of current debt reimbursed by Fedrigoni S.p.A, (iv) Euro 7.0 million used to repay financing from leasing companies with an overall cash generation of Euro 88.6 million.

Business

As of the date of this Annual Financial Report, there have been no material changes to our business as described in "*Listing Particulars—Business*" other than as disclosed in this Annual Financial Report and in the Annual Financial Statements (as defined below). See also "—*COVID-19 Update*".

Risk Factors

In addition to the risk factors described in "Listing Particulars—Risk Factors," the following risk factors apply to us as of the date of this Annual Financial Report. Any of those risk factors could have a material adverse on our business or results of operations.

The COVID-19 pandemic and any other outbreak of severe communicable diseases may materially affect our business and results of operations.

Significant outbreaks of contagious diseases, including the COVID-19 pandemic, and responses thereto may result in widespread crises and business shutdowns that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products, our ability to collect against existing trade receivables and our operating results. The general economic impacts of COVID-19 restrictions on the communities that we serve may result in customers not being able to continue to purchase or pay for our products and may reduce the overall demand for our products going forward including due to reduced demand for our products by end users or by users who incorporate our products, such as labels, into their own product and who experience reductions in demand for their products. Demand for some of our products has decreased and may continue to decrease. Products in our Paper & Security Segment have seen a drop in demand in both Italy and Europe that may continue. There can be no guarantee that demand will return to past levels in the future. Economies may shrink, levels of economic consumption may not return to past levels, and demand for our products may not increase, and all may stabilize instead at levels lower than they have been in the past.

Such outbreaks, including the COVID-19 pandemic, may also result in prolonged illness, quarantines, shelter-in-place arrangements, government actions, facility closures or other consequences that may impact our ability to operate our business. In response to the COVID-19 pandemic, the Italian government imposed a national quarantine, restricting movement of the population on March 9, 2020. On March 23, 2020, such measures were expanded by temporarily halting all but essential industrial activity. While our entire scope of activities is considered to be essential under such measures, and our facilities in Italy continue to operate, there can be no assurance that this will continue to be the case. Where our sales activities or the activities of our customers are disrupted by measures taken by governments, or by changes in consumer behaviour, our future rate of growth may slow compared to our prior expectations. While our facilities continue to operate, the COVID-19 pandemic could result in illness or quarantine of our workforce, as well as lowered morale.

Our operations may face disruptions in our supply chain and in the services provided to us by third-party service provider. Some of our employees are working remotely, increasing our reliance on uninterrupted access to the wider power and telecommunications networks, and any significant failure, damage or destruction of power or telecommunications networks in the locations from which our employees operate could affect our business operations.

It is possible that the COVID-19 pandemic will force a downward reassessment of certain items on our balance sheet, such as for example provisions for inventory obsolescence, provision for warranty claims and fixed assets. It is unclear if, and how, our insurance coverage will cover any damages that we suffer in relation to the COVID-19 pandemic and how our insurers will handle such damages in the future.

Finally, the resulting volatility in the global capital markets could restrict our access to capital and/or increase our cost of capital, including through the sale of our trade receivables via any factoring or securitization programs. The extent to which the COVID-19 pandemic negatively affects our business, results of operations and financial condition will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. To the extent the COVID-19 pandemic adversely affects our business and results of operations, it may also have the effect of heightening many of the other risks described under *"Listing Particulars—Risk Factors."*

Management

As of the date of this Annual Financial Report, there have been no material changes to our management team as described in *"Listing Particulars—Management"*.

Principal Shareholders

As of the date of this Annual Financial Report, there have been no material changes to our shareholding as described in *"Listing Particulars—Principal Shareholders"*.

Related Party Transactions

As of the date of this Annual Financial Report, there have been no material changes to our affiliate transactions as described in *"Listing Particulars—Certain Relationships and Related Party Transactions"*, except as disclosed in the audited financial statements.

Indebtedness

As of the date of this Annual Financial Report, our Revolving Credit Facility has been drawn in full. There have been no other material changes to our indebtedness as described in *"Listing Particulars—Description of Other Indebtedness"*. We or an affiliate may, from time to time, depending on market conditions and other factors, repurchase or acquire an interest in our outstanding indebtedness, whether or not such indebtedness trades above or below its face amount, for cash and/or in exchange for other securities or other consideration, in each case in open market purchases and/or privately negotiated transactions or otherwise.

Certain Definitions

Unless expressly defined otherwise, all capitalized terms used in this Annual Financial Report have the meaning assigned to these terms in the section titled *"Certain Definitions"* of the Listing Particulars.

Glossary of Selected Terms

For a glossary of certain selected terms related to the paper industry used in this Annual Financial Report, please refer to the *Listing Particulars*.

Industry, Ranking and Other Data

For a discussion of the limitations applicable to the industry, ranking and other data included in this Annual Financial Report, please refer to the section titled *"Industry and Market Data"* in the Listing Particulars. Estimates, market-information and other data included in the Listing Particulars was produced prior to the COVID-19 pandemic and the assumptions on which it was based may not remain accurate.

Presentation of Financial and Other Information

This Annual Financial Report includes (i) the audited condensed annual consolidated financial statements of the Group as of and for the year ended December 31, 2019, compared to the year ended December 31, 2018 (the "Annual Financial Statements") and (ii) certain pro forma financial information as of and for the year ended December 31, 2019, giving pro forma effect to certain accounting adjustments, run rate cost savings relating to our existing operations, the run rate effect of the Ritrama Acquisition and certain run rate cost savings relating to the Ritrama Acquisition. Unless otherwise indicated, the financial information as of and for the year ended December 31, 2018 and 2019, respectively, presented in this Annual Financial Report has been prepared in accordance with IFRS.

The Annual Financial Statements and various other numbers and percentages set forth in this Annual Financial Report are presented in euro, rounded to the nearest hundred thousand, unless otherwise noted. Therefore, discrepancies in the tables between totals and the sums of the amounts listed may occur due to such rounding.

The income statements of the Group have been prepared using the "nature of expense" rather than the "cost of sales" method. In the nature of expense method, expenses are classified in the income statement according to their nature (for example, cost of materials and personnel expenses) and not among various functions within the entity. As a result, income statements presented in accordance with the nature of expense method do not show gross profit. Income statements presented in accordance with the cost of sales method, by contrast, classify expenses according to their function as part of cost of sales (for example, the costs of distribution or administrative activities). Profit, however, is unaffected regardless of whether the nature of expense or cost of sales method is chosen.

The Group reports its financial results to holders of the Notes at the level of the Issuer in accordance with IFRS. The Issuer accounted and will account for the Ritrama Acquisition using the acquisition method of accounting under IFRS, which will affect the comparability of the Issuer's future consolidated financial statements with the information presented herein.

Pro Forma Financial Information

In this Annual Financial Report, we present Pro Forma Adjusted EBITDA to give effect to certain accounting adjustments, run rate costs and cost savings relating to our existing operations, the run rate effect of the Ritrama Acquisition and certain run rate cost savings relating to the Ritrama Acquisition, including procurement savings, rationalization of Ritrama's internal functions, internalization of Ritrama's paper sourcing and the installation of a new adhesive kitchen at one of the Ritrama's production facilities. The unaudited adjustments to Adjusted EBITDA are based on currently available financial information and certain assumptions that we believe are reasonable and factually supportable.

Neither the pro forma financial information nor the Pro Forma Adjusted EBITDA included herein has been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act or any generally accepted accounting standards. Neither the assumptions underlying the pro forma financial information nor the Pro Forma Adjusted EBITDA have been audited or reviewed in accordance with any generally accepted accounting standards. Any reliance you place on this information should fully take this into consideration.

Non-IFRS Financial Measures

In this Annual Financial Report, we present certain financial measures that are not recognized by IFRS or any other generally accepted accounting principles and that may not be permitted to appear on the face of our financial statements or footnotes thereto. The primary non-IFRS financial measures (the "Non-IFRS Measures") used in this Annual Financial Report include Adjusted EBITDA, Adjusted EBITDA Margin, Pro Forma Cash Interest Expense, Pro Forma Net Financial Debt, Ratio of Pro Forma Net Financial Debt to Pro Forma Adjusted EBITDA, Ratio of Pro Forma Adjusted EBITDA to Pro Forma Cash Interest Expense, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin.

Our primary Non-IFRS Measures are defined as follows:

- "Adjusted EBITDA" is defined as net profit before depreciation, amortization and impairment losses, income taxes, finance costs, finance income and certain income and costs that management considers non-recurring or represents certain income and costs that management does not consider to be representative of the underlying operations of the business because they either (a) relate to transformation projects in connection with the Acquisitions, (b) are not expected to recur within the next two years, (c) are costs associated with business combinations that are expensed as incurred, or (d) are related to extraordinary events, such as the 2016 earthquake in Pioraco, Italy. This income and these costs include (i) in respect of the year ended December 31, 2019, Euro 6 million of lay-off costs, Euro 2.1 million of other non-recurring income mainly related to the release of risk provisions, Euro 30.8 million of costs related to transformation projects, Euro 0.2 million related to an insurance reimbursement received by Miliani Immobiliare in relation to the 2016 earthquake in Pioraco, Italy, and Euro 0.1 million related to the divestment of a shop previously owned by Concept Couleurs S.à.r.l. and (ii) in respect of the year ended December 31, 2018, Euro 1.6 million of non-recurring items mainly related to the release of risk provisions, Euro 0.8 million of gain from asset disposals, Euro 0.3 million of lay-off costs, Euro 15.9 million of costs related to transformation projects mainly related to optimization of our procurement process, the creation of a new pricing and raw material pass-through process, improvements in our product mix, other M&A and management costs and Euro 9.7 million of costs related to preliminary activities incurred for the purpose of the Fedrigoni Acquisition and the Cordenons Acquisition;

- "Adjusted EBITDA Margin" is defined as Adjusted EBITDA divided by sales revenues;

- "Adjusted Sales Revenues" represents sales revenues adjusted to include estimated net sales generated by the Ritrama Group for the year ended December 31, 2019 in an amount of Euro 406.9 million;

- "Normalized Capital Expenditures" are defined as investments in intangible assets and property, plant and equipment, net of disposals of property, plant and equipment and intangible assets, and excluding capital expenditures related to (i) investments made in relation to the installation of a new cogeneration system and (ii) exceptional investments regarding a continuous machine no longer deemed strategic under the new production reorganization plans;

- "Pro Forma Adjusted EBITDA" is defined as Adjusted EBITDA, adjusted for certain specified items: accounting adjustments, run rate cost savings and the run rate effect on Adjusted EBITDA of the Ritrama Acquisition;

- "Pro Forma Adjusted EBITDA Margin" is defined as Pro Forma Adjusted EBITDA divided by Adjusted Sales Revenues;

- "Pro Forma Cash Interest Expense" is defined as the estimated cash interest expense of the Issuer on an as adjusted basis for the year ended December 31, 2019, after giving pro forma effect to the Transactions as if they had occurred on January 1, 2019. Pro Forma Cash Interest Expense has been presented for illustrative purposes only and does not purport to represent what our interest expense would actually have been had the Transactions occurred on January 1, 2019, nor does it purport to project our interest expense for any future period or our financial position at any future date;

- "Pro Forma Net Financial Debt" is defined as non-current liabilities due to banks and other lenders plus current liabilities due to banks and other lenders, less cash and cash equivalents, on an as adjusted basis after giving effect to the Transactions as if they had occurred on December 31, 2019;

- "Ratio of Pro Forma Adjusted EBITDA to Pro Forma Cash Interest Expense" is calculated by dividing Pro Forma Adjusted EBITDA by Pro Forma Cash Interest Expense;

- "Ratio of Pro Forma Net Financial Debt to Pro Forma Adjusted EBITDA" is calculated by dividing Pro Forma Net Financial Debt by Pro Forma Adjusted EBITDA.

By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortization, historical cost and age of assets, financing and capital structures and taxation positions or regimes, we believe EBITDA-based measures and other Non-IFRS Measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, we believe EBITDA-based measures and other Non-IFRS Measures are regularly used by the investment community as a means of comparison of companies in our industry.

Different companies and analysts may calculate EBITDA-based measures and other Non-IFRS Measures differently, so comparisons among companies on this basis should be done carefully. EBITDA-based measures and other Non-IFRS Measures are not measures of performance under IFRS and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of our operations in accordance with IFRS.

Our Non-IFRS Measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to performance measures derived in accordance with IFRS or any other generally accepted accounting principles. Each of our Non-IFRS Measures is defined and reconciled to its closest comparable IFRS measure. Our Non-IFRS Measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under IFRS. Some of the limitations of Non-IFRS Measures are that:

- they do not reflect our cash expenditures or future requirements for capital investments or contractual commitments;

- they do not reflect changes in, or cash requirements for, our working capital needs;

- they do not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our debt;

- they do not reflect any cash income taxes that we may be required to pay;

- they are not adjusted for all non-cash income or expense items that are reflected in our consolidated income statement;

- they do not reflect the impact of earnings or charges resulting from certain matters we consider not to be indicative of our ongoing operations;

- assets are depreciated or amortized over differing estimated useful lives and often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and

- other companies in our industry and analysts may calculate these measures differently than we do, limiting their usefulness as comparative measures.

Because of these limitations, our Non-IFRS Measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. You should compensate for these limitations by relying primarily on our Financial Statements and using these Non-IFRS Measures only supplementally to evaluate our performance.

Certain key performance indicators and other non-financial operating data included in this Annual Financial Report are derived from management estimates, are not part of our Financial Statements or our accounting records, and have not been audited or otherwise reviewed by outside auditors, consultants or experts. Our use or computation of these measures may not be comparable to the use or computation of similarly titled measures reported by other companies. Any or all of these measures should not be considered in isolation or as an alternative measure of performance under IFRS.

Forward-Looking Statements

This Annual Financial Report contains and refers to certain forwardlooking statements with respect to our financial condition, results of operations and business. Forwardlooking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. Forwardlooking statements include, among others, statements concerning the potential exposure to market risks and statements expressing management's expectations, beliefs, plans, objectives, intentions, estimates, forecasts, projections and assumptions. All statements other than statements of historical fact are, or may be deemed to be, forwardlooking statements.

This Annual Financial Report contains forward-looking statements, including statements about market consolidation and our strategy, investment program, future operations, industry forecasts, expected acquisitions, transactions and investments, and target levels of leverage and indebtedness. Forward-looking statements provide our current expectations, intentions or forecasts of future events. Forward-looking statements include statements about expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not statements of historical fact. Words or phrases such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "seek," "target" or similar words or phrases or the negatives of those words or phrases, may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Annual Financial Report. There are important risks, uncertainties and other factors that could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Annual Financial Report by us or on our behalf. Therefore, you should not place undue reliance on any of these forward-looking statements.

Furthermore, any forward-looking statement speaks only as of the date on which it is made, and the Group does not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for the Group to predict such factors. In addition, the Group cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements. All future written and oral forward-looking statements attributable to the Group, or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and contained in the listing particulars dated as of February 11, 2020, relating to the issuance by the Issuer of Euro 225.0 million Senior Secured Floating Rate Notes due 2026 (the "Listing Particulars", which is posted on the website of the Irish Stock Exchange), including the cautionary statements set forth under the sections *"Risk Factors"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* thereof. In light of these risks, the actual results of the Group could differ materially from the forward-looking statements contained in this Annual Financial Report. None of the information contained on the Group's website is incorporated by reference into or otherwise deemed to be linked to this Annual Financial Report.

The risks described in this Annual Financial Report and the section titled *"Risk Factors"* of the Listing Particulars should not be construed as exhaustive. Other sections of the Listing Particulars, including the sections titled *"Management's Discussion and Analysis of Financial Condition and Results of Operations,"* "Industry" and "Business" as well as the Issuer's annual financial reports released from time to time may describe additional risk factors and you should review these discussions for a more complete view of the factors that could affect our future performance and the industry in which we operate.

You should not place undue reliance on forwardlooking statements. Each forwardlooking statement speaks only as of the date of the particular statement. We undertake no obligation to publicly update or revise any forwardlooking statement, whether as a result of new information, future events or otherwise. All forwardlooking statements are expressly qualified in their entirety by the cautionary statements referred to in this section and contained elsewhere in this Annual Financial Report or the Listing Particulars, including those described under the section titled *"Risk Factors"* of the Listing Particulars. In light of these risks, our results could differ materially from the forwardlooking statements contained in this Annual Financial Report.

Notice

This Annual Financial Report constitutes a public disclosure of inside information by the Group under Regulation (EU) 596/2014 (16 April 2014).

G for GROWTH

Growth: not only in terms of skills and technologies but also of financial results. A demanding mission brought to fruition every year with great satisfaction.

Report on Operations

Introduction

Fabric (BC) S.p.A. (also referred to herein as the "Company" or "Fabric") is a joint-stock company with a sole shareholder founded on December 12, 2017.
The Company's business purpose is the acquisition and management of investments in other companies or entities.
The Fabric Group (also referred to herein as the "Group"), whose parent is Fabric (BC) S.p.A., produces and sells paper, security products and self-adhesive items (the latter are also called "pressure sensitive labels").
Specifically, it produces, transforms and distributes worldwide coated and uncoated graphic papers for the general and specialized printing and for publishing, bookbinding, packaging, finishing and converting applications for commercial and personal use, technical and industrial use, office use, and artistic and scholastic use. Its main brands in this segment are *Fedrigoni*, *Fabriano* and *Cordenons*.
The Group also produces special security products, such as banknote paper, other security paper, security threads and holograms.

In addition, the Group produces, converts and distributes worldwide adhesive and anti-adhesive paper and materials. The Group's main brands in this segment are *Arconvert* and *Manter*.

1 The paper industry in 2019

In 2019 the contraction of international trade and the slowdown of global growth continued. Global monetary policies became extremely expansionary; due to greater uncertainty over growth prospects and the very accommodative stance taken by central banks, long-term yields fell sharply.
In the euro area, Germany's industrial output suffered a deep decline, and the weakness spread to other sectors and countries.
The European Central Bank, confirming its assessment, adopted a package of expansionary measures.
Italy's economic activity increased slightly in the second quarter, it remained flat in the third quarter, and according to available information it also remained substantially flat in the fourth quarter, being affected by weak manufacturing output against slight growth in the service industry and modest recovery for construction.

In this scenario, the European paper industry shows a 3.3% decrease in production compared with 2018.

The consumption trends differed for graphic paper and packaging paper in 2019.
Graphic paper presents a 9.4% decline attributable essentially to the performance of coated paper (-12.6%).
Packaging paper volumes rose by an estimated 0.2% from those of 2018.
According to preliminary estimates, production levels fell in the rest-of-world segment.

The Group operates in the niche market of special paper intended for premium printing and luxury packaging, in both the graphic paper and packaging paper segments.
This market, in which the Group is a major player in Europe, is expected to perform better than the trends reported for the global paper industry.

2 The pressure sensitive labels market in 2019

The estimates confirm growth in global demand for pressure sensitive labels in 2019, particularly in Europe.

The markets for pressure sensitive labels span a number of industries ranging from food and beverage to retail, logistics and pharmaceutics. For this reason, global GDP is the most important growth driver of volumes in the industry along with higher per-capita consumption.
The second most important driver is the technological replacement of traditional labels with pressure sensitive ones, which enable faster application, better print effects and a wider range of manageable supports.

3 The Group

3.1 The business

On December 31, 2019 the Group consisted of the Parent company, Fabric (BC) S.p.A., and the companies listed hereunder:

Subsidiaries	City/Country	Currency	Share Capital	Annual Profit/ (Loss) (Euro)	Equity (Euro)	%	Direct Parent
Fedrigoni SpA	Verona - VR	Euro	40,000,220	436,251	344,954,714	99.9999	Fabric SpA
Arconvert SpA	Arco - Trento TN	Euro	4,000,000	3,119,527	48,807,829	100	Fedrigoni SpA
Fedrigoni Brasil Papeis Ltda	São Paulo, Brazil	Euro	116,628,885	(3,005,773)	46,258,956	99,999	Fedrigoni SpA
Arconvert SA	Sant Gregori Girona, Spain	Euro	1,250,000	15,449,332	108,272,021	99,999	Fedrigoni SpA
Fedrigoni Deutschland GmbH	Oberhaching Munich, Germany	Euro	600,000	1,412,655	7,9957,858	100	Fedrigoni SpA
Fedrigoni España Sl	Madrid, Spain	Euro	1,000,000	2,132,678	10,763,346	100	Fedrigoni SpA
Fedrigoni France Sarl	Choisy Le Roi, France	Euro	500,000	1,987,394	11,863,992	100	Fedrigoni SpA
Fedrigoni UK Ltd	Northampton, Uk	Euro	10,969,235	1,141,554	7,979,266	100	Fedrigoni SpA
Fedrigoni Benelux BVBA	Brussels, Belgium	Euro	500,000	244,498	570,064	100	Fedrigoni SpA
Cartamano Deutschland GmbH	Munich, Germany	Euro	100,000	(29,920)	622,802	100	Fedrigoni SpA
Fedrigoni Asia Ltd	Hong-Kong	Euro	48,824	(82,242)	(109,641)	100	Fedrigoni SpA
Fedrigoni Austria GmbH	Vienna, Austria	Euro	35,000	1,414	20,929	100	Fedrigoni SpA
Gpa Holding Company Inc	McCook, Chicago USA	Euro	48,162,543	(572,797)	51,559,542	100	Fedrigoni SpA
Fedrigoni Trading (Shanghai) Company Limited	Shanghai - China	Euro	515,640	(104,938)	(128,880)	100	Fedrigoni SpA
Concept Couleurs Sarl	Genève, Switzerland	Euro	46,083	131,181	(468,411)	100	Fedrigoni SpA
Miliani Immobiliare Srl	Verona - VR	Euro	2,080,000	(269,076)	1,155,690	100	Fedrigoni SpA
Gruppo Cordenons SpA	MIlan - MI	Euro	15,000,000	2,960,103	47,442,200	100	Fabric SpA
Magnani 1404 Srl	Massa e Cozzile Pistoia PT	Euro	80,000	5,104	116,980	100	Gruppo Cordenons SpA

The Group currently operates in the following business segments:

- Production, conversion and distribution of graphic paper, both coated and uncoated, for the general and specialized press and for publishing, bookbinding, packaging, finishing and converting applications for commercial and personal use, technical and industrial use, office use, and artistic and scholastic use.
  The companies operating in this sector are: Fedrigoni S.p.A., Fedrigoni Brasil Papel Ltda and distribution companies Fedrigoni Deutschland GmbH, Fedrigoni Austria GmbH, Fedrigoni Benelux B.V., Fedrigoni Espana SL, Fedrigoni France S.a.r.l., Fedrigoni UK Ltd, Fedrigoni Trading Company and Fedrigoni Asia Ltd, and GPA Holding Company Inc., Gruppo Cordenons S.p.A. and Magnani 1404 S.r.l.

- Production and distribution of adhesive and anti-adhesive paper and materials at Arconvert S.p.A., Arconvert S.A., Fedrigoni Brasil Papeis Ltda and GPA Holding Company Inc.

- Distribution of gift items and stationery, through the points of sale of Fedrigoni S.p.A., Fedrigoni UK Ltd, Fedrigoni France S.a.r.l. and Cartamano Deutschland GmbH.

- Production and distribution of special security products, such as:
  - banknote paper;
  - other security paper (for checks, passports, diplomas, etc.) at the Fabriano and Salto (Brazil) plants;
  - security threads and holograms, security prints (checks, tickets for theatrical and sporting events, etc.) at the Bollate plant;
  - electronic documents (“E-docs”).

In addition, a property management company is part of the Group:
- Miliani Immobiliare S.r.l., based in Verona.

3.2 The organization

Production, marketing and administrative activities are performed at the plants, distribution centers and offices listed as below:

Group Holding Company

- **Fabric (BC) SpA**
  Headquarters
  Milan

Production and conversion of graphic paper and security products

- **Fedrigoni SpA**
  Headquarters
  Verona
  Plants
  Arco (Trento)
  Riva del Garda (Trento)
  Verona
  Fabriano (Ancona)
  Pioraco (Macerata)
  Castelraimondo (Macerata)
  Ospiate di Bollate (Milan)

- **Cordenons SpA Group**
  Headquarters
  Milan
  Plants
  Cordenons (Pordenone)
  Scurelle (Trento)

- **Magnani 1404 Srl**
  Headquarters & Plant
  Chiesina Uzzanese (Pistoia)

- **Fedrigoni Brasil Papeis Ltda**
  Headquarters & Plant
  Salto (Brazil)

Production of Pressure Sensitive Labels

- **Arconvert SpA**
  Headquarters & Plant
  Arco (Trento)

- **Arconvert SA**
  Headquarters & Plant
  Gerona (Spain)

- **Fedrigoni Brasil Papeis Ltda**
  Plant
  Juindiai, Brazil

Paper distribution in Italy

- **Fedrigoni SpA**
  Logistic Centers
  Buttapietra (Verona)
  Rocchetta (AN)
  Branches with Warehouse
  Lombardy (Settala - Milan)
  Veneto and Trentino A.A. (Verona)
  Friuli Est (Muggia - Trieste)
  Tuscany (Calenzano - Florence)
  Campania, Molise, Sicily & Calabria (Casoria - Naples)
  Branches
  Lazio (Rome)
  Umbria, Marche & Abruzzo (Corciano - Perugia)

International paper distribution

Germany

- **Fedrigoni Deutschland GmbH**
  Headquarters & Branch
  Oberhaching (Munich)
  Warehouses
  Dresden
  Cologne
  Stuttgart
  Berlin
  Hamburg
  Sales Offices
  Dusseldorf
  Nuremberg
  Berlin
  Hamburg

Austria

- **Fedrigoni Austria GmbH**
  Headquarters & Branch
  Vienna

Spain

- **Fedrigoni Espana S.L.**
  Headquarters & Branch
  Getafe (Madrid)
  Branch
  Barcelona

France

- **Fedrigoni France S.a.r.l.**
  Headquarters & Branch
  Choisy Le Roi (Paris)

Belgium

- **Fedrigoni Benelux B.V.**
  Headquarters & Branch
  Overjse

United Kingdom

- **Fedrigoni UK Ltd**
  Headquarters & Branch
  Northampton
  Sales office
  London

China

- **Fedrigoni Asia Ltd**
  Headquarters
  Hong Kong

- **Fedrigoni Trading Ltd**
  Headquarters
  Shanghai

Brazil

- **Fedrigoni Brasil Ltda**
  Sales Office
  Sao Paolo

USA

- **GPA Holding Company Inc.**
  Headquarters
  McCook (Illinois)
  Branches
  Los Angeles (California)
  Cerritos (California)
  Hartford (Connecticut)
  Atlanta (Georgia)

Distribution of gift items and stationery

- **Fedrigoni SpA**
  Headquarters
  Rome
  Warehouse
  Castelraimondo (Macerata)
  Stores
  Rome
  Milan
  Florence
  Venice
  Verona

- **Cartamano Deutschland GmbH**
  Headquarters & store
  Munich Airport
  Store
  Berlin Airport

- **Fedrigoni UK Ltd**
  Store
  London

- **Fedrigoni France S.a.r.l.**
  Store
  Paris

3.3 Group Situation

3.3.1 General Information

3.3.1.1 Production and conversion of graphic paper and paper used for packaging

Despite the tough market, the Group companies operating in this business segment obtained good results in 2019.
The Group was able to benefit from the favorable trend of fibrous raw material prices and the ability, developed thanks in part to an important sales policy transformation project, to contain the consequential decrease in selling prices.
In keeping with its strategic objectives, during the year the Group's paper product sales mix was improved with a larger proportion of special products.

3.3.1.2 Production and distribution of security products

In the security segment, the annual results were affected by the decisions of some countries to insource the production of banknote paper, which led to a smaller market accessible to private manufacturers.
This trend is offset in part by growth for other security products (threads and holograms), whose market is expanding in terms of both volumes and complexity, thanks to greater banknote anti-counterfeiting activities.

3.3.1.3 Production of Pressure Sensitive Labels ("PSL")

On a comparable consolidation basis, the PSL segment was characterized by higher volumes and a different product mix.
In this segment as well, the Group benefited from the favorable raw material price trend and the ability to contain the consequential decrease in selling prices.

Thanks to such actions, the results of this segment improved in 2019.

3.3.2 Results of operations

The Fedrigoni Group and the Cordenons Group underwent a change of control in 2018. For this reason, under the International Accounting Standards adopted by Fabric (BC) S.p.A. for its consolidated financial statements, the Income Statement includes exclusively the results of operations from April 1, 2018 (for a period of 9 months) for the Fedrigoni Group (control was acquired on April 16, 2018) and from July 1, 2018 (for a period of 6 months) for the Cordenons Group (control was acquired on July 11, 2018).
This limits the comparability of the 2019 results with those of 2018.

Income Statement highlights

The Group reports the following results for 2019:

- sales revenues of Euro 1,171.4 million, compared with the Euro 880.3 million of 2018;
- adjusted EBITDA of Euro 162.6 million (13.9% of sales), compared with the Euro 100.1 million of 2018 (11.4% of sales);
- operating income of Euro 66.8 million (5.7% of sales), compared with the Euro 36.4 million of 2018 (4.1% of sales);
- net profit of Euro 14.7 million (1.3% of sales), compared with the Euro 8.8 million of 2018.

The Consolidated Income Statement is set forth below:

(Euro/Millions)	Year ended December 31,	
	2019	**2018**
Sales revenues	1,171.4	880.3
Other operating income	9.9	9.6
Cost of materials	(611.1)	(489.3)
Cost of services	(245.0)	(195.8)
Cost of personnel	(175.7)	(117.6)
Other costs	(10.7)	(13.9)
Depreciation, amortization and impairment losses	(61.6)	(40.1)
Change in inventories of work in progress, semi-finished goods and finished products	(11.5)	2.4
Cost of capitalized in-house work	1.0	0.9
Operating income	**66.8**	**36.4**
Financial income	18.3	20.2
Finance costs	(52.8)	(41.1)
Net financial income/(costs)	(34.5)	(20.9)
Share of profits of associates	**0.0**	**0.0**
Profit before tax	**32.3**	**15.5**
Income taxes	(17.6)	(6.7)
Net profit	**14.7**	**8.8**

The consolidated revenues rose by Euro 291.1 million to Euro 1,171.4 million in 2019, from the Euro 880.3 million of 2018.

The performance is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date.
On a comparable consolidation basis, the sales trend reflects a decrease in banknote paper sales offset only in part by sales growth for security features, graphic paper and packaging paper, whose volume decline was contrasted by higher average selling prices and a better sales mix, and for the PSL segment, which had higher volumes and average selling prices.

Costs of materials rose by Euro 121.8 million to Euro 611.1 million in 2019, from the Euro 489.3 million of 2018.

The performance is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date.
On a comparable consolidation basis, the trend is linked to lower raw material costs (particularly for pulp) and lower volumes produced, which impacted the level of products in stock at the end of the period.
The total cost of raw materials was favorably affected by the new procurement process, which enabled to improve the average purchasing conditions.

The cost of services rose from Euro 195.8 million in 2018 to Euro 245.0 million in 2019.
The performance is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date.

On a comparable consolidation basis, the increase is related to freight costs affected by new contracts with suppliers at the end of 2018, reduced royalties on the production of security features, and the application of IFRS 16 from January 1, 2019, offset in part by an increase in costs for consulting services to assist the Group's transformation process.

The cost of personnel rose by Euro 58.1 million, from Euro 117.6 million to Euro 175.7 million. The performance is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date.
On a comparable consolidation basis, the increase refers largely to the reinforcement of the Group's management with new competencies, in keeping with the new strategic objectives. The increase in those costs was offset only in part by a streamlining of the Group's production structure.

All these changes made the Group's adjusted EBITDA (defined as net profit before tax, financial income and costs, the share of income from equity-accounted investments, depreciation, amortization, impairment losses, and any non-recurring income and costs) grow considerably, on a comparable consolidation basis.

The impact of depreciation, amortization and impairment losses increased from Euro 40.1 million to Euro 61.6 million. The performance is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date.

Finance costs rose from Euro 20.9 million for 2018 to Euro 34.5 million for 2019. The increase is due essentially to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date and greater interest expense on the notes subscribed in 2018 to finance the acquisitions.

The tax burden rose from Euro 6.7 million for 2018 to Euro 17.6 million for 2019.
The increase is attributable primarily to the 2018 consolidation of the Fedrigoni Group and the Cordenons Group on the basis of the effective acquisition date, greater not fully tax-deductible interest expense on the notes subscribed in 2018 to finance the acquisitions, higher interest expense and less benefits deriving from the Patent Box regime.

Segment reporting

The following tables break down adjusted EBITDA by segment, reconciled with the Group net profit.

2018:

(in thousands of Euros)	Year ended December 31, 2018				
	Paper and Security	Pressure Sensitive Labels	Intercompany eliminations	Other	Total
Revenues from sales					
to third parties	606,660	273,698	-	(72)	880,286
to other Group companies	18,605	1,746	(20,351)	-	-
Total sales revenues	625,264	275,444	(20,351)	(72)	880,286
Other operating income	8,796	1,353	(554)	(7)	9,589
Operating expenses	(559,267)	(251,893)	20,899	(23,076)	(813,338)
Non-recurring capital gains/losses on building sales	(728)	(26)	-	-	(754)
Transformation costs	-	-	-	14,970	14,970
Other non-recurring expenses / income	(75)	(264)	-	9,697	9,357
Adjusted EBITDA(*)	**73,991**	**24,614**	**(6)**	**(1,513)**	**100,110**
Non-recurring capital gains/losses on building sales	728	26	-	-	754
Other non-recurring expenses / income	75	264	-	(9,697)	(9,357)
Transformation costs	-	-	-	(14,970)	(14,970)
Depreciation, amortization and impairment losses					(40,122)
Operating income					**36,415**
Income from equity-accounted investments in associates					22
Financial income					20,240
Finance costs					(41,147)
Profit before tax					**15,530**
Income taxes					(6,701)
Net profit					**8,829**

(*) Adjusted EBITDA is defined by the Group as net profit before tax, financial income and costs, the share of income from equity-accounted investments, depreciation, amortization, impairment losses, and any non-recurring income and costs. Adjusted EBITDA is not identified as an accounting measurement in IFRS and should therefore not be considered as alternative to the disclosures provided in the financial statements for the purpose of assessing the Group's performance. The Company believes that adjusted EBITDA is an important variable for evaluating the Group's performance, allowing it to be monitored in a more analytical fashion. Because this information is not a measurement governed by the accounting standards followed in the Group's financial statements, the criteria used to determine it may not be consistent with those used by other groups and it should therefore not be compared with similar figures presented by such groups.

2019:

(in thousands of Euros)	Year ended December 31, 2019				
	Paper and Security	**Pressure Sensitive Labels**	**Intercompany eliminations**	**Other**	**Total**
Revenues from sales					
to third parties	782,820	388,615	-	-	1,171,435
to other Group companies	27,340	2,320	(29,660)	-	-
Total sales revenues	810,160	390,935	(29,660)	-	1,171,435
Other operating income	9,962	1,763	(1,793)	-	9,932
Operating expenses	(693,568)	(349,581)	31,447	(41,281)	(1,052,983)
Transformation costs	-	-	-	36,877	36,877
Other non-recurring expenses / income	(2,620)	-	-	-	(2,620)
Adjusted EBITDA(*)	**123,934**	**43,117**	**(6)**	**(4,404)**	**162,641**
Other non-recurring expenses / income	2,620	-	-	-	2,620
Transformation costs	-	-	-	(36,877)	(36,877)
Depreciation, amortization and impairment losses					(61,619)
Operating income					**66,765**
Income from equity-accounted investments in associates					37
Financial income					18,329
Finance costs					(52,833)
Profit before tax					**32,298**
Income taxes					(17,638)
Net profit					**14,660**

The shared unallocated costs ("other") are a marginal amount referring to the Group’s operating structure; the column also includes all the costs incurred by Fabric for the Group. Each Segment has a complete and independent structure, able to fulfill its own functions. Most eliminations (“intercompany eliminations” in the tables above) refer to inter-Segment margins eliminated during the aggregation phase. Transactions between the Segments are conducted at arm's length.
The item, reflected in "other non-recurring expenses/income”, includes income of Euro 2,146 thousand arising from the release of provisions set up in 2018 during the purchase price allocation process and Euro 190 thousand from insurance reimbursements. “Transformation costs” refer to the total costs incurred for consulting services or other clearly identified costs primarily instrumental in transforming the new Group. The costs regarded the continuance of projects aimed to create a new organizational structure capable of attracting new talent and optimizing the pre-existing departments (financial, operational, purchasing, sales). The new organization aims to accelerate the Group’s growth and create operating efficiency.

3.3.3 Financial position

The following table summarizes the Group's Consolidated Statement of Financial Position as at December 31, 2019 and December 31, 2018, with presentation of the invested capital and net debt.

	December 31,	
(Euro/Millions)	**2019**	**2018**
Intangible assets	212.3	220.3
Property, plant, equipment and investment property	386.4	368.4
Other non-current assets/(liabilities) - net	(16.8)	(21.4)
Non-current assets	**581.9**	**567.4**
Net Working Capital	169.5	249.9
Other current assets/(liabilities) - net	(30.3)	(19.0)
Invested Capital	**721.1**	**798.2**
Equity	214.7	201.1
Provisions for risks and charges and employee benefits	55.8	62.5
Net debt	450.6	534.6
Invested Capital	**721.1**	**798.2**

The figures above were obtained from the financial statements. Some items have been modified and/or aggregated as follows:
The net working capital is the sum of “inventories” and “trade receivables” less “trade payables”.
The net debt is the sum of “cash and cash equivalents”, “current financial assets” and “derivatives”, less “current and non-current payables and other financial liabilities” and “current and non-current derivatives”.

The Group's net financial debt is Euro 450.6 million at the end of 2019, versus Euro 534.6 million at the end of 2018, and includes Euro 560.1 million concerning the issuance of the non-convertible, unsubordinated notes for an aggregate principal amount of Euro 580.0 million.

3.4 Business trends

3.4.1 Raw material and energy trends

In 2019, the downward trend of pulp prices that began at the end of 2018, after prices reached a record high of USD 1,050 per ton for short fibers (BHK) and USD 1,230 for long fibers (BSK) in the European Union, continued throughout 2019; in December the prices fell to a low of USD 680 and USD 820, respectively.
Although manufacturers have adjusted their production capacity to limit oversupply, weak demand in the European Union has allowed European paper mills to drive prices to such levels.
Despite initial expectations of a turnaround in 2020, until now prices have gone up only slightly for BSK pulp. The situation is heavily influenced by the COVID-19 effects on the Chinese and world economies.

In 2019, the Title Transfer Facility (TTF) in the Netherlands, Europe's natural gas trading hub, reported a substantial 41% decline compared with 2018. The Italian Virtual Trading Point (PSV) of the gas system reports a more contained but similar decline (34% year-on-year), a reversal of the upward trend that was particularly strong in the first half of 2018.
The large supply of liquefied natural gas (LNG) from the U.S.A. and the agreement reached with Russia and Ukraine drove down European gas prices on all the European platforms. Prices are expected to settle at a lower amount in 2020. The spreading of COVID-19 could have a significant impact on them.

3.4.2 Investments

In 2019 the Group companies developed an important Euro 42.6 million investment plan for capital expenditures.

This year the most significant investments regarded:

- the start-up of energy projects for the Arco, Fabriano, Verona and Cordenons plants;
- the new system to manage industrial waste water at the Verona plant;
- technological upgrading of the printing press at the Verona plant;
- new label-making equipment for the PSL plant in Arco.

Moreover, plans to improve the flexibility and efficiency of existing plant and machines and to maintain and improve safety were developed at all the facilities.

3.4.3 Personnel

The Group's personnel headcount at the end of 2019 is 2,904 units, excluding the employees of Consorzio Canale Industriale G. Camuzzoni S.c.a.r.l.

In 2019, the Group invested heavily in recruiting, concentrating on the search for managerial profiles, in order to bring new competencies into the Group. All C-suite executives and many key personnel of the organization were selected, for a total number of 30 managers.
The recruitment of managers required a large commitment in terms of time and to come up with a new, better structured and more complete onboarding process.
To integrate the new team, a global offset was organized thanks to which, for the first time, 150 leaders of the Group from all over the world spent two days together to share the new strategic approach, work side by side, and lay the groundwork for becoming truly one company.
2019 was also the year in which the Group began to create a new human resources management strategy that can fully meet the business objectives.
Listening has always been the starting point.
First, the current situation was assessed – a survey was given to 150 individuals, and interviews were conducted of the entire executive team and some key personnel of the Company – in order to gather useful input for developing processes and tools dedicated to the management and development of our people.
Then a second survey was launched specifically for the leadership team, in order to set up individual and team growth and coaching pathways.
This made it possible to intervene and work on a more structured HR organization, introducing to the Group the new competencies needed to accelerate and implement our transformation process, beginning in 2019.
Listening, work, change and motivation: in 2019 the foundations of the new Fedrigoni were laid and a path was embarked upon that will enable our Group to face the challenges of tomorrow.

3.4.4 Quality, safety and the environment

All the Group's manufacturing companies ensure the constant monitoring of plant and machinery operation, and their continuous upgrading in order to assure full compliance with safety and environmental laws. Many training and informational initiatives were implemented for personnel regarding safety and environmental protection.

The main quality, safety and environmental protection certifications held by the Group companies are listed below:

for Fedrigoni S.p.A.:
- Certification of the Quality Management System under the UNI EN ISO 9001/2015 standard;
- Certification of the Environmental Management System under the UNI EN ISO 14001/2015 standard;
- Certification of the Occupational Health and Safety Management System under the ISO 45001:2018 standard;
- Authorized Economic Operator - Full (AEOF) certification issued by the Central Direction of the Customs Agency for the management of customs duties and user relations.

for the Cordenons S.p.A. Group.:
- Certification of the Quality Management System under the UNI EN ISO 9001/2015 standard;
- Certification of Environmental Management System under the UNI EN ISO 14001/2015 standard;
- Certification of the Occupational Health and Safety Management System under the BSI – OHSAS 18001 standard;
- Certification of the Energy Management System under the ISO 50001:2011 standard;
- Certification of Safe and Hygienic Packaging Materials under the BRC standard.

for Fedrigoni Brasil Papeis Ltda:
- Certification of the Quality Management System under the UNI EN ISO 9001/2015 standard;
- Certification of the Environmental Management System under the UNI EN ISO 14001/2015 standard;
- Certification of the Occupational Health and Safety Management System under the BSI – OHSAS 18001 standard.

for Arconvert S.A.:
- Certification of the Quality Management System under the UNI EN ISO 9001/2015 standard;
- Certification of the Environmental Management System under the UNI EN ISO 14001/2015 standard;
- Certification of the Occupational Health and Safety Management System under the BSI – OHSAS 18001 standard.

for Arconvert S.A.:
- Certification of the Quality Management System under the UNI EN ISO 9001/2015 standard;
- Certification of the Environmental Management System under the UNI EN ISO 14001/2015 standard;
- Certification of the Occupational Health and Safety Management System under the BSI – OHSAS 18001 standard;
- Certification of the Research, Development and Innovation Management System under the UNE 166002:2014 standard.

3.4.5 Research and development

In 2019 the Group's manufacturing companies continued to carry out their research and development activities in pursuit of creating new products, improving existing products and coming up with new, more efficient production and organizational processes.

3.4.6 Other business initiatives

As is customary, the Group companies participated in the most important trade fairs of the industry. Such events are increasingly attended jointly by more than one Group company.

In 2019 the Group companies were exhibitors at the following events:

- Oliofficina in Milan;
- Vinitaly in Verona, Wine Week in Milan and the Unified Wine & Grape Symposium in Sacramento (California) for the wine industry;
- Packaging Première in Milan;
- DSCOOP in Vienna;
- Big Buyer in Bologna;
- Creativeworld in Frankfurt;
- China Stationery Fair;
- Security Document World in London and Intergraf in Dublin for security products;
- Luxepack in Montecarlo, Shanghai and New York, the luxury product packaging showcase;
- DSCOOP in Dallas for the digital graphic paper industry.

3.4.7 Risk management objectives and policies

The risk management objectives and policies are described hereunder.

- Raw material and energy risks: The Group companies buy raw materials (fibrous raw materials in particular) on international markets whose prices are affected by global demand, and thus the prices are the same for all businesses in the industry. In 2019 the Group started up a project aimed to equip the sales structure with systems and the proper tools for maintaining margins where price tension exists for raw materials. It is uncertain whether fibrous raw material price increases are fully recoverable though paper price increases. In order to reduce the risk deriving from price increases of natural gas, another important raw material for the paper industry, the companies made significant investments to cut consumption, developed business relationships with major suppliers and stipulated long-term supply agreements.

- Cash flow risk: The Group's credit lines are more than adequate for its cash flow needs. The cash flows generated by the companies, scrupulous treasury management, and the Parent company's monitoring activities ensure effective, efficient cash management.

- Foreign exchange risk: All Group companies exposed significantly to foreign exchange risk, deriving from raw material purchases and product sales in U.S. dollars and British pounds sterling, have applied hedges through the relevant currency forwards.

- Credit risk: All the main companies are covered by specific insurance policies on foreign trade receivables, and have implemented systematic credit management procedures.

- Interest rate risk: The Group's bank indebtedness exposes it to the risk of fluctuating interest rates. The variable-rate loans are exposed to the risk of fluctuating cash flows. The Group assesses regularly its exposure to interest rate risk and in 2018 decided to stipulate two interest rate swaps (IRS) to hedge the risk on the notes issued.

The Notes to the Consolidated Financial Statements provide more detailed information.

3.4.8 Related-party transactions

The Company's transactions with Group companies and with the Parent company, and the Group's transactions with related parties, are primarily of a trade and financial nature and are conducted at arm's length. Such transactions are described in the Notes to the Consolidated Financial Statements.

3.4.9 Treasury shares

At the end of the year the Company did not own, either directly or indirectly through third parties, any of its own shares or the Parent company's shares, and no transactions were initiated to purchase such shares.

3.4.10. Subsequent events

On January 31, 2020 the acquisition of Ritama S.p.A., Coating Ricofin S.p.A., Eurotac S.p.A. and their respective investees (the Ritrama Group) was completed. The Italian multinational Ritrama Group makes pressure sensitive labels at its factories in Italy, Spain, the United Kingdom, Chile and China. It had sales revenues of approximately Euro 400 million in 2019.
With this acquisition, Fedrigoni has strengthened its position in the pressure sensitive labels market (where it operates with the Arconvert and Manter brands).

The acquisition was financed by BNP Paribas Italian Branch, HSBC Bank Plc and Unione di Banche Italiane S.p.A., among others, with a bridge facility of Euro 225 million subscribed by Fabric (BC) S.p.A.

After the acquisition, Fabric issued unsubordinate, nonconvertible "Euro 225,000,000 Floating Rate Senior Secured Notes due 2024" in an aggregate principal amount of Euro 225,000,000, whose proceeds were used to pay the indebtedness incurred under the aforementioned bridge facility.
In this context, the Group also increased the Revolving Credit Facility, originally Euro 100 million, to Euro 125 million. In the first quarter of 2020 the facility was fully drawn down, making the related amount available in the Group's cash holdings.

3.4.11 Business outlook

The initial months of 2020 featured the spreading Corona Virus Disease 2019 (COVID-19) epidemic, which has created a state of high alert due to the potential implications on the global economy.

Currently, in compliance with the new regulations laid down by the Italian government, the Company's factories and distribution platform have remained fully operational.

A Steering Committee has been set up consisting of the President and C.E.O., the C.F.O., and the heads of the human resources, communications, purchasing and production divisions.
The Steering Committee meets every day remotely, and monitors the COVID-19 situation daily at a global, regional and local level, with the purpose of making quickly all necessary and opportune decisions to safeguard the business continuity and the health of the employees, and of determining the policies needed to prevent infection and to instruct the managers and employees in the case of doubts. It also maintains constant contact with the responsible authorities to best interpret the measures to be adopted and to arrange all the related countermeasures.
To ensure the healthiest conditions to all employees, business partners and customers, and to guarantee business continuity, more cautious measures than those issued by the authorities were introduced immediately, even before the government issued theirs, and guidelines were set for adopting additional cautionary measures at all the factories and offices.
Arrangements had already been made to enable all employees whose role permitted it and who were equipped with the Company's IT equipment to work remotely in order to ensure full business continuity for the necessary period.

The impact on the results of the current year will depend on the duration and the intensity of the virus outbreak, especially with respect to possible effects on the final demand for consumer goods and on the economic growth over the next few months.

Verona; April 14, 2020

on behalf of the Board of Directors
Chairman
Halvor Meyer Horten

Group personnel implement a Code of Ethics that endorses principles such as transparency, regularity, reliability and correctness in conducting business, especially as regards respect for the environment and safety and health in the workplace.

Consolidated statement of financial position

(in thousands of Euros)	*Note*	December 31 2019	December 31 2018
Non-current assets			
Property, plant and equipment	*6*	386,068	368,025
Intangible assets	*7*	212,277	220,327
Investment property	*8*	321	359
Equity-accounted investments in associates	*9*	2,402	2,366
Tax credits	*10*	1,476	1,476
Deferred tax assets	*11*	31,962	28,667
Other non-current assets	*13*	12,646	10,626
Total non-current assets		**647,152**	**631,846**
Current assets			
Inventories	*14*	222,129	275,943
Trade receivables	*12*	188,176	279,147
Tax credits	*10*	774	3,132
Other current assets	*13*	22,763	32,122
Cash and cash equivalents	*15*	145,186	56,411
Derivatives	*16*	83	353
Total current assets		**579,111**	**647,108**
Total assets		**1,226,263**	**1,278,954**
Share capital		1,000	1,000
Reserves and retained earnings		213,696	200,100
Equity attributable to owners of the Parent		**214,696**	**201,100**
Equity attributable to non-controlling interests		**39**	**39**
Total equity	***17***	**214,735**	**201,139**

(in thousands of Euros)	Note	December 31 2019	December 31 2018
Non-current liabilities			
Due to banks and other lenders	18	583,754	560,056
Employee benefits	20	17,343	18,188
Provisions for risks and charges	21	38,444	44,354
Deferred tax liabilities	11	63,455	62,715
Other non-current liabilities	22	1,773	1,779
Derivatives	19	2,202	1,153
Total non-current liabilities		**706,971**	**688,245**
Current liabilities			
Due to banks and other lenders	18	9,713	30,023
Trade payables	22	240,837	305,157
Current tax liabilities	23	3,136	507
Other current liabilities	22	50,694	53,792
Derivatives	20	177	91
Total current liabilities		**304,557**	**389,570**
Total liabilities		**1,011,528**	**1,077,816**
Total equity and liabilities		**1,226,263**	**1,278,954**

Consolidated income statement

(in thousands of Euros)	*Note*	Year ended December 31 **2019**	**2018**
Sales revenues	*24*	1,171,435	880,286
Other operating income	*25*	9,932	9,589
Cost of materials	*26*	(611,057)	(489,337)
Cost of services	*27*	(244,958)	(195,798)
Cost of personnel	*28*	(175,725)	(117,635)
Other costs	*29*	(10,711)	(13,870)
Depreciation, amortization and impairment losses	*30*	(61,619)	(40,122)
Change in inventories of work in progress, semi-finished goods and finished products		(11,553)	2,444
Cost of capitalized in-house work		1,021	859
Operating income		**66,765**	**36,416**
Financial income		18,329	20,240
Finance costs		(52,833)	(41,148)
Net financial costs	***31***	**(34,504)**	**(20,908)**
Share of profits of associates		**37**	**22**
Profit before tax		**32,298**	**15,530**
Income taxes	*32*	(17,638)	(6,701)
Net profit		**14,660**	**8,829**
Attributable to:			
Owners of the Parent		14,658	8,810
Non-controlling interests		2	19
Earnings per share (in Euros): basic and diluted	*33*	14.66	8.81

Consolidated statement of comprehensive income

	Year ended December 31	
(in thousands of Euros)	**2019**	**2018**
Net profit for the year	**14,660**	**8,829**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on defined benefit plans	(861)	-
Income tax relating to actuarial losses	204	-
	(657)	-
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	309	(2,092)
Effective portion of gains/(losses) on hedging instruments	(1,050)	(1,153)
Income tax relating to hedging instruments	311	341
	(430)	**(2,904)**
Other comprehensive loss for the year, net of income tax	**(1,087)**	**(2,904)**
Comprehensive income for the year	**13,573**	**5,925**
Attributable to owners of the Parent	*13,571*	*5,906*
Attributable to non-controlling interests	*2*	*19*

Consolidated statement of cash flows

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Profit before tax	**32,298**	**15,530**
Adjustments for:		
Depreciation of property, plant and equipment	48,569	30,281
Amortization of intangible assets	13,012	8,945
Depreciation of investment property	38	28
Impairment losses on tangible and intangible assets	-	545
Charge to provision for severance indemnities	11	88
Charges to risk provisions	2,741	7,388
Charges to provision for doubtful debts	2,719	1,719
Income from equity-accounted investments in associates	(37)	(22)
Net financial costs	34,504	20,908
Cash flow from operating activities before movements in working capital and income taxes paid	**133,855**	**85,410**
Change in trade receivables	92,981	(11,278)
Change in trade payables	(64,320)	62,641
Change in inventories	53,814	(45,135)
Use of provisions for risks	(8,566)	(4,086)
Use of provisions for personnel	(1,986)	(1,298)
Change in other assets / liabilities	2,544	(13,245)
Cash generated from operations before income taxes paid	**208,322**	**73,008**
Income taxes paid	(14,148)	(25,532)
Net cash generated by operating activities	**194,174**	**47,476**
Cash flow from investing activities		
Investments in intangible assets	(4,649)	(1,837)
Investments in property, plant and equipment	(39,385)	(23,915)
Disposals of property, plant and equipment and intangible assets	1,005	2,248
Disposals of non-current assets held for sale	-	8,815
(Acquisition)/ sale of subsidiaries or business units net of cash and cash equivalents	-	(611,226)
Financial income received	772	656
Net cash generated by/(used in) investing activities	**(42,257)**	**(625,259)**

(in thousands of Euros)	December 31, 2019	2018
Share capital established	-	1,000
Share premium reserve	-	194,461
Finance costs paid	(29,455)	(19,396)
Increase in securities/notes	-	556,530
New short-term bank loans raised	6	-
Repayment of short-term bank loans	(26,885)	(5,546)
Repayment of medium/long-term bank loans	-	(92,044)
Repayment of financing from leasing companies	(7,012)	(168)
Net cash generated by/(used in) financing activities	**(63,346)**	**634,837**
Net increase/(decrease) in cash and cash equivalents for the year	**88,571**	**57,054**
Cash and cash equivalents at the beginning of the year	56,411	-
Effects of exchange rate changes on the balance of cash held in foreign currencies	204	(643)
Cash and cash equivalents at the end of the year	**145,186**	**56,411**

Consolidated statement of changes in equity

(in thousands of Euros)	Share capital	Share premium reserve	Other reserves	Profit for the year	Equity attributable to owners of the Parent	Capital and reserves attributable to non-controlling interests	Consolidated equity
Opening balance	**10**	**–**	**–**	**–**	**10**	**–**	**10**
Net profit for the year	**–**	**–**	**–**	**8,810**	**8,810**	**19**	**8,829**
Cash flow hedge, net of taxes	-	-	(812)	-	(812)	-	(812)
Exchange difference	-	-	(2,092)	-	(2,092)	-	(2,092)
Other items of comprehensive income	**–**	**–**	**(2,904)**	**8,810**	**5,906**	**19**	**5,925**
Increases	990	194,461	-	-	195,451	20	195,471
Other changes	-	-	(267)	-	(267)	-	(267)
Balance at December 31, 2018	**1,000**	**194,461**	**(3,171)**	**8,810**	**201,100**	**39**	**201,139**
Balance at January 1, 2019	**1,000**	**194,461**	**(3,171)**	**8,810**	**201,100**	**39**	**201,139**
Net profit for the year	**–**	**–**	**–**	**14,658**	**14,658**	**2**	**14,660**
Actuarial changes	-	-	(657)	-	(657)	-	(657)
Cash flow hedge, net of taxes	-	-	(739)	-	(739)	-	(739)
Exchange difference	-	-	309	-	309	-	309
Other items of comprehensive income	**–**	**–**	**(1,087)**	**14,658**	**13,571**	**2**	**13,573**
Other changes	-	-	32	-	32	(2)	30
Area change	-	-	(6)	-	(6)	-	(6)
Allocation of profit	-	-	8,810	(8,810)	-	-	-
Balance at December 31, 2019	**1,000**	**194,461**	**4,577**	**14,658**	**214,696**	**39**	**214,735**

Notes to the consolidated financial statements

Introduction

On April 16, 2018, Fabric (BC) S.p.A. (the "Company" or "Fabric") purchased the entire share capital of Fedrigoni S.p.A. ("Fedrigoni"), a leading international company in the production and sale of various types of paper, security products and self-adhesive items.
On July 11, 2018, the Company purchased the entire share capital of the Cordenons S.p.A. Group ("Cordenons") through Bianco (BC) S.p.A ("Bianco"), which was then absorbed into Cordernons.

1 General information

Fabric is a joint-stock with a sole shareholder founded on December 12, 2017 with a notarial deed drawn up by Renata Mariella, and was listed in the Companies Register of Milan, Monza and Brianza on December 14, 2017. The Company's share capital was fully subscribed and paid in by Fedrigoni Holding Ltd, the British company that wholly owns it.
The Company's business purpose is the acquisition and management of investments in other companies or entities. The Fabric Group (the "Group") produces and sells special papers, security products and self-adhesive items (pressure sensitive labels or "PSL"). Specifically, it produces, transforms and distributes worldwide coated and uncoated graphic papers for the general and specialized press and for publishing, bookbinding, packaging, finishing and converting applications for commercial and personal use, technical and industrial use, office use, and artistic and scholastic use. The Group produces, converts and distributes worldwide adhesive and anti-adhesive papers and materials. It is the only Italian producer of paper for banknotes and one of the world's leading names in this particular market segment. Its main brands are *Fedrigon*i, *Fabriano* and *Cordenons*.
This document was approved by the Company's Board of Directors on May 14, 2020.

2 Summary of accounting standards

Provided below are the main accounting standards and principles applied in the preparation of the Group's consolidated financial reports.

2.1 Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and adopted by the European Union, and with the provisions issued in enactment of Italian Legislative Decree n. 38/2005, Article 9. The term "EU-IFRS" means the International Financial Reporting Standards (IFRS), all International Accounting Standards (IAS), and all Interpretations of the International Financial Reporting Interpretations Committee (IFRIC, previously known as the Standing Interpretations Committee, or SIC) which, as of the date of approval of the Consolidated Financial Statements, have been endorsed by the European Union in accordance with the procedures established by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of July 19, 2002. The Consolidated Financial Statements have been prepared according to the best knowledge of the EU-IFRS and taking into consideration the best doctrine applicable. Any future changes in interpretation or orientation will be reflected in

subsequent periods as established at the time by applicable accounting standards.
The Consolidated Financial Statements have been prepared on a going-concern basis, given that management has verified the ability of the Group to meet its obligations in the foreseeable future and specifically over the next 12 months, taking into consideration the disclosures provided in Note 37 on subsequent events. A description of how the Group manages financial risk, including both liquidity and equity risk, is provided in Note 3 regarding the management of financial risks.
The Consolidated Financial Statements are presented in Euros, the currency used in the economies in which the Group primarily operates.
Below is a description of the various financial statements and related classification criteria adopted by the Group as envisaged in IAS 1 – Presentation of Financial Statements:

- The *consolidated statement of financial position* has been prepared by classifying assets and liabilities as either current or non-current;
- The *consolidated income statement* has been prepared by classifying operating costs by their nature;
- The *consolidated statement of comprehensive income* includes both the net profit for the period as shown in the consolidated income statement and the other changes in equity resulting from transactions not entered into with shareholders of the Company;
- The *consolidated statement of cash flows* has been prepared by showing the cash flows resulting from operations by way of the "indirect" approach".

The Consolidated Financial Statements have been prepared on a historical-cost basis with the exception of the measurement of financial assets and liabilities, including derivative instruments, in which cases the fair-value approach is mandatory.

2.2 Basis and method of consolidation

Described below are the criteria adopted by the Group in determining the companies to be consolidated in terms of subsidiaries and associates and their respective consolidation methods.

a) Consolidated companies

i) Subsidiaries

The Consolidated Financial Statements include those of the Company and companies over which, in accordance with IFRS 10, Fabric (BC) S.p.A. exercises control either directly or indirectly by virtue of direct or indirect ownership of the majority of voting rights or the exercise of dominant influence in terms of the power to make decisions about the financial and operating policies of the companies/entities, obtaining the related benefits, regardless of the ownership interest. All subsidiaries are included in the consolidation perimeter from the date on which they are acquired until the date on which control over the subsidiary ceases.
Subsidiaries are consolidated on a line-item basis as described below:

- the assets and liabilities, income and expenses are consolidated line by line, with non-controlling interests allocated their share of equity and net profits as shown separately in the statement of changes in equity, consolidated income statement, and consolidated statement of comprehensive income;

- business combinations which, during the prior period, resulted in acquiring control over an entity are recognized using the acquisition method under IFRS 3. The acquisition cost is the fair value, at the control transfer date, of assets acquired, liabilities assumed, and equity instruments issued. Transaction costs are recognized through profit or loss on the date on which the related services are provided. The assets, liabilities and contingent liabilities acquired are recognized at their fair value at the acquisition date.

The difference between the acquisition cost and the fair value of the assets and liabilities acquired is recognized, if positive, among intangible assets as goodwill or, if negative and after verifying the proper measurement of the fair value of the assets and liabilities acquired and their acquisition cost, through profit or loss. If the fair value of the identifiable assets and liabilities acquired can be determined only provisionally, the business combination is recognized using the provisional values. Any adjustments resulting from the measurement process are recognized within twelve months from the acquisition date, and the comparative figures are remeasured;

- the acquisition of non-controlling interests related to entities in which there is already control, or the sale of non-controlling interests that do not result in a loss of control, are considered equity transactions.

This means that, in the event of acquisition or sale of non-controlling interests that result in control being maintained, any difference between the acquisition/sale cost and the related share of equity acquired/sold is recognized in equity;

- receivables, payables, income and expenses between the consolidated companies as well as significant profits and losses and related tax effects resulting from transactions conducted between companies and not yet realized with other parties are eliminated, with the exception of unrealized losses, which are not eliminated if the transaction provides evidence of an impairment loss of the business transferred. Also eliminated, if material, are reciprocal receivables and payables, revenues and expenses, financial income and finance costs;
- profits or losses resulting from the sale of equity interests in consolidated companies that results in a loss of control over that entity are recognized through profit or loss in an amount equal to the difference between the selling price and the corresponding share of the equity sold.

The financial statements of subsidiaries are prepared with reporting periods ending on December 31, which is the same reporting date for the Consolidated Financial Statements, and have been prepared and approved by the boards of directors of the respective entities and adjusted, as necessary, to ensure uniformity in the accounting standards adopted within the Group.

ii) Associates

Associates are companies over which the Group exercises significant influence, which is the power to contribute to determining the financial and operating policies of the entity without having either control or joint control. Significant influence is assumed to exist when at least 20% of the exercisable voting rights is held either directly or indirectly through subsidiaries. When determining the existence of significant influence, potential voting rights that are actually exercisable or convertible are also taken into account. Investments in associates are measured using the equity method and initially recognized at the cost incurred for their acquisition. A description of the equity method is provided hereunder:

- the carrying value of these investments is aligned with the equity held and adjusted, as necessary, in application of the EU-IFRS; this includes the recognition of the greater value attributed to the assets and liabilities and any goodwill established at the time of acquisition;
- profit or loss attributable to owners of the parent company is recognized from the date on which significant influence began until the date on which it ceases; if realized losses of a company measured at equity should result in negative equity, the carrying value of the investment is eliminated, and any excess attributable to the owners of the parent is recognized in a specific reserve if the parent has undertaken to meet the associate's legal or other constructive obligations; changes in equity for companies measured at equity that are not related to net profits are recognized as a direct adjustment to equity reserves;
- significant unrealized profits and losses generated on transactions between the Company, its subsidiaries and equity-accounted associates are eliminated based on the value of the equity interest that the Group owns in the associate. Unrealized losses are eliminated, with the exception of cases in which such losses represent an impairment loss.

Due to the events described in the Introduction, the comparative data referring to 2018 in the financial statements reflect two acquisitions:

- the April 2018 acquisition of the Fedrigoni S.p.A. interest, whereby control of the Fedrigoni Group was obtained, whose results were included in the 2018 consolidated financial statements from April 1 of that year (for a period of 9 months);
- the July 2018 acquisition, through Bianco (BC) S.p.A., of the entire share capital of the Cordenons S.p.A. Group, whereby control of the Cordenons Group was obtained, whose results were included in the 2018 consolidated financial statements from July 1 of that year (for a period of 6 months).

As result of the above considerations, the results of operations of 2018 are not entirely comparable with those of 2019, which includes the results of Fedrigoni Group and Cordenons for the entire reporting period.

A list of subsidiaries and associates, which includes information on their headquarters and the respective ownership interests, is provided in Annex 1.

b) Translation of foreign currency balances

The financial statements of subsidiaries and associates are prepared using the currency of the primary economy in which they operate (i.e. the “functional currency”). The rules for translating financial statements expressed in a currency other than the euro are as follows:

- assets and liabilities are translated using the exchange rates in effect at the end of the reporting period;
- income and expenses are translated at the average exchange rate for the reporting period;
- the translation reserve shown in the statement of comprehensive income includes both the exchange rate differences generated by the translation of balances at a different rate from that of the closing date and those generated by the translation of opening equity balances at a different rate from that of the reporting date;
- the goodwill and fair-value adjustments related to the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated at the end-of-period exchange rate.

The companies in the consolidation perimeter at December 31, 2019 whose functional currency differs from the Euro are Fedrigoni UK Ltd (GBP), Fedrigoni Asia Ltd (HKD), Fedrigoni Brasil Papeis Ltda (BRL), GPA Holding Company Inc. (USD), Fedrigoni Trading (Shanghai) Company Limited (CNY) and Concept Couleurs Sàrl (CHF).
The exchange rates used to translate the financial statements of companies with a different functional currency from the Euro are reported in the following table:

	Average for 12 months ended December 31	Average for 9 months ended December 31	At December 31	
Currency	2019	2018	2019	2018
GBP	0.8778	0.8851	0.8508	0.8945
BRL	4.4134	4.4134	4.5157	4.4440
CNY	7.7355	7.8057	7.8205	7.8751
CHF	1.1124	1.1516	1.0854	1.1269
USD	1.1195	1.1651	1.1234	1.1450
HKD	8.7715	9.1359	8.7473	8.9675

c) Translation of foreign currency items

Transactions in a currency other than the functional currency are recognized at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in a currency other than the euro are subsequently adjusted at the exchange rate in effect at the end of the reporting period. Non-monetary assets and liabilities denominated in a currency other than the euro are recognized at historical cost using the exchange rate in effect when the transaction was initially recognized. Any currency differences arising from such translation are recognized in the consolidated income statement.

2.3 Accounting policies

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost net of accumulated depreciation and any impairment losses. The purchase or production cost includes any charges incurred directly to bring the assets to working condition for their intended use, as well as any charges for disposal and removal that should be incurred as a result of contractual obligations that require restoring the asset to its original condition. Finance costs directly attributable to the purchase or construction of qualified assets are capitalized and depreciated over the useful life of the related asset.

Expenditure incurred for routine and/or cyclical maintenance and repairs is fully recognized directly in the income statement of the period in which they are incurred. Costs related to the expansion, modernization or improvement of structural components of owned assets are capitalized when such components meet the requirements for separate classification as assets or part of an asset in application of the component approach, which establishes that each component subject to separate determination of its useful life and related value must be treated individually.
Depreciation is recognized monthly on a straight-line basis based on rates that enable the asset to be fully depreciated by the end of its useful life. The useful lives estimated by the Group for the main categories of fixed assets are as follows:

• Land	Not Depreciated
• Building	2.5%
• Plant and machinery	5-10%
• Equipment	7-12.5%
• Other tangible assets	7-20%

The useful lives of property, plant and equipment and the residual value of such assets are reviewed and updated as necessary at the end of each year. Land is not depreciated.

Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease; i.e., whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group adopts a single recognition and measurement model for all leases, excluding short-term leases and leases of low-value assets. The Group recognizes the liabilities referring to lease payments and the right-of-use asset, which represents the right to use the underlying asset in the lease.

Right-of-use asset

The Group recognizes the right-of-use assets at the commencement date of the lease (the date on which the underlying asset is available for use). The right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment losses, adjusted by any remeasurements of lease liabilities. The cost of the right-of-use asset comprises the amount of lease liability recognized, the initial direct costs incurred, and any lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis from the commencement date to the end of the useful life of the underlying asset or, if earlier, to the end of the lease term.

If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset.

The right-of-use assets are subject to impairment testing. More information is provided in the section on impairment testing.

Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments due include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be payable under residual value guarantees. The lease payments also include the exercise price of a purchase option if the Group is reasonably certain to exercise that option and the payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are recognized as costs in the period in which the event or condition that generated the payment occurs.

In calculating the present value of the lease payments due, the Group uses the incremental borrowing rate at the commencement date if the implicit interest rate cannot be determined easily. After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made. Moreover, the carrying amount of the lease liability is remeasured to reflect any lease modifications or revised contractual terms for payment modifications; it is also remeasured to reflect any changes in the assessment of whether the option to purchase the underlying asset is reasonably certain to be exercised or modifications in future payments deriving from a change in the index or rate used to determine such payments.

Short-term leases and leases of low-value assets
The Group applies the exemption for recognizing short-term leases (those that, at the commencement date, have a term of 12 months or less and do not contain a purchase option). The Group has also applied the exemption for leases with low-value assets mainly to office equipment considered to have a low value. The payments on short-term leases and low-value leases are recognized as costs on a straight-line basis over the lease term.

Intangible assets

Intangible assets are identifiable, non-monetary items without physical substance, which generate future economic benefits. Goodwill is included when acquired for valuable consideration. Intangible assets are recognized at purchase and/or production cost including any directly attributable expenses incurred to prepare the asset for use and net of accumulated amortization and any impairment losses.
Any interest expense accrued during and for the development of intangible assets is considered part of the purchase cost.
Amortization begins when the asset is available for use and is recognized systematically in relation to the remaining useful life of the asset. Intangible assets with a finite useful life are amortized on a straight-line basis over their useful life, i.e. the estimated period in which such assets will be used by the Group. Intangible assets with a finite useful life are tested for impairment in order to determine whether those assets have suffered a loss in value (impairment loss) whenever there is any indication thereof. Intangible assets with an indefinite useful life are not amortized, but they are tested for impairment at least annually). The impairment test is described in the section on "impairment losses”.

When part or all of a previously acquired business is sold, and goodwill had emerged on the acquisition, the corresponding residual value of goodwill is taken into account in determining the capital gain or capital loss on the sale.

(a) *Industrial patents and intellectual property rights*
Patents and intellectual property rights are amortized on a straight-line basis over their useful life.

(b) *Concessions, licenses and trademarks*
Concessions, licenses and trademarks are amortized on a straight-line basis over their respective term except for the Fedrigoni, Fabriano and Cordenons brands, emerging when accounting for the Fedrigoni Group and Cordenons Group acquisitions, which are measured using the royalty method and are not amortized because they have indefinite useful lives, but are tested annually for impairment. Costs for software licenses, including expenses incurred in order to make the software ready for use, are amortized on a straight-line basis over a period of 3 years. Costs related to software maintenance are expensed as incurred.

(c) *Customer relationships*
“Customer relationships” (emerging when accounting for the Fedrigoni Group and Cordenons Group acquisitions), included among “other intangible assets”, represents the total contractual relationships (supply agreements, service agreements, etc.) and non-contractual relationships with customers). The customer-related intangible asset was measured using the income approach and is amortized over the useful life of the asset, estimated as six years for the Fedrigoni Group and twelve years for the Cordenons Group.

(d) *Research and development costs*
Research costs are expensed as incurred, whereas development costs are recognized as intangible assets when all the following conditions are met:

- the project is clearly identified and the related costs can be reliably identified and measured;
- the technical feasibility of the project has been demonstrated;
- the intention to complete the project and to sell the intangible assets generated has been demonstrated;
- a potential market exists or, in the event of internal use, the utility of the intangible asset to produce the intangibles generated by the project has been demonstrated;
- the technical and financial resources needed to complete the project are available.

The amortization of any development costs recognized as intangible assets begins on the date on which the project becomes marketable. In an identified internal project for the creation of an intangible asset, if the research stage is indistinguishable from the development stage, the cost of this project is fully recognized through profit or loss as if there had only been a research stage.

Impairment of property, plant, equipment and intangible assets

At each reporting date, a review is performed to determine whether there is any indication that assets have suffered an impairment loss. Both internal and external sources of information are taken into account for the impairment testing. Internal sources include: the obsolescence or physical deterioration of the asset, any significant changes in the use of the asset, and the financial performance of the asset compared to expectations. External sources of information include: trends in the market price of the asset; any technological, market or legislative changes; trends in market interest rates or in the cost of capital used to measure the value of the investment.
If any such indication exists, the recoverable value of the asset is estimated, and any impairment loss compared to the current carrying value is recognized in the income statement. The recoverable value of an asset is its fair value less any costs to sell or its value in use (i.e. the present value of estimated future cash flows generated by the asset), whichever is greater. To determine value in use, the present value of expected future cash flows is calculated using a pre-tax discount rate that reflects the current market values of the cost of money based on the investment period and the risks specific to the asset. For an asset that does not generate sufficiently independent cash flows, the recoverable value is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying value of the asset or of the related cash-generating unit exceeds its recoverable value. Impairment of cash-generating units is initially recognized as a reduction of the carrying value

of any goodwill attributed to it and subsequently as a reduction of the other assets proportionate to their carrying values and to the extent of their respective recoverable values. If the conditions for a previous impairment loss should cease to exist, the carrying value of the asset is reinstated and recognized in the income statement to the extent of the net carrying value that the asset would have had if it had not been written down and all related depreciation or amortization had been recognized.

Investment property

Investment property is property owned for the purpose of receiving rent payments, realizing a capital gain on the investment, or both, which generates cash flows that are largely independent of the other assets. Investment property follows the same measurement, recognition and depreciation criteria applied for property, plant and equipment.

Trade receivables and other financial assets

Trade receivables and other financial assets are initially recognized at fair value and subsequently at amortized cost in accordance with the effective interest rate approach, net of any write-downs. Trade receivables and other financial assets are included among current assets, excluding those contractually due after twelve months from the reporting date, in which case they are classified as non-current assets.

Impairment losses on receivables are recognized when there is objective evidence that the Group will not be able to collect the amount from the counterparty based on the terms of the related agreement.
Objective evidence includes events such as:

- significant financial difficulty of the issuer or debtor;
- pending legal disputes with the debtor concerning the receivables;
- likelihood that the debtor will declare bankruptcy or will initiate other such financial restructuring procedures.

The amount of the writedown is measured as the difference between the carrying value of the asset and the present value of the future cash flows and is recognized in the income statement under "other costs". Uncollected receivables are eliminated from the statement of financial position and recognized in a provision for doubtful debts. If the reasons for a previous writedown should cease to exist in future periods, the value of the asset is reinstated at the value of its amortized cost without the writedown.
Financial assets are written off when the right to receive cash flows from them ceases or is transferred, or when the Group has substantially transferred all risks, rewards and control associated with the financial instrument to a third party.

Derivatives and hedge accounting

The Group uses derivatives (interest rate swaps) to hedge against risks of variability in interest rates with respect to the note issuance.
The use of derivatives is regulated by the Group's policies approved by the management bodies, which lay down precise written procedures on the use of derivatives in keeping with the Group's risk management strategies. Derivative agreements were stipulated with some of the most financially solid counterparties in order to reduce to a minimum the risk of contractual breach. The Group does not use derivatives for mere trading purposes, but to hedge against identified financial risks. A description of the criteria and methods used to manage financial risks is contained in the "Financial risk management" section.
Derivatives are initially measured at their fair value, in accordance with IFRS 13, and the attributable transaction costs are recognized in profit and loss as incurred. Subsequent to initial recognition, the changes in fair value are recognized in profit and loss if the derivatives do not qualify for hedge accounting due either to their type or to the Group's decision not to perform effectiveness testing. Derivatives are designated as hedging instruments when formal documentation of the hedging relationship exists and the hedge effectiveness, tested periodically, is high, under IFRS 9.
Hedge accounting differs according to the purpose of the hedge: hedging of the exposure to variability in future cash flows (cash flow hedge) or of changes in fair value (fair value hedge):

- *Cash flow hedge*: the changes in the fair value of the derivatives that are designated, or are effective, for hedging future cash flows regarding probable transactions are recognized directly in other comprehensive income and other reserves, while the ineffective portion is recognized immediately in profit or loss. The amounts, which had been recognized directly in the Statement of Comprehensive Income and accumulated in equity, are included in profit or loss when the hedged transactions affect profit or loss.
- *Fair value hedge*: for effective hedging of exposure to changes in fair value, the hedged item is adjusted by the fair value changes attributable to the risk hedged with a balancing item in the income statement. Gains and losses deriving from measurement of the derivative are also recognized in profit or loss. Fair value changes of derivatives that do not qualify for hedge accounting are recognized in profit or loss as they occur.

In the absence of quoted prices on active markets, the fair value is the amount resulting from appropriate valuation techniques that take into account all factors adopted by market participants and the prices obtained in an actual market transaction. The fair value of the interest rate swaps is determined by discounting the future cash flows to their present value.

Derivatives qualified as trading instruments

Derivative instruments are used for strategic and financial hedging purposes. However, since some derivative do not meet conditions set by EU-IFRS for hedge accounting, those derivatives are recognized as trading instruments. Accordingly, the derivatives are initially recognized at fair value, and subsequent changes in fair value are recognized as components of financial income and finance costs for the period.
The fair value of financial instruments not listed on an active market is determined using valuation approaches based on a series of methods and assumptions related to the market conditions at the reporting date.
The fair value classification of financial instruments is set forth below based on the following hierarchical levels:
Level 1: fair value determined based on quoted (non-adjusted) prices in active markets for identical financial instruments;
Level 2: fair value determined using valuation techniques based on inputs that are observable in active markets;
Level 3: fair value determined using valuation techniques based on unobservable inputs in active markets.
Given the short-term nature of trade receivables and payables, we believe that the carrying value is a good approximation of their fair value.
For more information on the measurement of financial instruments at fair value based on this hierarchy, see Note 3.5.

Inventories

Inventories are recognized at the lower of purchase or production cost and net realizable value, i.e. the amount that the Group expects to receive on their sale under normal business conditions, less costs to sell. The cost of inventories of raw and ancillary materials, consumables and finished products is determined by using the weighted average cost method.
The cost of finished products and semi-finished goods includes the costs of raw materials, direct labor and other production costs (based on normal operating capacity). Finance costs are not included in the measurement of inventories because the conditions for their capitalization are not present.

Cash and cash equivalents

Cash and cash equivalents include available bank deposits and other forms of short-term investment with a maturity not exceeding three months. At the reporting date, bank overdrafts are classified as current financial liabilities in the statement of financial position. The items included in cash and cash equivalents are measured at fair value, and subsequent changes are recognized through profit or loss.

Trade payables and other liabilities

Trade payables and other liabilities are initially recognized at fair value net of directly attributable costs and are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities

Financial liabilities, which relate to loans, leases and other payment obligations, are initially recognized at fair value net of transaction costs and are subsequently recognized at amortized cost using the effective interest rate method. In the event of changes in the expected cash flows, the value of the liability is recalculated in order to reflect such change based on the present value of the new expected cash flows and using the initially determined internal rate of return.
Financial liabilities are classified among current liabilities, excluding those with a contractual maturity of twelve months after the reporting date and excluding those for which the Group has the unconditional right to defer payment for at least twelve months from such date.
Purchases and sales of financial liabilities are recognized on the transaction settlement date. Financial liabilities are eliminated from the statement of financial condition when paid in full and/or when the Group has transferred all risks and charges related to the instrument.

Employee benefits

Short-term benefits include wages, salaries, related social security charges, compensation for unused vacation time, and incentives and bonuses payable within twelve months of the reporting date. These benefits are recognized as components of the cost of personnel during the period of service.

Pension funds
The companies of the Group have both defined-contribution and defined-benefit plans.
The defined-contribution plans are managed by external fund managers in relation to which there are no legal or other obligations to pay further contributions if the fund should have insufficient assets to meet the obligations toward employees. For those defined-contribution plans, the Group gives voluntary or contractually set contributions to both public and private pension funds. The contributions are recognized as costs of personnel on an accruals basis. Advance contributions are recognized as an asset to be reimbursed or used to offset any future payments due.
A defined-benefit plan is one that cannot be classified as a defined-contribution plan. In defined-benefit plans, the amount of the benefit to be paid to the employee is quantifiable solely upon termination of employment and is tied to one or more factors, such as age, seniority, and salary level. As such, the obligations of a defined-benefit plan are determined by an independent actuary using the projected unit credit method”. The present value of a defined-benefit plan is determined by discounting the future cash flows at an interest rate that is equal to that of high-quality corporate bonds issued in the currency in which the liability is to be settled and which takes into account the term of the related pension plan. Actuarial gains or losses

resulting from these adjustments are shown in the statement of comprehensive income as a component of such income. The Group manages solely one defined-benefit plan, which is the fund for employee severance indemnities (or “TFR”). This fund, which is a form of deferred remuneration, is mandatory for Italian companies in accordance with Article 2120 of the Italian Civil Code and is correlated to the length of employment and the salary received throughout the period of service. On January 1, 2007, Italian law no. 296 of December 27, 2006 ("2007 Financial Law"), and subsequent law decrees and regulations introduced significant changes as to how this fund is to be handled, including the right for employees to choose whether their benefit is accumulated in a supplemental pension fund or in the “treasury fund” managed by INPS. As a result, the obligation toward INPS and the contributions to supplementary pension funds have, in accordance with IAS 19 – Employee Benefits, become defined-contribution plans, whereas the amounts contributed to the TFR fund as at January 1, 2007 maintain their status as defined-benefit plans.

Provisions for risks and charges

Provisions for risks and charges are recognized for certain or probable losses and other charges of a given nature, but for which the amount and/or timing cannot be determined.
The provision for agency termination represents amounts that could be due as a result of the termination of agency relationships in effect at the reporting date.
Provisions are recognized only when there is a present obligation (legal or constructive) for a future outflow of economic resources that has arisen as a result of past events and when it is probable that such outflow will be required to settle the obligation. The amount allocated represents the best estimate of the amount required to settle the obligation. The discount rate used to determine the present value of the liability reflects current market values and takes into account the specific risk associated with each liability.
Where the effect of the time value of money is material and the payment dates of the obligations can be estimated reliably, the provisions are measured at the present value of the outflow expected using a rate that reflects current market conditions, the change in the time value of money, and the risks specific to the liability. Any increases in value of the provision attributable to changes in the time value of money are recognized as interest expense.
Risks for which a liability is only possible are disclosed as contingent liabilities, and no provision is allocated for them.

Recognition of revenues

Sales revenues

Sales revenues are recognized when the control over the good is transferred to the customer, which normally coincides with the sending or delivery of the good and receipt of it by the customer. The good has been transferred when the customer obtains control over it, i.e. when the customer has the capacity to make decisions about the use of the asset and to obtain benefits from it.

Within this framework, sales revenues and the costs for purchasing goods are measured at the fair value of the consideration received or due, taking into account any returns, rebates, sales discounts and quantity premiums.

The Group grants discounts to some customers when the product quantities they purchase during the period exceed the threshold established in the contract. Only when the threshold is exceeded, the discount is granted and accounted for as a reduction of the revenues.

In accordance with IFRS 15, the Group checks whether there are any contractual terms that represent separate performance obligations to which the transaction price must be allocated (such as guarantees), and effects deriving from the presence of variable consideration, significant financing components or non-monetary exchanges that must be paid to the customer.

Interest income

Interest income is recognized in the consolidated income statement based on the effective rate of return. It refers primarily to interest earned on bank accounts.

Government grants

When formally authorized and when the right to their disbursement is deemed definitive based on reasonable certainty that the Group will meet the underlying conditions and that the grants will be received, government grants are recognized based on the matching concept of income and expenses.

Grants relating to assets

Government grants relating to fixed assets are recognized as deferred income among “other liabilities”, either current for short-term portions or non-current for long-term portions. Deferred income is recognized in the income statement as “other operating income” on a straight-line basis over the useful life of the asset for which the grant is received.

Grants for operating expenses

Grants other than those relating to assets are recognized on the income statement under “other operating income”.

Recognition of expenses

Expenses are recognized when relating to goods or services acquired or consumed during the period or when systematically allocated.

Income taxes

Current income taxes are calculated based on the taxable income for the period at the tax rates in effect on the reporting date.
Deferred taxes are calculated for differences emerging between the tax base of an asset or liability and its related carrying value, with the exception of goodwill and differences related to investments in subsidiaries when the timing of such differences is subject to control by the Group and it is probable that they will not be recovered in a reasonably foreseeable time frame. Deferred tax assets, including those concerning accumulated tax losses, for the portion not offset by deferred tax liabilities, are recognized to the extent to which it is probable that there will be sufficient future taxable earnings to recover the deferred taxes. Deferred tax assets and liabilities are measured based on the tax rates expected to apply in the period in which the differences will be realized or settled.
Current and deferred taxes are recognized in the income statement under "income taxes", excluding those related to items shown in the consolidated statement of comprehensive income other than net profits and items recognized directly in equity. In the latter cases, deferred taxes are recognized under "income taxes related to other comprehensive income" in the consolidated statement of comprehensive income and directly in equity. Income taxes are offset when they are assessed by the same fiscal authority, there is a legal right to such offsetting, and the net balance is expected to be settled.
Other taxes unrelated to income, such as indirect taxes and other duties, are included with "other costs".

Earnings per share

Earnings per share – basic
Basic earnings per share is calculated by dividing the Group's net profit by the weighted-average number of ordinary shares in circulation during the year, excluding treasury shares.
Earnings per share – diluted
Diluted earnings per share is calculated by dividing the Group's net profit by the weighted-average number of ordinary shares in circulation during the year, excluding treasury shares.
To calculate diluted earnings per share, the weighted-average number of shares in circulation is adjusted by assuming the exercising of all rights that could potentially have a dilutive effect, and the Group's net profit is adjusted to take into account any effect, net of taxes, of exercising such rights.

Recently issued accounting standards

Adoption of the following accounting standards and amendments to accounting standards issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union has become mandatory for annual periods beginning on or after January 1, 2019:

- IFRS 16 – Leases (Regulation 2017/1986). Standard published by the IASB on January 13, 2016, intended to supersede IAS 17 – "Leases", as well as IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC-15 "Operating Leases—Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".
  The new standard provides a new definition of leases and introduces a method based on the right of use of an asset to distinguish between a lease and a service, using as discriminating factors: identification of the asset, right of substitution of the asset, right to obtain substantially all the economic benefits from use of the asset and right to direct the identified leased asset's use.
  The standard provides for a single model to account for leases whereby a lessee recognizes a right-of-use asset (even under an operating lease) and a lease liability, with the possibility of not applying such model to leases whose underlying asset has a low value (low-value assets) and the lease term is 12 months or less (short-term lease). The standard does not include significant changes for lessors.

The Group has completed an assessment of the effects of applying the new standard (at January 1, 2019) by studying in depth the contracts that could potentially contain a lease and analyzing them to understand the main clauses relevant for IFRS 16 purposes.

The Group has adopted the new standard using the modified retrospective approach, so the comparative data referring to 2018 were not restated.

In line with the above assumptions, the table hereunder presents the impact on the Group's Consolidated Statement of Financial Position as at January 1, 2019, which provides for an increase in "property, plant and equipment", equal to the amount of the lease liability adjusted by any deferred lease income or lease prepayments recognized in the Statement of Financial Position immediately before the date of initial application, against an increase in the amount "due to banks and other lenders", equal to the present value of the future lease payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each lease. The following table sets forth the estimated effects of IFRS 16 adoption at the transition date:

(in thousands of Euros)	**Effects at transition date (January 1, 2019)**
Non-current assets	
Property, plant and equipment	30,614
Total non-current assets	**30,614**
Total assets	**30,614**
Non-current liabilities	
Due to banks and other lenders	24,310
Total non-current liabilities	**24,310**
Current liabilities	
Due to banks and other lenders	6,304
Total current liabilities	**6,304**
Total liabilities	**30,614**
Total equity and liabilities	**30,614**

When it adopted IFRS 16, the Group used the exemption granted in paragraph 5 a) regarding leases with a term of less than 12 months for some motor vehicle and car leases.
Likewise, the Group used the exemption granted in paragraph 5 b) for leases with low-value assets, i.e. underlying assets whose value does not exceed Euro 5,000 when new. The exemption was applied mainly to leases for transportation carts.
For such leases, the introduction of IFRS 16 did not entail recognition of the lease liability and related right-of-use asset; the lease payments were recognized in the Income Statement on a straight-line basis over the term of the respective leases.
The Group opted to use the following practical expedients permitted by the transition rules of IFRS 16:

- contracts previously classified as leases under IAS 17 and IFRIC 4 were not remeasured, and the related right-of-use asset and lease liability at January 1, 2019 were determined consistently with the IAS 17 calculation;
- the right-of-use asset was determined as an amount equal to that of the lease liability, excluding any initial direct costs;
- leases expiring within 12 months from the transition date were classified as short-term leases. The lease payments under such leases are recognized in the Income Statement;
- the onerous contract assessment was carried out at December 31, 2018 under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", instead of an impairment review of the right-of-use asset as at January 1, 2019.

The adoption of the standard introduces some elements of professional judgment and the use of estimates and assumptions regarding the lease term and the determination of the discount rate:

- future lease payments are discounted to present value using the incremental borrowing rate. Such rate consists of the free-risk rate of the country in which the lease is negotiated and is based on the term of the lease. The rate is adjusted for the Group's credit spread;

- lease renewal clauses are taken into account when determining the lease term, if it is reasonably certain that such option will be exercised.

The following table provides a reconciliation of the operating lease commitments at December 31, 2018 with the lease liability recognized at January 1, 2019 pursuant to IFRS 16 adoption:

(in thousands of Euros)	**Reconciliation of lease commitments**
Net future minimum lease payments at December 31, 2018	**36,897**
Short-term lease liabilities	(867)
Other changes	(181)
Undiscounted lease liabilities at January 1, 2019	**35,849**
Effects of discounting to present value	(5,235)
IAS 17 lease liabilities at December 31, 2018	3,756
Net lease liabilities at January 1, 2019	**34,370**

IFRS 16 effects

The following table summarizes the effects of IFRS 16 on the Statement of Financial Position at December 31, 2019:

(in thousands of Euros)	**At December 31, 2019**	**IFRS 16 effects**	**At December 31, 2019 with IFRS 16**
Non-current assets			
Property, plant and equipment	359,720	26,348	386,068
Deferred tax assets	31,811	151	31,962
Total non-current assets	**391,531**	**26,499**	**418,030**
Total assets	**391,531**	**26,499**	**418,030**
Non-current liabilities			
Due to banks and other lenders	563,326	20,428	583,754
Total non-current liabilities	**563,326**	**20,428**	**583,754**
Current liabilities			
Due to banks and other lenders	3,215	6,498	9,713
Total current liabilities	**3,215**	**6,498**	**9,713**
Total liabilities	**566,541**	**26,925**	**593,467**

The 2019 changes in the right-of-use asset stated among property, plant and equipment pursuant to IFRS 16 adoption are presented below:

(in thousands of Euros)	**Right to use land and buildings**	**Right to use other fixed assets**	**Total**
Balance at January 1, 2019			
Historical cost	25,099	5,515	30,614
Accumulated depreciation	-	-	-
Net value	**25,099**	**5,515**	**30,614**
Investments	1,654	1,436	3,090
Disposals	(252)	(130)	(382)
Depreciation	(5,138)	(2,085)	(7,222)
Exchange differences	245	4	249
Balance at December 31, 2019	**21,608**	**4,739**	**26,348**
Of which:			
Historical cost	26,745	6,824	33,569
Accumulated depreciation	(5,137)	(2,085)	(7,221)

The effects of IFRS 16 on the 2019 Income Statement are summarized below:

(in thousands of Euros)	**At December 31, 2019**	**IFRS 16 effects**	**At December 31, 2019 with IFRS 16**
Cost of services	(252,900)	7,942	(244,958)
Depreciation, amortization and impairment losses	(54,397)	(7,222)	(61,619)
Operating income	**(307,296)**	**719**	**(306,577)**
Finance costs	(51,535)	(1,298)	(52,833)
Net financial income/(costs)	(51,535)	(1,298)	(52,833)
Profit before tax	**(358,832)**	**(578)**	**(359,410)**
Income taxes	(17,796)	158	(17,638)
Net profit/(loss)	**(376,628)**	**(420)**	**(377,048)**

- IFRIC 23 – Uncertainty over income tax treatments (Regulation 2018/1595). The interpretation, published by the IASB on June 7, 2017 and effective for annual periods beginning on or after January 1, 2019, clarifies how to apply the recognition and measurement requirements of IAS 12 when there is uncertainty over income tax treatments. The entity is to identify and measure its current or deferred tax asset or liability applying IAS 12 requisites on the basis of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, calculated applying IFRIC 23. In determining whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity is to assume that a taxation authority will examine the amounts it has the right to examine and will have full knowledge of all relevant information. According to IFRIC 23, it is necessary to determine whether it is probable that the relevant authority will accept the uncertain tax treatment. If the entity concludes that it is probable that the uncertain tax treatment will be accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment that it used or plans to use in its income tax filing. In contrast, if the entity concludes that it is not probable that the uncertain tax treatment will be accepted, the entity has to report the effect of such uncertainty when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates connected with such treatment.
  The application of the interpretation did not have any material effect on the Group's financial statements.

- "Annual Improvements to IFRSs 2015-2017 Cycle", published on December 12, 2017 (including IFRS 3 "Business Combinations " and IFRS 11 "Joint Arrangements – Remeasurement of previously held interest in a joint operation", IAS 12 "Income Taxes – Income tax consequences of payments on financial instruments classified as equity", IAS 23 "Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalization"), effective for annual periods beginning on or after January 1, 2019, acknowledges amendments made to some standards through their annual improvements process. The application of the amendments did not have any effect on the Group's financial statements.

Accounting standards, amendments, and interpretations not effective yet and not applied in advance by the Group

Adoption of the following accounting standards and amendments to accounting standards endorsed by the European Union will become mandatory for annual periods beginning on or after January 1, 2020:

- On March 29, 2018, the IASB published an amendment to “References to the Conceptual Framework in IFRS Standards”. The amendment is effective for periods beginning on or after January 1, 2020, but earlier application is permitted. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the IASB in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.
- On September 26, 2019, the IASB published “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”. The document amends IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement, and ’IFRS 7 - Financial Instruments: Disclosures. The amendments modify some specific hedge accounting requirements, by giving temporary exemptions to provide relief from potential effects of the uncertainty caused by IBOR reform (still underway) on future cash flows in the period preceding its completion. They also require companies to provide additional financial disclosures about their hedging relationships that are directly affected by these uncertainties. The Directors are currently evaluating the potential effects of adopting these amendments on the Group's financial statements.
- On October 31, 2018 the IASB issued “Amendments to IAS 1 and IAS 8: Definition of Material”, effective for annual periods beginning on or after January 1, 2020, unless decided otherwise in the European endorsement process. The document has reformulated and clarified the definition of "material" with respect to the following concepts: (i) “obscuring”; obscuring important information with other information that could be omitted can have a similar effect to omitting or misstating that information; (ii) “could reasonably be expected to influence”; the bulk of information to be provided must not be affected by the remote risk of influencing the users of the financial statements; (iii) “primary users”; the primary users are the ones to be considered in determining the information to be presented, rather than all possible users of the financial statements.

IFRS Accounting standards, amendments, and interpretations not yet endorsed by the European Union

As of this writing, the European Union authorities have not yet completed the endorsement process needed for the adoption of the following amendments and standards.

- On October 22, 2018 the IASB published "Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business for the purpose of applying IFRS 3 correctly. More specifically, the amendments clarify that although businesses usually have outputs, outputs are not strictly required for an integrated set of activities and assets to qualify as a business. However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. For this reason, the IASB replaced the wording "ability to create output" with "ability to contribute to the creation of outputs" to clarify that a business can exist even without the presence of inputs and processes needed to create output.
  The amendments introduced an optional test (the concentration test) to permit the exclusion of the presence of a business if the price paid refers substantially to a single asset or group assets. The amendments apply to all business combinations and acquisitions of assets occurring after January 1, 2020, but earlier application is permitted. The Directors are currently evaluating the potential effects of adopting these amendments on the Group's financial statements.

3. Financial risk management

The Group's business is exposed to various types of risk: market risk, credit risk and liquidity risk. The Group's risk management strategy focuses on market unpredictability and aims to minimize the potential adverse effects on the Group's financial performance. Some types of risk are mitigated through the use of derivatives.
Risk management is centralized with the Treasury Management function, which identifies, assesses and hedges financial risks by working closely with the Group's business units. The Treasury Management function provides policies and guidelines for monitoring risk management particularly with respect to foreign exchange risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and ways to invest excess cash.

3.1 Market risk

In performing its business activity, the Group is exposed to various market risks, particularly the risk of fluctuations of interest rates, foreign exchange rates, and cellulose assets and natural gas prices.
To contain such risk within the risk management limits defined at the start of the year, derivatives are stipulated for interest and foreign exchange risks.
The Group does not stipulate derivatives for speculative purposes.

Interest rate risk

The Group's financial structure currently uses variable borrowing rates as a result of the debt refinancing transaction concluded in May and July 2018, whereby two previous bridge facilities were repaid with the issuance of "Floating Rate Notes", subscribed for a nominal amount of Euro 580 million. The yield of the Notes is linked to the three-month Euribor rate (with a 0.00% floor), plus a 4.125% contractually set spread.
For the purpose of reducing the market interest rate risk on the Floating Rate Notes, the Group stipulated Interest Rate Swaps (for a nominal amount of Euro 305 million) maturing on August 31, 2022.

To demonstrate the effects of changes in interest rates on the consolidated income statement and equity, below are the results of a sensitivity analysis, in line with IFRS 7, applying positive and parallel shifts to the zero curve of market interest rates. The shifts of the zero curve were equal to +/- 50 basis points.

	December 31, 2019		**December 31, 2018**	
(in thousands of Euros)	**–0.500%**	**0.500%**	**–0.500%**	**0.500%**
Changes to Income Statement	-	(316)	-	(438)
Changes to Equity	(158)	2,377	(1,335)	3,559

Foreign exchange risk

The Group conducts business on an international level, so it is exposed to the foreign exchange risk deriving from the different currencies in which the Group operates (prevalently the U.S. Dollar, British Pound Sterling and Brazilian Real).
The foreign exchange risk originates from sales transactions that have not occurred yet and from assets and liabilities that are already recognized in the financial statements in different currencies from the functional currency of the individual entities.

To hedge against risks associated with assets and liabilities already recognized in the financial statements in currencies other than the Company's functional currency, in some instances currency forwards are used. The currency forward contracts usually have a maximum term of twelve months.

Price risk

The Group is exposed to price risk primarily on its cellulose and energy procurement, whose costs are subject to market volatility.
The Group controls the exposure to raw material and energy commodity price changes mainly by monitoring the costs incurred against the budget, with activities aimed to reduce costs and volatility risk through negotiations with suppliers, whenever possible.

Accounting for derivatives

The Group holds derivatives exclusively for hedging purposes.
However, although some derivatives are designated to hedge interest rate risk and foreign exchange risk, they are embedded with optional components that make them ineligible for hedge accounting: therefore, the changes in fair value of these derivatives follow the general rule observed for trading derivatives, i.e. they are recognized directly in profit and loss and affect the result for the period.
The tables below set forth the notional amounts of the derivatives at December 31, 2019 and December 31, 2018, according to their type.

(in thousands of Euros)	**At December 31, 2019**	**At December 31, 2018**
USD forward purchase	18,100	74,050
GBP forward purchase	3,600	-
USD forward sale	1,102	2,732
GBP forward sale	6,807	6,220

The tables below set forth the fair values of the derivatives according to their type.

	At December 31, 2019		**At December 31, 2018**	
(in thousands of Euros)	Negative fair value	Positive fair value	Negative fair value	Positive fair value
Commodity derivatives		41		
Interest rate derivatives	2,202	-	1,231	-
Currency derivatives	177	42	12	353
Total	**2,379**	**83**	**1,244**	**353**

Sensitivity analysis

A sensitivity analysis is set forth below, in which the impact of an increase/decrease in the exchange rates of the currencies in which the Group primarily operates on the profit or loss for the period is presented:

(in thousands of Euros)	Year ended December 31, 2019											
	USD		GBP		JPG		CNY		BRL		OTHERS	
	+ 10%	– 10%	+ 10%	– 10%	+ 10%	– 10%	+ 10%	– 10%	+ 10%	– 10%	+ 10%	– 10%
Trade receivables	2,580	(3,153)	432	(528)	-	-	-	-	662	(809)	416	(509)
Trade payables	(5,160)	6,306	(27)	32	(56)	68	(5)	6	(903)	1,104	(7)	9
Financial receivables	-	-	-	-	-	-	-	-	-	-	-	-
Financial payables	-	-	-	-	-	-	-	-	-	-	-	-
Currency derivatives	(1,800)	1,653	(1,174)	1,298	-	-	-	-	-	-	-	-
Total	**(4,380)**	**4,806**	**(769)**	**802**	**(56)**	**68**	**(5)**	**6**	**(241)**	**295**	**409**	**(500)**

(in thousands of Euros)	Year ended December 31, 2018											
	USD		GBP		YEN		CNY		BRL		OTHERS	
	+ 10%	– 10%	+ 10%	– 10%	+ 10%	– 10%	+ 10%	–10%	+10%	– 10%	+ 10%	– 10%
Trade receivables	2,846	(3,479)	1,054	(1,288)	10	(12)	2	(2)	1,828	(2,234)	176	(215)
Trade payables	(8,809)	10,766	(16)	20	(69)	85	(312)	381	(2,217)	2,709	(6)	8
Financial receivables	-	-	-	-	-	-	-	-	-	-	1	(2)
Financial payables	-	-	-	-	-	-	-	-	-	-	-	-
Currency derivatives	(6,403)	7,144	(714)	691	-	-	-	-	-	-	-	-
Total	**(12,366)**	**14,431**	**324**	**(577)**	**(59)**	**73**	**(310)**	**379**	**(389)**	**475**	**171**	**(209)**

3.2 Credit risk

The credit risk essentially coincides with the amount of trade receivables recognized at the reporting dates. The Group has no significant concentration of credit risk and no customers that alone account for more than 2.24% of the Group's sales revenues.
All the same, procedures are in place to ensure that the sales of products and services are conducted with customers that have shown to be reliable in the past; moreover, insurance policies are stipulated to cover any unexpected losses.
The Group also checks constantly its outstanding receivables, and monitors their collection within the established time limits.
The parties that handle cash and financial resource management are restricted to high-profile, reliable partners.
There are two stages for recognizing expected credit losses ("ECLs"):

- Where the credit risk has not increased significantly since initial recognition, the expected credit losses are recognized on the basis of the estimated risk of default over the next twelve months ("12-month ECL").
- Where the credit risk has increased significantly since initial recognition, the expected credit losses are recognized on the basis of the remaining life of the past-due receivable regardless of the time at which default is expected to occur ("Lifetime ECL").

For trade receivables and contract assets, the Group uses a simplified approach and always recognizes lifetime expected credit losses.
The Group has defined a provision matrix based on historical experience, adjusted for forward-looking information about specific types of debtors and their economic environment, as a tool for determining expected credit losses.

The Group uses non-recourse assignments of trade receivables. As a result of such assignments, which provide for the substantially total and unconditional transfer to the purchaser of the risks and rewards of the receivables transferred, such receivables are derecognized.

The following table sets forth an aging analysis of the trade receivables at December 31, 2019 and December 31, 2018, stating separately the provision for doubtful debts:

	Balance at December 31, 2019						
		Past-due					
(in thousands of Euros)	**Falling due**	**0-30**	**31-60**	**61-90**	**more than 90**	**Provision for doubtful debts**	**Total**
Trade receivables	139,751	29,636	15,746	5,592	9,228	(11,777)	188,176
Total	**139,751**	**29,636**	**15,746**	**5,592**	**9,228**	**(11,777)**	**188,176**

	Balance at December 31, 2018						
		Past-due					
(in thousands of Euros)	**Falling due**	**0-30**	**31-60**	**61-90**	**more than 90**	**Provision for doubtful debts**	**Total**
Trade receivables	237,303	25,318	7,012	4,546	18,755	(13,787)	279,147
Total	**237,303**	**25,318**	**7,012**	**4,546**	**18,755**	**(13,787)**	**279,147**

3.3 Liquidity risk

Liquidity risk concerns the ability to meet obligations arising on financial liabilities. Prudent management of the liquidity risk stemming from the Group's ordinary operating activities entails keeping up sufficient levels of cash holdings, short-term securities and funding available through adequate credit lines. The Group must have adequate stand-by credit lines in order to finalize contracts and collect invoices, to an extent that ensures financial flexibility. Management monitors the projections of cash turnover, including undrawn credit lines, and available cash and cash equivalents, on the basis of expected cash flows.

At December 31, 2019, the Group had stipulated committed credit lines of Euro 125,200 thousand, of which Euro 108,307 thousand was undrawn.

The following tables set forth a maturity analysis of the financial liabilities at December 31, 2019. The maturities are based on the period from the reporting date to the contractual maturity date of the obligations.

	December 31, 2019					
(in thousands of Euros)	On demand	Within 1 year	In 1 to 5 years	After 5 years	Total	Total recognized
Currency derivatives – net balance	-	(135)	-	-	(135)	(135)
Interest rate derivatives – net balance	-		-	(2,202)	(2,202)	(2,202)
Lease liability	-	(6,744)	(16,142)	(7,560)	(30,446)	(30,446)
Other financing	-	(6)	-	-	(6)	(6)
Notes issued	-	(2,029)	(560,052)	-	(562,081)	(562,081)
Trade payables	-	(240,837)	-	-	(240,837)	(240,837)
Total	**–**	**(249,751)**	**(576,194)**	**(9,762)**	**(835,707)**	**(835,707)**

	December 31, 2018					
(in thousands of Euros)	On demand	Within 1 year	In 1 to 5 years	After 5 years	Total	Total recognized
Currency derivatives – net balance	-	341	-	-	341	341
Interest rate derivatives – net balance	-	(79)	-	(1,153)	(1,232)	(1,232)
Lease liability	-	(234)	(1,370)	(2,151)	(3,756)	(3,756)
Other financing	-	(28)	-	(5)	(32)	(32)
Notes issued	-	(2,032)	-	(556,530)	(558,562)	(558,562)
Trade payables	-	(305,157)	-	-	(305,157)	(305,157)
Total	**–**	**(307,189)**	**(1,370)**	**(559,839)**	**(868,398)**	**(868,398)**

3.4 Equity risk

The Group's objective in the area of equity risk management is primarily to maintain the going concern status in order to assure returns to shareholders and benefits to other stakeholders. The Group also has the objective of maintaining an optimal capital structure in order to reduce the cost of debt.
The Group monitors equity through the ratio of net financial debt to net invested capital ("gearing ratio"). Net invested capital is calculated as the sum of equity attributable to the shareholders and net financial debt.

Below is the breakdown of the Group's net financial debt at December 31, 2019, determined in accordance with Committee of European Securities Regulators (CESR) Recommendation no. 05/054b, Paragraph 127, for implementation of EC Regulation no. 809/2004, and the gearing ratios at December 31, 2019:

(in thousands of Euros)		**December 31,**	
		2019	**2018**
A	Cash holdings	144	172
B	Other current holdings	145,042	56,239
C	Securities held for trading	-	-
D	**Cash and cash equivalents (A+B+C)**	**145,186**	**56,411**
E	**Non-current financial receivables**	**-**	**-**
F	**Current financial receivables**	**83**	**353**
G	Current financial debt	(934)	(27,729)
H	Current portion of non-current financial debt	(8,779)	(2,294)
I	Other current financial debt	(177)	(91)
J	**Current financial indebtedness (G+H+I)**	**(9,890)**	**(30,114)**
K	**Net current financial indebtedness**	**135,379**	**26,650**
L	Non-current financial debt	(583,754)	(560,056)
M	Bonds issued	-	-
N	Other non-current financial debt	(2,202)	(1,153)
O	**Non-current financial indebtedness (L+M+N)**	**(585,956)**	**(561,209)**
P	**Net financial indebtedness (K+O)**	**(450,577)**	**(534,559)**
	Net invested capital	665,273	735,659
	Gearing ratio	67.73%	72.66%

3.5 Financial assets and financial liabilities by category

The following table presents the financial assets and liabilities aggregated by category with their fair values stated.

	December 31, 2019		
(in thousands of Euros)	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost
Financial assets	-	-	-
Non-current assets	**-**	**-**	**-**
Trade receivables	-	-	188,176
Other assets	-	-	12,073
Financial assets	-	-	-
Cash and cash equivalents	-	-	145,186
Current derivatives	83	-	-
Current assets	**83**	**-**	**345,435**
Non-current amounts due to banks and other lenders	-	-	583,754
Non-current derivatives	-	2,202	-
Non-current liabilities	**-**	**2,202**	**583,754**
Trade payables	-	-	240,837
Other liabilities	-	-	43,468
Current amounts due to banks and other lenders	-	-	9,713
Current derivatives	177	-	-
Current liabilities	**177**	**-**	**294,018**

	December 31, 2018		
(in thousands of Euros)	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Amortized cost**
Financial assets	-	-	-
Non-current assets	-	-	-
Trade receivables	-	-	279,147
Other assets	-	-	17,626
Financial assets	-	-	-
Cash and cash equivalents	-	-	56,411
Current derivatives	353	-	-
Current assets	**353**	**-**	**353,184**
Non-current amounts due to banks and other lenders	-	-	560,056
Non-current derivatives	-	1,153	-
Non-current liabilities	**-**	**1,153**	**560,056**
Trade payables	-	-	305,157
Other liabilities	-	-	45,604
Current amounts due to banks and other lenders	-	-	30,023
Current derivatives	91	-	-
Current liabilities	**91**	**-**	**380,784**

The fair value of the derivatives was determined using valuation techniques based on observable inputs in active markets (Level 2).

4. Use of estimates and assumptions

The preparation of financial statements requires management to apply accounting policies and methodologies that, in some cases, depend upon difficult or subjective assessments and estimates based on experience and assumptions deemed reasonable and realistic given the specific circumstances involved. Application of such estimates and assumptions affects the figures reported in the Consolidated Financial Statements, including the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the related explanatory notes. The final results of the items for which such estimates and assumptions have been made may vary from those reported in the financial statements that show the effects of the occurrence of the event subject to the estimate, due to the uncertainty that characterizes the assumptions and the conditions on which the estimates were based.
In this regard, it should be noted that the estimates made at December 31, 2019 do not reflect the consequences of possible developments related to the current domestic and international scenario characterized by the spread of Covid-19 and the consequent restrictive measures for its containment put in place by the public authorities of the affected countries. Although these circumstances, which emerged in the initial months of 2020, are considered a non-adjusting event under IAS 10, they are extraordinary in nature and extent and may cause direct and indirect repercussions on economic activities, creating a context of general uncertainty, the evolution and the related effects of which are not completely foreseeable at this time.

The following is a brief description of the accounting policies that entail the greatest extent of management subjectivity in calculating estimates, and for which a change in the underlying conditions and assumptions could have a significant impact on the consolidated financial information.

(a) Provision for inventory obsolescence
The provision for inventory obsolescence reflects management's best prudent estimate of the losses expected by the Group, determined on the basis of past experience, past trends and expected market trends.
Slow-moving raw materials and finished products are analyzed regularly on the basis of past statistics and the possibility to sell them at a lower price than that in a normal market transaction. If the analysis results in the need to write down the inventory value, an inventory provision is recognized.

(b) Provision for warranty claims
The provision recognized for product warranty claims represents management's best estimate at the reporting date. The estimate entails making assumptions that depend on factors that may vary over time and may have a significant impact with respect to the current estimates made by management for the preparation of the Group's financial statements.

(c) Goodwill and fixed assets
Goodwill and fixed assets recognized in the Consolidated Financial Statements are tested for impairment by calculating the value in use of the cash generating units ("CGU") to which goodwill has been allocated. Using different methods for the different business segments, the Group conducted testing in which goodwill was allocated to a group of CGU that benefit from the synergies of the specific business combination (in accordance with IAS 36, paragraph 80).

The CGU/groups of CGU were identified, consistently with the Group's organizational and business structure, as uniform combinations able to generate cash flows independently from the continuing use of the assets allocated to them; the structures were grouped together at a regional level to identify the benefits deriving from the synergies.

Value in use was measured as the present value of the estimated future cash flows for each CGU in its current condition, excluding estimated future cash flows that could derive from future restructuring plans or other structural changes.

The Discounted Cash Flow (DCF) model was used, which requires future cash flows to be discounted with a risk-adjusted discount rate.

More information on the methodology used is reported in Note 7.

The business plan prepared by the Group's management on the basis of projections of the 2020 financial performance prepared by the subsidiaries' management and approved by the Group's management, used for the impairment testing, is based on variables controllable by the Group's management and theoretical changes in exogenous variables not directly controllable or manageable by the Group's management.

If the main estimates and assumptions used to prepare the business plans should change, the value in use and the calculation of the recoverable value of the assets could change. Therefore, the Group is not able to assure that the assets disclosed in the financial statements at December 31, 2019 will not suffer an impairment loss in the future.

5. Segment reporting

The criteria used to identify segments are consistent with the way in which the Group is managed. The division into segments for reporting purposes corresponds to the structure of the reports periodically examined by management.
The Group's operations are split into two dedicated segments: Paper and Security, and Pressure Sensitive Labels (self-adhesive products).

The Group's management evaluates the performance these segments, using the following as indicators:
- Adjusted EBITDA;
- revenues by geographical segment, on the basis of where the products are sold, not where the billing company's office is located;
- investments in property, plant and equipment.

The following tables break down Adjusted EBITDA by segment, reconciled with the Group net profit.

2019:

	Year ended December 31, 2019				
(in thousands of Euros)	**Paper and Security**	**Pressure Sensitive Labels**	**Intercompany eliminations**	**Other**	**Total**
Revenues from sales					
to third parties	782,820	388,615	-	-	1,171,435
to other Group companies	27,340	2,320	(29,660)	-	-
Total sales revenues	810,160	390,935	(29,660)	-	1,171,435
Other operating income	9,962	1,763	(1,793)	-	9,932
Operating expenses	(693,568)	(349,581)	31,447	(41,281)	(1,052,983)
Transformation costs	-	-	-	36,877	36,877
Other non-recurring expenses / income	(2,620)	-	-	-	(2,620)
Adjusted EBITDA(*)	**123,934**	**43,117**	**(6)**	**(4,404)**	**162,641**
Other non-recurring expenses / income	2,620	-	-	-	2,620
Transformation costs	-	-	-	(36,877)	(36,877)
Depreciation, amortization and impairment losses					(61,619)
Operating income					**66,765**
Income from equity-accounted investments in associates					37
Financial income					18,329
Finance costs					(52,833)
Profit before tax					**32,298**
Income taxes					(17,638)
Net profit					**14,660**

(*) Adjusted EBITDA is defined by the Group as net profit before tax, financial income and costs, the share of income from equity-accounted investments, depreciation, amortization, impairment losses, and any non-recurring income and costs. Adjusted EBITDA is not identified as an accounting measurement in IFRS and should therefore not be considered as alternative to the disclosures provided in the financial statements for the purpose of assessing the Group's performance. The Company believes that Adjusted EBITDA is an important variable for evaluating the Group's performance, allowing it to be monitored in a more analytical fashion. Because this information is not a measurement governed by the accounting standards followed in the Group's financial statements, the criteria used to determine it may not be consistent with those used by other groups and it should therefore not be compared with similar figures presented by such groups.

2018:

(in thousands of Euros)	Year ended December 31, 2018				
	Paper and Security	Pressure Sensitive Labels	Intercompany eliminations	Other	Total
Revenues from sales					
to third parties	606,660	273,698	-	(72)	880,286
to other Group companies	18,605	1,746	(20,351)	-	-
Total sales revenues	625,264	275,444	(20,351)	(72)	880,286
Other operating income	8,796	1,353	(554)	(7)	9,589
Operating expenses	(559,267)	(251,893)	20,899	(23,076)	(813,338)
Non-recurring capital gains/losses on building sales	(728)	(26)	-	-	(754)
Transformation costs	-	-	-	14,970	14,970
Other non-recurring expenses / income	(75)	(264)	-	9,697	9,357
Adjusted EBITDA(*)	**73,991**	**24,614**	**(6)**	**(1,513)**	**100,110**
Non-recurring capital gains/losses on building sales	728	26	-	-	754
Other non-recurring expenses / income	75	264	-	(9,697)	(9,357)
Transformation costs	-	-	-	(14,970)	(14,970)
Depreciation, amortization and impairment losses					(40,122)
Operating income					**36,415**
Income from equity-accounted investments in associates					22
Financial income					20,240
Finance costs					(41,147)
Profit before tax					**15,530**
Income taxes					(6,701)
Net profit					**8,829**

(*) Adjusted EBITDA is defined by the Group as net profit before tax, financial income and costs, the share of income from equity-accounted investments, depreciation, amortization, impairment losses, and any non-recurring income and costs. Adjusted EBITDA is not identified as an accounting measurement in IFRS and should therefore not be considered as alternative to the disclosures provided in the financial statements for the purpose of assessing the Group's performance. The Company believes that Adjusted EBITDA is an important variable for evaluating the Group's performance, allowing it to be monitored in a more analytical fashion. Because this information is not a measurement governed by the accounting standards followed in the Group's financial statements, the criteria used to determine it may not be consistent with those used by other groups and it should therefore not be compared with similar figures presented by such groups.

The shared unallocated costs ("other") are a marginal amount referring to the Group's operating structure; the column also includes all the costs incurred by Fabric for the Group. Each Segment has a complete and independent structure, able to fulfill its own functions. Most eliminations ("intercompany eliminations" in the tables above) refer to inter-Segment margins eliminated during the aggregation phase. Transactions between the Segments are conducted at arm's length.
The item, reflected in "other non-recurring expenses/income", includes income of Euro 2,146 thousand arising from the release of provisions set up in 2018 during the purchase price allocation process and Euro 190 thousand from insurance reimbursements. "Transformation costs" refer to the total costs incurred for consulting services or other clearly identified costs primarily instrumental in transforming the new Group. The costs regarded the continuance of projects aimed to create a new organizational structure capable of attracting new talent and optimizing the pre-existing departments (financial, operational, purchasing, sales). The new organization aims to accelerate the Group's growth and create operating efficiency.

Revenues are broken down below by geographical area:

(in thousands of Euros)	Year ended December 31,	
	2019	**2018**
Italy	332,453	254,044
Rest of Europe	480,651	350,778
Rest of world	358,331	275,464
Total	**1,171,435**	**880,286**

No single customer accounts for more than 10% of total revenues, and no single country besides Italy accounts for more than 10% of total revenues.

The non-current assets (excluding deferred tax assets) are broken down below by geographical area:

(in thousands of Euros)	Year ended December 31,	
	2019	**2018**
Italy	477,988	458,992
Rest of Europe	39,990	32,834
Rest of world	97,212	111,353
Total	**615,190**	**603,179**

Below is the breakdown by segment of the investments in property, plant and equipment:

(in thousands of Euros)	Year ended December 31,	
	2019	**2018**
Paper and Security Segment	36,581	20,831
Pressure Sensitive Labels Segment	6,045	3,084
Total	**42,626**	**23,915**

6. Property, plant and equipment

The changes in this item are detailed below.

(in thousands of Euros)	**Land and buildings**	**Plant and machinery**	**Equipment**	**Other fixed assets**	**Work in progress and advances**	**Right-of-use asset**	**Total**
Opening balance							
Cost	269,778	768,059	20,382	21,914	13,365	-	1,093,498
Accumulated depreciation	(104,865)	(575,085)	(14,763)	(18,054)	-	-	(712,767)
Net value	**164,913**	**192,974**	**5,619**	**3,860**	**13,365**		**380,731**
Investments	2,785	16,293	256	495	4,086	-	23,915
Disposals	(1)	(1,876)	(1)	(71)	(296)	-	(2,245)
Depreciation	(5,560)	(22,758)	(1,188)	(775)		-	(30,281)
Impairment	(252)	(64)	-	(8)		-	(324)
Exchange differences	(1,109)	(2,387)	(5)	(59)	(211)	-	(3,771)
Reclassifications	1	4,324	2	53	(4,379)	-	-
Other changes	-	-	-	-	-	-	-
Balance at December 31, 2018	**160,776**	**186,506**	**4,683**	**3,495**	**12,565**	**-**	**368,025**
Of which:							
Historical cost	270,394	777,628	20,543	21,630	12,565	-	1,102,760
Accumulated depreciation	(109,618)	(591,122)	(15,860)	(18,135)	-	-	(734,735)
Effect of IFRS 16 adoption	-	-	-	-	-	30,614	30,614
Reclassification of assets under finance leases (IAS 17)							
Historical cost	(5,252)	-	-	-	-	5,252	-
Accumulated depreciation	853	-	-	-	-	(853)	-

(in thousands of Euros)	Land and buildings	Plant and machinery	Equipment	Other fixed assets	Work in progress and advances	Right-of-use asset	Total
Balance at January 1, 2019							
Historical cost	265,142	777,628	20,543	21,630	12,565	35,866	1,133,374
Accumulated depreciation	(108,765)	(591,122)	(15,860)	(18,135)	-	(853)	(734,735)
Net value	**156,377**	**186,506**	**4,683**	**3,495**	**12,565**	**35,013**	**398,639**
Investments	2,028	18,290	362	585	18,120	3,090	42,475
Disposals	0	(939)	0	(7)	(45)	(382)	(1,373)
Depreciation	(7,644)	(31,382)	(1,300)	(916)	-	(7,327)	(48,569)
Impairment	-	(109)	-	-	(4,745)	-	(4,854)
Exchange differences	(179)	(251)	(1)	3	(27)	249	(206)
Reclassifications		5,291	31	108	(5,455)		(25)
Other changes	1	10	(1)	(21)	(6)	(2)	(19)
Balance at December 31, 2019	**150,583**	**177,416**	**3,774**	**3,247**	**20,407**	**30,641**	**386,068**
Of which:							
Historical cost	266,929	797,749	20,899	22,156	20,407	38,822	1,166,962
Accumulated depreciation	(116,346)	(620,333)	(17,125)	(18,909)	-	(8,181)	(780,894)

The following table presents the changes in the right-of-use asset in leases at the respective reporting dates:

(in thousands of Euros)	**Right to use land and buildings (under IAS 17)**	**Right to use land and buildings (IFRS 16 adoption)**	**Right to use other fixed assets (IFRS 16 adoption)**	**Total**
Balance at January 1, 2019				
Historical cost	5,252	25,099	5,515	35,866
Accumulated depreciation	(853)	-	-	(853)
Net value	**4,399**	**25,099**	**5,515**	**35,013**
Investments	-	1,654	1,436	3,090
Disposals	-	(252)	(130)	(382)
Depreciation	(106)	(5,137)	(2,084)	(7,327)
Exchange differences	-	245	4	249
Other changes	-	(1)	(1)	(2)
Balance at December 31, 2019	**4,293**	**21,608**	**4,740**	**30,641**
Of which:				
Historical cost	5,252	26,745	6,824	38,821
Accumulated depreciation	(959)	(5,137)	(2,084)	(8,180)

The investments of Euro 42,475 thousand made in the year ended December 31, 2019 refer largely to a new cogeneration system at the Arco (Trento) plant and to overhauling the cogeneration turbine at the Cordenons (Pordenone) plant.
Moreover, the plans aimed to maintain and improve the flexibility and efficiency of existing plant and equipment and to maintain and improve safety were carried on at all the facilities. "Work in progress and advances" consists of the investments referred to above, costs incurred for equipment not in use yet, and an investment regarding a continuous machine no longer deemed strategic under the new production reorganization plans. The writedown of such investment, presented in the changes in property, plant and equipment, was offset with the use of a provision set up during the purchase price allocation process regarding the acquisitions made by the Group in 2018.
At December 31, 2019, excluding the assets under leases, no property, plant or equipment was put up as collateral on loans received by the Group.

6. Intangible assets

The changes in this item are detailed below.

(in thousands of Euros)	Development costs	Patent and intellectual property rights	Concessions, licenses and trademarks	Other intangible assets	Goodwill	Work in progress and advances	Total
Opening balance	**-**	**2,447**	**79,685**	**71,948**	**72,608**	**36**	**226,724**
Investments	-	571	56	409	-	947	1,983
Disposals	-	-	(4)	-	-	-	(4)
Amortization	-	(914)	(1,366)	(6,665)	-	-	(8,945)
(Writedowns)	-	-	-	(221)	-	-	(221)
Exchange differences	-	(32)	182	640	-	-	790
Reclassifications	-	81	409	(409)	-	(81)	-
Balance at December 31, 2018	**-**	**2,153**	**78,962**	**65,702**	**72,608**	**902**	**220,327**
Balance at January 1, 2019	**-**	**2,153**	**78,962**	**65,702**	**72,608**	**902**	**220,327**
Investments	106	4,150	165	-	-	228	4,649
Disposals	-	-	(14)	-	-	-	(14)
Amortization	(53)	(1,470)	(1,840)	(9,649)	-	-	(13,012)
Exchange differences	-	2	71	217	-	-	290
Reclassifications	-	928	-	-	-	(902)	26
Other changes	-	(1)	12	-	-	-	11
Balance at December 31, 2019	**53**	**5,762**	**77,356**	**56,270**	**72,608**	**228**	**212,277**

The investments made in intangible assets in the year ended December 31, 2019 amount to Euro 4,649 thousand, and consist mostly of external costs incurred to purchase software and costs incurred to customize the software.

The goodwill allocated is set forth below by business segment:

(in thousands of Euros)	**Year ended December 31,**	
	2019	
Cash Generating Unit (CGU)		
Europe Paper and Security	12,661	
Cordenons Paper and Security	27,889	
USA Paper and Security	741	
Total Paper and Security	***41,291***	***57%***
Italy Pressure Sensitive Labels	6,772	
Spain Pressure Sensitive Labels	23,183	
USA Pressure Sensitive Labels	1,362	
Total Pressure Sensitive Labels	***31,317***	***43%***
Total	**72,608**	**100%**

Impairment testing

As required by IAS 36, the Fabric Group tested the carrying amounts of the tangible and intangible assets recognized in its Consolidated Financial Statements at December 31, 2019 with respect to their recoverable amounts. Goodwill and trademarks with an indefinite useful life are tested for impairment at least annually, even when no indications of impairment losses are present. In accordance with IAS 36, the Fabric Group identified the CGU representing the smallest identifiable group of assets able to generate largely independent cash inflows within the Consolidated Financial Statements. CGU were identified by taking into account the organizational structure, the type of business and the methods with which control is exercised over the operation of the CGU. The CGU identified by the Group to monitor goodwill operate and/or coincide with the legal entities to which the goodwill was allocated upon acquisition, since they benefit from the synergies of the business combination. The CGU in which goodwill is recognized/allocated, on which the impairment testing was based, are as follows:

- Fedrigoni S.p.A. and distribution companies – Europe Paper and Security CGU;
- Cordenons Group – Cordenons Paper and Security CGU;
- Arconvert S.p,A. – Italy Pressure Sensitive Labels CGU;
- Arconvert Spain – Spain Pressure Sensitive Labels CGU;
- GPA C&S – USA Paper and Security CGU;
- GPA Pressure Sensitive Labels – USA Pressure Sensitive Labels CGU.

The assets were tested for impairment by comparing the carrying amount attributed to the CGU, including goodwill, with its recoverable amount (value in use). The value in use is the present value of the estimated future cash flows to be derived from continuing use of the assets referring to the cash generating units and the terminal value allocated to them.

In conducting the impairment test, the Fabric Group used the most recent financial budgets/forecasts for 2020 (as described in the section on the use of estimates), assuming that its assumptions were reliable and its budget targets would be reached. In preparing its projections, management made assumptions based on past experience and expectations of the development of the business segments in which the Group operates.

The terminal value was calculated by using a growth (G) rate in line with the average inflation expected in the long term (2024) for the main countries where the CGU operate, weighted with the respective revenues (2019). The discount rate used (WACC) reflects current market assessments of the time value of money and the risks specific to the asset. Below are the details:

CGU	G rate	Pre-tax WAAC	Post-tax WACC
Europe Paper and Security	2.3	8.2	7.8
Cordenons Paper and Security	2.1	7.9	7.5
Italy Pressure Sensitive Labels	2.1	7.9	7.5
Spain Pressure Sensitive Labels	2.0	6.8	6.4
USA Paper and Security	2.3	7.8	7.3
USA Pressure Sensitive Labels	2.3	7.8	7.3

No impairment loss emerged from the impairment test conducted.

Since the recoverable amount is determined on the basis of estimates, the Group is not able to assure that goodwill will not suffer an impairment loss in future periods.
The operating cash flow estimate was derived from the 2020 budget drawn up and approved by the Fedrigoni Holding Ltd Board of Directors on December 11, 2019 and the related medium/long-term projections. The estimated cash flows are based on the Directors' assumptions, which are consistent with the Group's strategy in each business unit and market where it operates, and depend on exogenous variables beyond management's control, such as the performance of currency exchange and interest rates, the infrastructural investments of the countries where the Group operates, and macro-policy or social factors having a local or global impact. In accordance with IAS 36, such exogenous variables were estimated on the basis of information known when the business plans were drawn up and examined, and thus do not consider the effects of the global spread of Corona Virus Disease 2019 (COVID-19), described in the Report on Operations in the section on the business outlook.
In addition, the Group performed sensitivity analysis using deteriorated variables of the impairment test, WAAC and G rate. The discount rate was raised by one percent, and the g rate of the terminal value was reduced by one percent. No impairment loss emerged, even in deteriorating market conditions, from the sensitivity analysis conducted for the CGU tested.
The indifference WAAC Post-tax, i.e. the discount rate that reduces the headroom to zero for each CGE, is reported in the following table:

CGU	Post-tax WACC
Europe Paper and Security	10.4
Cordenons Paper and Security	11.0
Italy Pressure Sensitive Labels	14.7
Spain Pressure Sensitive Labels	20.3
USA Paper and Security	12.0
USA Pressure Sensitive Labels	11.8

Due to contingent factors represented by the growing health emergency caused by the international and domestic spread of COVID-19, since February 20, 2020 the stock markets have suffered a general decline, so new sensitivity analyses have been established to evaluate the effects in terms of rates; the differential between the indifference WAAC and the previously identified WAAC used for the impairment test is considered to contemplate the potential changes in a medium-term scenario.

8. Investment property

The changes in this item are detailed below.

(in thousands of Euros)	**Land and buildings**
Opening balance	
Historical cost	1,169
Accumulated depreciation	(693)
Net value	**476**
Depreciation	(28)
(Writedowns)	(89)
Balance at December 31, 2018	**359**
Of which:	
Historical cost	1,014
Accumulated depreciation	(655)
Balance at January 1, 2019	
Historical cost	1,014
Accumulated depreciation	(655)
Net value	**359**
Depreciation	(38)
Balance at December 31, 2019	**321**
Of which:	
Historical cost	1,014
Accumulated depreciation	(693)

9. Equity-accounted investments in associates

This item represents the investment in Consorzio Canale Industriale G. Camuzzoni S.c.ar.l. in Verona, an entity that produces hydroelric power, in which the Group owns a 25% stake.
At the time of preparation of the Consolidated Financial Statements, the financial statements of Consorzio Canale Industriale G. Camuzzoni S.c.a.r.l. in Verona for the year ended December 31, 2019 had been approved by its Board of Directors.

The key data of the approved financial statements at December 31, 2019 is set forth below:

(in thousands of Euros)	December 31,	
	2019	2018
Assets	14,094	15,068
Liabilities	3,573	4,582
Revenues	3,317	3,225

10. Tax credits

This item is detailed below:

	December 31, 2019			December 31, 2018		
(in thousands of Euros)	Non-current	Current	Total	Non-current	Current	Total
Tax credits	1,476	774	2,250	1,476	3,132	4,608
Total	**1,476**	**774**	**2,250**	**1,476**	**3,132**	**4,608**

The non-current tax credits of Euro 1,476 thousand refer to a tax credit emerging on the settlement of an amicable procedure (MAP - Mutual Agreement Procedure) between the Italian government and the French government, regarding a transfer pricing dispute with subsidiary Fedrigoni France S.a.r.l.
The current tax credits result from the excess of advance tax payments over the taxes due for the year ended December 31, 2019.

11. Deferred tax assets and liabilities

This item is detailed below:

(in thousands of Euros)	Year ended December 31,	
	2019	2018
Deferred tax assets		
Deferred tax assets	31,962	28,667
Total deferred tax assets	**31,962**	**28,667**
Deferred tax liabilities		
Deferred tax liabilities	(63,455)	(62,715)
Total deferred tax liabilities	**(63,455)**	**(62,715)**
Total net deferred tax assets/(liabilities)	**(31,493)**	**(34,048)**

The composition of these balances is shown below:

(in thousands of Euros)	Dec. 31, 2018	Effect on Income Statement	Effect of changes in foreign exchange rates	Effect on Statement of Comprehensive Income	Reclassifications	Dec. 31, 2019
Elimination of capital gains on intercompany sales of trademarks and land	1,912	(273)	-	-	-	1,639
Inventory valuation	7,534	40	(1)	-	-	7,573
Valuation of trade receivables	2,279	(162)	1	-	-	2,118
Writedown of property, plant and equipment	-	1,356			-	1,356
Provisions for risks	9,590	(80)	(8)	-	-	9,502
Difference between fiscal and statutory values of tangible and intangible assets	1,837	(23)	(3)	-	-	1,811
PPA amortization	-	979			-	979
Derivative fair values	-	-	-	-	649	649
Foreign exchange and other differences	8	(18)	-	-	32	22
Actualization of employee benefits	-	-	-	-	559	559
Tax losses	2,815	(191)	(13)	-	-	2,611
IFRS 16	-	151	-	-	-	151
Other	2,692	184	(16)	-	132	2,992
Total deferred tax assets	**28,667**	**1,963**	**(40)**	**-**	**1,372**	**31,962**

(in thousands of Euros)	Dec. 31, 2018	Effect on Income Statement	Effect of changes in foreign exchange rates	Effect on Statement of Comprehensive Income	Reclassifications	Dec. 31, 2019
Valuation of tangible and intangible assets	12,379	842	9	-	-	13,230
Effect of leaseback transaction	7,755	(379)	-	-	-	7,376
Provisions for risks	77	-	-	-	-	77
Recognition of leases	2,119	(222)	-	-	-	1,897
Actualization of employee benefits	(368)	13	-	(204)	559	1
Actualization of social security liabilities	31	(31)	-	-	-	-
Foreign exchange and other differences	(152)	120	-	-	32	(1)
Derivative fair values	(334)	(4)	-	(311)	649	-
PPA amortization	41,112	(236)	-	-	-	40,876
Other	96	(229)	-	-	132	(1)
Total deferred tax liabilities	**62,715**	**(126)**	**9**	**(515)**	**1,372**	**63,455**

12. Trade receivables

(in thousands of Euros)	December 31, 2019	December 31, 2018
Gross trade receivables	199,953	292,934
Provision for doubtful debts	(11,777)	(13,787)
Net trade receivables	**188,176**	**279,147**

The decrease in trade receivables is attributable to a project focused on optimization of trade working capital that resulted in the non-recourse assignment of some receivables.

The table below presents the changes in the provision for doubtful debts:

(in thousands of Euros)	**Provision for doubtful debts**
Opening balance	**13,517**
Charge	1,557
Use	(1,152)
Exchange difference	(135)
Other changes	
Balance at December 31, 2018	**13,787**
Balance at January 1, 2019	**13,787**
Charge	2,719
Use	(4,105)
Exchange difference	(20)
Other changes	(604)
Balance at December 31, 2019	**11,777**

13. Other assets

The other assets are stated in the financial statements net of the related provisions:

(in thousands of Euros)	**December 31, 2019**	**December 31, 2018**
Other assets - gross	37,837	45,375
Provision for other doubtful debts	(2,428)	(2,631)
Other assets – net	**35,409**	**42,744**

The item is detailed below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
- Sundry receivables	6,405	10,156
- Sundry tax credits	909	2,460
- Prepaid expenses and accrued income	3,441	3,146
- VAT credit	18,984	19,512
- Grants receivable	1,318	1,044
- Security deposits	3,569	3,512
- Due from social security entities	189	150
- Due from employees	594	2,764
Total other assets	**35,409**	**42,744**
Of which: non-current	12,646	10,622

The largest component of sundry receivables consists of advances to suppliers (Euro 3,359 thousand).
The VAT credits regard mainly subsidiary Fedrigoni Brasil Papeis Ltda (Euro 16,911 thousand). In this respect, in 2018 Fedrigoni Brasil Papeis Ltda determined the present value of the credits on the basis of the forecast recovery plan.

The amount due from employees includes the effects of the deferral of social security contributions and taxes pursuant to the relief granted to those affected by the 1997 earthquake in the March region, for whom Fedrigoni S.p.A. takes on the role of withholding agent (Euro 319 thousand).

The table below presents the changes in the provision for other doubtful debts:

(in thousands of Euros)	Provision for other doubtful debts
Opening balance	**1,597**
Charge	1,113
Use	(7)
Exchange difference	(72)
Other changes	-
Balance at December 31, 2018	**2,631**
Balance at January 1, 2019	**2,631**
Use	(178)
Exchange difference	(25)
Other changes	-
Balance at December 31, 2019	**2,428**

14. Inventories

This item is detailed below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
Raw materials	81,993	124,456
Work in progress and semi-finished goods	34,199	37,117
Finished products	105,937	114,370
Total	**222,129**	**275,943**

The inventory decrease is attributable primarily to a lower value of raw material inventories, which in the previous year had included a pulp purchase of Euro 35,130 thousand by subsidiary Fedrigoni S.p.A. in December 2018 (under special price terms offered by the main raw material supplier), and a reduction of finished products, work in progress and semi-finished goods in stock due to the streamlining of the inventory management process.

Inventories are shown net of the provision for inventory obsolescence as detailed below:

(in thousands of Euros)	Provision for raw material obsolescence	Provision for inventory obsolescence e work in progress	Total
Opening balance	**11,848**	**13,762**	**25,610**
Charge	220	1,493	1,713
Use	(4,523)	(829)	(5,352)
Exchange difference	(95)	(74)	(169)
Other changes	-	-	-
Balance at December 31, 2018	**7,450**	**14,352**	**21,802**
Balance at January 1, 2019	**7,450**	**14,352**	**21,802**
Area change	(44)	44	-
Charge	774	3,122	3,896
Use	(1,927)	(1,513)	(3,440)
Exchange difference	(18)	(19)	(37)
Other changes	(116)	(233)	(349)
Balance at December 31, 2019	**6,119**	**15,753**	**21,872**

No inventories were put up as collateral to guarantee loans received by the Group.

15. Cash and cash equivalents

This item is detailed below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
Bank deposits	145,042	56,239
Checks outstanding	-	-
Cash and cash equivalents on hand	144	172
Total	**145,186**	**56,411**

At December 31, 2019, the payment obligations deriving from the Original Note Issue, Tap Note Issue, Revolving Credit Facility and Hedging Arrangements, among others, were secured by a pledge over Fabric (BC) S.p.A.'s bank accounts.

16. Derivatives

Information on derivatives is provided in the section on risk management.

17. Equity

The equity at December 31, 2019 and December 31, 2018 is set forth below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
Share capital	1,000	1,000
Share premium reserve	194,461	194,461
Legal reserve	200	-
Other reserves	4,377	(3,171)
Profit/(loss) for the year	14,658	8,810
Equity	**214,696**	**201,100**

The share capital at December 31, 2019 was Euro 1,000 thousand consisting of 1,000,000 ordinary shares with a par value of Euro 1.00 per share.

18. Due to banks and other lenders

This item is detailed below:

(in thousands of Euros)	December 31, 2019							
	Interest rate	Current portion	Portion due after 12 months					Total
			2021	2022	2023	2024	Afterward	
Current financial debt	Variable	934	-	-	-	-	-	**934**
Leases liability	Variable	6,744	5,490	4,549	3,371	2,732	7,560	**30,446**
Notes issued - principal portion	Variable	-	-	-	-	560,052	-	**560,052**
Notes issued - interest portion	Variable	2,032	-	-	-	-	-	**2,032**
Other financing	Variable	6	-	-	-	-	-	**6**
Total		**9,713**	**5,490**	**4,549**	**3,371**	**562,784**	**7,560**	**593,467**

(in thousands of Euros)	December 31, 2018							
	Interest rate	Current portion	Portion due after 12 months					Total
			2020	2021	2022	2023	Afterward	
Current financial debt	Variable	27,729	-	-	-	-	-	**27,729**
Finance leases	Variable	234	247	260	273	288	2,454	**3,756**
Notes issued - principal portion	Variable	-	-	-	-	-	556,530	**556,530**
Notes issued - interest portion	Variable	2,032	-	-	-	-	-	**2,032**
Other financing	Variable	28	-	-	-	-	5	**32**
Total		**30,023**	**247**	**260**	**273**	**288**	**558,989**	**590,079**

Current financial debt
The “current financial debt” of Euro 934 thousand at December 31, 2019 refers to bank accounts, financial instruments used by Group companies to manage short-term cash flow requirements and interest expense accrued on Interest Rate Swaps (IRS) at the reporting date of these financial statements.

Lease liability
The Euro 30,446 thousand at December 31, 2019 is the remaining balance on leases stipulated by the Group.

Non-convertible note issuance

"Notes issued - principal portion" at December 31, 2019 has a balance of Euro 560,052 thousand and refers to the Company's issuance of notes for a total nominal amount of Euro 580,000 thousand (ISIN XS1816220674 and XS1816220328), subscribed in two tranches. The first, issued on May 11, 2018, was for unsubordinate, non-convertible notes for an aggregate principal amount of Euro 455 million, the "Euro 455,000,000.00 Senior Secured Floating Rate Notes due 2024", which provided the Company with the funding needed to repay the short-term bridge financing of the same amount, used to pay part of the price for the investment in Fedrigoni S.p.A. not covered by equity. The second tranche, subscribed as an increase of the first one, was a tap issue of non-convertible, unsubordinated notes in an aggregate principal amount of Euro 125 million, the "Euro 125,000,000.00 Floating Rate Senior Secured Notes due 2024", with a maximum term of six years, which enabled to repay the short-term bridge facility of the same amount, used indirectly (through the subsidiary, Bianca) to acquire the Cordenons S.p.A. Group. Both note issuances are listed on the multilateral trading facility of the Irish Stock Exchange and have a maturity date of November 30, 2024 and a variable interest rate calculated on the three-month Euribor (subject to a 0% floor) plus a spread of 412.5 basis points.

The notes were subscribed only by "qualified institutional buyers", thus excluding placement with the general public and in exemption from the relevant European Union and Italian rules for public offerings in each country.

The costs incurred for issuing the Floating Rate Notes are accounted for as Financing Fees deducted from the nominal debt, under the amortized cost method.

"Notes issued - interest portion" at December 31, 2019 has a balance of Euro 2,032 thousand and refers to the interest expense accrued on the bond notes, paid quarterly; the next interest payment due in February 2020.

19. Derivatives

The balance derives from the fair value measurement of Interest Rate Swaps (IRS) stipulated by the Group to manage interest rate risk on part of the notes issued.

In August 2018 the Company entered into two fixed-for-floating IRS, with HSBC Bank PLC and BNP Paribas, for a total notional value of Euro 305 million and with a maturity date of August 31, 2022.

At December 31, 2019 the debt regarding the derivatives used by the Company was Euro 2,379 thousand, attributable primarily to:

- Euro 177 thousand allocated to current liabilities, referring to the fair value change recognized directly in profit or loss;
- Euro 2,202 thousand classified as non-current liabilities, referring to the fair value change recognized directly in equity in "other reserves" and presented in the statement of comprehensive income among items that will be reclassified subsequently to profit and loss.

20. Employee benefits

The changes in this item are presented below:

(in thousands of Euros)	**Employee benefits**
Opening balance	**19,822**
Interest costs	171
Actuarial gains/(losses)	(507)
Use	(1,298)
Balance at December 31, 2018	**18,188**
Balance at January 1, 2019	**18,188**
Interest costs	267
Actuarial gains/(losses)	863
Use	(1,986)
Charge	11
Other changes	0
Balance at December 31, 2019	**17,343**

The actuarial assumptions used to determine the obligation for employee benefits are detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Economic assumptions		
Inflation rate	1.0%	1.5%
Discount rate	0.4%	1.3%
Salary increment	3%	3%
“TFR” (provision for severance indemnities) rate of increase	2.6%	2.6%
Demographic assumptions		
Probability of resignations/dismissals	5.5%	2.0%
Probability of advance payouts	3.0%	3.0%

21. Provisions for risks and charges

This item is detailed below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
Provision for agency termination	3,722	3,380
Provision for environmental risks	3,038	3,268
Provision for sundry risks	31,684	37,706
Total	**38,444**	**44,354**

The changes in this item are presented below:

(in thousands of Euros)	December 31, 2019	December 31, 2019
Opening balance	**44,354**	**41,487**
Increases	5,046	7,388
Use	(8,566)	(4,006)
Exchange differences and other changes	(2,390)	(515)
Closing balance	**38,444**	**44,354**

(in thousands of Euros)	Provisions for agency termination	Provisions for environmental risks	Provisions for litigation risks	Provisions for warranty claims	Provision for exit incentives	Other provisions	Total
Opening balance	**3,448**	**3,152**	**3,301**	**17,216**	**149**	**14,221**	**41,487**
Charge	115	575	214	6,116	100	268	7,388
Use	(107)	(459)	(81)	(1,113)	(112)	(2,134)	(4,006)
Exchange difference	-	-	-	71	-	(510)	(439)
Other changes	(76)	-	-	-	-	-	(76)
Balance at December 31, 2018	**3,380**	**3,268**	**3,434**	**22,290**	**137**	**11,845**	**44,354**
Balance at January 1, 2019	**3,380**	**3,268**	**3,434**	**22,290**	**137**	**11,845**	**44,354**
Charge	638		131	1,246	1,450	1,581	5,046
Use	(315)	(143)	(63)	(1,972)	(137)	(5,936)	(8,566)
Exchange difference						(85)	(85)
Other changes	19	(87)	-	-		(2,237)	(2,305)
Balance at December 31, 2019	**3,722**	**3,038**	**3,502**	**21,564**	**1,450**	**5,168**	**38,444**

The provision for agency termination is the estimated liability due for agency severance benefits.
The provision for environmental risks refers to outlays that the Group considers could potentially be necessary to clean up some of the land it owns.
The decrease in the sundry risks provisions is due primarily to the release and use of two provisions set up previously, during the purchase price allocation process for the acquisitions made by the Group in 2018, and to the use of the provision for warranty claims.

The provision for sundry risks consists of the following:

- The provision for warranty claims (Euro 21,564 thousand) consists of costs that could be incurred in the event of claims regarding supplies of banknotes, security products and other paper products. The provision decreased by Euro 726 thousand in the year due to the use of Euro 1,972 thousand to settle some claims regarding previous periods. In addition to covering specific issues, for which negotiations to settle claims are still in progress, the provision serves to cover costs that are reasonably expected to be incurred, on the basis of past experience, to satisfy the warranty obligations. The annual allocation and the overall amount are correlated to the sales volume of security products realized in the past two years, whose segment features greater product complexity and warranty terms that are longer than for normal paper products.
- The provision for litigation risks (Euro 3,502 thousand) and other provisions (Euro 5,168 thousand) refer to liabilities that could ensue from pending lawsuits, disputes, business arrangements entered into by the Group and other risks, representing a prudent appreciation of the cost estimated at the end of the year.
  The provisions reflect the risk associated with the refund of the amount of white certificates sales received in previous periods. Even if the white certificates, which are recognized for an innovative investment program from which energy savings may derive, are initially considered qualified to produce such savings and are accounted for with inclusion of the energy efficiency title ("TEE") payments, they can be submitted to review while they are in effect. The provision accounts for the risk on those projects for which the relevant authorities have reconsidered the previously assigned qualification.

Fedrigoni has a long-standing dispute pending with the Italian tax authorities concerning diverging application and payment criteria for electricity consumption taxes.
With respect to the dispute regarding years 1993 to 1997, since the Fedrigoni S.p.A. considers the tax claims to be unjustified both on their merits and by law, it filed an appeal with the Italian Supreme Court to overturn the Ancona Appellate Court's decision with which the lower court denied the previous appeal. Pursuant to that decision, the contested amount of Euro 511 thousand was paid. On February 28, 2019

the Italian Supreme Court rebutted the appeal, ruling in favor of the Ministry of Finance Customs Department and the Ancona technical office for direct taxes.
The Italian tax authorities, which by then considered the tax payment criteria to be definite, served a notice of payment for years 2008 to 2013 regarding electricity consumption at the Rocchetta plant, and another notice of payment for years 2008 to 2012 regarding electricity consumption at the Castelraimondo plant. Fedrigoni, which continues to maintain its position based on the groundlessness and illegitimacy of the claims, filed appeals at the Ancona and Macerata Provincial Tax Commissions. The Commissions met with each other, and although the Macerata Provincial Tax Commission fully accepted the appeal, the Ancona Provincial Tax Commission accepted only part of it and reduced the penalties imposed considerably, but denied the grounds regarding the calculation of the taxes. Fedrigoni filed for appeal and opposed the demands of the other party.
The Italian tax authorities, encouraged by the new ruling, served notices of payment for 2014, 2015 and 2016 limited however to the portion of consumption of the plant located in the Province of Ancona. Fedrigoni lodged appeals against these claims as well at the Ancona Provincial Tax Commission. With respect to the 2014 and 2015 disputes, the Commissions were joined with results clearly similar to the previous ones. In 2019, in view of a possible statute of limitations for issuing measures, the authorities served payment notices for the 2013 electricity consumption at the Castelraimondo plant. Payment notices have not been served yet for the years 2017, 2018 and 2019. Fedrigoni, conscious of the validity of its arguments, which are also backed up by opinions of external consultants, will lodge appeals and oppose the demands of the other party. The risk associated with the dispute is covered sufficiently in the provision.
The lawsuit concerning amounts allegedly owed to the Italian Agency for Investment Promotion and Enterprise Development (formerly Sviluppo Italia S.p.A.) as a result of an interest acquired in 1984 by Cartiere Milani Fabriano S.p.A., which afterward was absorbed into Fedrigoni S.p.A., was discussed at the Italian Supreme Court. The absorbed company appeared before the court to deny the claims and request a conviction for breach of contract with respect to the warranty obligations included in the acquisition agreement. Since the ruling confirmed the previous decisions, and no opposition to the terms followed, the dispute is considered to be settled and the related provision of Euro 1,400 thousand (allocated to "other provisions" during the purchase price allocation process regarding the Group's 2018 acquisitions) was released.
On March 9, 2014 the Italian tax authorities filed an appeal at the Italian Supreme Court restricted to a residual part of the decision issued by the Marche Regional Tax Commission, which had fully accepted the appeal filed regarding direct taxes of 2000 and 2001. Nevertheless, Fedrigoni decided to oppose it and notified a counterclaim at the Attorney General's Office. The provision covers other marginal situations involving risk due to the termination of employment contracts.
The provision for sundry risks, among other provisions, includes the use of Euro 5,600 thousand, set aside previously during the purchase price allocation process regarding the Group's 2018 acquisitions, to offset a writedown of an investment referring to a continuous machine no longer deemed strategic under the new production reorganization plans.

22. Trade payables and other liabilities

This item is detailed below:

(in thousands of Euros)	December 31, 2019	December 31, 2018
Trade payables	**240,837**	**305,157**
Other liabilities:		
- Due to employees	22,093	19,174
- Accrued expenses and deferred income	1,623	1,135
- Social security	10,359	9,742
- Withholding taxes	5,166	4,938
- Sundry payables	5,900	6,769
- Due to supplementary pension fund	1,770	1,678
- Advances	2,643	8,119
- VAT due	1,830	1,597
- Due to Directors and Statutory Auditors	703	121
- Sundry tax liabilities	380	425
- Tax liabilities from tax deferrals under earthquake relief		1,874
Other liabilities	**52,467**	**55,572**
Total	**293,304**	**360,729**
Of which: non-current	1,773	1,779

The decrease in "trade payables" relates to both a surplus amount of trade payables in the previous year, which had included Euro 35,130 thousand for an extra pulp purchase by subsidiary Fedrigoni S.p.A. in December 2018 (under favorable price terms offered by the main raw material supplier, with payment in 180 days), and a reduction of pulp purchasing costs.

The elimination of tax liabilities from tax deferrals under earthquake relief, which had referred to the deferral of tax payments following the 1997 earthquake and the deferral of deadlines for the payment of employment taxes for which the Company could act as withholding agent following the 2016 earthquake, is attributable to the payment of such amounts in 2019.

Notes to the Income Statement

As described in section 2.2 “Basis and method of consolidation”, the comparative data referring to 2018 in the financial statements reflect the following acquisitions:

- the Fedrigoni Group, whose results were included in the 2018 consolidated financial statements from April 1 of that year (for a period of 9 months);
- the Cordenons Group, whose results were included in the 2018 consolidated financial statements from July 1 of that year (for a period of 6 months).

24. Sales revenues

This item is detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Revenues from sales of products	1,175,034	878,684
Awards for customers	(6,292)	(4,671)
Other sales revenues	2,693	6,273
Total	**1,171,435**	**880,286**

25. Other operating income

This item is detailed below:

	December 31,	
(in thousands of Euros)	2019	2018
Other revenues	6,114	4,831
Sundry non-financial income	1,949	1,520
Contingent gains and unrealized costs	1,462	1,314
Grants for operating expenses	274	933
Other	133	991
Total	**9,932**	**9,589**

"Other revenues" derive primarily from the sale of electricity by the manufacturing companies (Euro 5,786 thousand in 2019 and Euro 4,479 thousand in 2018) and the sale of white certificates (Euro 164 thousand in 2019 and Euro 241 thousand in 2018).

26. Cost of materials

This item is detailed below:

	December 31,	
(in thousands of Euros)	2019	2018
Raw material purchases	567,047	528,957
Purchases of ancillary materials and consumables	1,648	1,195
Change in inventories	42,362	(40,815)
Total	**611,057**	**489,337**

The 2019 proportion of the “raw material purchases” is lower, considering the limited consolidation period of the 2018 comparative data, due mainly to lower pulp purchasing costs in 2019 and the aforementioned extra pulp purchase of Euro 35,130 thousand by Fedrigoni S.p.A. in December 2018.

27. Cost of services

This item is detailed below:

	Year ended December 31,	
(in thousands of Euros)	**2019**	**2018**
Freight	73,374	58,709
Natural gas	38,648	28,018
Commissions paid	20,626	17,326
Maintenance	12,688	9,692
Use of third-party assets	8,828	12,837
Electricity	7,897	6,512
Consulting services (administrative, legal, tax, technical)	33,856	28,761
Advertising and publicity	5,744	4,984
Outsourced production	5,261	4,105
Insurance	5,642	4,152
Travel expenses	5,840	3,320
Waste disposal	4,113	2,371
Outsourced labor	5,716	4,279
Telephone expenses	1,046	745
Water	215	169
Directors and Statutory Auditors	2,261	843
Other services	13,203	8,975
Total	**244,958**	**195,798**

"Use of third-party assets" refers mainly to patent rights on security threads. The decrease in such item is attributable essentially to the effects of IFRS 16 adoption on January 1, 2019.

"Consulting services (administrative, legal, tax, technical)" include Euro 29,202 thousand in "transformation costs" referring to the continuance of projects aimed to create a new organizational structure capable of attracting new talent and optimizing the pre-existing departments (financial, operational, purchasing, sales).

28. Cost of personnel

This item is detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Wages and salaries	124,938	84,324
Social security contributions	36,563	25,056
Annual accrual for defined contribution and defined benefit plans	6,982	4,478
Other personnel costs	7,242	3,777
Total	**175,725**	**117,635**

The Group's employee headcount numbers are shown below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Management	80	73
White-collar employees	1,051	1,038
Blue-collar employees	1,773	1,867
Total	**2,904**	**2,978**

29. Other cost

This item is detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Writedowns of receivables and other assets	2,411	1,719
Contingent losses and unrealized income	261	140
Indirect taxes	3,167	3,557
Membership dues	768	560
Risk allowances/(releases)	(74)	5,704
Sundry costs	4,178	2,190
Total	**10,711**	**13,870**

“Indirect taxes” include Euro 1,853 thousand in property taxes on buildings owned (Euro 1,292 thousand in 2018).

“Risk allowances/(releases)” comprise mainly amounts charged to the product warranty provision net of the amounts released from risk provisions during the year.

30. Depreciation, amortization and impairment losses

This item is detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Depreciation of property, plant and equipment	48,569	30,281
Amortization of intangible assets	13,012	8,945
Depreciation of investment property	38	28
Impairment of tangible and intangible assets	-	868
Total	**61,619**	**40,122**

Depreciation and amortization include the additional amounts originating from the new, higher values allocated to assets in the purchase price allocation process, of Euro 3,086 thousand and Euro 8,269 thousand, respectively (Euro 1,950 thousand and Euro 5,689 thousand in 2018), and the Euro 7,221 thousand depreciation of the right-of-use assets in leases pursuant to IFRS 16.

31. Net financial income/(costs)

This item is detailed below:

	Year ended December 31,	
(in thousands of Euros)	**2019**	**2018**
Interest income	772	624
Foreign exchange gains	17,436	19,287
Fair value measurement of derivatives	83	297
Other financial income	38	32
Total financial income	**18,329**	**20,240**
Bank interest expense	(137)	(181)
Interest expense on leases	(1,514)	(171)
Foreign exchange losses	(19,220)	(19,805)
Derivative fair value measurement costs	(206)	(302)
Interest costs on employee benefits	(267)	(199)
Other finance costs	(31,489)	(20,490)
Total finance costs	**(52,833)**	**(41,148)**
Total	**(34,504)**	**(20,908)**

"Other finance costs" include Euro 23,925 thousand (Euro 14,279 thousand in 2018) in interest expense on the bond notes, Euro 3,521 thousand (Euro 2,196 thousand in 2018) for the amortized cost related to the bond and Euro 1,980 thousand (Euro 763 thousand in 2018) in fees on the revolving credit facility.

32. Income taxes

This item is detailed below:

	December 31,	
(in thousands of Euros)	**2019**	**2018**
Current taxes	19,727	10,144
Deferred taxes	(2,089)	(3,443)
Total	**17,638**	**6,701**

The table below presents the reconciliation of the theoretical tax rate (the 24% corporate income tax or "IRES" rate currently in force in Italy) and the effective tax rate:

	Year ended December 31,	
(in thousands of Euros)	**2019**	**2018**
Profit before tax	32,298	15,530
Theoretical tax rate	24.0%	24.0%
Theoretical income taxes	**7,751**	**3,727**
Profits not subject to taxes	(2,461)	(1,553)
Non-deductible taxes	4,022	236
Costs immaterial for tax purposes	6,755	2,452
Other decreases	(4,888)	(6,302)
IRAP allocated by Italian companies	**1,748**	**1,547**
Tax effects of foreign subsidiaries and other	4,711	6,594
Effective income taxes	**17,638**	**6,701**
Effective tax rate	**55%**	**43%**

The costs immaterial for tax purposes mainly consist of non-deductible interest expense due to the deduction capacity deficit of Fabric (BC) S.p.A.

The other decreases consist of the excess interest deduction capacity of some Italian companies belonging to the tax consolidation group that partially offset the deduction capacity deficit of Fabric (BC) S.p.A.

33. Earnings per share

Earnings per share was calculated by dividing: i) the profit or loss attributable to ordinary equity holders by ii) the number of ordinary shares. There are no anti-dilutive shares, so the diluted earnings per share is the same as the basic earnings per share.

	December 31,	
(in thousands of Euros)	2019	2018
Net profit attributable to owners of the Parent	14,658	8,810
Weighted average of shares	1,000	1,000
Basic earnings per share (in Euros)	14.66	8.81
Diluted earnings per share (in Euros)	14.66	8.81

34. Contingent liabilities

Various legal and tax proceedings originating over time in the normal course of the Group's business operations are pending. According to management, none of these proceedings can result in significant liabilities for which provisions do not already exist in the Consolidated Financial Statements.

35. Commitments

(a) Commitments to purchase property, plant and equipment

The contractual commitments undertaken with third parties at December 31, 2019 regarding investments in property, plant and machinery not yet recognized in the financial statements amount to Euro 14,066 thousand.

(b) Other commitments

To guarantee payment obligations deriving from the Original Note Issue, Tap Note Issue, New Note issue, Revolving Credit Facility and Hedging Arrangements, among others, Fabric had the following collateral arrangements:

- pledge over Fedrigoni S.p.A. shares granted by Fabric (BC) S.p.A. on April 16, 2018, as subsequently confirmed and last extended on February 12, 2020;
- pledge over the bank accounts of Fabric (BC) S.p.A. granted by Fabric (BC) S.p.A. on April 16, 2018, as subsequently confirmed and last extended on February 12, 2020;
- security assignment over the receivables originating from an intercompany loan stipulated by Fabric (BC) S.p.A., as lender, and Fedrigoni S.p.A., as borrower, granted by Fabric (BC) S.p.A. on April 16, 2018, as subsequently confirmed and last extended on February 12, 2020;
- security assignment over the receivables originating from an intercompany loan originally stipulated by Fabric (BC) S.p.A., as lender, and Bianco (BC) S.p.A. (now absorbed by the Cordenons S.p.A. Group), as borrower, granted by Fabric (BC) S.p.A. on July 10, 2018, as subsequently confirmed and last extended on February 12, 2020;
- pledge over Cordenons Group S.p.A. shares granted by Fabric (BC) S.p.A. on July 11, 2018, as subsequently confirmed and last extended on February 12, 2020; and
- pledge over receivables originating from an intercompany loan stipulated by Fabric (BC) S.p.A., as lender, and Fedrigoni S.p.A., as borrower, granted by Fabric (BC) S.p.A. on February 21, 2020.

36. Related-party transactions

The following tables set forth the transactions and balances of the Group with related parties for the year ended December 31, 2019.

Statement of Financial Position balances

	December 31, 2019					
	Assets			Liabilities		
(in thousands of Euros)	**Financial receivables**	**Trade receivables**	**Tax assets**	**Tax liabilities**	**Trade payables**	**Financial payables**
Bain Capital Private Equity, LP	-	-	-	-	206	-
Fedrigoni Holding Ltd	-	40	-	-	65	-
Nerea S.p.A.	-	-	-	-	-	-
Machiavelli 38 S.r.l.	-	-	-	-	-	-
Consorzio Canale Industriale G. Camuzzoni di Verona S.c.ar.l.	-	-	-	-	-	-
Total	**-**	**40**	**-**	**-**	**271**	**-**
As a % of F/S item	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%

	December 31, 2018					
	Assets			Liabilities		
(in thousands of Euros)	**Financial receivables**	**Trade receivables**	**Tax assets**	**Tax liabilities**	**Trade payables**	**Financial payables**
Bain Capital Private Equity, LP	-	-	-	-	1,058	-
Nerea S.p.A.	-	-	-	-	-	1,185
Machiavelli 38 S.r.l.	-	-	-	-	-	873
Consorzio Canale Industriale G. Camuzzoni di Verona S.c.ar.l.	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**1,058**	**2,058**
As a % of F/S item	0.0%	0.0%	0.0%	0.0%	0.4%	0.3%

Income Statement balances

	December 31, 2019				
	Income			Expenses	
(in thousands of Euros)	Sales revenues	Other revenues	Interest income	Cost of services	Interest expense
Bain Capital Private Equity, LP	-	-	-	3,551	-
Fedrigoni Holding Ltd				344	
Nerea S.p.A.	-	-	-	365	-
Machiavelli 38 S.r.l.	-	-	-	-	-
Consorzio Canale Industriale G. Camuzzoni di Verona S.c.ar.l.	-	-	-	-	-
Total	**–**	**–**	**–**	**4,260**	**–**
As a % of F/S item	0.0%	0.0%	0.0%	1.7%	0.0%

	December 31, 2018				
	Income			Expenses	
(in thousands of Euros)	Sales revenues	Other revenues	Interest income	Cost of services	Interest expense
Bain Capital Private Equity, LP	-	-	-	1,445	-
Nerea S.p.A.	-	-	-	265	-
Machiavelli 38 S.r.l.	-	-	-	180	-
Consorzio Canale Industriale G. Camuzzoni di Verona S.c.ar.l.	-	-	-	-	-
Total	**–**	**–**	**–**	**1,890**	**–**
As a % of F/S item	0.0%	0.0%	0.0%	3.0%	0.0%

Description of the Group's related parties

Bain Capital Private Equity LP

The Group has a Consulting Service Agreement in effect with Bain Capital Private Equity LP, stipulated on April 16, 2018 by Fabric, Fedrigoni Holding Ltd and Bain Capital Private Equity LP.

Nerea S.p.A.

Nerea S.p.A. is a real estate agency considered a related party because it is controlled by a shareholder of the Parent company.
The Group has a lease in effect with Nerea S.p.A. for the building in Verona where the Parent company's headquarters are located and the parking lot next to the building, for an annual lease payment of Euro 315 thousand and Euro 38 thousand, respectively.

Consorzio Canale Industriale G.Camuzzoni di Verona S.c.ar.l.

Camuzzoni di Verona S.c.a.r.l. is a 25%-owned company, and thus an associate, which operates in the power generation industry.

Machiavelli 38 S.r.l.

Machiavelli 38 S.r.l. is a real estate company considered an associate for the Cordenons Group, which has a lease in effect for the building located in via Machiavelli 38, Milan, with an annual lease payment of Euro 360 thousand.

Key management personnel compensation

The following positions are considered to comprise the Group's key management personnel: i) Group C.E.O.; ii) General Manager of Pressure Sensitive Labels division; iii) Group Purchasing Director; iv) Corporate Development Director; v) Group Human Resources Director; vi) Finance Director of Paper and Security division; vii) Group Marketing Director.
The gross compensation paid to the key management personnel in 2019 totaled Euro 3,562 thousand.

37. Subsequent events

On January 31, 2020, Fabric (BC) S.p.A., through its subsidiary, Fedrigoni S.p.A., completed the acquisition of the "Ritrama Group" by using part of the available cash and by issuing unsubordinate, non-convertible, senior secured notes for an aggregate principal amount of Euro 225 million.
The issuance was listed on the multilateral trading facility of the Irish Stock Exchange with a maturity date of August 31, 2026 and a variable interest rate calculated on the three-month Euribor (subject to a 0% floor) plus a spread of 412.5 basis points.
The notes were subscribed only by "qualified institutional buyers", thus excluding placement with the general public and in exemption from the relevant European Union and Italian rules for public offerings in each country.
The following Ritrama Group companies were part of the acquisition: Ritrama S.p.A., Coating Ricofin S.p.A., and Eurotac S.p.A. and its subsidiaries (excluding Ritrama Holdings, Inc. and Ritrama Inc.).

In this context, the Group also increased the Revolving Credit Facility, originally amounting to Euro 100 million, to Euro 125 million. In the first quarter of 2020 the facility was fully drawn down, making the related amount available in the Group's cash holdings.

As known, since January 2020 the domestic and international environment has been characterized by the spread of Corona Virus Disease 2019 (COVID-19) and the consequential restrictive measures taken to contain it by the public authorities of the countries affected.
By the date of this writing, the Italian government had issued decrees and restrictive measures that called for, among other things, the temporary closing of all non-essential factories in order to slow the spread of the virus. The Fabric Group's entire business falls explicitly within the category of the essential services contemplated by the decrees and therefore the measures introduced did not result in closing the Group’s factories in Italy. The factories represent an important part of the Group’s global production volumes and entire supply chain. They have remained fully operational and can continue to fulfill the customers' orders.

The domestic and international situation is delicate and is evolving rapidly. However, the Group's solid financial position and the geographic diversification of the markets allow the Group to face it with appropriate tools and resources on hand.
In response to this emergency, the Group has acted promptly and in conformity with its protocols and policies for handling company emergencies and crises, setting up a Steering Committee that has implemented a contingency plan to ensure the health and safety of its workers and contractors, arranging for and extending where possible the use of smart-working and agile-working models, and preparing itself to ensure business continuity both in the current situation and in view of additional restrictions being imposed on the access of the business premises. The situation is being monitored constantly from an operational point of view, and activities have already been identified for handling any repercussions on the business, while taking all measures needed to safeguard the profits, generation of cash flows, financial solidity and liquid assets consistently with the Group's requirements.

In light of the current uncertainty regarding the development of the situation, its duration and the types of possible future restrictions and their impacts on the business, the Directors' forecasts take into consideration a necessarily short-term outlook regarding the possible effects of COVID-19 on the Group's financial position and performance. Even assuming lower revenues than in 2019, the Group's performance is still expected to be consistent with that of 2019, since it can benefit from lower pulp prices and additional specific cost-cutting actions. Accordingly, the Directors believe that the resources are adequate for dealing with the currently possible scenario, taking into account the current cash holdings and the credit lines available.

The events relating to COVID-19 have been considered non-adjusting events for the 2019 financial statements, as per the definition set forth in IAS 10, paragraph 21, since they occurred after the end of the reporting period.

Therefore, in the preparation of the consolidated financial statements for the year ended December 31, 2019, the measurement and estimation processes, concerning primarily the assessment of the recovery of the main company assets, were conducted using the most recent budgets based on the business and market assumptions made before the emergency arose. As described in the notes, the measurement processes included sensitivity analysis conducted to identify the amounts of key parameters for which the recoverable amounts should coincide with the carrying amounts. No apparent risks of future impairment regarding the amounts entered in the December 31, 2019 financial statements emerged from such analysis.

ANNEX 1 – List of subsidiaries and associates

Name	Headquarters	Ownership
Directly controlled subsidiaries		**December 31, 2019**
Fedrigoni S.p.A.	Verona (VR)	99.99%
Cordenons S.p.A. Group	Milan (MI)	100.00%
Indirectly controlled subsidiaries		
Arconvert S.p.A.	Arco (Trento)	99.99%
Arconvert SA	Sarrià del Ter Gerona - Spain	99.99%
Fedrigoni Deutschland Gmbh	Oberhaching - Munich - Germany	99.99%
Fedrigoni Espana SL	Madrid - Spain	99.99%
Fedrigoni France Sarl	Paris - France	99.99%
Fedrigoni UK Ltd	Northampton - United Kingdom	99.99%
Cartamano Deutschland Gmbh	Munich - Germany	99.99%
Miliani Immobiliare S.r.l.	Verona (VR)	99.99%
Fedrigoni Brasil Papeis Ltda	Sao Paolo - Brazil	99.99%
Fedrigoni Austria Gmbh	Vienna - Austria	99.99%
Fedrigoni Benelux BV	Brussels - Belgium	99.99%
Fedrigoni Asia Ltd	Hong Kong - China	99.99%
Concept Couleurs Sàrl	Geneva - Switzerland	99.99%
GPA Holding Company Inc	McCook, Illinois - U.S.A.	99.99%
Fedrigoni Trading (Shanghai) Company Limited	Shanghai - China	99.99%
Magnani 1404 S.r.l.	Massa e Cozzile (Pistoia)	70.00%
Associates		
Consorzio Canale Industriale G. Camuzzoni S.c.ar.l.	Verona (VR)	25.00%

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Sole Shareholder of
Fabric (BC) S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Fabric (BC) S.p.A. and its subsidiaries (the "Fabric Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Fabric Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Fabric (BC) S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Fabric Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of Fabric (BC) S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Fabric Group's financial reporting process.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Codice Fiscale/Registro delle Imprese Milano n. 03049560166 – R.E.A. Milano n. 172039 | Partita IVA IT 03049560166

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fabric Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fabric Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fabric Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/2010

The Directors of Fabric (BC) S.p.A. are responsible for the preparation of the report on operations of the Fabric Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of the Fabric Group as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the consolidated financial statements of the Fabric Group as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/2010, made on the basis of the knowledge and understanding of the Fabric Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Pier Valter Azzoni
Partner

Verona, Italy
April 24, 2020

This report has been translated into the English language solely for the convenience of international readers.

E as in ENVIRONMENT

We have published an environmental report every year since 2002. The first ISO 14001 certificate was awarded in 1999; today, all production sites comply with this standard.

Group Environment, Health and Safety Report 2019

Group Environment, Health and Safety Report 2019

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235 Health and safety performance in the workplace

The principles of sustainability and corporate ethics

Social responsibility always, in any case and for everyone

Our model of *corporate social responsibility* not only embraces important environmental and economic issues but always takes all our stakeholders into consideration. The quality and transparency of our offering and our presence in local areas do not only concern customers, employees, collaborators, suppliers and shareholders.

In managing our organisational and production policies, we also take every person directly or indirectly involved in our activities into consideration: the resident communities around industrial premises, trade unions, associations, institutions, governments and the media.

In order not to compromise the well-being of future generations, we are convinced that our Group must make every effort to reduce environmental impact, uphold safeguards ensuring the health and safety of employees and all stakeholders as well as present and future society.

Today, the market demands and expects ever-more responsible products and production processes, which means even less impact on the environment and people's health. Pertinent policies and environmental management systems ensure that all approaches focus on promoting the circular economy and sustainable growth.
It is no coincidence that environmental responsibility is one of the Group's 5 cardinal principles.

FEDRIGONI GROUP PRINCIPLES

GOVERNANCE AND COMPLIANCE

. Ethics, integrity and anti-corruption
. Governance and compliance
. Privacy protection
. Sustainability in business strategies

RISK MANAGEMENT AND OPERATIVE CONTINUITY

. Risk management
. Safety of plant, products and processes
. Security of data and information

ECONOMIC RESPONSIBILITY, PRODUCT RESPONSIBILITY AND TECHNOLOGICAL INNOVATION

. Product and service quality, customer satisfaction
. Financial and production responsibility
. Innovation and technological development

SOCIAL AND PERSONAL RESPONSIBILITY

. Diversity and equal opportunities
. Industrial relations
. Health and safety
. Talent and training
. Welfare, work-life balance
. Management of suppliers and relationships with strategic partners
. Relationships with institutions
. Respect for human rightsi

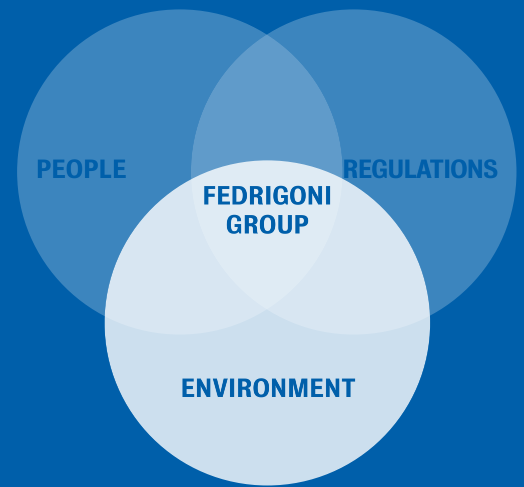
ENVIRONMENTAL RESPONSIBILITY

. Environment management policies and systems

We are convinced that the industrial world must make every effort to supply products that ensure eco-compatibility and functional safety throughout their life cycle. Our mission is to meet the needs of the present (without compromising those of future) generations. This is why our supply, production, recovery and disposal criteria have always taken into consideration not only impact in immediate terms but also over time.

The production and conversion processes for all our papers (special and commodities) exclusively involve safe raw materials and auxiliary products, ensuring no impact and procured from controlled and tracked sources. The Company has always given preference to external suppliers and collaborators which operate in compliance with principles of sustainability, as well as implementing long-term risk management.

The ceaseless technological innovation driving our production plant, following a path of industrial history by now going back nearly two centuries, also seeks to improve our environmental and social performance. And effective results are achieved, year after year.



All manufacturing processes carried out by the Group confirm effectively more sustainable development.

Consumption of wood, water and energy and subjected to constant rationalisation and efficiency monitoring processes.

CONSUMPTION OF FRESH WATER

PRESSURE SENSITIVE LABELS
–46%

PROCESS WATER

PAPER & SECURITY
–15%

THERMAL ENERGY

PAPER & SECURITY
–13%

ELECTRICITY

PRESSURE SENSITIVE LABELS
–12%

PAPER & SECURITY
–9%

CO_2 EMISSIONS

PRESSURE SENSITIVE LABELS
–20%

PAPER & SECURITY
–5%

CHEMICAL OXIGEN DEMAND

PAPER & SECURITY
–23%

WASTE

PRESSURE SENSITIVE LABELS
other waste
–14%

PAPER & SECURITY
sludge
–10%

USE OF CERTIFIED FSC® PULP

PAPER & SECURITY

COC - FSC®
77%

CW - FSC®
23%

Over the past 6 years, we have reduced our impact on environmental resources.

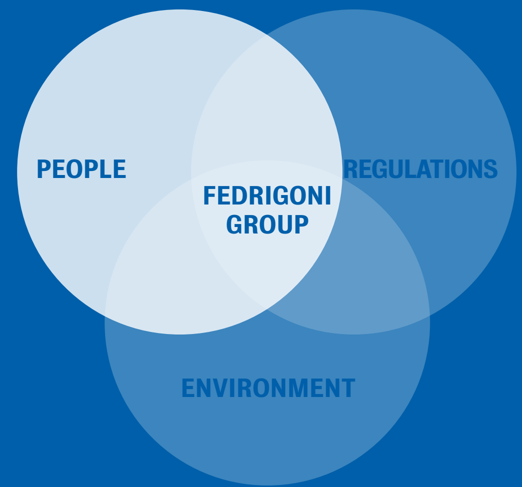
In over 130 years of operations, we have embraced the principles of sustainability and combined them with virtuous development focusing on product, performance and service quality in full compliance with environmental protection and prevention criteria designed to safeguard health and safety.

Health and safety across the board

In addition to pursuing constant alignment with the extensive and complex set of regulations arising from national and international laws and standards, as early as 1998 we drew up our own *Code of Ethics/Mission Statement* alongside an *Integrated Quality, Environment and Safety Policy* which we have continued to integrate and update over time.

The adoption of an integrated management system that includes risk control provides the entire corporate organisation with a tool that helps ensure timely recognition of critical issues and the implementation of necessary counter-measures designed to eliminate, reduce or, at the very least, deal with them in an informed manner. The system is also profiled to create the necessary organisational resilience to ensure intrinsic capacity for modifying the organisation's operations before, during and after a change or difficulty to ensure business continuity under foreseen and unforeseen conditions alike.

Regardless of the environmental and economic situations that may affect markets, we are convinced that every individual and public entity is responsible for making their own contributions. This is why - based on assigned roles and acquired skills - all our employees and collaborators are required to share, take part in and contribute responsibly to the attainment of all the improvement objectives defined concerning quality, the environment, safety and health in the workplace.



Integrated quality, environmental, safety & health and risk prevention management ensures the supply, function and due performance of products and services to the benefit of everyone directly or indirectly involved with the Group.

The Group has always sought to combine as far as possible the health and safety expectations of its employees by managing prevention in a far-reaching manner to reconcile in the best possible way all management, organizational, health, plant, engineering and regulatory needs and requirements. In this regard, action taken includes the following:

- Involve and raise the awareness of employees through numerous and on-going information, education and training activities.
- Create the necessary environmental and micro-climatic conditions in workplaces and thereby improve the safety and psycho-physical well-being of employees.
- Implement regular internal audits to identify any vulnerable aspects of the system and the correct and effective application of the procedures the Group has adopted for the purposes of prevention.

As well as checking the impacts generated directly by in-house processes, the Group also places equal emphasis on impacts generated up-line by its suppliers through responsible assessments of environmental, ecological, raw and auxiliary material safety, machinery, plant, performance and service factors.

PERCENTAGE REDUCTION OF ACCIDENT LEVELS IN 2019 COMPARED TO THE PREVIOUS YEAR

AVERAGE DURATION
–7.5%

FREQUENCY INDEX
–37%

INDEX OF SERIOUSNESS
–42%

The Group has continued to invest major resources for many years in order to reduce its environmental impact and ensure safe and healthy workplaces for its employees as well as safe products for its clients.

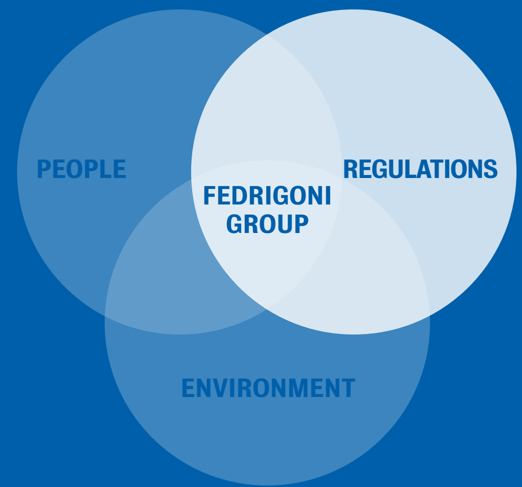
We can rely on several strategic levers to maintain and improve our competitiveness on the global market: tradition, skill, specialisation and expertise gained over the years – and made even stronger thanks to the cohesion of all Group employees.

**Virtuous development circle.
Unlimited and uncompromising**

We implement the best of scale economies with regards to consumption of resources and energy, as well as waste management.
We take a holistic approach designed to achieve qualitative, quantitative, environmental, safety and health improvement objectives while also minimising risks.
We do not focus exclusively on maximum satisfaction for all our customers. We are also interested in their health and safety.

Our approach to research and development is compatible with economic management and cost/benefit ratio principles; it identifies the best available techniques and best practices in compliance with the highest sustainability and social responsibility criteria.
On the one hand, we are determined to ensure the product and service quality while also safeguarding the environment and health.
On the other, we seek to ensure profitability and the integrity of company assets, as well protect people's safety.

We focus significantly on upholding rules of conduct that go beyond mere regulatory provisions to ensure against any environmental compromise. Our operations also seek to avoid interferences that may have repercussions on people: the people who live near the Group's premises and surrounding local areas as well as the people who work with and for us.
We place great emphasis on safety and health in the workplace. Alongside a series of major investments, we also implement many minor technological improvements that help protect the environment and improve the quality of work for the benefit of the entire supply chain.



Group companies in Italy have implemented an “Organisational Model” in compliance with Legislative Decree no. 231/01 as amended that governs the administrative responsibility of legal persons, companies and associations even not having legal status.

As regards health and safety policies, the Group promotes preventive action in accordance with the dispositions of Article 2087 of the Italian Civil Code by adopting in its operations all measures that, in relation to the specific nature of each task, experience and technique, are required to safeguard the physical integrity and personal well-being of all workers.

On the basis of the specific application of various reference sites, ever since 1993 the Group has operated in compliance with international standards. The most significant include:

ISO 9001 for quality management, ISO 14001 for environmental Management

FSC® and **PFEC** standards to safeguard and protect forests

ISO 50001 for rational energy management

ISO 45001 (or OHSAS 18001) for prevention, health and safety in workplaces

BRC PACKAGING for foodstuff packaging health and hygiene safety

UNE 166002 or research, development and innovation

Corporate policy applies and upholds the principles outlined in 2010 in the ISO 26000 Guidelines defining Corporate Social Responsibility, acknowledging that social responsibility in doing business is a vital aspect for sustainable development.

We firmly believe that sustainability must focus on continuous improvement. There is always room for improvement and perfection, as well as new opportunities for change associated with technical and technological innovation.

This Integrated Environment, Safety and Health Report aims - with the utmost transparency - to share the progress we have and will continue to achieve with a view towards an even greener, sustainable and safer future.

Integrated quality, environment and safety policy

The Fedrigoni Group defined its Code of Ethics in a Company Mission Statement for the first time in 1998. Over time, these principles have been perfected and integrated through to the most recent version in 2019. Essential priorities include respect for people, laws and regulations, protection of the environment, transparency in the conduct of business and relationships with third parties, as well as assurances of confidentiality in relationships with all stakeholders, including shareholders, employees, suppliers, collaborators, media, public administrations, educational institutions, employers' and social associations and voluntary associations for environmental protection, safety and health in the workplace.

In harmony with these principles, the Integrated Quality, Environment, Safety and Health policy document defines the Group's commitment towards ensuring virtuous development focused on the quality of the products and services provided, in full compliance with environmental protection and prevention criteria designed to protect safety and health.

We are convinced that all companies must make a determined effort to reduce their environmental impact. Not only to protect current society and safeguard the well-being of its employees and all other interested parties. Good ethics require that we do not compromise the well-being of future generations.

The key points for Fedrigoni Group are:

1. FOCUS ON CUSTOMERS

Fedrigoni's primary objective is the satisfaction of all its customers. The nature of the relationship is based on listening and maximum collaboration so that we can correctly interpret the needs expressed and respond to them promptly and effectively. This means the Group can ensure production and supply always in line with expectations.

2. EXPERTISE AND TRADITION

Tradition, skill, specialisation and expertise gained over the years - and made even stronger thanks to the cohesion and calibre of all Group employees - are strategic levers for maintaining and improving competitiveness on the global market.

3. COLLABORATION AND COOPERATION

An integral part of Group's mission is broad, harmonious and integrated coordination between all company functions. Employees and collaborators responsible for managing strategies, processes, relationships, changes and human and instrumental resources work in reciprocal synergy and reciprocal adaptability, in compliance with company rules, directives and policies as well as those of individual specialist departments through harmonised specification of tangible and intangible results.

4. THE VIRTUOUS PRODUCTION CIRCLE

The Group is constantly committed to ensuring the resources needed to achieve all its qualitative, quantitative, environmental, safety, health and risk minimization improvement objectives. This vocation is an integral part of our routine operations and finds expression through strategic commitment concerning more general purposes envisaging the adoption of the best available technologies compatible with the principles of economic management and the cost:benefit ratio. All Group operations are conducted and managed in accordance with sustainability and social responsibility criteria with a dual objective. On the one hand, to ensure product and service quality, environment safeguards and the protection of the safety and health of employees. On the other, to ensure profitability and the integrity of company assets.

5. ROLES AND BENEFITS OF AN INTEGRATED APPROACH

From the point of view of implementation, responsibility for integrated quality, the environment, safety, health and risk prevention management lies with the managers of individual business units in compliance with the indications -even of a strategic nature - issued by Top Management. Its adoption and application ensures the supply, functionality and most appropriate performance of products and services, thereby allowing rational and responsible use of resources as well as lower environmental impact, fewer accidents and occupational illnesses.

6. RISK MANAGEMENT

The adoption of an integrated management system that includes risk control provides the entire corporate organisation with a tool that helps ensure timely recognition of critical issues and the implementation of necessary counter-measures designed to eliminate, reduce or, at the very least, deal with them in an informed manner. The system is also profiled to create the necessary organisational resilience to ensure intrinsic capacity for modifying the organisation's operations before, during and after a change or difficulty to ensure business continuity under foreseen and unforeseen conditions alike;
It also promotes awareness and knowledge among employees and external collaborators of the possible operating risks involved in the performance of their respective activities.

7. CRITERIA FOR SELECTING PARTNERS

The Group gives preference to external suppliers and collaborators which operate in compliance with sustainability principles and implement long-term risk management.

8. FOCUS ON BEST PRACTICES

The entire Group applies and upholds a system of good practices in full compliance with applicable laws and regulations by adopting conduct in keeping with the principles of the corporate code of ethics as well as safeguards against possible risks as regards the routine conduct of business.

9. MAXIMUM TRANSPARENCY IN RELATIONSHIPS

An essential prerequisite for the Group's growth is to develop and maintain correct and transparent relationships with organisations representing workers, employers and entrepreneurs, as well as public and private institutions, authorities, associations and all third parties involved.

10. IN THE FOREFRONT FOR IMPROVEMENTS

Every Group employee and collaborator, in relation to the assigned roles and acquired skills, must participate, contribute and concur responsibly towards the attainment of defined improvement objectives concerning quality, the environment and safety and health in the workplace.

The Italian business units in the Group refer to an "Organisational Model" pursuant to Italian Legislative Decree no. 231/01 as amended that governs the administrative responsibilities of legal persons, companies and associations, including those without a legal entity. This law means that extended liability has been introduced for the first time into the Italian legal system for companies and entities, under particular conditions and for specific malicious and negligent crimes. In this regard, the criminal sanctions already envisaged for natural persons who materially perpetrate one or more of the illegal events have been integrated into the Legislative Decree. Some of the crimes envisaged in the Legislative Decree refer to safety and health in the workplace and environmental protection.

Although the law does not envisage a mandatory requirement (in view of what is also indirectly referred to in Article 30 of Legislative Decree no. 81/08 as amended concerning Consolidated Safety Legislation), this management policy document means that the Fedrigoni Group has implemented an additional tool for cross-checking the principles set out in the Code of Ethics and the Integrated Policy, as detailed in 6 different implementation sections:

1. Operating procedures and protocols supporting decision-making processes
2. Supervisory Body appointed to monitor the implementation of the model and its effectiveness
3. Internal disciplinary system
4. Specific training activities
5. Assessment sheets for individual risks that may entail the offences envisaged by the Decree and related prevention and mitigation measures
6. Code of Ethics / Mission Statement

Specific training programmes have been organised to encourage sharing and application of the principles defined above by employees (in top management and subordinate positions) playing active roles in sectors where the offences governed by the Decree might occur. The objective? Increase awareness of the offences in question and the possible consequences if sanctions are applied and how the Group is organised to prevent them.

Our Sustainability path

The Group has always adopted in its corporate policy the application and the respect of guiding principles defined in 2010 by the ISO 26000 Guideline[1] underlying the Corporate Social Responsibility (also known as C.S.R.), acknowledging that social responsibility within the scope of business operations is an essential component for sustainable development. This principle, albeit from a wider perspective, is also embodied in Article 41 of the Italian Constitution[2].

Greater interaction with the community and its private and public representatives is constantly promoted through open and transparent dialogue that ensures equal attention to the legitimate expectations of every stakeholder and the protection of the natural heritage of the local areas where the company operates.

Since inception

Members of the Assocarta Commission for the Environment, Safety and Energy. Members of, and presence at the European level, in the C.E.P.I. (Confederation of European Paper Industries).

1998

Promotion and participation in the 'Ecogestione' project of the Cartiere italiane under the coordination of Assocarta.

2002

Collaboration with Assocarta for definition of the guidelines for the application for Integrated Environmental Authorization in the paper industry.

2002 – 2003

Participation in the definition of Assocarta's new web portal 'Osservatorio Ambientale'(Environmental Observatory).

2003

Participation in the activities of 'Agenda 21' organized by the municipality of Riva del Garda (province of Trento).

2003 – 2004

Contribution to Assocarta's 'Emission Trading' project for application of the European directive no. 2003/87/EC regarding the participation of the European Community in the Kyoto protocol for the reduction of greenhouse gases.

2005

Member of the Assocarta working group for definition of the guidelines for the training of Prevention and Protection Service Managers (Italian acronym: RSPP – Responsabili del Servizio di Prevenzione e Protezione) in the paper industry.

2005 – 2009

Participation in the 'Verona Aziende Sicure' (safe companies in Verona) project promoted by the provincial coordination of SPISAL (ULSS no. 20, 21 and 22) and chaired by SPISAL of ULSS no. 20 of Verona under the auspices of various institutional entities including the municipality of Verona, the province of Verona, the INAIL (Italian national institute for insurance against accidents), the Chamber of Commerce of Verona, the CGIL, CISL and UIL trade unions, Confindustria Verona, Apindustria Verona, and the Trade Associations (C.N.A, U.P.A. and Artigiani Riuniti). The results obtained have been publicly available from the beginning of 2009 and are:

- TECHNICAL – OPERATING MANUAL for implementation of a management system for safety and health in the workplace (Author: Dr. Paolo Azzolini –Quality, Environment and Safety Department Manager, Fedrigoni SpA);
- A COMPILATION OF OPERATING CHECKLISTS referring to the aforementioned Technical and Operating Manual Dr. Paolo Azzolini – Quality, Environment and Safety Department Manager, Fedrigoni SpA).

1 The ISO 26000 "Guide to social responsibility" aims to provide guidelines that help companies adopt socially responsible behaviour involving all stakeholders.

2 Article 41 of the Italian Constitution: "Private economic enterprise is free. It may not be carried out against the common good or in such a manner that could damage safety, liberty and human dignity. The law shall provide for appropriate programmes and controls so that public and private-sector economic activity may be oriented and co-ordinated for social purposes."

2006
Adoption of the Sustainability Declaration of the International paper industry during the C.E.O. meeting at the round table of the I.C.F.P.A. - "International Council of Forest and Paper Association", attended by more than 40 countries. This document describes the primary commitments taken by the paper industry to combine economic competitiveness with environmental and social sustainability.

2007
Winner of the 'VERONA AZIENDE SICURE 2006' award bestowed by the municipality of Verona for safety prevention in the workplace.

2008
Winner of the 'VERONA AZIENDE SICURE 2006' award bestowed by the municipality of Verona for safety prevention in the workplace. Winner of the 'VERONA AZIENDE SICURE 2006' award bestowed by the municipality of Verona for safety prevention in the workplace. Provision to the FAI (Fondo Ambiente Italiano – Italian National Trust) of Freelife Vellum, a paper with two separate certificates (CoC-FSC and Ecolabel) for their major publications.

2008 – 2013
The Quality, Environment and Safety Department Manager at Fedrigoni SpA lectures at the Faculty of Economics of the University of Verona in the 1st level Masters and postgraduate courses in Internal Auditing on 'Basic principles and procedures for applying quality and safety audits'.

2010
Participation in the survey conducted by Greenpeace on the origin, the procurement, the valuation criteria for suppliers, the management and the use of wood based raw materials in the Italian paper industry.

2011
Participation in the survey conducted by WWF on the origin, the procurement, the valuation criteria for suppliers, the management and the use of wood based raw materials in the European paper industry.

2012
Participation in the technical conference held by the Ministry of the Environment with delegation to the Marche and Tuscany regions for the Italian opinion on the revision of the Bref Report for the Production of Pulp, Paper and Board – draft 2 of May 2012 –pursuant to Directive 2010/75/EU and European directive no. 61/96/EC, also known as the I.P.P.C. (Integrated Pollution Prevention and Control) Directive.

2013
In early 2013, the WWF invited 70 of the most important pulp and paper manufacturers in the world to participate in the third Environmental Paper Company Index 2013 with the aim of recognizing their leadership in transparency. Fedrigoni SpA was one of just 25 companies in the industry – and the only Italian paper group in the graphic paper segment – to take the opportunity to demonstrate their transparency by voluntarily disclosing data on their sustainability performance after WWF's invitation.

2014–2015
Participation in the Assocarta project on energy diagnosis as provided by D.L.G.S. no. 102/14 which proposes a collective sector operation for the definition of common guidelines and methodologies aimed at realizing energy audits which are compliant with the new laws.

2015
Participation in the Assocarta work group for the definition of methods and means for carrying out assessment to verify the obligation of liability to the presentation of the reference report and final conclusions are per Italian Legislative Decree 46/2014 implementing Directive 2010/75/EU as regards industrial emissions modifying Italian Legislative Decree 152/2006 ad amended.
Renewed involvement among the most important paper producers in the world in the third edition of theEnvironmental Paper Company Index 2015 organized by WWF3. In this edition, Fedrigoni - the only Italian paper group in the graphic papers segment - improved the overall assessment assigned to to it by 8% compared to 2013, largely thanks to its sustainable pulp procurement policies, production process transparency, energy policy, environmental reporting and other data qualifying the Group's environmental performance. One of the noteworthy results contributing to the final score, in particular, was a 19% improvement in the score assigned to responsible purchasing of pulp starting off from an already flattering target achieved in 2013.

3 See website "http://epci.panda.org/".

2016

Participation as a reporting company in the management of special events within the scope of the initiative “Good practice in the management of stress at work to promote organizational well-being” coordinated by SPISAL of ULSS Health Authorties no. 20, 21 and 22 of the Veneto – Province of Verona.

2017

Involvement, together with the most important paper producers in the world, in the fourth edition of the Environmental Paper Company Index 2017 organized by WWF[4]. In this edition, Fedrigoni Group- the only Italian paper group in the graphic papers segment - improved the overall assessment assigned to it by 3% compared to 2015, following assessment of its sustainable pulp procurement policies, production process transparency, energy policy, environmental reporting and other data qualifying the Group's environmental performance.

2019

Participation, together with the most important paper producers in the world, in the fifth edition of the Environmental Paper Company Index event with the patronage of the WWF. In this edition, Fedrigoni Group - the only Italian group in the graphic papers segment taking part in the event - improved the overall assessment assigned to it in 2017, following assessment of its sustainable fibre raw material procurement policies, production process transparency, energy policy, environmental reporting and other data qualifying the Group's environmental performance.

4 See website “http://epci.panda.org/”.

5 The BRC Packaging Standard, developed by the British Retail Consortium (BRC) with the support of the Institute of Packaging and associations representing packaging manufacturers, aims to ensure hygiene and health safety not only for packaging materials intended to come into contact with food but also those used as primary packaging in sectors other than food, such as consumer products and secondary and tertiary packaging for all uses.

Voluntary standards

Voluntary management system certifications

Today, the market demands and expects ever-more responsible products and production processes. Which means even less impact on the environment and people's health. The industrial world must commit to supplying products which, once placed on the market, provide assurances of eco-compatibility and functional safety throughout their life cycle. A commitment that is easy say but more difficult to implement.

To ensure correct notification and communication, without the risk of self-referencing inferences, operations require management systems which, although voluntary, must be recognized internationally and verified by independent third parties at regular intervals. It is no coincidence that the Group, based on the specific applicability of the various reference sites, began operating in compliance with internationally recognized standards as early as 1993 (date when Fedrigoni S.p.A. earned its first ISO 9001 certification). Today's most significant standards include ISO 9001 for quality management, ISO 14001 for environmental protection, ISO 45001 (or OHSAS 18001) for prevention in the occupational health and safety field, the FSC® and PFEC standards for safeguarding and protecting the forest heritage, ISO 50001 for rational energy management, UNE 166002 for research, development and innovation and BRC Packaging[5] for hygiene-health safety of packaging in the food sector.

In relation to ever-increasing demand for sustainability, the Group has two main objectives: focus on product and service quality capable of meeting customer expectations and providing all stakeholders with maximum evidence of the most virtuous conduct.

Paper & Security business unit certifications

	FEDRIGONI SpA (Italy)	GRUPPO CORDENONS SpA (Italy)	FEDRIGONI BRASIL PAPEL Ltda/SALTO (Brazil)
UNI EN ISO 9001.2015 Quality Management System	X	X	X
Certificate identification number	CQ 539	H 1427	ABS QE 31562
UNI EN ISO 14001:2015 Environmental Management System	X	X	X
Certificate identification number	CQ 7847	H 1427	ABS QE 41640
BSI – OHSAS 18001 Occupational Health and Safety Management System	X Transition to the 45001 scheme in 2018	X	X
Certificate identification number	CQ 15229	H 1427	ABS QE 43634
ISO 45001:2018 Occupational Health and Safety Management System	X	-	-
Certificate identification number	CQ 26471	-	-
ISO 50001:2011 Energy Management System	-	X	-
Certificate identification number	-	H 51991	-
BRC Hygiene-health safety of packaging	-	X	-
Certificate identification number	-	BRC site code: 1630827	-
AEOF[6] Authorized Economic Operator - full	X	-	-
Certificate identification number	IT AEOF 10 0251	-	-

6 This certification is granted by the central management of the Italian Customs Authority for the management of taxes and user relations – office for customs and fiscal regimes and is governed by article 5 bis of EC Regulation (EEC) 2913/92 (CDC), as amended by Regulation (EC) no. 648/2005 and articles 14bis and 14 quindicies of Regulation(EEC) no. 2454/93 (DAC) as amended by Regulation (EC) no. 1875/2006. This certification is granted after the national Custom's Authority ascertains compliance with customs obligations, fulfilment of the required accounting system criteria, financial solvency, compliance with appropriate accounting standards and the applicable regulations for safety and health in the workplace. It is monitored on an annual basis through maintenance audits conducted by the district offices of the Custom's Agency having territorial jurisdiction over the Company's units covered by such certification.

For certain products, such as banknotes, bonds and security features, the Fabriano (AN) and Bollate (MI) plant are accredited with the European Central Bank (ECB) and the Bank of Italy. Such accreditation also extends to Central Banks in several other countries around the world supplied by these companies.

Pressure Sensitive Label business unit certifications

	ARCONVERT SpA (Italy)	ARCONVERT SA (Spain)	FEDRIGONI BRASIL PAPÉIS Ltda/JUNDIAI (Brazil)
ISO 9001:2015 Quality Management System	X	X	X
Certificate identification number	SGS SA 97/0116	AENOR ES-0277/1995	BSI America - FS 562456
ISO 14001.2015 Environmental Management System	X	X	-
Certificate identification number	SGS SA 02/0955	AENOR ES-2009/0056	-
BSI – OHSAS 18001 Occupational Health and Safety Management System	X	X	-
Certificate identification number	SGS SA 08/1328	AENOR ES-SST-0102/2011	-
ISO 45001:2018 Occupational Health and Safety Management System	Transition expected by 2021	Transition expected by 2021	-
UNE 166002:2014 Research, development and innovation management system	-	X	-
Certificate identification number	-	AENOR IDI-0066/2011	-

N.B. : GPA – not included because it does not have system certifications

In 2015, the ISO (International Organization for Standardisation) ended the progressive review of the standards governing quality, environment and occupational safety and health standards with the objective of integrating them in terms of terminology, structure and method of approach. Thereafter, in March 2018, the British BSI OHSAS 18001 standard was merged with the ISO system as the ISO 45001[7] scheme.

The ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 regulatory frameworks, after years of diversified approaches, were merged into management matrices that promote their full integration by sharing a series of main requirements:

1. The first mandatory requirement involves identifying and managing risks as well as opportunities. These are the cornerstones of a management system for all organizational processes that is also capable of including possibilities, probabilities, consequences and so forth. This assessment criterion is among the factors also taken into consideration by strategic planning.
2. The organization must determine the internal and external critical factors having an impact on business such as the prevention strategies it may wish to implement, by envisaging at the same time an approach focusing on continuous improvement.
3. The focus of management activities must emphasise performance in place of formal and prescriptive aspects, by including increasingly efficient performance measurement criteria designed to achieve ever-better achievement of objectives.
4. The *management responsibility* model is replaced by the *leadership and commitment* model. This new approach is applied systemically to business management and relationships with customers and third party stakeholders.
5. Knowledge itself must be managed as a resource. For this reason, communication must highlight organizational choices in the best possible way by promoting circular information inside and outside the company.
6. The control/audit activities to be implemented on required documentation and mandatory registrations are now merged into a single heading; In the specific case of ISO 14001:2015, a *Life Cycle Perspective* incorporating the ISO "Future Challenges for EMS" Report to involve design stages in the selection of the raw materials used in products must also be implemented. The objective, as already outlined over the last few years, is to develop greater control of all environmental aspects linked with product life cycles, from creation to disposal, by introducing even more up-line controls in the value chain towards suppliers and parallel outsourced processes.
7. Products and services acquired from the outside are merged and equated with the requirements for goods and services purchased directly or obtained from outsourced processes. In brief, the distinctions are not applied on the basis on their origin but rather on their impact on the product or the final service.

7 The new standard envisages a period of three years for the transition from OHSAS 18001 to the ISO 45001 system. i.e. by 2021.

Voluntary product certifications and marks

Over and above requesting that companies implement organized process management, the market is increasingly attentive to sustainability, safety and the environmental impact of products in all stages across their life cycle (aspects that in any case are now an essential requirement of ISO 14001:2015 Management System).
This new awareness influences the purchasing patterns of consumers even to the point of encouraging them to consider the price factor as less of a priority. Combining the product's technical and functional characteristics with the noblest principles of the *green economy* thereby becomes a competitive factor. Fedrigoni Group has known this for some time.

The starting point is that if product sustainability is to be credible, it must go beyond mere declarations of intent. Sustainability presupposes a holistic approach with a focus on virtuous *Product Life Cycle Management*. Verification and scrupulous selection criteria must be applied from the outset and thereafter to raw material procurement stages so as to consider the finished product in all stages of use, even including disposal and recycling processes.

Fedrigoni moved well in advance to improve the quality of its products and services by taking action involving its industrial processes to ensure respect for the environment, the eco-sustainability of its papers and their total safety in use.

All this must then be embodied in an increasingly self-referential global system, characterized by regulations, schemes and standards (each recognisable by individual certificates, particular labels, specific product declarations and so forth) attesting to the same characteristics of sustainability that differ only in terms of form but not of substance. It is easy for consumers - and even sector operators themselves - to become confused.

Fedrigoni Group, with a view to maximum information transparency and international recognition, provides references for products and services in ecological and sustainability terms in accordance with the most widely acknowledged and recognised standards such as FSC®[8], PEFC®[9], ISO 14021[10], ISO 14024[11] and ISO 14025[12]. Currently, the main marks and product certifications issued by accredited independent third parties include:

8 FSC® (Forest Stewardship Council) – An independent international non-government IS self-declared non-profit organization created to promote responsible forest management worldwide. It provides standards, trademark insurance and accreditation services for companies and organisations interested in responsible forestry. FSC® products are independently certified to assure consumers that they come from forests that are managed to meet the social, economic and ecological needs of present and future generations.

9 PEFC® (Program for Endorsement of Forest Certification) - A forest certification and chain of custody system developed in 1998 by European forest owners and the lumber industry to facilitate mutual recognition of existing national forest certification schemes.

10 ISO 14021 – Regulates the use of eco-labels and environmental declarations (Type II environmental declarations) that provide environmental information given by manufacturers, importers or products distributors, without the intervention of an independent certification body. However, a number of requirements must be complied as regards the distribution method and information content.

Business unit Paper & Security

	FEDRIGONI SpA (Italy)	GRUPPO CORDENONS SpA (Italy)	FEDRIGONI BRASIL PAPEL Ltda/SALTO (Brazil)
FSC-STD-40-004 / V 3-0	X	X	X
Type of certification	FSC® Chain of Custody	FSC® Chain of Custody	FSC® Chain of Custody
Certificate identification number	CQ - COC - 000010	SQS – COC - 100104	RA – COC - 003512
Sector certified	Entire company	Entire company	
FSC-STD-40-003 / V2-0	X	-	-
Type of certification	FSC® Chain of Custody Certification of Multiple Sites	-	-
Certificate identification number	CQ – COC 000010	-	-
Sector certified	Entire company	-	-
FSC-STD-40-007 / V 2-0	X	-	-
Type of certification	Sourcing reclaimed material for use in FSC® Product Groups of FSC® Certified Projects	-	-
Certificate identification number	CQ – COC - 000010	-	-
Sector certified	Entire company	-	-

Business unit Pressure Sensitive Labels

	ARCONVERT SpA (Italy)	ARCONVERT SA (Spain)	FEDRIGONI BRASIL PAPÉIS Ltda/JUNDIAI (Brazil)
FSC-STD-40-004 / V 3-0	X	X	X
Type of certification	FSC® Chain of Custody	FSC® Chain of Custody	FSC® Chain of Custody
Certificate identification number	ICILA - COC - 000382	AEN - COC - 000015	FSC – C 114507 Trademark license number
Sector certified	Entire company	Entire company	
PEFC	X	X	
Type of certification	PEFC® Chain of Custody	PEFC® Chain of Custody	
Certificate identification number	ICILA – PEFCCOC - 000148	PEFC / 14 - 35 - 00113	
Sector certified	Entire company	Entire company	Entire company

GPA

	ALL SITES (USA)
FSC-STD-40-004 / V 3-0	X
Type of certification	FSC® Chain of Custody
Certificate identification number	SCS – COC - 001188
Sector certified	Entire company

11 ISO 14024 – Governs the issue of voluntary ecological labels (1st type environmental declarations) subjected to external third-party certification, based on a multi-criteria system that considers the entire life cycle of the product through an L.C.A. (Life Cycle Analysis) conducted in accordance with the indications of the ISO 14040 standard in order to ensure the objectivity of information. The criteria set the minimum values to be complied with for the issuance of the label. The competent body issuing the label may be public or private.

12 ISO 14025 – Governs the issue of Type III environmental declarations that provide information based on established parameters quantifying the environmental impact of the product's life cycle calculated using an L.C.A. system. They are subject to independent audit and are presented in a clear and comparable manner. They include, for example, "Environmental Product Declarations" (E.P.D.s).

Other labels and marks of a voluntary nature that accompany the products confirming possession of specific ecological, environmental and safety attributes in compliance with the ISO 14021 standard, include:

pH Neutral
The water-based extract of the fibrous support is pH-neutral.

Elemental Chlorine Free
The pulp is bleached using environment-friendly processes that ensure a maximum content of derived organic chlorine compounds lower than 0.8 kg/ton.

Recyclable
Recyclable or recoverable in the form of energy paper.

Acid free
Use of production processes conducted in acid-free environments, in particular concerning the phases of paper sizing.

Total Chlorine Free
The pulp is bleached using environment-friendly processes that use no chlorine-based products and ensure a maximum content of derived organic chlorine compounds of less than 0.2 kg/ton.

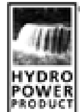
EN71/3 Safety of Toys
Requirements against migration of certain elements.

Long life
Complies with the requirements of the ISO 9706 standard, allowing the paper to be classified as '*long* life' and guaranteeing its durability as well as certifying that it contains no more than 5% of wood pulp or semi-chemical pulp and has a pH ranging between 7.5 and 10 in the watery extract and an alkaline reserve above 2%.

Selected Secondary Fibers
Use of highly selected recycled secondary pre-consumer and post-consumer fibres.

Annual Fibers

Use of pulp fibres from annual low-growth plants such as bamboo, hemp, kenaf and linen and so forth as contribution towards reducing tall tree logging.



Hydro Power

Product manufactured using renewable hydroelectric energy.

Well managed forest

Use of pulp obtained from wood supplied from sustainably managed forests. This logo certifies that the wood-based raw materials comply with the best principles of environmental sustainability for our products that are not already covered by CoC-FSC® certification.

Wet strength product

Product with high resistance to humidity.

Cotton based product

Use of cotton fibres (annual plant) in the fibrous composition of the product.

Heavy Metal Absence

Specific compliance with the European Directive 94/62/EC converted into law in Italy by Legislative Decree no. 22 dated 5 February 1997 and subsequent amendments, which defines the maximum thresholds allowed for heavy metals in packaging and waste from packaging.

"HEAVY METAL ABSENCE"
Initially set up exclusively to certify compliance with the dictates of European directive no. 94/62/CE, its pertinence has now been extended to include observance of other European directives that in other ways govern the presence of heavy metals, including no. 2002/ 61/ CE, no. 2003/03/CE, no. 76/769/CEE, no. 2002/96/CE, no. 2002/96/CE, no. 88/378/CEE and European Standard EN 71–1:1998 / Part III, as amended by European Commission circulars no. 2002/C 188/08 and no. 2003/11/ CE with the XXIV modification of European Directive no. 76/769/CEE.

Investments in environment, safety and health

From a strategic viewpoint, business must always be far-sighted and responsible. While every production process must be profitable and the goods produced must be increasingly competitive, careful investment policy must also consider the eco-compatibility and sustainability status of the company.

Although public bodies and institutions declare their intention to facilitate such entrepreneurial policies essential for growth, on the other hand, they also impose a whole series of legislative, regulatory, administrative and bureaucratic obstacles. This is to the detriment of *authentic business*, whereby triangular, efficiency, eco-friendliness and sustainability in manufacturing industry become an arduous task. Despite this rather daunting scenario, Fedrigoni has always dedicated a large portion of its budget to improving processes and products, pursuing the best development logic associated with the *green economy* in an extremely effective manner.

By indicating separately the incidence of investments on the total invested in the reference area specifically dedicated to environmental and safety & health protection on the capitalised total[13], the picture in recent years is as follows:

The Group has continued for many years to invest huge resources not only to expand production capacity and cut costs but also to improve product and service quality levels. A key to development is continual optimisation of processes to reduce environmental impacts, ensure healthy workplaces for employees and supply customers with absolutely safe products.

Business unit Paper & Security

	NORTH AREA Arco – Bollate Buttapietra Varone - Verona		CENTRAL AREA Castelraimondo Fabriano – Pioraco Rocchetta		CORDENONS GROUP Cordenons – Scurelle		FEDRIGONI BRASIL PAPEL Ltda/SALTO Brazil	
	Environment	Safety	Environment	Safety	Environment	Safety	Environment	Safety
	%	%	%	%	%	%	%	%
2013	2.1	4.3	1.0	1.0	-	-	1	7
2014	5.3	17.4	3.5	3.7	5.5	9.2	10	27
2015	4.9	3.7	6.5	5.2	4.3	6.9	1	10
2016	2.7	2.6	1.2	1.3	8.4	12.5	0	0
2017	3.3	35.4	0.9	4.2	5.1	6.9	0	0
2018	5.6	23.2	12.6	2.3	4.2	10.5	0	5
2019	19.3	7.0	4.2	2.9	4.3	24.8	0	67

Business unit Pressure Sensitive Labels

	ARCONVERT ITALY		ARCONVERT SPAIN		FEDRIGONI BRAZIL PAPÉIS Ltda/JUNDIAI	
	Environment	Safety	Environment	Safety	Environment	Safety
	%	%	%	%	%	%
2013	1.2	0.4	0.6	1.6	0	10.2
2014	1.4	13.6	0.2	2.4	0	9.6
2015	1.0	27.5	1.6	1.7	0	0.8
2016	0.2	5.1	18.6	1.4	0	3.5
2017	0.1	8.6	6.3	6.6	0	7.5
2018	1.5	48.7	0.16	3.23	0	3.8
2019	0.3	5.4	0.17	0.72	0	4.9

13 The calculation of incidence on total investments refers only to activity designed to expand and improve capital goods and the purchase or creation of new resources to be used in the production process for environmental and safety protection, thereby excluding the costs sustained for compulsory requirements.

Our personalised papers boast an extraordinary and inimitable style. This singularity is the outcome of experience, knowledge and the capacity for innovation of the sales team who, in synergy with production team, develop unique, safe and eco-compatible products in full compliance with sustainability paradigms.

Products and processes

Products: types and services

The Group offers an extensive and broad product list, integrated by a significant number of papers made exclusively to meet technical specifications agreed and shared with customers from time to time.

The 3 macro-categories in our product offering are characterised by production technologies, as well as by very different raw and auxiliary materials and different environmental impacts.

Graphics, printing and security papers

Banknotes, paper converting for personal and commercial use, school and artistic drawing, publishing, labelling, photo reproduction, deluxe primary packaging, bookbinding, technical and industrial uses, lining, commercial and specialist printing, digital and impact-free printing and bonds and security elements.

Technical products

Security threads with magnetic codes, multifunctional security threads, holographic threads and patches, stripes for banknotes, security paper for checks, telephone cards, lottery tickets, vouchers and tickets.

Pressure Sensitive Labels products

Frontals and Pressure Sensitive Labels products for use in various sectors (industrial, food, pharmaceutical, wine, marketing and so forth).

In addition to its products, the Group also provides a number of other services, the main ones being:

- Product promotion
- Pre and post-sales technical assistance
- Single and multi-topic thematic training activities targeting customers and stakeholders
- Logistics

Production processes

Papers for printing and graphics

The paper-making process begins by combining a series of raw materials dispersed in water (pulp, fillers and additives) in accordance with specific weight ratios for each type of paper. The mixture is then conveyed to a flat table where a jet from the so-called inflow tank forms the structure of the paper. Subsequent drainage and dehydration processes then create a paper web, which is wound at the end of the paper machine on to large reels, which may even weigh several tonnes. Subsequently, the paper may undergo further processing involving machines for surface, thermal and mechanical treatment as well for coating, application of films or improving substances, lamination and much more besides.

The paper-making process is very detailed and affected by several factors, depending on the type of product manufactured. Processing takes place on a continuous paper-machine. This industrial plant is very large and extremely complex from a technical and technological point of view.

The paper-making process

1 INCOMING RAW MATERIALS

- non-fibre raw materials
- fibre raw materials
- chemical additives
- water
- electricity
- heat

2 PULP PREARATION STAGES

- preparation of pulp from secondary fibres (recycled – recovered paper)
- preparation of pulp from primary fibres (virgin)

3 PAPER-MAKING STAGES

- flow box
- flat forming table
- ○ pre-drying
- ○ size press
- ○ post-drying
- p.m. winder (pope)

4 AUXILLIARY PAPER TREATMENTS

- ○ preparation of coatings
- ○ on-line coating
- ○ off-line coating

5 PAPER FINISHING STAGES

- special treatments:
  . calendaring
  . embossing
  . laminating
  . flexographic printing
- paper cutting
- reeling
- ○ packing

6 SHIPMENT

ENVIRONMENTAL IMPACT

• environmental noise
• emissions into the atmosphere

PROCESS WASTE WATER DEPURATION PLANT
AND CONSIGNMENT OF DEPURATED WATER

• production of waste (sludge/slurry + other)

KEY
○ Process stages that generate emissions

Self-Adhesive Papers (Pressure Sensitive Labels)

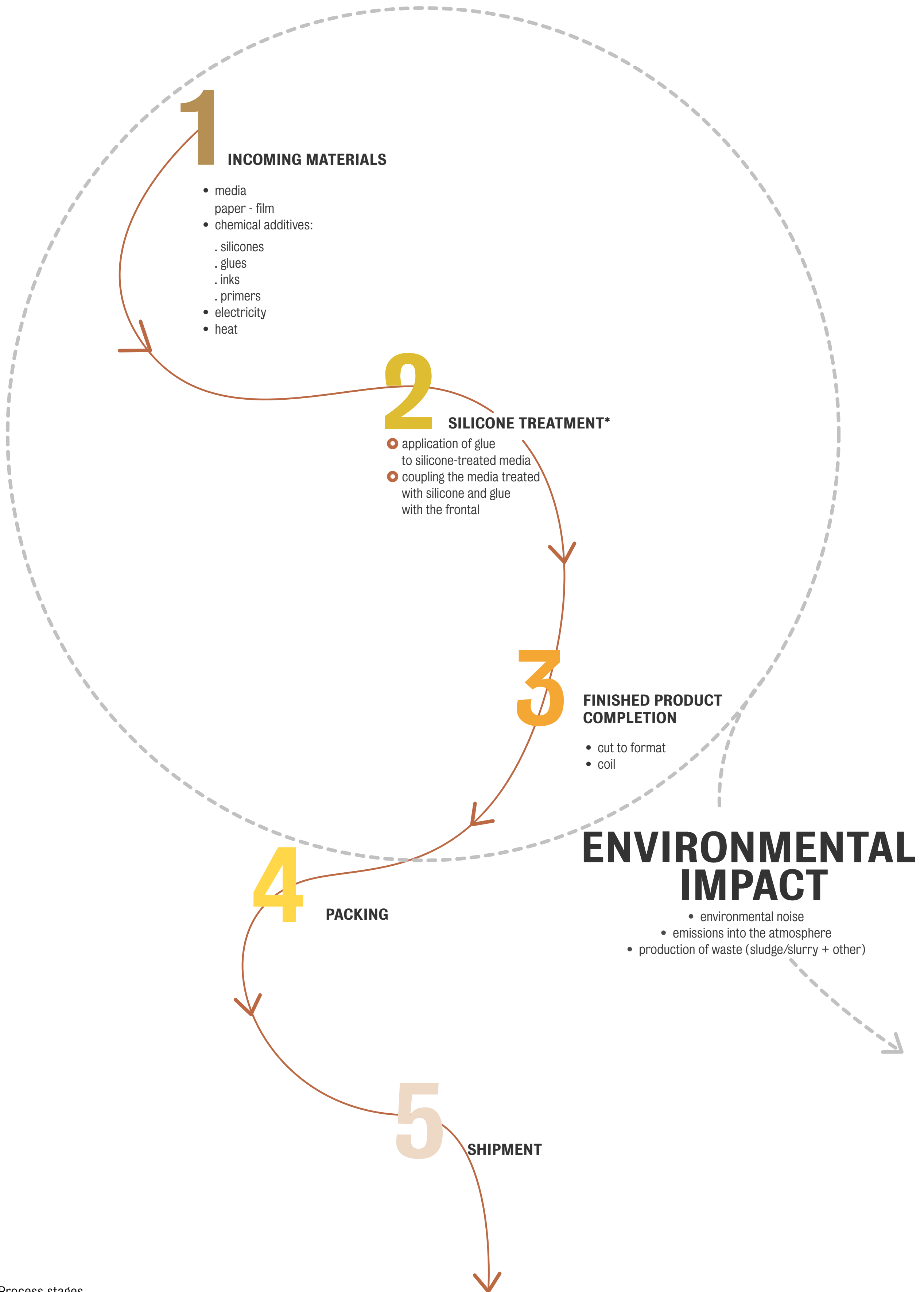
The Pressure Sensitive Labels production process, unlike paper, uses paper reels and plastic films as raw materials. The processing stages involve the application of very sophisticated surface treatments from a technical and quality point of view. There are essentially two processing methods:

- **Silicone coating**, through the application of an extremely thin layer of silicone or protective plastic film on to paper media.

- **Adhesivation**, through the application of adhesive to the silicone-coated support and then transferring it to the frontal material (label).

For over 20 years, all Pressure Sensitive Labels production centres have applied a water-based silicone treatment which envisages the exclusive use of raw materials free of toxic solvents (such as hexane, xylene or toluene). This ensures low environmental impact for the production process while also protecting the health of our employees and end consumers.

Pressure Sensitive Labels material production process



In more recent years, these two processes have enabled the following quantitative performances to be achieved

	B.U. Paper & Security Gross Tonnes	B.U. Pressure Sensitive Labels sq.m[14]
2013	530,792	657,147,109
2014	545,480	696,637,139
2015	554,721	740,628,216
2016	570,739	782,423,323
2017	536,849	825,699,432
2018[15]	542,989	856,243,481
2019	521,745	884,081,231

14 In the Pressure Sensitive Labels field, the unitof measure is "square meter" and not "weight".

15 Pioraco Mill (MC) - inactive for part of 2016 and all 2017 following damage suffered in the earthquake on 26 October 2016.

Environmental and safety issues associated with production processes

Having described the main processes, the role of related environmental aspects[16] varies in accordance with the following scale of significance:

Environmental aspect	Paper production	Pressure Sensitive Labels production	Technical specialties
Raw materials non-fibrous material	**significant**	**significant**	not very significant
Fibrous raw materials	**significant**	not applicable	not applicable
Energy (electricity and thermal)	**significant**	**significant**	**significant**
Atmospheric emissions	**significant**	not very significant	not very significant
Water resources – fresh waters	**significant**	not very significant	irrilevant
Water resources waste waters	**significant**	not very significant	irrilevante
Waste	**significant**	**significant**	**significant**
Environmental noise	**significant**	irrilevant	irrilevant
Powders/Dusts	not very significant	not very significant	not very significant
Odours	not very significant	irrilevant	**significant**
Hazardous substances	**significant**	not very significant	**significant**
Soil and water tables	**significant**	**significant**	**significant**

16 Aspect of an organisation's activity, product or service that may interact with the environment.

The Group's industrial processes, given their substantial differences, give rise to different impacts and, consequently, require different environmental protection measures.

Given the complex and detailed legislation governing environmental protection in the geographical areas where it operates (often very diversified from country to country), Fedrigoni has always taken special care to mitigate all impacts arising from its activities on the ecosystem and the local area.

Intervention methods often far exceed the minimum requirements defined by law, in relation to the following environmental and safety aspects:

- Atmospheric emissions
- Environmental and safety expectations of stakeholders;
- Consumption of fresh water and quality of waste water
- Energy consumption
- Consumption of natural resources
- Use of substances hazardous for the environment and health (carcinogenic, mutagenic, teratogenic, bio-hazardous)
- Powders/dusts and odours;
- Environmental and safety performances of suppliers
- Waste production
- Environmental noise and noise in workplaces;
- Occupational health and hygiene;
- Soil contamination (soil, subsoil and groundwater)
- Specific environmental pollution

The identification of these significant environmental aspects and impacts associated with them is based on:

- analysis of incoming auxiliary raw materials
- analysis of production output, including the distribution system
- analysis of internal process flows
- data on final emissions and those for the various production stages along the entire supply chain
- laws, regulations and other obligations
- analysis of the environmental situation of the surroundings in the local area where the site is operative and the general context where it is located

Taking the following situations into account:

- routine operating conditions
- abnormal operating conditions (start, stop, ...)
- emergency situations
- past, present and planned future activities

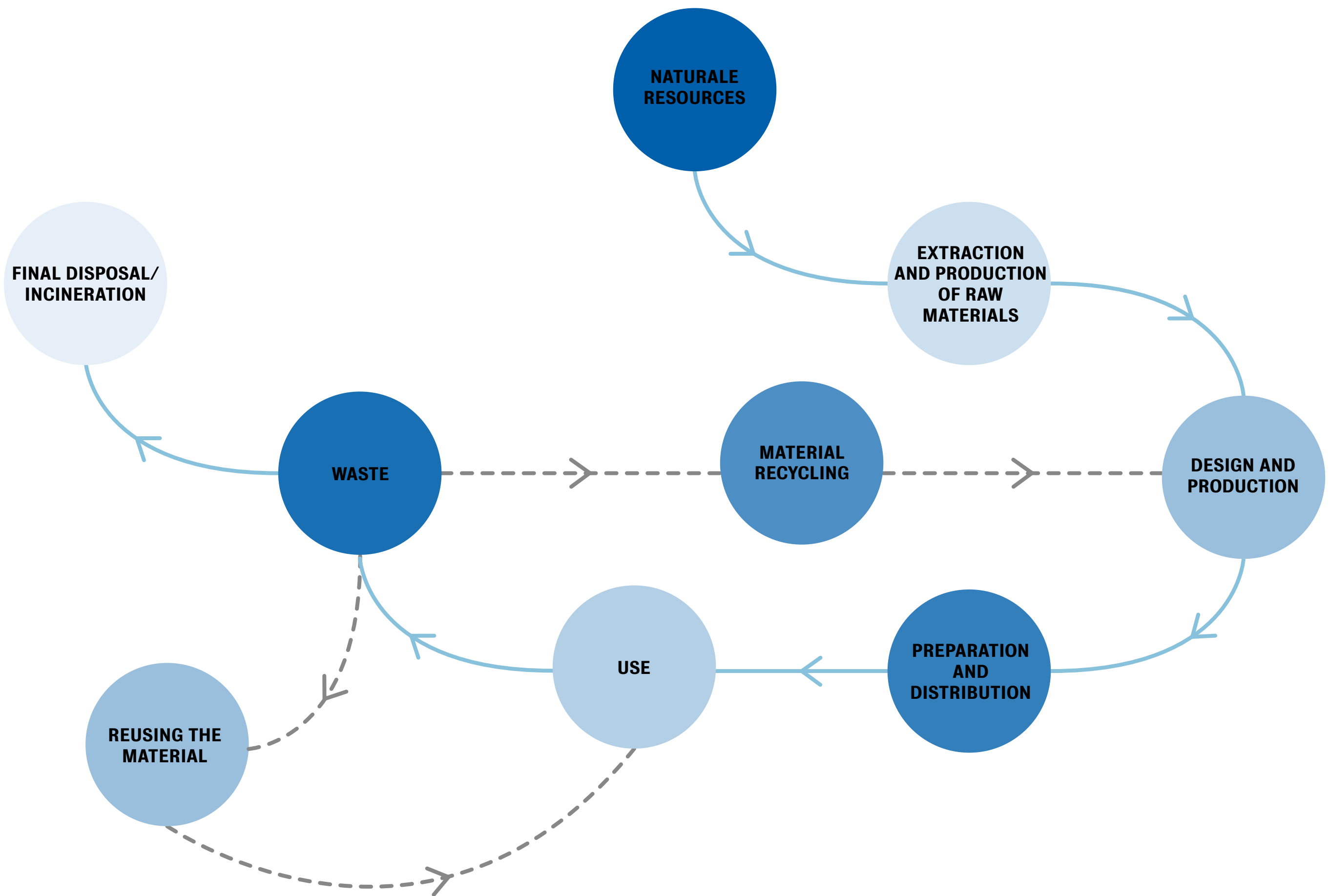
The critical nature of the various significant environmental aspects is assessed on the basis of:

- regulatory compliance
- relevance
- management efficiency
- sensitivity of the local area

In addition to controlling impacts generated directly by internal processes, the Group also pays equal attention to those induced up-line by suppliers. How? Through responsible environmental, ecological and safety assessments of raw and auxiliary materials, machinery, plant, performance and services, also through a typical Life Cycle Perspective[17] (LCP) approach in relation to the following cycle:

17 This method seeks to consider production processes and their impact on the environment in a perspective going beyond the narrow confines of the individual production site by also examining all the up-line and down-line production stages (from design, to distribution, consumption and so forth) through to the end of life of products, regardless of where these stages take place in material terms and the subjects responsible for the management of these activities (suppliers, designers, transporters, disposal companies, etc.).

Product life cycle



Considering:

- number of stages making up the life of a product or service
- internal level of control that can be exerted over the environmental aspects of these stages
- product life
- ability to influence subjects involved, for various reasons, in the supply chain and value chain
- technological complexity of the product or service.

P for PLANET

We actively participate in preserving all natural resources complying with the underlying principles of environmental, social, economic and territorial sustainability.

Environmental performance in the Paper & Security business unit

This section outlines and discusses the performance data exclusively for the Group's own manufacturing sites. Consolidated historical analysis clearly indicates that the branches, logistics and distribution centres, sales subsidiaries and Fabriano Boutique stores do not have significant impacts or in any case such as to influence, even minimally, the performance of the Business Unit.

Fibrous raw materials from forestry sources

It is a widely-held opinion that the paper industry is one of the main perpetrators of deforestation. It is in realty a false myth: the truth is that almost all the wood used to produce pulp for paper-making comes from wood industry waste and the forestry clearance operations needed to keep forests healthy.

All the production processes in the sector confirm increasingly sustainable development associated with reductions for other significant environmental impacts such as water consumption, energy consumption and emissions into the atmosphere. All the more, legislation also intervened in March 2013, with the issue of European Regulation no. 995/10/EC which obliges all companies importing wood or its derivatives into the European Union to demonstrate effectively to competent authorities its legal origin, through due diligence activities repeated annually.

Over and above laws and standards, Fedrigoni has always been a convinced supporter of sustainable forestry even in times when others were merely talking about it. As early as 2005, for example, Fedrigoni embraced the principles of the FSC® forestry scheme and published its specific

The modern paper industry plays an increasingly important role in renewing and expanding the world's forest areas. Despite many unjustified prejudices and clichés, the sector in the West only uses pulp from sustainably managed and certified forests.

company policy inspired by FSC®-STD-40-005, FSC®-PRO-20-001 and FSC®- STD-40-004 standards, with a formal commitment not to use pulp from:

1. illegal logging
2. logging in areas where civil or traditional rights are violated
3. forests where high values of conservation (acronym: HVCFs = High Value Conservation Forests) are threatened by improper forestry management and maintenance activities
4. areas converted from forests or other wood ecosystems into annual plantations or other forms of non-forest use
5. forests where genetically modified trees have been planted

In keeping with the market offering, pricing policy and production requirement, supplies have always focused on pulp from sustainable sources managed in accordance with FSC® regulations, in this sequence:

	2015			2016			2017			2018			2019		
Reference area Paper mills	FEDRIGONI	CORDENONS	SALTO	FEDRIGONI	CORDENONS	SALTO	FEDRIGONI	CORDENONS	SALTO	FEDRIGONI	CORDENONS	SALTO	FEDRIGONI	CORDENONS	SALTO
Incidence on total purchases	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Pulp - type COC - FSC®	71	57.5	100	74	58.8	100	71	59.4	100	70	59.6	90	72	69.4	90
Pulp - type CW - FSC®	29	42	0	26	40.9	0	29	40.3	0	30	40.4	0	28	30.6	0
Pulp - controlled type not CW - FSC®	0	0.5	0	0	0.3	0	0	0.3	0	0	0	0	0	0	0

WHERE

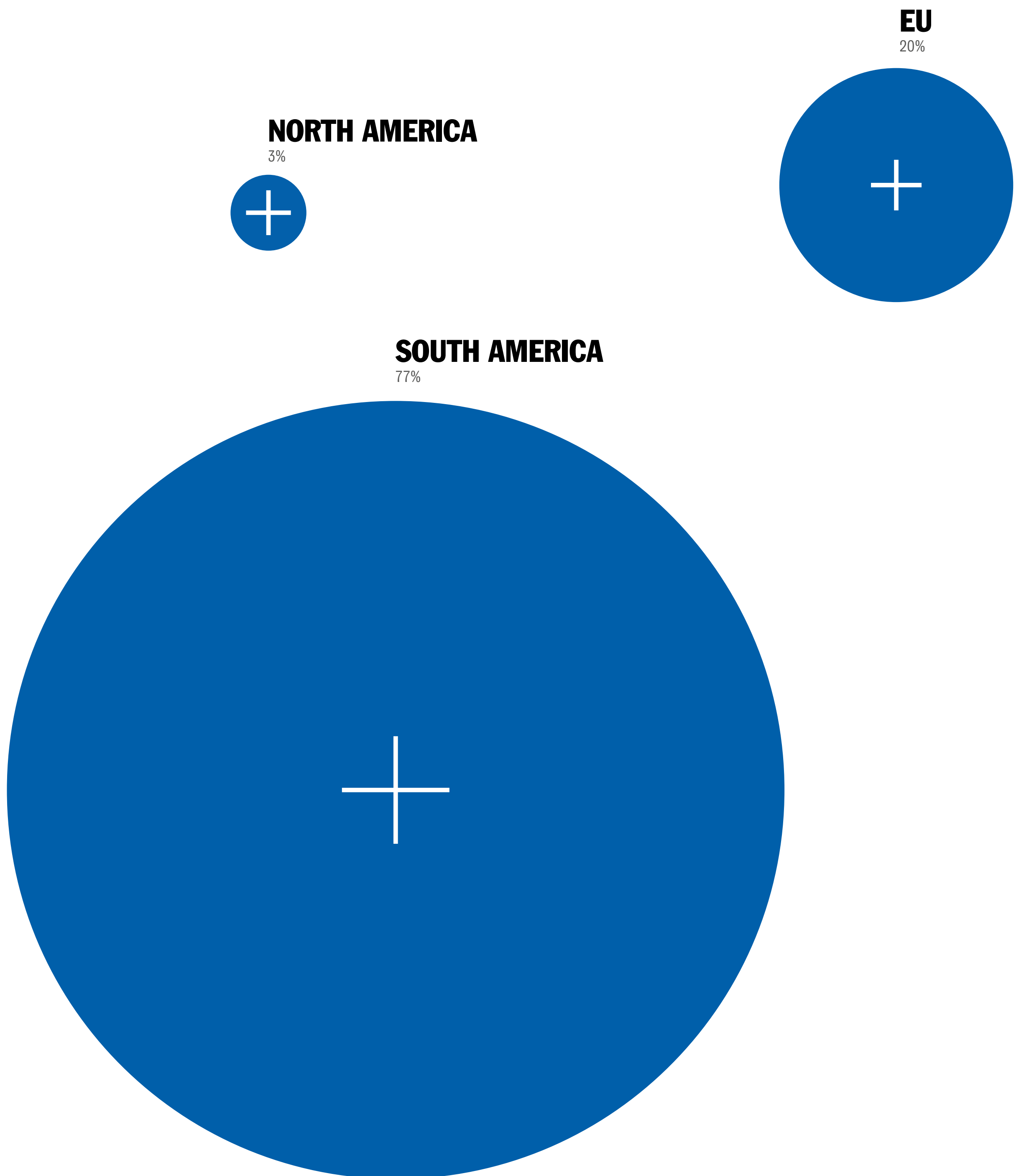
FSC® reference system: The FSC® forestry certification scheme is one of the most widely used on an international scale and seeks to promote correct forest management. Its certifications are shared in over 60 countries around the world and supported by the major environmental NGOs, with WWF and Greenpeace in the forefront. They assure users and consumers that the wood and its derivatives used in to manufacture the product meet high standards to safeguard the environmental, social and economic features of forests by certifying that products purchased are socially and economically ethical.

Pulp - type COC-FSC®: Pulp certified by FSC® accredited independent third-party entities according to FM-FSC® or CoC- FSC® systems.

Pulp - type CW-FSC®: This is an attribution of the FSC® system, which is regulated by the standard FSC-STD-40-005 (standard for company evaluation of FSC® controlled wood); the aim is to ascertain that, while the pulp is not classifiable as FM-FSC® or CoC- FSC®, it is of legal origin and complies with the principles of forest sustainability as defined by the FSC® Council. This attribution is obtained on approval by an FSC® accredited third-party certifying entity after verifying compliance with the reference standard.

Pulp - controlled type not CW - FSC®: The risk assessment for this kind of pulp is carried out directly by Fedrigoni and inspired by the criteria indicated in the FSC-STD-40-005 standard (for in-house assessment of FSC® controlled wood). The reliability of this assessment, in any case, is checked annually by the third party certifying the Group's FSC® system.

The origin of pulp



It must be specified that post-consumer pulp from differential paper waste collection through public platforms, given the nature, type and market for which Fedrigoni Group papers are intended, is not possible as found but only to a limited extent in the de-inked state (DIP). This does not affect responsible consumption by the Group in any way, given its dedication to sustainable recovery of paper products and protection of forests through continuous action designed to reduce greenhouse gas emissions.

The company uses pre-consumer pulp in its production, i.e. internal technical and quality waste, purchased scrap sheets that can be pulped and direct recoveries from the paper machine compatible with the classification defined by the European standard UNI – EN 643 (Standard for standard qualities of waste paper and cardboard) in accordance with the FSC-DIR-40-004 directive (FSC® Directive on Chain of Custody Certification), in force since 07.10.2015, and in consideration of ADVICE FSC-40-004-13 that defined the equivalence of pre-consume[18] to post-consume[19] in FSC® mixed or recycled products. This type of use is also backed up by compliance with the requirements defined by FSC-STD-40-007 (Sourcing reclaimed material for use in FSC® Product Groups or FSC® Certified Projects).

18 PRE-CONSUMER: printed or unprinted papers that have not reached the end of their useful life such as returns of unsold newspapers and all surpluses of unsold publications, print waste and other types of waste that are a constituent part in the process of creating added value or commercial value for papers.

19 POST-CONSUMER: papers from a product after it has been used for its intended purposes, both individually and collectively, which has reached the end of its useful life cycle, such as materials reclaimed from domestic and urban sectors, large-scale distribution and small retailers

One kilo of maize involves consumption of 900 litres of fresh water, while producing one kilo of pork uses 4900 litres[20]. Compared with these figures, the average unit consumption for papers produced by the Fedrigoni Group is only 37 lt/kg paper.

Fresh process water

After pulp, water is essential for paper-making. In this regard, another myth that must be dispelled is the idea that the paper industry as an endless consumer of water. There are many other sectors which consume far higher (absolute or relative) amounts of water.

In view of the large number of very different special papers produced, some Group mills are unable to operate continuously and in a single product regime. Production changes are very frequent: having to guarantee functional and aesthetic requirements for each individual batch (mention need only be made of color), frequent washing of cycles with fresh water is inevitable. To reduce consumption of fresh water, the company has perfected its processes through a balanced combination of several factors, including:

- the use of substances and preparations that allow a lower consumption of fresh waters as solvent or dispersing agents
- rationalization of production planning to reduce changes in output as far as possible
- constant control of consumption by take remedial action every time wastage is identified
- use of recycled water, when production conditions and product technical specifications so allow
- optimization of fibre recycling treatments to obtain depurated water to be re-used in the production cycle in place of fresh water

Depurated process water

For the purposes of environmental sustainability, a fundamental stage in the paper industry is the depuration treatment of process water before it can be returned to an accepting water body in full compliance with the chemical, physical and biological quality limits defined by law.
In this regard, Fedrigoni Group has always invested huge sums - in the order of millions of Euros - to achieve performance levels capable of ensuring broad margins of compliance with the thresholds defined by current regulations which are also valid in the medium and long term.

Various technological and plant solutions are available for water depuration in relation to the type and quality of waste water to be treated. There are two types that are most suitable for the paper sector, which ensure even better performance used in combination when the pollutant load justifies it (chemical-physical and/or biological treatment).

To date, installations at the industrial sites of the Paper & Security B.U. are:

WHERE
Chemical-physical plant: : uses a process of coagulation and subsequent sedimentation (the sediment forms the primary residual sludge) to remove pollutants.

Biological plant: uses the action of micro-organisms to remove the soluble biological carbon portion that the chemical-physical treatment has not succeeded in removing (this process also forms so-called secondary or simply biological sludge). These systems are placed down-line of chemical-physical plant to integrate their depuration capacity as regards the quota of organic pollutants.

B.U. Paper & Security	Water depuration type / technique
Arco mill (TN)	Primary chemical-physical plant + Biological plant
Varone mill (TN)	Primary chemical-physical plant
Verona mill[21] (VR)	Primary chemical-physical plant
Fabriano mill (AN)	Primary chemical-physical plant + Biological plant
Pioraco mill (MC)	Primary chemical-physical plant
Cordenons mill (PN)	Primary chemical-physical plant + Biological plant
Scurelle mill (TN)	Primary chemical-physical plant + Biological plant
Salto mill (SP-BRAZIL)	Primary chemical-physical plant

20 Sources: FAO - Assocarta www.liquida.it

21 At the date of publication of this report, a biological water treatment plant is currently being installed to supplement the existing chemical-physical one. Commissioning is expected by the end of 2020.

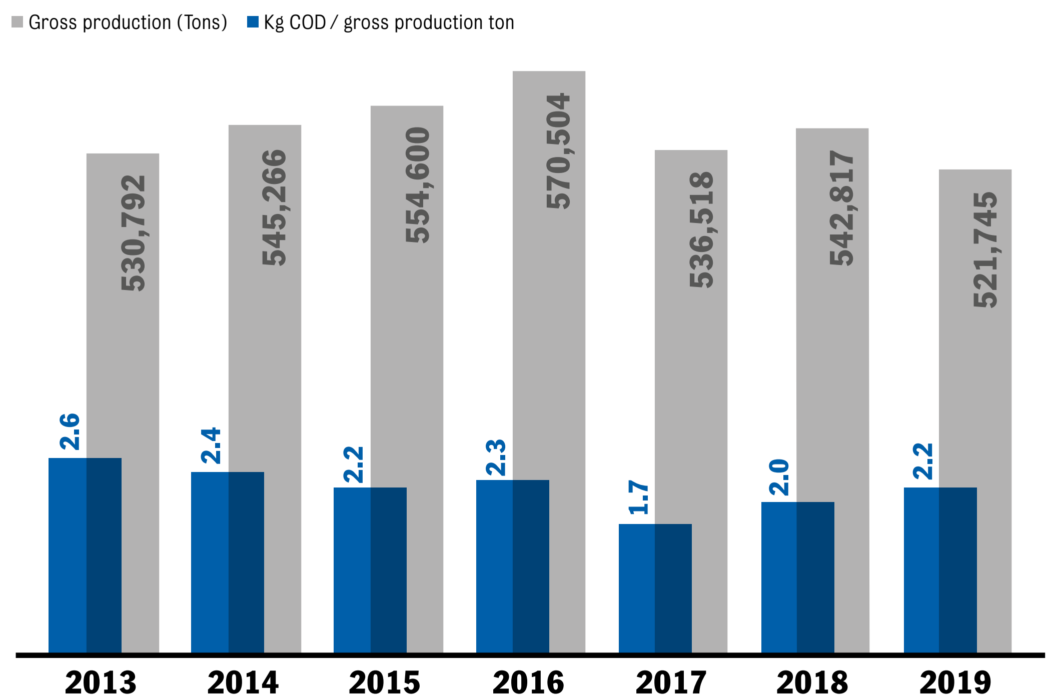
The variety of plant equipment involved in the various installations is characterized by the nature of production: they are distinguished by the raw materials used which, in turn, give rise to different pollutants in the waste water to be treated. Where the organic quota is significant, a biological system is appropriately integrated into the primary plant. In cases where this is not significant, biological plant is not justified.

In any case, the pollutant load in the process waste in our plants can be treated by a number of simple yet effective measures, such as:

1. constant analytical monitoring of process water quality before it is sent to treatment plant and implementing necessary corrective action wherever and whenever necessary
2. careful selection of raw and auxiliary materials, preferring those that ensure the lowest contribution of pollutants to water, compatibly with costs and product technical specifications
3. improvement of the retention of fibres, additives and fillers on the paper by minimising leaks into process water
4. closure of water cycles, compatibly with the expected quality of the papers to be produced

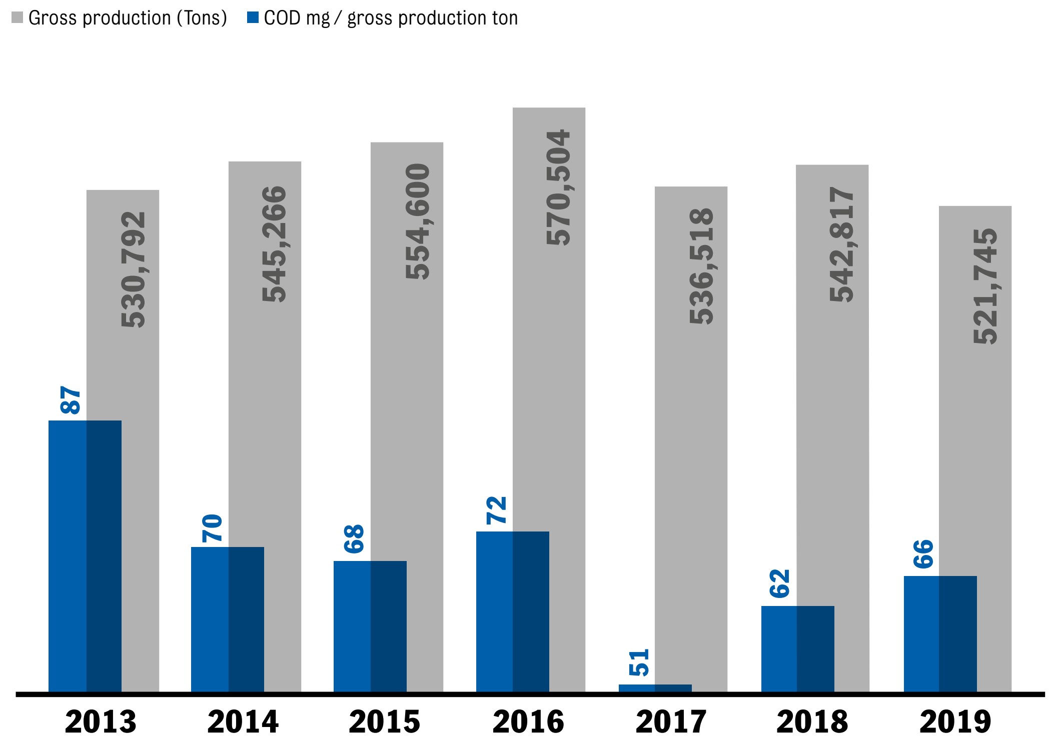
Thanks to such initiatives, significant improvements in the chemical quality of depurated water have been achieved over the years. The indicator that best reflects this is the trend over time for the specific COD load[22] that fell from 2.6 Kg COD/Gross Tonne in 2013 to 2.2 Kg COD/Gross Tonne in 2019 - a decrease in value of -15%.

Fig. 1 Improvement of waste water quality–COD load



With reference, on the other hand, to the average annual COD as an absolute value not indexed against gross production, the improvement is even more appreciable, falling from 86.7 mg/lt in 2013 to 66.4 mg/lt in 2019, a decrease of -23%.

Fig. 2 Improvement of waste water characteristics – Absolute average COD



22 COD (Chemical Oxygen Demand): the equivalent amount of oxygen consumed by an oxidising compound under specific laboratory conditions. This provides an indication of the quantity of organic oxidising polluting substances in water. The higher this value the higher the total amount pollutants in water.

Explanatory note for Italian sites only: The law envisages a threshold limit for COD with a max value of 160 mg/lt, except in the Self-Governing Province of Trento where it is reduced to 100 mg/l (this limit is applied to our plant in Arco and Varone-Riva del Garda).

Energy resources

After pulp and water, the third most important factor in the paper-making process is energy. With a view to environmental protection and cost reduction, optimising energy consumption has always been one of the Group's main objectives. There is a twofold strategy: on the one hand, the use of all the most appropriate and efficient plant and management techniques available; on the other, the aim is to make mills as self-sufficient and independent as possible from external energy suppliers.

This approach is also prompted from a legal point of view, as outlined in Legislative Decree no. 102/2014 implementing Directive no. 2012/27/EU on energy efficiency. Legislation requires that energy-intensive companies (the industrial segment to which the Group's 7 European paper mills belong) must implement, as 05.12.2015 and thereafter every four years, an energy diagnosis conducted by staff or authorised and accredited companies and notifying the results to the competent Authority. This information is integrated into an energy efficiency improvement plan, which enables the company to activate action, including ones involving costs, to improve its energy performance.

Well in advance of energy autonomy regulations, the Group has implemented significant investments in its main mills by equipping them with turbine co-generation plant powered by natural gas. Depending on the site, nominal output may range from a few MW to a several dozen MW.

Today, the main Group production centres are more or less self-sufficient in terms of energy procurement, with the following advantages:

for ENERGY

- Up to 40% of primary energy saved compared to the consumption that would be necessary to achieve the same amount of electric and thermal energy, if they were generated separately
- Reduction in the electric energy transmission and distribution losses when it is supplied by large external generating stations, which are usually located at a great distance from the plants

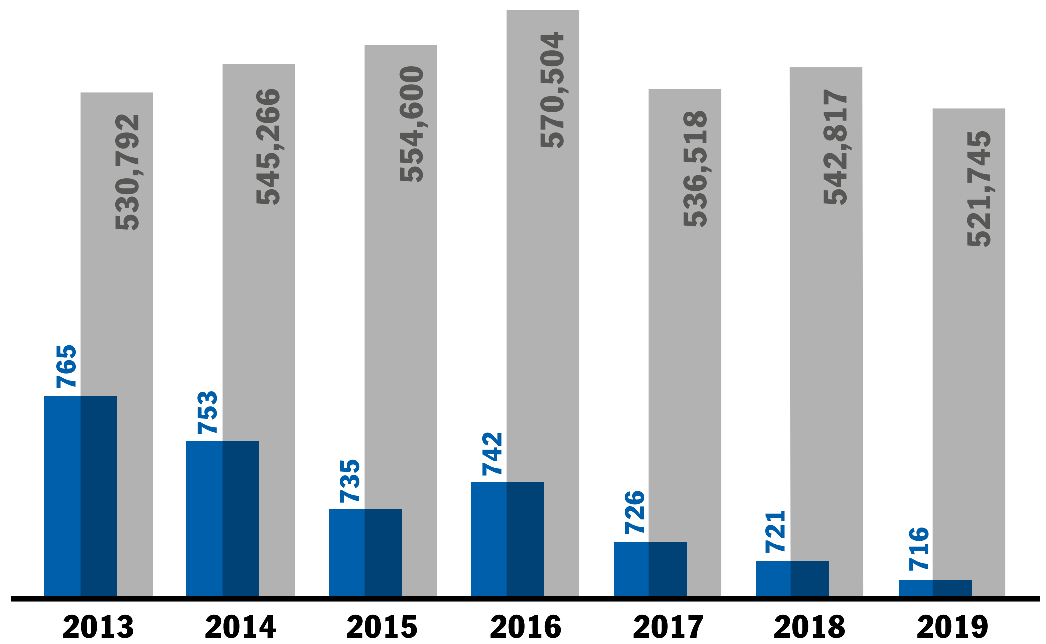
for ENVIRONMENT(with the use of natural gas/methane as compared to other fuels such as diesel, naphtha, coal, and so forth.):

- higher calorific power
- no hydrogen sulphides and sulphur dioxides released into the atmosphere
- reduction in the emission of ashes and particulates (fine powders)
- reduction in the emission of carbon dioxide (CO_2), one of the six greenhouse gases

Alongside co-generation plant and where suitable water resources are available, some Group mills also use small turbines to generate hydroelectric energy, using water as a renewable source. Over the last 6 years, thanks to the efficiency gains achieved by this and other interventions, an overall decrease in specific electricity consumption of -9% was achieved.

Fig. 3 Optimization of total energy consumption

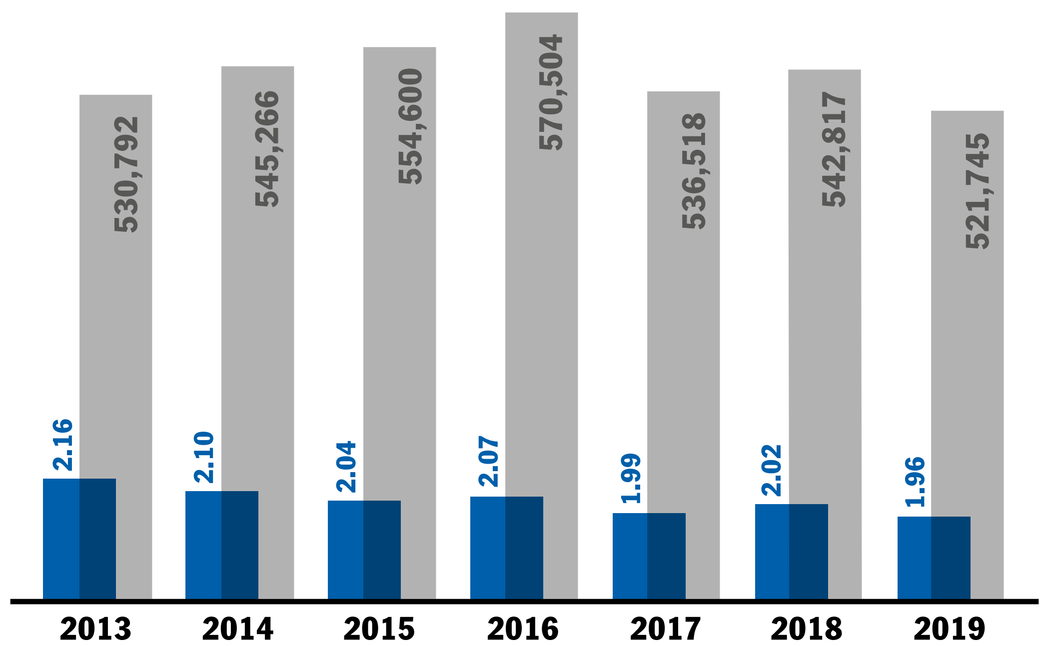
Gross production (Tons) kWh / gross production ton



Similarly, over the same period, the specific load of thermal energy (steam) consumed fell by -13%.

Fig. 4 **Optimization of steam (thermal energy) consumption**

■ Gross production (Tons) ■ Steam tons/gross production ton



Atmospheric emissions

Electricity and thermal energy are essential components in paper-making processes.
With the exception of hydroelectric power, these forms of energy cause emissions into the atmosphere regardless of the generation method: in particular, carbon dioxide (CO_2) is the best known and most common greenhouse gas[23]. In this regard, the European Union, with Decision no. 2002/358/CE of the Council dated 25.04.2002, adhered to the Kyoto Protocol. It then proceeded well beyond other industrial powers with Directive n°2009/29/CE in force in the period 2013 - 2020 and also known by the "20-20-20" acronym. The decree establishes objectives for all member countries for reducing greenhouse gas emissions by 2020 by 20% compared to 1990, with 20% of the energy needs derived from renewable an increase of 20% in energy efficiency. To reduce CO_2, each Member State had been assigned a national target: for Italy this target was set at -6.5%.

In the absence of a common strategy capable of involving all subjects generating CO_2 (road transport, civil and residential utilities, agriculture and so forth), Italy, in agreement with the European Union, since 01.01.2005 has placed the burden for achieving this national target exclusively on certain industrial systems, representing on average 71% of the national manufacturing capacity, leaving the remaining 29% exempted but, above all, excluding all other sectors of civil life that generate greenhouse gases.

The sectors involved by the initial application of the scheme in 2005 are:
1 The energy industry
2. The ferrous metals industry
3. The minerals industry
4. The glass industry
5. The ceramics industry
6. The paper industry for production of >20 tonnes/day

Subsequently, in 2012, the air transport sector was also included in the EU ETS scheme. Once again, the question of the competitiveness of European operators included in the EU ETS compared to non-European operators not subject to this constraint was not asked. Since 2013, the EU ETS has been included the production of aluminium, quicklime, nitric acid, hydrogen and sodium carbonate and bicarbonate, and the facilities that deal with the capture, transportation and storage of CO_2.

The reference standard regulating the European Union Emission Trading Scheme - EU ETS is the ETS Directive no. 2003/87/CE as amended It came into force on 01.01.2005 and is the instrument adopted by the European Union to reduce greenhouse gas emissions in industrial sectors characterized by higher emissions which - on the same date - in order to continue operations had to obtain appropriate authorization to emit greenhouse gases issued by the Ministry of the Environment following a complicated investigation. On obtaining the

23 Greenhouse gases included in the Kyoto Protocol: CO_2, CH_4, N_2O, HFC, PFC e SF_6.

licence, all facilities must monitor their emissions and notify them to the relevant authority after a validation check performed by an accredited body and then offset them against European emission allowances (European Union Allowances, EUA, and European Union Aviation Allowances, EUAA - equal to 1 tonne of CO_2 equivalent) that can be purchased and/or sold in specific auctions. Albeit to a limited extent (Article 11b of the Directive ETS - Regulation n°550/2011 of the Commission), for this purpose, plant can also use non-European emission credits resulting from projects implemented under the project-based mechanisms of the Kyoto Protocol [Clean Development Mechanism – CDM - and Joint Implementation (JI)]. Operators can choose between investing to reduce their emissions - by introducing technologies with low carbon content or through energy efficiency measures - or buying CO_2 allowances.

In essence, the EU ETS is a "*Cap & Trade*" system that sets a maximum limit ("cap") for the total level of emissions allowed for all parties bound to the system, but at the same time it also allows participants to buy and sell on the market CO_2 emission rights ("allowances") according to their needs, within a predetermined limit. The third application stage of the ETS scheme came into effect in 2013[24], which ends in 2020 and is strictly subordinated to the objectives of the "20-20-20" package which define, as a general criterion, that EU Member States allocate allowances to paper sector operators no longer as a *free title*, if not minimally, but as a *payable title*, by purchasing European Union Allowances (EUA equivalent to 1 tonne of CO_2 eq.) through European public auctions.

Industrial sites - especially those exposed to risk of de-localisation because of carbon costs (carbon leakage[25]), including the paper sector - will receive until 2020 a portion of allowances (about 1/3 of requirement) free of charge on the basis of the benchmark parameters generally defined by product, harmonized and quantified on a European scale based on the performance of 10% of the most efficient plant in each industry. The remaining 2/3 must be acquired through public auctions. Entities to which *carbon leakage* does not apply must procure and pay for the entire package of emission allowances required for their operation. These facilities can also buy and sell allowances to each other through private arrangements or through the secondary carbon market. The allowances are entered into the European Union's Single Registry, an electronic database that keeps track of all allowances' changes of ownership and allows operators to offset their emissions on an annual basis, returning their allowances to the Member States.

The total quantity of allowances in circulation in the System is defined in relation to European Union objectives as of 2020 (-20% emissions compared to 1990). In 2013, the total number of allowances in circulation amounted approximately to Euros and was reduced every year until 2020 by a linear factor equal to 1.74% of the annual total amount issued on average by the Member States between 2008 and 2012, amounting to more than 38 million allowances.

24 Stage I: period 2005-2007 / Stage 2: period 2008 – 2012.

25 The EU is concerned over the so-called "Carbon Leakage" risk (de-localisation risk) in some industrial spheres, including the paper sector, in that they may transfer outside the Union because of their disadvantaged competitive position as regards industries in non-EU countries that are not subject to similar carbon emission restrictions. To overcome this risk, installations in these sectors will receive free allowances up to the 2020 benchmark level calculated on the average return of 10% of plant considered by the European Commission to be more efficient.

Against this background, the CO_2 emissions by Group production centres subject to ETS in 2019 saw a deficit in allowances equal to -108,065 tonnes of CO_2 to be purchased at its expense on the market[26].

2019 final data validated by an accredited third party	Authorisation nr.	Tonnes ACTUAL CO_2 emitted and to be entered in the ETS National Register by 30.04.2020	Ministry Decision n° 29/2013 dated 20.12.2013 FINAL ALLOWANCES ASSIGNED BY THE MINISTRY	Δ Allocated for free vs. emitted (allowances to be purchased)
Arco (TN)	252	48,240	29,555	–18,685
Varone (TN)	259	33,465	15,108	–18,357
Verona (VR)	1,280	50,068	22,586	–27,482
Fabriano (AN)	560	87,307	53,621	–33,686
Pioraco (MC)	566	17,186	15,676	–1,510
Cordenons (PN)	843	22,657	12,985	–9,672
Cordenons (TN)	264	7,031	3,436	–3,595
Total		**265,954**	**152,967**	**–112,987**

26 Merely to provide an order of magnitude of the costs to be incurred, it can be mentioned that a CO_2 allowance unit (EUA) in February 2020 stood at around 25 Euros.

At the end of Phase III of the application of the ETS scheme, from 2021 onwards, it was expected that all companies would have to respond to the decisions defined in the Paris Agreement on climate change (COP 21 or CMP 11 - 21st annual session of the conference of the parties of the United- UNFCCC). The conditions for it to be enforced (04.11.2016), i.e. ratification by at least 55 countries representing at least 55% of global greenhouse gas emissions, have been met and the agreement is already binding as of 2020.

The main sections of the agreement and the objective holding the average increase in global temperature below 2°C compared to pre-industrial levels as a long-term objective, with the aim of restricting the increase to 1.5°C (which would significantly reduce the risks and impacts of climate change). This is why the Paris Agreement envisages that every Member Country must audit its undertakings to reduce greenhouse gas emissions every five years. Every new contribution achieved on a national scale must ensure progress compared to previous results.

On the other hand, controlling atmospheric emissions is another matter and a typical internal monitoring operation. Fedrigoni production centres with emissions subject to the criteria defined in annex VI, Part V, Annex II – Part V of Legislative Decree n°152/06 as amended have an emissions monitoring system (EMS). Several instruments deal with measuring, analysing and controlling emissions of CO_2, nitrogen oxides (NO_x) and the combustion ratio. The system includes automatic data backup and provides constant information concerning the efficiency of the combustion process and the abatement systems applied. Once acquired and processed, data is transmitted in real time to competent authorities, who are consequently informed at all times about the quality and quantity of emissions into the atmosphere generated by the Group.

In terms of timely and specific CO_2 emissions, the performance of the Paper & Security Business Unit, in production over the last 6 years, has simultaneously improved by -2.5% and -5% expressed as a specific incidence on production. Similarly, in the same period, NO_x fell in absolute terms by -3.3%.

Fig.5 **CO_2 emissions**

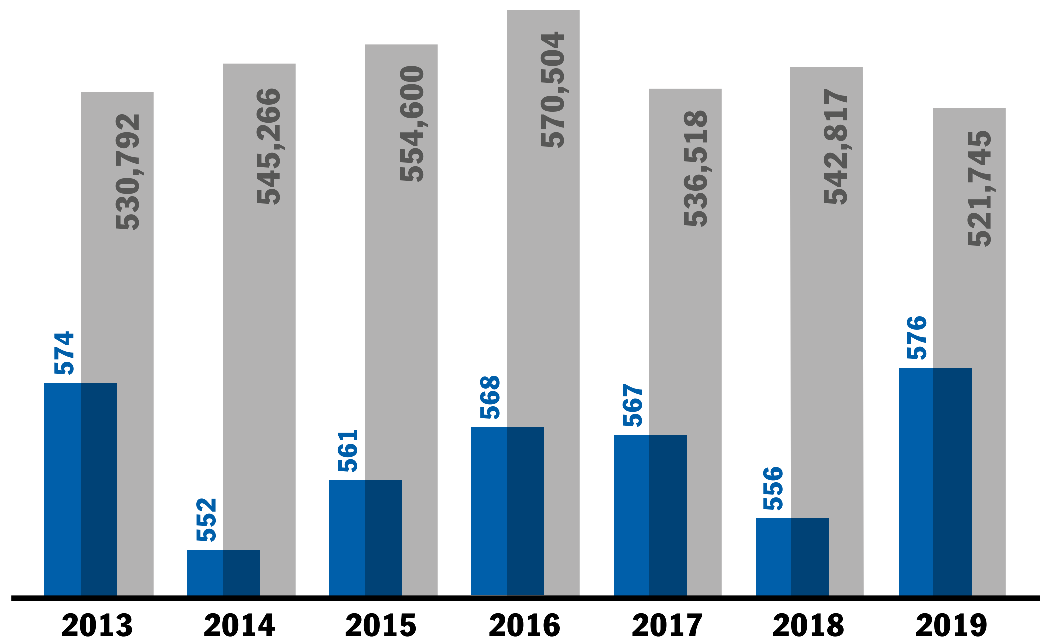
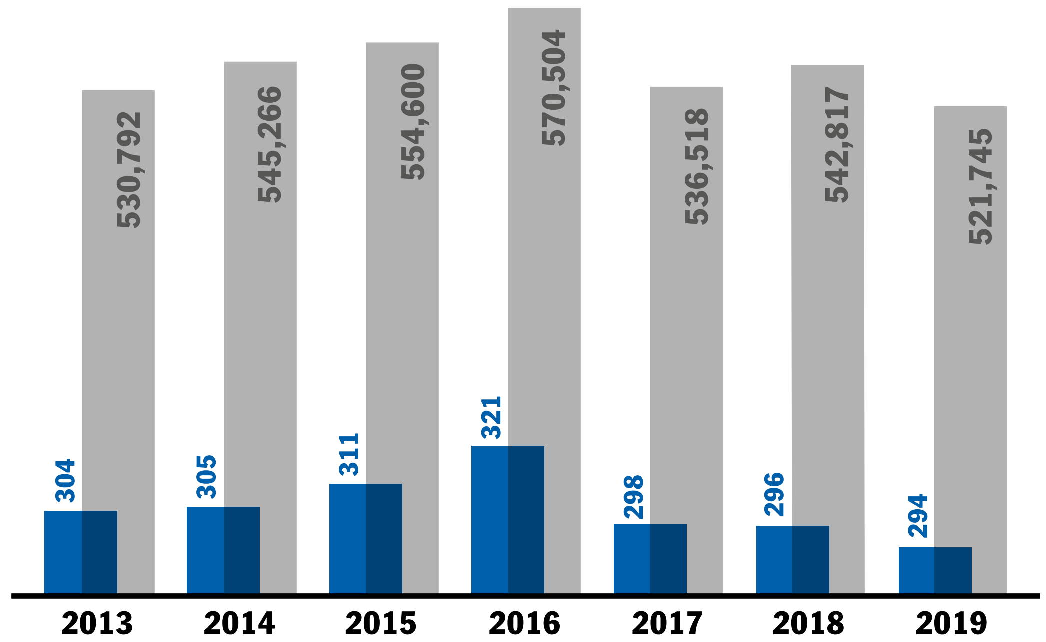


Fig.6 **Reduction in NO_x emissions**



Waste

The typical waste generated by the paper industry is sludge - the result of water depuration activities used to support manufacturing processes. The disposal or recovery costs for this type of sludge are linked with the conferred mass, that comprises 50-60% of water and a remaining dry fraction, largely pulp fibre retained on the paper during production stages, as well as smaller amounts of mineral fillers, binders and chemical additives.

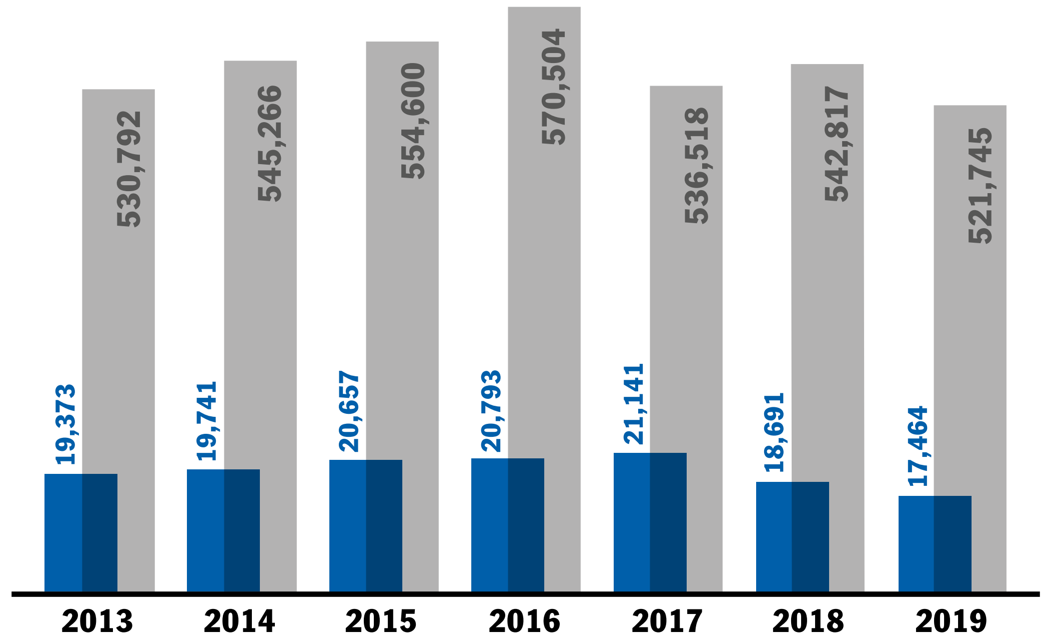
In 2019, the total production of waste generated by Group paper mills comprised 44% sludge/slurry. Conferment, managed through authorised plants specialising in disposal or, to a negligible extent, in recovery, involves significant economic outlays. With a view to reducing costs and environmental impacts, our mills are equipped to increase the dry fraction of sludge as far as possible, as well as reduce the quantities produced, by taking action in two directions:

- high-efficiency sludge presses
- up-line intervention on the retention of fibres and fillers in the production process to reduce the amount of material that would otherwise increase pollution content of water to be depurated

Thanks to these measures, over the last 6 years, waste sludge/slurry has fallen from 19,373 tonnes$_{TQ}$ in 2013 to 17,464 tonnes$_{TQ}$ in 2019 (-10%).

Processing sludge or slurry is completely biodegradable: it does not contain hazardous, toxic or harmful substances and has virtually negligible heavy metal content. Yet, unlike other sectors in this field, sludge or slurry cannot be reused for recovery operations in high quality production processes such as those where the Fedrigoni Group operates.

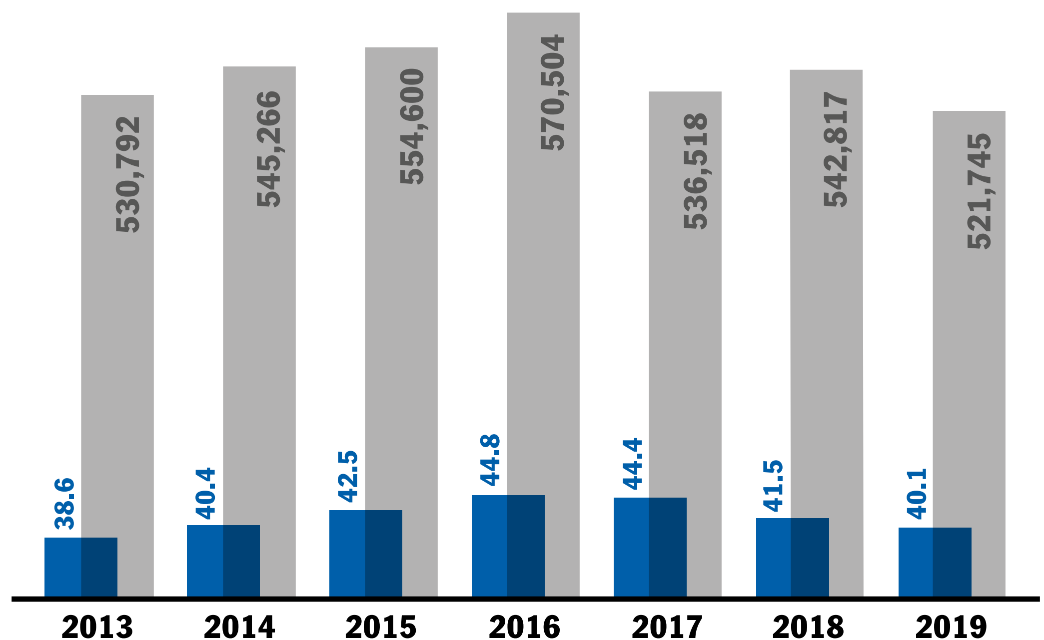
Fig. 7 **Decreased production of sludge**



The remaining portion of waste (56%) cannot be managed directly by the mills, since it is closely related to contingent and not always repetitive situations that may cause quantities to fluctuate even significantly from one year to the next. This is the case for demolitions, plant sent to scrap, special disposals, waste handling for investments and so on, wherein waste can be traced to different categories such as mixed packaging, wood, plastic, spent oil, metals, electrical equipment and so forth, of which only a marginal part can be classified as hazardous.

Efforts to promote awareness among suppliers, with requests to reduce the use of packaging, support for internal differential collection and a constant focus on the sensitivity of all operators have helped the Group achieve constantly positive results year after year in terms of improvement, containment or stable performance.
From this point of view, in the period 2013-2019, the production of waste remained stable, with a percentage deviation of only 0.3%.
In legislative terms, the Paper & Security B.U.

Fig. 8 Total reduction in the production of overall waste (sludge + other)



branches in Europe, as for other B.U.s, the Group consequently implemented in an entirely natural, trouble-free manner the new classification of the hazard characteristics for waste introduced by Regulation n. 1357/2014/EU in place of Attachment III to the Framework Directive on Waste (Directive n.2008/98/CE), abolishing in this context certain directives including Directives no. 67/548/CEE and no.1999/45/CE replaced by Regulation no. 1272/2008/CE (CLP).

The new regulations significantly innovate legislation relating to the hazard characteristics of waste, in line with the dispositions the CLP regulation on classification, labelling and packaging of substances and mixtures, by defining:

- The H abbreviation was renamed HP for hazard characteristics from H1 to H15 (listed in Annex III of Directive 2008/98/EC) to avoid possible confusion with the hazard codes as per CLP Regulations.

- The modification of the previous hazard characteristics (e.g. H 5, formerly "harmful", will now be "Specific target organ toxicity (STOT)/Toxicity in the case of inhalation”).

- The introduction of detailed dispositions for each HP characteristic as well as tables for harmonizing EU waste regulations with the CLP Regulation, by identifying for each hazard characteristic of the corresponding hazard classes and hazard categories as per the CLP Regulation.

Noise pollution

The Group has always made every effort to uphold the frequencies defined by regulations governing noise pollution and welcome comments from all third parties in local areas. Periodic instrumental monitoring activities are entrusted to accredited professionals pursuant to Framework Law no. 447 dated 26.10.1995. Some of these surveys have also prompted substantial financial investments for additional sound-proofing intervention, demonstrating close attention and prompt response to all investigations conducted.

Measurements during the daytime and at night include checks on plant during operation and when at a standstill, within the industrial site and around external perimeter areas, to ensure a complete view of output and input values as regards the limits assigned in accordance with the various acoustic classes defined by the acoustic zoning plans envisaged by respective local councils.

Fedrigoni Group is well aware that the acoustic impact of its industrial premises should never be underestimated. As well as terms of authorisation to carry out industrial activity, there is a strong commitment not to exceed certain thresholds to avoid environmental or health problems.

A difficulty arises when seeking to determine the differential level defined by the Decree dated 01.03.1991, which corresponds to the difference between the level of environmental noise present when the source of noise is operating and the residual noise level, that is, the noise present when the source is not activated. Since identifying the acoustic impact on these receptors would have to be detected in private homes adjacent to mills, with windows open and closed, such checks can only be carried out by competent authorities - and not by private individuals, unless agreed upon in advance. In any case, the differential limit does not apply to receptors located in exclusively industrial zones (class VI) and continuous cycle areas, the regime under which all Group production sites operate.

When any significant investment or intervention at plant level or in relation to substantial changes, the Group always proceeds pro-actively, starting from a preventive analysis[27] of possible associated noise impact, even using mathematical simulation models. In this context, all noise measurement surveys carried out in Group mills in 2019, as in previous years, always proved compliance with legal limits.

27 Such preventive audits also consider other environmental and safety aspects such as water emissions, atmospheric emissions, the possible generation of new types of waste, contamination of soil and subsoil, the water resources at stake, energy requirements, the need for new or different raw materials supplies, safety, health and managerial aspects.

Hazardous substances

The composite paper and security product manufacturing process (and only if alternative products are not available on the market) may require for certain items the use of substances classified as hazardous to health or harmful to the environment. It must be emphasised that, if handled and used in compliance with necessary prevention rules, these substances can be used in complete safety.

The Fedrigoni Group in this regard implements two strategic approaches. Containment systems have been installed for plant to manage any hazardous leaks or spills and thereby protect the soil, subsoil and groundwater. Starting from the assumption that no plant or machinery is safe in the hands of an imprudent worker, these precautionary measures are backed up by information, education and training for the management of emergencies.

The Group envisages a complete range of plant, organizational and management solutions designed to eliminate or, at the very least, reduce risk levels for operators. The use of closed circuit systems is preferred to avoid contact with people, with the supply of suitable collective and individual protection devices to staff.

The substances and chemical mixtures used in the company are very diverse: all comply with the requirements of European Regulation no.1907/2006 dated 18.12.2006 as amended, better known as the acronym REACH and in force in the European Union since June 2007. This legislation concerns the recording, assessment, authorisation and restriction of chemical substances for their introduction and use on the market, reviewing and harmonising in a single item of legislation more than 40 European regulations previously in force in order to broaden the field of application from the production procedures for chemical substances, to their import and use. The purpose of REACH is to define a unique recording[28], evaluation and authorisation system for *existing* chemical substances and mixtures, i.e. is those that were introduced into the market before September 1981 and *new* substances, i.e. those marketed after September 1981, in order to ensure a higher level of protection of human health and the environment. The inspiring principles define a single grouping system for all chemicals (existing and new), regardless of whether they are hazardous or not in being toxic, carcinogenic, mutagenic and so forth, transferring the responsibility for controls and the cost of tests from authorities to companies.

In close correlation with REACH, Fedrigoni Group applies the provisions of European Regulation no. 1272/2008 / CE as amended (in force in the European Union since 20.01.2009), also known by the acronym CLP (Classification, Labelling and Packaging). The practices refer to the UN Global Harmonised System (GHS) which governs the classification, labelling and packaging of chemical substances and mixtures, thereby notifying this information to users of chemical substances so that they can evaluate and control the chemical risk in their companies and any hazards concerning mixtures or articles placed on the market.

The Group's mills do not use substances or preparations among those included in Annex XIV of the REACH Regulation, which contains a list (also known as the *Candidate List*) drawn up by ECHA (European Chemicals Agency) and updated with periodic reviews. The document highlights items identified as *Substances of Very High Concern* (SVHC) which have serious, and in some cases even irreversible, effects on people and the environment.

28 Activity involving the collection of documents per individual substance, with the relative expenses borne by the entity rather than the Authority, and the entity compiles a case file regarding the toxicity of the substances, registers it and has it approved by the Authority. Thereafter, a new safety sheet is issued which contains a report containing the chemical risk assessment in relation to the specific workplace in which the substance will be used and an assessment of its environmental impact.

Similarly, the Group does not use any of the substances or preparations listed in Annex XVII, which lists the restrictions concerning the manufacture, marketing and use of certain hazardous substances, preparations and articles. However, these substances are not subject to prior authorisation, even if importers, distributors and users are subject to the restrictions listed.

Among dangerous substances, asbestos is another important issue. Its hazardous nature was only discovered in 1991. All buildings built before this date are very likely to reveal the presence of this material in old boilers, insulation of steam pipes, boiler seals, thermal seals, vinyl floors, roofs, attics or old fire retardant coatings applied as spray. In this context, Fedrigoni Group has carried out a progressive reclamation action involving all matrices, be they compact or potentially friable, to ensure that there are no situations where air-borne or water-borne dispersion of asbestos fibres occurs that could otherwise cause serious consequent illnesses following exposure, inhalation or swallowing. In the very few and well-circumscribed cases in which removal is not yet feasible for structural or plant engineering reasons, periodic monitoring of status by qualified third-party companies is implemented with the aim of preventing any possibility of air-borne dispersion of asbestos fibres. Performed in full compliance with current legislation, these controls have always highlighted conformity.

The soil

Soil is not an environmental component directly involved in paper-making but, as a physical matrix where manufacturing activities take place, it may become a critical aspect in the presence of operating faults such as incorrect handling of raw materials, leaks to the ground of liquid or powder substances soluble in water, unprotected storage or uncontrolled condensation. These situations, even if they ought only to occur involuntarily, are capable of causing serious and lasting damage to the soil, sub-soil and groundwater.

To avoid this type of risk, the Group implements two methods of preventive action: the first involves plant and the second management.

To prevent even mere direct contact with the ground, in structural terms:

- mills are equipped with special containment basins in areas intended for storage and use of liquid or solid chemical substances, even including those not classified as hazardous to the environment
- the areas where such products are handled have been rendered impermeable
- storage includes special "safe" spaces

Lastly, pursuant to applicable regional regulations, Verona and Bollate (MI) production centres are equipped with facilities for treating rainwater run-offs from depots and internal roads.

From a management point of view, strict procedures and operating instructions are defined and formalized; staff also receive training, in particular by recreating critical situations through simulations.

Considering the soil environmental matrix, all Italian sites having Integrated Environmental Authorization [Arco (TN), Fabriano (AN), Varone di Riva del Garda (TN), Pioraco (MC), Bollate (MI), Cordenons (PN) and Scurelle (TN)], on the basis of specific regulatory provisions, produce a Screening Report to their respective competent Authorities for preliminary verification of what then becomes a possible mandatory requirement to draft the subsequent Reference Report, with reference to articles 29-ter / Paragraph 1 - letter m) and 29-sexies / Paragraph 9-quinquies - letter a) of Legislative Decree 152/06 as amended.
This is nothing more than complex reporting that takes into consideration all substances used that could potentially, or did in the past, cause pollution of the soil, subsoil and groundwater.
The purpose of the report? Demonstrate, based on current knowledge and through verifications conducted in accordance with objective methods, that the site from the onset of activities and then over time has not produced negative environmental impacts on the soil, subsoil and groundwater, thereby excluding the subsequent obligation to submit the above-mentioned Reference Report. The positive assessment of these preliminary Screening Reports by the Competent Authority takes on formal and substantial value of recognition of the good current and previous state of the soil, thereby excluding the need for remedial action or reclamation.

W for WATER

Water is a valuable resource and our Group is committed to continually improving and safeguarding water usage.

Environmental performance in the Pressure Sensitive Labels business unit

This section outlines and discusses the performance data exclusively for the Group's own manufacturing sites. Consolidated historical analysis clearly indicates that the branches, logistics and distribution centres, sales subsidiaries and Fabriano Boutique stores do not have significant impacts or in any case such as to influence, even minimally, the performance of the Business Unit.

Raw and auxiliary materials

The industrial process for Pressure-Sensitive Labels involves adhesives in a water-based emulsion and silicones, adhesives, inks and primers to be applied to a paper matrix, used as a frontal or support media. Solvents are not used as process materials but only as auxiliaries for cleaning operations in conjunction with production changes, so they are not present in the finished product.
Since 2000, all sites involved in the Pressure Sensitive Labels Business Unit operate exclusively through a *solvent-free* approach, which excludes the use of organic solvents from production processes. In addition to avoiding exposure of workers to this type of substance, the system used makes it possible to obtain finished products devoid of their presence, even if only in traces, thereby protecting the health of all operators in the supply chain as well as end users.

Given the relatively small number of raw materials used in Pressure Sensitive Labels production processes compared to paper-making, the type of plant and environmental impact arising from them are much more limited and essentially include:

- choice and purchase of paper media ensuring sustainability for the entire life cycle comprising highly eco-compatible raw materials
- treatment of waste water with cycle washing
- energy consumption
- emissions into the atmosphere;
- waste production
- water resources

Even in the absence of solvents, the silicone coating process plays a decisive role in reducing environmental impact but also in increasing safety and health parameters. The *solvent-free* system has made the following possible:

1. improvement of environmental and health conditions in the workplace
2. elimination of a source of chemical risk for operators
3. avoidance of a whole series of problems related to widespread emissions and the release of residual parts of solvents into the atmosphere
4. reduction of the amount of water-based waste to be treated
5. significant energy savings and relative decrease in emissions of CO_2

Energy resources

Electricity and thermal energy play an important role but unlike most of the Group's paper mills equipped with co-generation plant, the Pressure Sensitive Labels BU must obtain supplies of electricity on the external market. This means that environmental performance, especially as regards atmospheric emissions, is not directly governable.

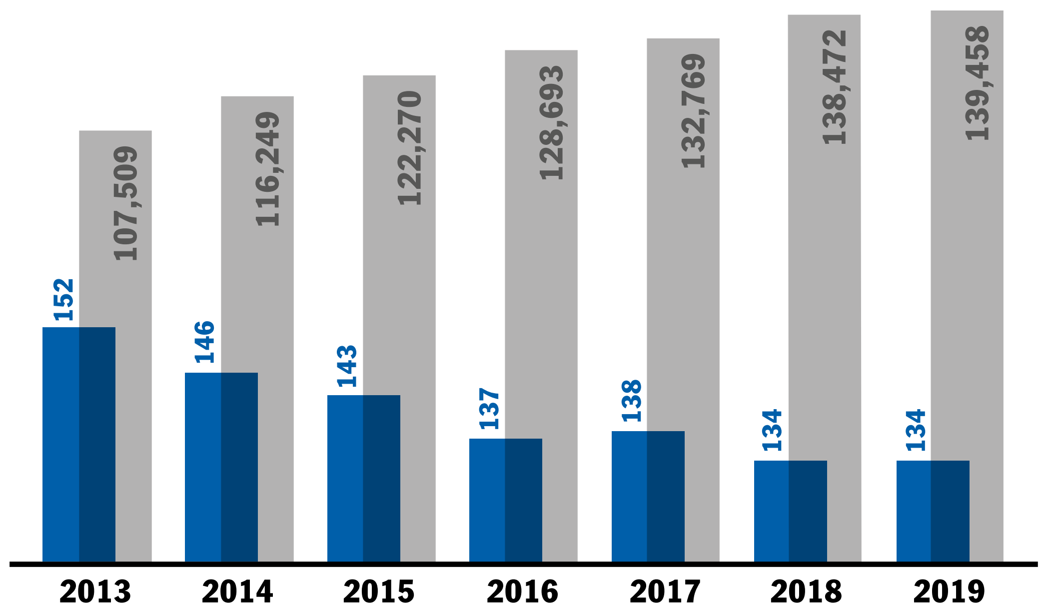
However, in keeping with the sustainability principles adopted by the Group in order to reduce impacts, investments in high energy efficiency plants and management policies were implemented to help reduce energy consumption through:

- a series of plant improvement projects
- careful design of products from an environmental point of view
- more consequential production planning
- structuring of work environments in order to reduce electricity consumption for the same quantitative and qualitative product yield.

On the other hand, thermal energy - indispensable in these processes to ensure polymerization of products - is generated on site albeit using systems with medium-low power ratings powered by natural/methane gas. Given their small size, their input in terms of CO_2 emissions is very small. Unlike the paper industry, this sector is not among the subjects covered by the authorization obligations defined in Directive no. 2003/87/CE as amended (Emission Trading Directive) as outlined in previous section concerning the Paper & Security Business Unit.

Over the last 6 years, thanks to the action outlined above and bearing in mind an increase in production of around 35%, specific electricity consumption per tonne produced has fallen by 12%.

Fig. 9 Optimization of total energy consumption

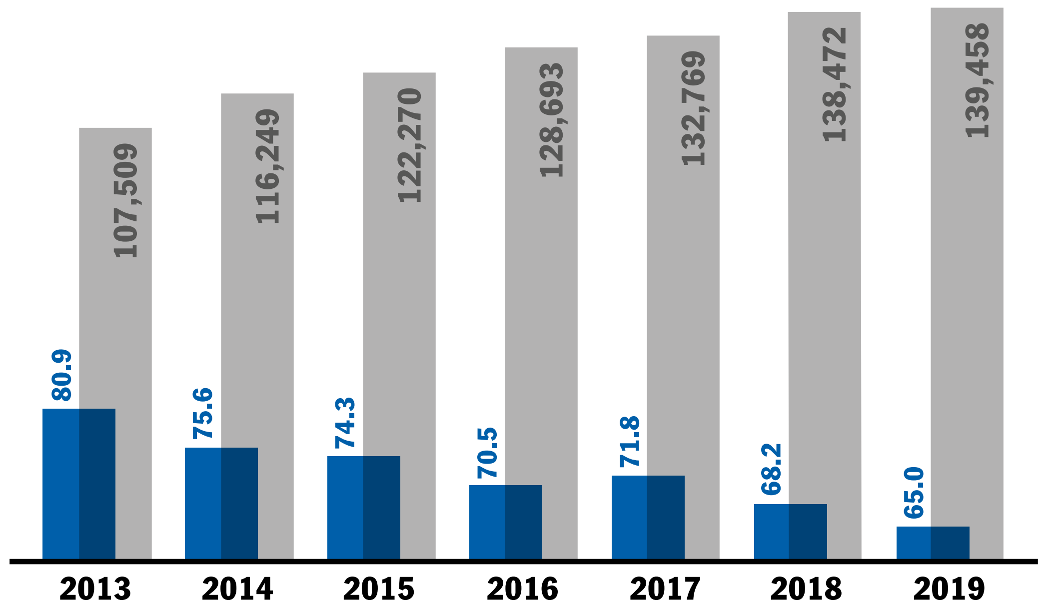


Atmospheric emissions

Since 1995, when *solvent-free* technology was introduced into production processes, widespread emissions of volatile organic substances, also known by the acronym SOV or COV, have been virtually eliminated. Today, the only process factor that generates significant emissions into the atmosphere is the generation of thermal energy using methane gas as fuel, whereby only water vapour and CO_2 are released.

Over the last 6 years, thanks to the improvement in combustion ratios achieved through constant maintenance and technical and technological improvements as they became available over time, despite having increased production by 35%, specific CO_2 emissions have been reduced by about 20%.

Fig.10 Reduction in CO_2 emissions



Water resources – fresh water and process water

Unlike the paper sector, fresh water does not play an essential role in Pressure Sensitive Labels processes; it is only used in a number of support stages, such as:

- cycle wash/rinse
- supplying cooling and conditioning circuits
- steam production

Considering all the margins of intervention allowed by the type of process and plant used, even if the volumes of water involved are not high, attention is still paid to making diligent use of them.

The consumption of fresh water in washing at the end of the cycle is always influenced by the need to resume operations with an extremely clean circuit to avoid annoying non-compliances affecting the next production batch. Given that market dynamics today impose more frequent changes in production than ever before alongside increasingly fragmented orders, it is difficult to implement action design to reduce water consumption. Certainly, consequential production planning can be used as far as possible.

Cooling and conditioning circuits, as well as those generating steam, offer limited margins for reducing volumes, since the amount of water required is a direct function of the dimension of the system: since these dimensions almost always remain the same, quantities cannot vary over time. The only factors where albeit limited action can currently be taken are greater closure of cooling and conditioning water cycles or acting on discharge threshold temperatures.

Over the last 6 years, thanks to carefully and gradually implemented measures, there has been an appreciable decrease in the consumption of fresh water of -46%.

Waste water recovery

As regards waste water from cycle washing requiring treatment, the adoption of depuration plant, given the small quantities and the nature of the pollutants present, is not justified. Once stabilized with ferric chloride, it is environmentally and economically more advantageous to transfer them as waste to outside third-party operators authorized for their disposal and/or recovery processes in accordance with the EWC code[29] attributed to them.
Only in the case of Arconvert S.p.A. plant, given its proximity to the paper mill in Arco (TN), water to be treated is conveyed to the chemical-physical and biological depuration system at the latter site, also sharing its legal responsibility at the discharge point towards the external water receiving entity.

29 EWC codes (European Waste Codes): numerical sequences with 6 digits in pairs used to identify and classify a waste product, as a rule, based on the production process from which it originates and are listed in the European waste catalogue pursuant to Directive no. 75/442/CEE.

Waste and soil

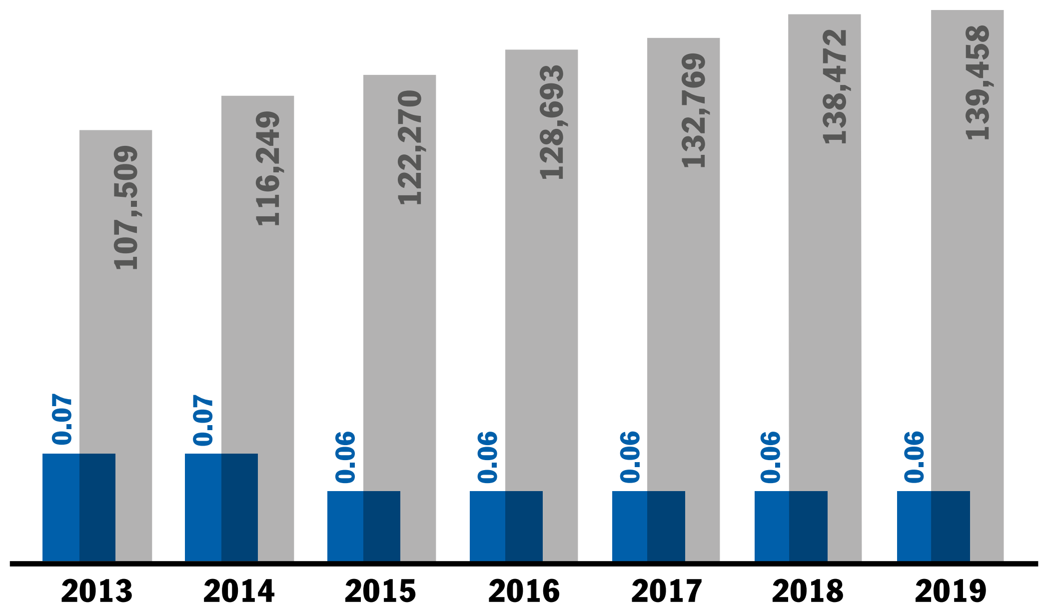
The nature of the waste generated by the sector is virtually identical to other mills in the paper sector, with the exception of sludge/slurry, whereby Pressure Sensitive Labels plant is not equipped with depuration plant to treat process waste water.

In keeping with Group policies, suppliers are also encouraged to reduce the number and volume of packaging materials in their supplies and to promote the use of re-usable packaging. The B.U. is also firmly committed to raising awareness among personnel of the need to reduce the creation of waste and promote separate in-house collection.

The few types of waste which are classified as hazardous (washing solutions containing solvents, spent oils, rags saturated with mineral oil and/or lubricants, neon tubes, batteries, and so forth) are collected and stored, prior to transfer outside the plant, exclusively in specific, dedicated and impermeable areas with appropriate containment and protection systems to prevent possible harmful leaks into the soil.

Over the last 6 years, thanks to action taken, notwithstanding a 35% increase in production the specific load of waste (kg of waste/kg produced) has decreased by -14%.

Fig. 11 Overall decrease in waste production



Varone stream flowing outside the
perimeter of the Varone paper mill

Health and safety performance in the workplace

This section outlines and discusses the performance data exclusively for the Group's own manufacturing sites. Consolidated historical analysis clearly indicates that the branches, logistics and distribution centres, sales subsidiaries and Fabriano Boutique stores do not have significant impacts or in any case such as to influence, even minimally, the performance of the Business Unit.

Introduction

Implementing safety and health policies in the workplace as required by law is a complex and costly activity. Not so much in terms of commitment on the part of the Group which, with its own policy, has always endeavoured at every level to promote prevention, as outlined in Article 2087 of the Italian Civil Code:

"Companies are required to adopt, in the exercise of business, the measures which, depending on the special features of the work, experience and technique, are required in order to protect the physical and moral integrity of workers"

The highly articulated and complex regulatory and legislative context is accompanied by an inspection approach by Competent Authorities which often differs significantly from factual substance. This approach, today, has turned *safety* largely into an office-based procedure to the detriment of people working in the field.

The Group has always sought to combine the safety and health expectations of its employees as far as possible by taking an across-the-board approach to prevention to reconcile in the best possible manner an entire series of management, organisational, health, plant, engineering and regulatory requirements.

Time and human resources are dedicated to satisfying mere and often redundant bureaucratic obligations - almost always associated with sanctions of a criminal nature - that have little to do with creating the necessary conditions to ensure situations where workers are not exposed to risks of injury or hazards to their health.

It is therefore evident that an across-the-board approach to safety and health management in the company is by no means easy, given the complexity and diversity of processes, as well as different product requirements and so forth that are difficult to reconcile with still poor individual culture as regards safety.

The starting point for Fedrigoni Group is that safety and health performance cannot merely be the outcome of commitment by a handful of employees. It is only thanks to the input of every employee that *Safety & Security* levels can be improved. And it is precisely here that the Group focuses its commitment with the aim of enhancing awareness among individuals to ensure necessary concentration and attention to all prevention and safety issues without which satisfactory objectives cannot be achieved.

In this regard, several kinds of action have been taken, including:

- Involving workers and improving their awareness through information, education and training activities
- Managing operational, organisational and managerial aspects of work inspired not only by laws but also by best practices
- Clearly defining roles within the company system in relation to prevention and protection in order to avoid any interference/overlapping of functions, the first cause of de-responsibility
- Providing the necessary resources to support and coordinate the pursuit of common objectives
- Creating the right environmental conditions in the workplace to improve the safety and psychological-physical well-being of workers
- Complying with the technical, regulatory and legal standards established for equipment, plant, machinery, workplaces and chemical-physical agents
- Performing risk assessments scrupulously and promptly updating the criteria adopted as risks change or become apparent in order to define the most suitable prevention and protection measures
- Performing regular internal audits to verify any possible vulnerability of the system and the correct and effective application of the prevention procedures adopted

All these actions and activities have been implemented for decades and regardless of the evolution of regulatory procedures. They have enabled the Company to obtain appreciable feedback over time, to the extent that its occupational safety and health management systems have been validated for all company branches in accordance with the most common international schemes (BSI OHSAS 18001:2007 and ISO 45001:2018).

In compliance with good practices, the Group has also embraced the following objectives:

- Prevent and reduce the number of accidents in the workplace in terms of frequency and seriousness
- Prevent the occurrence of professional and occupational illnesses
- Ensure compliance with legal requirements in a timely manner appropriate to the level of applicability
- Involve the various departments, defining and highlighting their individual responsibilities to ensure prevention
- Improve the work environment, even from an organizational point of view
- Increase the awareness and motivation of staff
- Increase professionalism, motivation and focus as regards employee safety
- Reduce the costs of so-called non-safety, leading to benefits not only for the Company abut also for public institutions - such as INAIL and SSN (National Health Service) for paying the collective costs of accidents, occupational illnesses, disability pensions, etc.
- Ensure transparency in relationships with competent authorities
- optimize relations with union representatives, in particular in this case with those having safety-related tasks
- Improve competitive factors since it is an undisputed fact that safety, environmental and social responsibility performances are increasingly viewed as indicators of the stability of an organization

Statistical analysis of accidents and valuation of the causes

The international standard UNI 7249 at point no. 2.1.2c defines as an **accident at work**[30] any:

"harmful event that takes place for a violent cause, at work, which leads to death or permanent absolute or partial inability to work or to temporary absolute inability to work for a period greater than the remaining part of the working day or shift during which it took place."

The definition highlights that the minimum and necessary condition for defining an event as an *accident* is that it was circumscribed following a *violent cause* occurring *while at work*. The problem is that the general nature of these two essential conditions is not considered correctly by health assessments: anyone going to a medical facility, simply by doing so from a place of work or the route to and from it and whatever the pathology in question, an accident rather than an illness certificate is issued.
This approach sets in motion a series of administrative requirements and related costs that are borne by the health service as well as the employer[31]. Moreover, from a statistical point of view, this generates a distorted representation which does not reflect effective accident performance levels, as defined by UNI 7249. In summary, in addition to distorting reality, problems are also created when defining prevention activities.

The Italian legal system also confuses matters further by envisaging the recognition of so-called *accidents while travelling*[32], i.e. accidents that may occur when travelling from the home to the workplace and vice versa, or those that can occur during the journey from one workplace to another in cases where a worker is employed

30 In Italy Law no. 1124 dated 30.06.1965 also defines it as "any harmful event that affects the ability to work arising from a violent cause during work".

31 Among other things, in the calculation of the INAIL premium, on the basis of consolidated jurisprudence, the specific company rate is defined by including so-called *indirect aspects*, without making any distinction between events arising from the fault of the employer and those arising from fortuitous cases or force majeure.

32 Classification of accidents while travelling: although being the outcome of road risks, all events that occur in the space and time travelling to and from work are qualified and processed as accidents at work.

by several employers. By also taking into consideration a type of event over which the company has no power of intervention, even in the presence of specific preventive action, the indices that ought to illustrate effective accident performance in the short term are likely to be poorly representative and become mere a further accumulation of responsibilities on the part of employers.

In order to draw up a sufficiently representative overview of accident performance, it is better to consider the trends for the most representative indicators of the phenomenon over medium-long periods. This is in view of the fact that, as time goes by, any distortions that may affect results in a given and limited period will be better mediated.

Statistical analysis of accidents

In order to ensure comparable values, the Group has always adopted algorithms that are recognised, shared and governed on a national or international scale, applying the formulas established by the UNI no. 7249 standard defining the calculation methods for the main indicators, among which the three most significant are:

AD – Average Duration

Represents the total number of working days lost due to accidents in the working period over a given time span

$$AD = \frac{\text{number of days of inability to work recognised by INAIL in the period}}{\text{number of accidents in the period}}$$

FI – Frequency Index

Identifies, over a given time span, the frequency of accidents and represents the total number of accidents per one million hours worked

$$FI = \frac{\text{number of accidents in the period x 1,000,000}}{\text{total hours worked (blue-collar + white-collar workers) in the period}}$$

GI – Gravity Index

Identifies the intensity of the accident and represents the total number of accidents per 1,000 hours worked

$$GI = \frac{\text{number of days of inability to work during the period x 1,000}}{\text{total hours worked (blue-collar + white-collar workers) in the period}}$$

NOTES FOR CALCULATION
- "Period" means one month or one year.
- Calculations are based only on accidents recognised by INAIL as = or > 3 days.
- Total hours worked are the hours worked by all workers (blue collar and white collar) subject to obligatory insurance.
- In the specific case of determining a gravity index (IG) the days of leave granted for the accident must be taken under consideration (that is the case in which absence must be extended due to the accident, over and above the diagnosis of the inability to work that had been issued until that time) and that days of absence per relapse (this being the case of symptoms becoming acute again following the accident, which is not connected to a new cause and always considering that the insured person has begun working again even if only for a few hours)
- Statistical analysis must also include accidents while travelling, recovery and relapse.

All Group sites use these and other indicators to monitor the accident trend on a monthly basis. The performance indicators also include so-called *near misses* which, although not subject to recording and notification obligations to competent authorities, concern all those events occurring at work which might have caused an accident, harm to health or death but which, despite such potential did not actually give rise to such outcomes. If analysed correctly, these aspects are also very important for prevention.

Analysis of the causes of accidents

Well-organized collection of uniform statistical data about safety over time is unquestionably the best tool for obtaining an overview of whether or not if the prevention and protection system is working positively or negatively.

In order to identify and implement necessary prevention measures, the results obtained from thorough analysis of causes and the contexts in which accidents occur, including near misses, are even more decisive.
These investigations are regulated by specific company directives and essentially involve 4 sequential steps:

1. Collection of data and objective information that substantiate the conditions and evidence of the incident
2. Analysis of the precise environmental context where the event occurred to identify the effective accident scenario, possibly in collaboration with the subject who suffered the accident
3. Identification and analysis of causal dynamics;
4. Definition of preventive action, implementation and final verification of their effectiveness

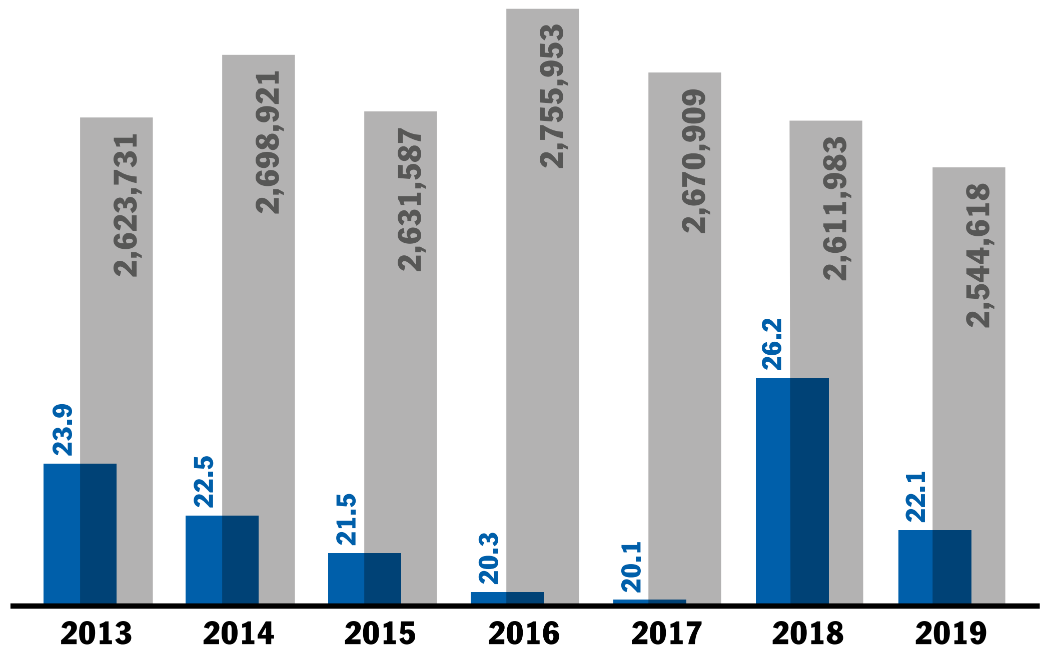
Performance values

Unlike the environmental performances listed separately for the two Paper & Security and Pressure Sensitive Labels Business Units, as regards safety and health in the workplace there are no operational differences that justify separate analysis. The components on which the prevention and protection system is based are identical, just as the problems that characterise it.

Over the last 6 years, considering the general safety performance for all Group manufacturing sites in aggregate form (11 in the Paper & Security B.U. and 3 in Pressure Sensitive Labels B.U. plus 2 for GPA), the trend for the main accident indicators is as follows:

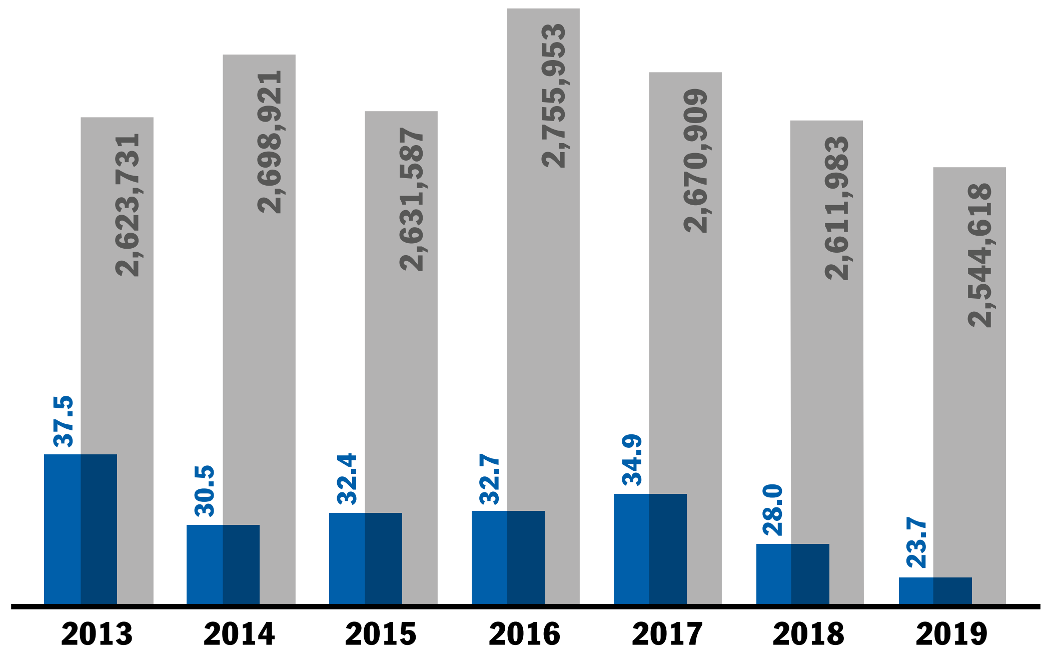
Average duration (A.D. - no. days of inability due to injuries / no. of injuries) fell to -7.5%

Fig.12 **Average duration of accidents**



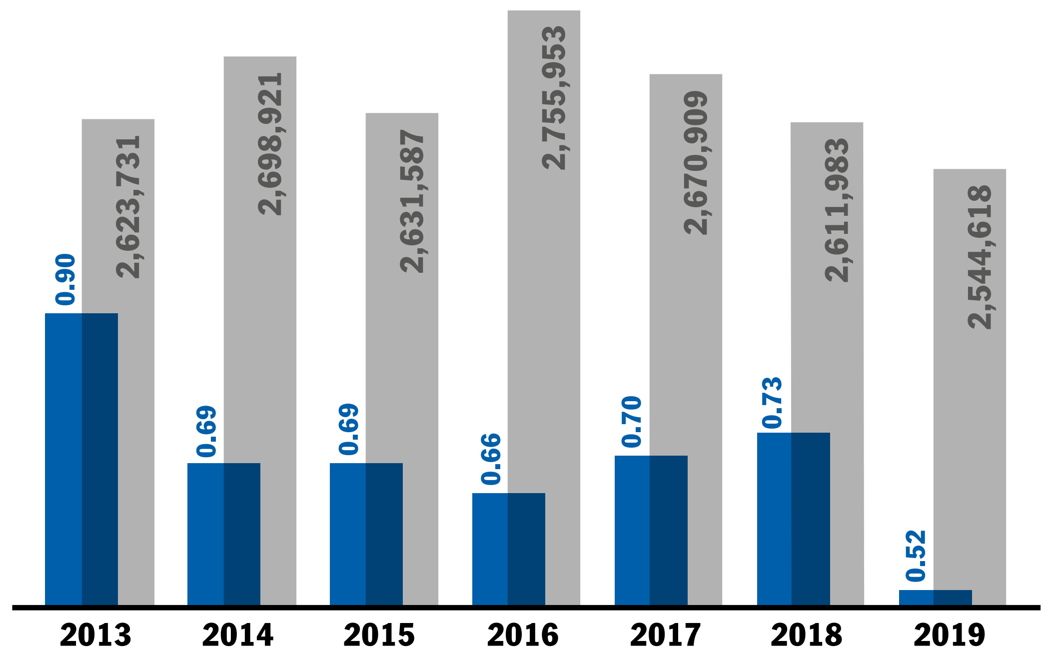
Frequency index (F.I.- no. injuries x 1,000,000 / no. total hours worked (workers employees) fell to -37%

Fig. 13 Accident frequency index



Index of seriousness (I.S. - Index of Seriousness = no. days of absence x 1,000 / no. total hours worked (workers + employees) fell to-42%

Fig. 14 Accident gravity index



Human resources are the fundamental asset of the Group. The value of people is equally joined by their culture and experience, as the custodians of the know-how, expertise, knowledge and traditions of the Group's entire history. Far-reaching investments are made to develop, enhance and improve their skills.

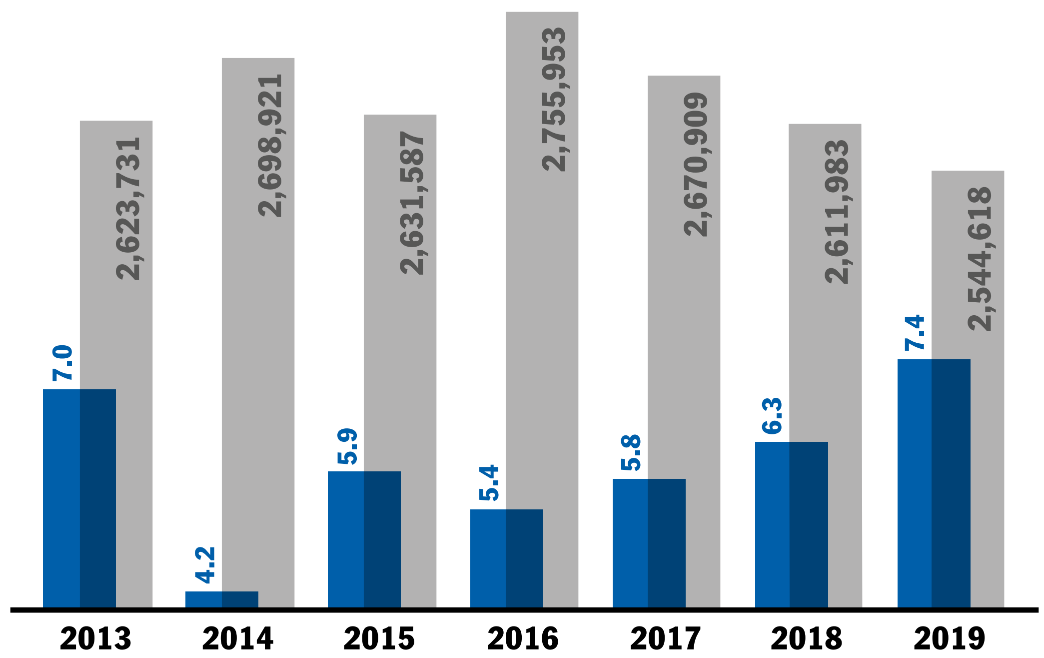
Education, information and training

On the one hand, the Fedrigoni Group seeks to encourage the knowledge and technical skills of its human resources; on the other, to develop the necessary awareness of tasks assigned in relation to the entire tangible and intangible context in which people operate daily, especially with reference to health and safety objectives in the workplace. The Group provides a truly significant amount of time for safety and health training activities, with a level of involvement at all levels, transversely and vertically; this is considered as an essential step towards obtaining positive results even as regards more general and strategic objectives.

The various training requirements are defined from year to year, dealing with a range of diversified topics such as management, organisation, legal matters, coaching, work environments, administration, technical and plant engineering aspects and so forth. The only recurring issues every year are those concerning safety and health in the workplace, regardless of the minimum established by legislative provisions. This is based on the simple fact that the Group expects and demands responsible behaviour from every employee and collaborator wherein education and training are the main driving force.

Over the past 6 years, the provision of individual training (Training Index = no. Training hours/worker/period) for health and safety matters has followed this trend:

Fig. 15 Individual specific training index



Photographs

Naphtalina
Pag. 15, 18, 20-21, 23, 55

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Dividers

Creative direction & making
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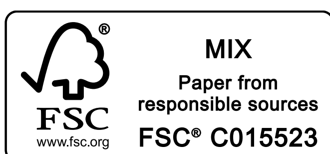

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