# Financial Statements as at 31 December 2018

VINAVIL

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VINAVIL S.p.A was set up in 1994 after MAPEI Group has purchased the vinyl acetate polymer production unit that previously was the part of EniChem Synthesis. This historic moment allowed to continue the Italian tradition in fine and secondary chemistry and established Vinavil S.p.A as one of the industrial leaders in Europe.

VINAVIL's production consists of:
- Vinyl and acrylic binders for water paints
- Vinyl and acrylic dispersions for adhesives and for the textile industry
- Re-dispersible polymer powders
- Solid polymers for the chewing-gum industry
- Polymers in beads for special uses
- Vinyl adhesives for DYI projects
- Tailor-made vinyl and acrylic polymers for many uses (from cement additives to suspending polymerization agents, etc.).


VINAVIL's production in Italy can be represented by using these figures:
- Turnover in 2018 of around € 181 million (47% in Italy and 53% abroad)
- Number of employees in 2018 reaching 376, where 10% are employed in R&D department
- Research and development costs are 6% of annual turnover

VINAVIL brand is well-known on an industrial scale, and many families are grateful for generations for the universal adhesive, Vinavil, one of the first and most famous "white glues".

VINAVIL's production in Italy has two main centers where the two of its plants are located: Ravenna and Villadossola (Verbania). Their strategic positions ensure that supply and communication with both, North and South Europe, and the Mediterranean area are effective.

Starting in 1997 VINAVIL augmented its internationalization process by setting up in VINAVIL Corp. (USA) In North America with offices in Deerfield Beach (Florida) and production plant in Chicago, as well VINAVIL Inc. (Canada) with its production plant located in Laval (Montreal). In 2001 a joint venture was established in Egypt (VINAVIL EGYPT, with its plant in Suez). MAPEI Group purchased 100% of the company in expectation of further developments in this crucial geographic area.

VINAVIL has progressively attained certification of its Management Systems:
- the Quality Management System compliant with the ISO 9001 standard in 1995;
- the Environmental Management System compliant with the ISO 14001 standard starting in 2004;
- the Health and Safety at Work Management System compliant with the OHSAS 18001 standard in 2011.

The certification covers the three production centers in Italy:

| **Milan** (Headquarters) | **Ravenna** | **Villadossola** |
|---|---|---|
| Via Valtellina 63 | Via Baiona 107 | Via Toce 7 |

VINAVIL has supported the international respect for the environment programme "Responsible Care" since 1997.

The Excellence Certificate, obtained in June 2011, crowned all of VINAVIL's prestigious recognitions in the field of Quality, the Environment and Safety.

**Web site: www.vinavil.com**

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**Administration & Offices Vinavil - Milan - Italy**

# VINAVIL WORLDWIDE ORGANIZATION

## HEADQUARTERS

- Milan - Italy

## OFFICES

- Deerfield Beach (Miami) FL - U.S.A.
- Laval (Montreal) - QUE - Canada
- Suez - Egitto
- Singapore

## PLANTS

- VILLADOSSOLA - Italy
- RAVENNA - Italy
- LAVAL - QUE - Canada
- WEST CHICAGO - ILL - U.S.A.
- SUEZ - Egypt

View of the Villadossola site


Villadossola site entrance - Open Day

Villadossola site - Open Day
Guided visit to the homopolymer production division

Villadossola site - Open Day
Guided visit to the raw material storage silos

Villadossola site - Research & Development Laboratories

View of the Ravenna site

**VINAVIL S.p.A.**

**Registered Office in Viale Jenner 4, Milan, Italy**

**Share Capital Euro 6,000,000**

**Direction and coordination: Mapei S.p.A.**

**Italian Tax Code and registration with the Registry of Companies in Milan no.11222570159 – E.A.I. no. 1445835**

# REPORT ON OPERATIONS
# STATUTORY FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

Shareholders,

this report on the situation and management performance of the Company is prepared in compliance with the provisions of art. 2428 of the Italian Civil Code and accompanies the Financial Statements for the year as at 31 December 2018.

The year ended with a loss of € 2,441,761, net of taxes and after amortisations/ depreciations for € 4,962,778.

## Performance of the economy

In 2018, the development of the world economy reached 3.7%, a marked improvement compared to the previous year during which global GDP increased by 3.8%.

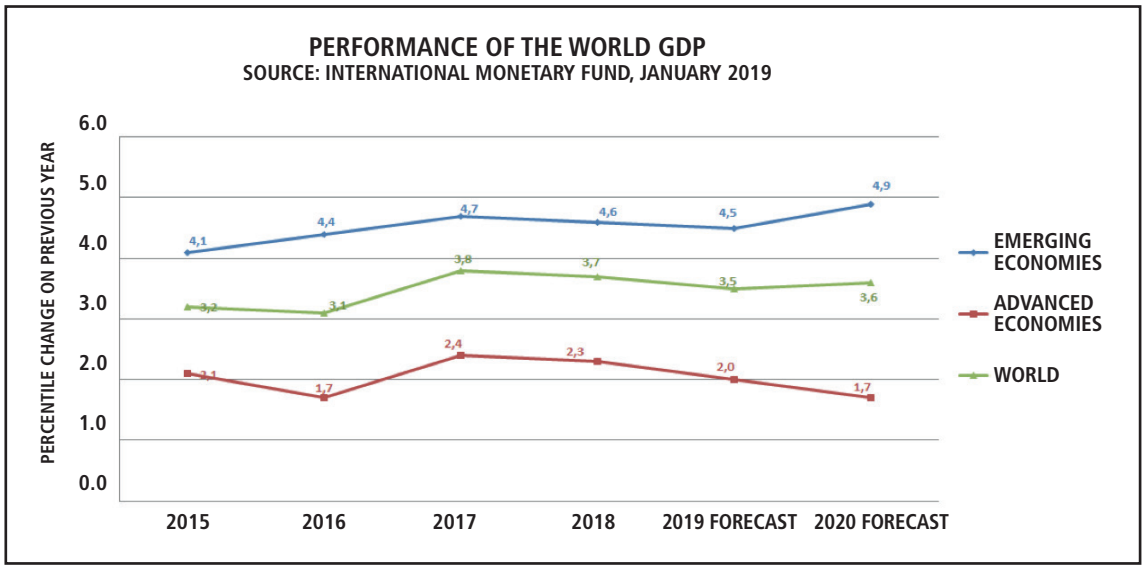
Last year, the effective economic growth was 2.3% in advanced countries, whereas it reached 4.6% in emerging economies.

As shown in the diagram, in 2018 the difference between the growth rates of well developed and emerging economies remained unchanged: the slight moderation of the growth rate affected both developed and emerging markets.

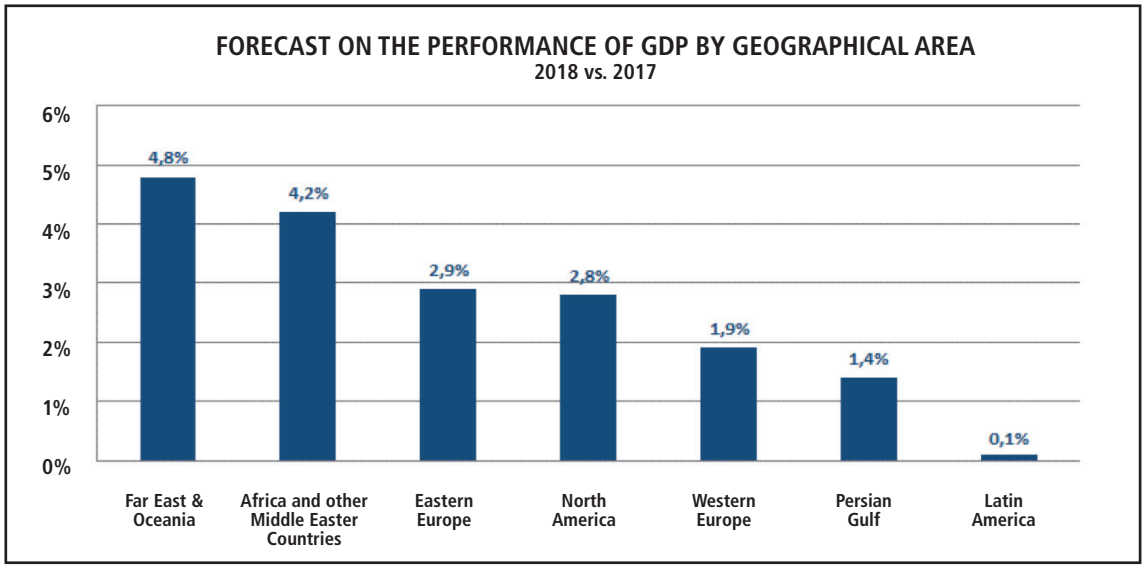
The International Monetary Fund states that in 2019 the global growth rate will decrease to 3.5%.

The slowdown in world GDP is mainly attributable to advanced economies, for which a sharp worsening of the economic situation is estimated for the current year.

The slowdown in the economy should only affect 2019 for emerging markets, while, starting next year, GDP could start to grow again at rates close to 5%.




The diagram reflects the GDP performance for the previous year in the various geographical areas.




2018 was characterised by a moderate increase in the Western European economy, where the gross domestic product achieved a development of 1.9%. Among the major countries in the region, the highest growth occurred in Spain, where the change in GDP stood at 2.5%. Last year the performance of the German economy was worse than the continental average, up by 1.5%. GDP growth was also moderate in France where it stood at 1.5%. A similar growth rate was recorded in the United Kingdom. Moreover, in 2018, Italy recorded the most modest economic growth among the major economies of the region; in fact, GDP increased by 1%.

Among the other advanced economies growth was 2.9% in the United States for 2018, where there was a marked improvement in the economic situation in comparison to the

previous year, during which GDP increased by 2.2%. On the contrary, in Canada the economic situation has slowed down and 2018 ended with an increase of 2.1%, which is significantly lower than the + 3% achieved in 2017.

Japan, the second largest advanced global economy, reported a modest growth in 2018 of 0.9%. There was also a slowdown in the pace of GDP development compared to 2017, which had ended with an increase of 1.9%.

Among major emerging markets, the highest economic growth rate was recorded in India, where in 2018 GDP increased by 7.3%. The pace of economic growth has strengthened compared to the previous year in which it stood at 6.7%.

According to data from the International Monetary Fund, in 2018, GDP in China grew by 6.6%. The development rate of the economy was moderate compared to 2017, characterised by growth rates close to 7%.

In 2018, the Brazilian economy continued its modest growth. The change in GDP was + 1.3%, slightly higher than in the previous year. Overall the economic growth of the Latin American region was hampered by the recession that hit Argentina and Venezuela.

Last year in Eastern Europe there was a slowdown in the economic situation compared to 2017, which closed with a 3.9% increase in GDP. In fact, it is estimated that the region's economy grew by approximately 3%. The slowdown in the Turkish economy, which in the final phase of last year entered into recession, influenced the final results of the area. Growth was moderate in Russia, while a positive economic dynamic continued in the main countries of the Central-Eastern region.

In the countries of the Persian Gulf, the overall increase in GDP stood at 1.4%, reflecting the recession of the Iranian economy, which was penalised by international sanctions. On the contrary, the GDP of the other main markets in the region - Saudi Arabia, United Arab Emirates and Qatar developed at rates between 2 and 3%.

In Africa and other Middle Eastern countries, economic growth is estimated at 4.2% in 2018. The GDP dynamic slowed down compared to 2017, characterised by an economic development of over 5%. Egypt and Morocco benefited from a favourable macroeconomic situation and some signs of development were noted in Libya, with a partial recovery of crude oil exports. Israel, Tunisia and Lebanon showed more moderate rates of expansion. In 2018, there was an increase of 2.9% in the Sub-Saharan region, a rate of development identical to that of the previous year. A strengthening of the economic growth rate in Nigeria was countered by a slowdown in the South African GDP, which in 2018 increased only by 0.9%. In the other countries of the region the rate of economic development was much higher.

## Operating performance

Compared to last year, Vinavil recorded an increase in both sales volumes and turnover of 4% and 6% respectively in 2018.

The following table shows the distribution by geographical area of the turnover and the relevant development trend (millions of €):

| | 2018 | 2017 | Δ% |
|---|---|---|---|
| Italy | 78 | 74 | 5% |
| EU | 44 | 49 | -10% |
| Non EU | 59 | 48 | 23% |
| **Total** | **181** | **171** | **6%** |

Italy recorded a growth in its turnover, while the EU area suffered a decline, though offset by non-EU sales, thanks above all to the increase in sales in the Middle East and Africa (MEA). In fact, using the expansion of production capacity realised in 2017, the Company has increased its presence in the MEA area, in particular on the paint products market (+ 30%). In general, the other sectors (Adhesives, Food, Buildings) performed at the same levels as last year. There was an increase in sales of Pearls (solvent-based adhesives) in North America (+ 17%) and Small Packs for DIY in Italy (+ 27%).

2018 was characterised by a sudden and strong increase in the cost of the main raw material (AVM) between Q2 and Q3 (+ 37%) due to a series of events that considerably reduced the offer on the global market. Due to the rapid rise and fall in the cost of AVM, the Company was unable to mark-up the higher cost of the raw material on sales prices, causing a sharp drop in the contribution margin. Furthermore, the price of oil contributed towards generally increasing the prices of derivative chemical products, even if to a diluted extent, since oil is a raw material far removed downstream from chemistry.

The increase in costs of raw materials led to a sharp decline in EBITDA, which stood at approximately € 1.9 million (approximately 1% of turnover), down compared to 2017 by approximately 12 million (approximately 9% of turnover).

It should be noted that in 2018 the Company distributed dividends for € 4 million and financed investments of approximately € 2.38 million through its operations.

From a financial viewpoint, the net financial position (essentially represented by the "pooling-account" with the parent company Mapei SpA) has worsened: from a debt of 13 million Euro at the end of 2017 to 16.4 million Euro at the end 2018.

The change in the net financial position is essentially due to the positive cash flows from ordinary operations (5.11 million Euro), absorbed by technical investments (2.38 million Euro), dividend payments (4 million Euro) and from the payment of taxes (2.08 million Euro).

Vinavil Egypt for Chemicals resolved dividends for 212 thousand Euro for the year.

## Disclosure pursuant to art. 2428 of the Italian Civil Code

In order to better highlight the situation of the Company and management performance, below we summarise the equity, financial and economic data for the year (compared with the one from the previous year) through the Balance Sheet that was reclassified by functional areas and the Income Statement reclassified on a management accounting basis as required by the Italian Civil Code (thousands of €).

### Reclassified balance sheet as at 31 December

**VALUES Euro x.000**

| | 2018 | 2017 |
|---|---|---|
| ***Net fixed assets*** | | |
| Intangible | 225 | 257 |
| Tangible | 28,602 | 31,153 |
| Financial | 18,246 | 18,246 |
| **Total** | **47,073** | **49,656** |
| ***Net working capital*** | | |
| Inventories | 26,626 | 29,511 |
| Receivables | 45,605 | 45,093 |
| Other assets | 2,992 | 3,267 |
| Payables | -26,077 | -28,197 |
| Other liabilities | -4,285 | -4,401 |
| **Total** | **44,861** | **45,273** |
| ***Provisions for risks and employee leaving indemnity*** | | |
| Provisions for risks and charges | -2,003 | -1,806 |
| Employee leaving indemnity | -870 | -983 |
| **Total** | **- 2,873** | **- 2,789** |
| **Net invested capital** | **89,061** | **92,140** |
| ***Net Financial Position*** | | |
| Liquid funds | -9 | -49 |
| Short-term financial payables | 1 | 1 |
| Cash Pooling position | 16,359 | 13,036 |
| **Total** | **16,351** | **12,988** |
| ***Shareholders' equity*** | ***72,710*** | ***79,152*** |
| **Total sources of financing** | **89,061** | **92,140** |

The main changes in cash flows, which have led to the improvement of the Net Financial Position, are as follows.

Cash flows absorbed by operating activities: during the year, operating activity led to a positive net change of € 3 million (for more details, please refer to the Cash Flow Statement, which forms an integral part of the Explanatory Notes).

Cash flows generated by investment activities: this area led to a negative change of € 2.4 million, following interventions on tangible fixed assets at the production sites of the Company (as commented in the following paragraph "Production/investments" of this report).

Cash flows absorbed by financial activities: increased due to the payment of dividends to the parent company for € 4 million.

## Reclassified Income Statement as at 31 December

### AMOUNTS Euro x.000

| | 2018 | 2017 |
|---|---|---|
| Sales revenues | 181,193 | 171,062 |
| Internal production | -472 | 2,202 |
| **Value of operating production** | **180,721** | **173,264** |
| External operating costs | 153,319 | 134,087 |
| **Added value** | **27,402** | **39,177** |
| Employee costs | 25,491 | 24,598 |
| **Gross Operating Margin EBITDA** | **1,911** | **14,579** |
| Amortisation/depreciation and provisions | 4,963 | 5,605 |
| **Operating result** | **- 3,052** | **8,974** |
| Income from ancillary activities/business | 134 | -54 |
| Financial income (net of financial charges) | 245 | 448 |
| **Normalised EBIT** | **- 2,673** | **9,368** |
| **Stated EBIT** | **- 2,673** | **9,368** |
| Financial charges | 573 | -428 |
| **Gross result** | **- 3,246** | **9,796** |
| Income taxes | -805 | 2,765 |
| **Net result** | **- 2,441** | **7,031** |

## Main performance indicators

We point out various performance indicators chosen among those considered most significant in relation to the Company's situation. The ratios for the year under scrutiny are compared with those of the previous year.

| **1 - financing ratios of fixed assets** | | | |
|---|---|---|---|
| | | **2018** | **2017** |
| Fixed asset to equity capital ratio | *Equityl Fixed Assets* | 1.54 | 1.59 |
| Fixed asset to equity capitai and medium. long term debt ratio | *Equity + Consolidated liabilities / Fixed Assets* | 1.61 | 1.65 |
| **2 - financing ratios of fixed assets** | | | |
| Debt to equity ratio | *Consolidated liabilities + Current liabilities / Equity* | 0.70 | 0.61 |
| Debt (long-term interest bearing) to equity ratio | *Net financial position / Equity* | 0.22 | 0.16 |
| **3 - profitability index** | | | |
| ROE gross | *Gross result / Equity* | -4.5% | 12.4% |
| ROI | *Operating result / Capital operating area (*)* | -5.6% | 14.7% |
| ROS | *Operating result / Sales revenues* | -1.6% | 5.2% |
| **4 - liquidity ratio** | | | |
| Current ratio | *Current assets / Current liabilities* | 1.60 | 1.71 |
| Cash ratio | *(Deferred liquidity + Immediate liquidity) / Current liabilities* | 1.04 | 1.06 |

(*) Capital operating area: total assets - financial fixed assets - Immediate liquidity

Going into detail, the "Fixed assets to equity capital ratio", which defines the degree of internal hedging of fixed assets, shows an amount of 1.54, which is above the reference parameter generally suggested (between 0.7 and 1), therefore, confirming a satisfactory equity soundness (the company's equity is in fact sufficiently abundant to autonomously finance the fixed assets).

Also the "Fixed assets to equity capital and medium/long-term debt ratio", which compares the permanent capital, contributed by both the shareholders and by third party financial backers, with the fixed assets, discloses a satisfactory situation and therefore confirms a suitably capitalised equity structure, since it is higher than the minimum threshold generally advised of 1, therefore the financial coverage sources are able to achieve not only the requirement related to the fixed assets, but also the requirement generated by the current assets.

The "Total debt to equity ratio" increased slightly with respect to the previous year mainly due to the increase in current liabilities. Total liabilities amounted to approximately € 50.6 million, against a Shareholders' Equity of € 72.71 million.

The "Availability ratio" is 1.60 (1.71 in 2017); which indicates a satisfactory ability of the company to meet short-term commitments with its own current resources.

The "Cash management ratio" was also positive at 1.04 (1.06 in 2017).

The values adopted by the availability ratio and the cash management ratio overall disclose that the Company is able, using its liquidity, to deal with short-term commitments.

The analysis by ratios highlights, from an economic viewpoint, a negative ROI of 4.5%; the negative trend is determined by the loss for the year.

The profitability of invested capital and sales are both negative, mainly due to the low marginality on sales (especially due to the considerable price increase of the AVM recorded during the year), which contributed to the operating loss as at 31 December.

## Risk management

In this part of the report, in compliance with the provisions of art. 2428 of the Civil Code, the intention is to report the risks or events capable of producing negative effects in order to pursue the corporate objectives, which can represent an obstacle to the creation of value.

The Company has activated a mechanism for the constant monitoring of said risks, thus, to prevent the potential negative effects and adopt the necessary actions for their containment.

The main ones are listed below:

### *Risks associated with credit management*

The Company's commercial policy is characterised by safeguarding credit by means of a constant and, if necessary, preventive control and monitoring of the financial standing of a customer.

It should be borne in mind that, operating with a rather high number of customers, there are no significant credit positions that lead to an excessive credit concentration.

Price risk: the sales price policy is based on foreseeable changes in the cost for raw materials and purchased finished products; the objective is to adjust the same, as soon as possible, in order to reflect on the increase in costs.

In order to reduce the risk related to price fluctuations in raw materials, the Company carries out specific market, trying to take advantage, as best as possible of market fluctuations.

Furthermore, the Company normally does not execute medium/long-term contractual commitments with customers and suppliers.

### *Risks associated with currency exchange rates*

The Company operates in a financial context essentially linked to the Euro. The financial exposure in currencies other than the Euro is limited and does not involve particular risks.

The Company holds a current foreign account (USD), centralised with the Group's Central Treasury (cash pooling), for the ordinary management of supplies and collections in the Dollar area.

### *Risks associated with financial requirements and liquidity management*

The Company participates in a Centralised Group Treasury system (cash pooling), both for internal and external currencies, which ensure that it meets current financial needs.

### *Environmental impact, health and safety risks*

The Company pays particular attention to protecting the environment and the health and safety at the workplace, complying with all environmental and safety regulations. The Company has structures dedicated to the management of these issues. The HSE department is operational at a Group level with the task of coordinating the operations of the individual companies.

### *Risks associated with tax and legal disputes*

The Company uses specialised Lawyers in order to face and deal with risks relevant to situations that may involve the Company. To date the Company is not involved in any disputes worth mentioning and for which loss is possible or probable.

## Relations with subsidiaries, associates, parent companies, subsidiaries of the parent company and related parties

### *Parent company*

Vinavil S.p.A. is a subsidiary of Mapei S.p.A. with registered office in Via Cafiero 22, Milan, Italy, that owns 99.98% of the share capital.

Transactions between Vinavil S.p.A. and the parent company Mapei S.p.A. mainly concern:

- Trade relations relevant to the purchase and sale of products;

- Centralised services (IT, technical, organisation, general) provided by the parent company;
- Tax relations based on the parent company's participation in the National Tax Consolidation Regime prepared by the Holding;
- Financial relations for Group cash pooling.

All transactions are regulated by contract and executed at arm's length.

### *Associates*

Relations with the associate are of a commercial nature for goods sold and/or purchased at arm's length and financial resulting from the distribution of dividends.

### *Other companies subject to control by the parent company*

Relations with other Group companies are of a commercial nature relevant to the purchase and sales of products.

These relations are regulated on an arm's-length basis.

The breakdown of the financial and economic relations between the Company and other Group companies, including the parent company, the associate and Companies subject to control by the parent company, as illustrated in Annex 1 and 2 to this report. There are no significant relations with other related parties.

## Transactions on treasury or parent company shares

The Company does not own, nor did it acquire or dispose during the year, treasury or parent company shares of Mapei S.p.A., with which it has commercial and financial relations regulated on an arm's-length basis.

## Other information – National tax consolidation

The Company exercised the right for group taxation for IRES (company earnings tax) purposes (Tax Consolidation), jointly with the parent company Mapei S.p.A. and the other companies controlled by the latter.

## Research and development

In compliance with the Mapei group strategy, Vinavil S.p.A. pursued the enhancement of its position on the markets in which it operates via Research & Development activities, competing with the leading multinational companies on the adhesives and thickeners markets for paint products and in the textile sector.

Vinavil S.p.A. carried out intense Research & Development activities at its Laboratories working together with important Italian and foreign independent research centres such as the National Research Council (IVALSA section) and Istituto POLYMAT of the University of the Basque Country.

Furthermore, it continued to work together with qualified customers to find innovative solutions on their research topics or new proposals.

The main activities of the innovative Research was directed towards the sectors with the highest profitability so as to independently support Research and Technical Assistance activities for customers.

Vinavil tangibly introduced the concept of sustainable chemicals, both with regard to research for the total elimination of substances that pose a danger to man and the environment and in the optimisation of its processes to minimise emissions and reduce energy consumption.

In 2018, Vinavil's Research Departments developed a new Class D4 Mono-component adhesive for wood with a low odour level and frost/thaw resistance that achieved with considerable success, especially with foreign customers in the Baltic area, where these two characteristics are indispensable.

Activity in the self-adhesive products sector was also consolidated, with the development of the new self-adhesive product with high transparency and water resistance to be used in the production of plastic "no look" film labels.

In the Coating sector, through research a binding agent in water dispersion for anti-corrosive paints called DTM (*Direct To Metal*) was developed, which obtained various approvals on the market, even though most of the binding agents used for this application are still solvent based.

For the wood painting industry, a new nano-latex with higher flexibility has been created to expand the range in this market segment, which was still based on products dissolved in solvent.

An important agreement was executed (in the textile sector) with INNOVHUB-Section Seta (a company that carries out applied research, technical-scientific consultancy and industrial testing), for the development of water-repellent agents as the replacement of fluorinated products, and as a result it became priority in the field of textile finishing.

The Vinavil Research & Development strategy for the future is targeted towards strengthening its presence in the traditional sectors by means of far-reaching technical assistance and introducing always up-to-date products in line with the market changes, as well as putting together new products for innovative and niche applications.

## Production/investments

Investments during 2018 led to an expense commitment of approximately € 2.4 million.

At the Ravenna site interventions were carried out for the industrialisation and upgrading of the "Concentrated SPLW" plant, as well as adaptation and safety interventions throughout the entire site.

The most important investments for the Villadossola plant concern works on buildings for adaptation to new safety regulations and specific works to further improve the performance of some plants. Furthermore, the railway connection was adapted, a new boiler was purchased, a new anti-stick dosing system was implemented for the "*spray drier*" plant and some work was carried out on the new "Acrylic" production line.

## Safety, quality and environmental sustainability

In 2018 the transition to the new requirements of the 2015 edition of the ISO 9001 and ISO 14001 standards was positively addressed, which constitute the standard for Quality Management Systems and Environmental Management. Both systems have been certified by Certiquality pursuant to the new standards.

The Company has adapted to the new features of the FSSC 22000 v 4.1 standard, adopted as the standard for the Food Safety Management System in the Raviflex BLS production line, a component of the rubber base for chewing gum.

The aforementioned Systems are joined by the Health and Safety Management System, certified pursuant to OHSAS 18001: 2007, which will be subject to further development.

In the last quarter of 2018, Vinavil published its "2017 Sustainability Report".

Vinavil S.p.A. actively participates in the international project "Responsible Care", promoted in Italy by Federchimica.

In 2018, the following main improvement measures relevant to Quality, Environment and Safety were carried out at *Villadossola*:

- Systematic application of "*safety briefings*" in various departments and "*field observations*";
- Improvements in critical areas of the production system;
- In the context of Italian Legislative Decree 105/15 (regulation Seveso III on major accident risks) it is noted that the adaptation to the final recommendations of the Regional Technical Committee was carried out;
- Significant renewal of Personal Protective Equipment (PPE) to be used in case

of emergency (*nomex* fire suits, fire approach suits, chemical suits) and some maintenance operations on the plant fire network;

- Important update of the Risk Assessment Document (DVR), both general and specific;
- Introduced new software for registration and training management. Training courses and safety updates are scheduled in compliance with the State-Regions Agreement;
- Training and simulations for all site personnel with new operating procedures and periodic *re-training* on a three-year basis.

In 2018 *Ravenna* site implemented the recommendations and proposed requirements in the scope of Italian Legislative Decree 105/15 (regulation Seveso III on major accident risks) of the Regional Technical Committee.

The Risk Assessment Document has been extensively revised confirming its role as a flexible and dynamic tool for the assessment of accident-prevention risks.

In order to guarantee services that fall in line with corporate standards, we confirm the following strong points:

- the constant investment in Health, Safety and Environment training, provided in line with the annual plan, for a total of approximately 2800 hours.
- staff participation in the reporting of risk situations using an effective software tool.

In Ravenna, in the context of Health, Safety and Environment, various interventions have been carried out that underline the Company's commitment in the continuous process of improvement.

## Implementation of Italian Legislative Decree 231/2001

In 2018 an adjustment of the Organisation, Management and Control Model was necessary subsequent to the changes introduced by Italian Legislative Decree 21 of 1 March 2018, which made changes to the general and special parts of the Italian Criminal Code and supplementary laws, transferring certain crimes to the Italian Criminal Code, and the changes introduced by Italian Legislative Decree 107 of 10 August 2018, which amended market abuse regulations.

With the resolution passed on 16 November 2018, the BoD approved and adjusted, in compliance with Italian Legislative Decree 231 of 2001, the "Updated Organisation, Management and Control Model and relevant annexes".

In line with what is envisaged by the training program adopted by the Supervisory

Body, the Company planned a specific training initiative for all Vinavil S.p.A. employees relevant to Italian Legislative Decree 231 of 2001 and the Corporate Code of Ethics based on the training module that can be provided through the *e-learning* platform.

The Supervisory Body has regularly performed the activities envisaged by the relative Guidelines, operating in compliance with the defined programs and carrying out, in particular:

- periodic meetings and reports;
- communication, training and information activities for the dissemination and knowledge of the Organisational Model;
- monitoring of information flows from Vinavil departments;
- planning of the supervisory activity (audit) for 2019.

## Human Resources

As at 31/12/2018, the workforce consisted of 376 individuals distributed between the categories as follows:

- Managers 11
- Junior Managers 51
- White Collars 119
- Blue Collars 195

During the year, there were 9 terminations and 19 new recruits.

## Secondary offices and locations where business activities are carried out

In compliance with art. 2428, subsection 5, of the Italian Civil Code, it is hereby specified that the Company does not currently have secondary offices, but operates via the following premises:

- Milan (MI) – Via Valtellina 63
- Ravenna - (RA) – Via Baiona 107
- Villadossola - (VB) – Via Toce 7

## Disclosure on financial instruments

With reference to the disclosure on financial instruments required by art. 2428, subsection 3, no. 6 bis of the Italian Civil Code, the Company does not have any derivative contracts.

## Payment of dividends

In 2018, the distribution of a € 4 million dividend was resolved.

## Direction and coordination activities

Based on the requirements of art. 2497 bis, point 4, of the Italian Civil Code, it should be noted that the Company is subject to direction and coordination by the parent company Mapei S.p.A. Please refer to the Explanatory Notes for the key data relevant to the last approved Financial Statements of Mapei SpA

## 2019 Business outlook

In the first quarter, an increase in volumes and turnover of 5% and 8%, respectively, is estimated, compared with the same period last year. The cost of the main raw materials follows the downward *trend* started in the last quarter of 2018, allowing room for a return to healthy profitability levels. However, a turnaround is expected during the summer, which could lead to a new temporary decline in margins.

We believe that the Company can achieve the goals it has set for 2019 due to our product portfolio and innovative solutions.

* * * * * * * *

Finally, we remind you that with the approval of the Financial Statements as at 31 December 2018, when our mandate for the three-year term expires; you will be required to renew the administrative body during the Shareholders' Meeting.

**Milan, 28 March 2019**

**THE CHAIRMAN**
**OF THE BOARD OF DIRECTORS**
**(Mr. Giorgio Squinzi)**

## Intra-group relations as at 31 December 2018 - Balance sheet

| Amounts in Euro | Trade receivables | Financial receivables | Tax credits | Cash pooling receivables | Trade payables | Cash pooling payables |
|---|---|---|---|---|---|---|
| Parent Company | 6,865,078 | 483,938 | 1,167,655 | 1,074,160 | (1,704,436) | (17,433,609) |
| Other Group companies | 11,238,433 | 712,126 | | | (46,331) | |
| **TOTAL** | **18,103,511** | **1,196,064** | **1,167,655** | **1,074,160** | **(1,750,767)** | **(17,433,609)** |

## Intra-group relations as at 31/12/2018 - Income Statement

| | A) 1 | A) 5 | B) 6 | B) 7 | B) 14 | C) 15 | C) 16 | C) 17 |
|---|---|---|---|---|---|---|---|---|
| Amounts in Euro | Revenues from sales and services | Other revenues and income | Raw, ancillary materials, consumables and goods | Costs of Services | Other operating charges | Sundry financial income | Interests and other financial income | Interest and other financial charges |
| Parent Company | 22,367,633 | 9,258 | (2,467,168) | (998,183) | (20,207) | | 33,548 | (22,679) |
| Other Group companies | 42,196,235 | 2,484 | (14,590) | (43,674) | (28,290) | 212,202 | | |
| **TOTAL** | **64,563,868** | **11,742** | **(2,481,758)** | **(1,041,857)** | **(48,497)** | **212,202** | **33,548** | **(22,679)** |

# BALANCE SHEET FY FROM 1/1/2018 TO 31/12/2018

| ASSETS | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| **B) Fixed assets** | | | |
| **I Intangible fixed assets** | | | |
| 3) industrial patents and intellectual property rights | 1,597.06 | 0.00 | 1,597.06 |
| 4) concessions, licences, trademarks and similar rights | 223,616.00 | 256,736.50 | (33,120.50) |
| | **225,213.06** | **256,736.50** | **(31,523.44)** |
| **II Tangible fixed assets** | | | |
| 1) land and buildings | 12,599,295.80 | 12,737,900.24 | (138,604.44) |
| 2) plant and machinery | 13,852,161.23 | 16,867,904.14 | (3,015,742.91) |
| 3) industrial and commercial equipment | 105,938.31 | 165,635.49 | (59,697.18) |
| 4) other assets | 182,237.57 | 180,276.67 | 1,960.90 |
| 5) fixed assets under construction and advances | 1,862,076.01 | 1,201,172.56 | 660,903.45 |
| | **28,601,708.92** | **31,152,889.10** | **(2,551,180.18)** |
| **III Financial fixed assets** | | | |
| 1) investments | | | |
| b) associates | 18,050,651.96 | 18,050,651.96 | 0.00 |
| d) other companies | 195,994.87 | 195,994.87 | 0.00 |
| | **18,246,646.83** | **18,246,646.83** | **0.00** |
| **Total fixed assets** | **47,073,568.81** | **49,656,272.43** | **(2,582,703.62)** |
| **C) Current assets** | | | |
| **I Inventories** | | | |
| 1) raw, ancillary materials and consumables | 17,426,582.47 | 19,839,679.73 | (2,413,097.26) |
| 4) finished products and goods | 9,199,701.07 | 9,671,842.67 | (472,141.60) |
| | **26,626,283.54** | **29,511,522.40** | **(2,885,238.86)** |
| **II Receivables** | | | |
| 1) trade | 25,621,622.84 | 27,912,929.09 | (2,291,306.25) |
| 3) short-term due from associates | 725,628.62 | 504,066.93 | 221,561.69 |
| 4) short-term due from parent companies | 9,590,831.59 | 7,159,234.28 | 2,431,597.31 |
| 5) due from companies subject to control by parent companies | 11,224,929.76 | 10,000,773.14 | 1,224,156.62 |
| 5) bis tax credits | | | |
| a) due within 12 months | 1,717,934.47 | 1,746,180.64 | (28,246.17) |
| b) due beyond 12 months | 31,633.33 | 21,666.67 | 9,966.66 |
| 5) ter prepaid taxes | 332,173.00 | 325,535.00 | 6,638.00 |
| 5) quater due from others | 190,774.93 | 485,841.48 | (295,066.55) |
| | **49,435,528.54** | **48,156,227.23** | **1,279,301.31** |
| **IV Liquid assets** | | | |
| 1) bank and postal deposits | 0.00 | 43,707.33 | (43,707.33) |
| 3) cash and equivalents on hand | 9,299.46 | 5,932.15 | 3,367.31 |
| | **9,299.46** | **49,639.48** | **(40,340.02)** |
| **Total current assets** | **76,071,111.54** | **77,717,389.11** | **(1,646,277.57)** |
| **D) Accruals and deferrals** | **236,205.70** | **203,510.52** | **32,695.18** |
| **TOTAL ASSETS** | **123,380,886.05** | **127,577,172.06** | **(4,196,286.01)** |

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Giorgio Squinzi)

| LIABILITIES | | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|---|
| **A) Shareholders' equity** | | | | |
| I | Share capital | 6,000,000.00 | 6,000,000.00 | 0.00 |
| III | Revaluation reserves | 43,245,623.65 | 43,245,623.65 | 0.00 |
| IV | Legal reserve | 1,200,000.00 | 1,200,000.00 | 0.00 |
| VI | Other reserves, stated separately | 4,838,320.03 | 4,832,464.81 | 5,855.22 |
| VIII | Profits (losses) carried forward | 19,868,278.40 | 16,842,991.12 | 3,025,287.28 |
| | | 75,152,222.08 | 72,121,079.58 | 3,031,142.50 |
| IX | Profit (loss) for the year | (2,441,760.69) | 7,031,142.50 | (9,472,903.19) |
| | | **72,710,461.39** | **79,152,222.08** | **(6,441,760.69)** |
| **B) Provisions for risks and charges** | | | | |
| 1) | provisions for pension liabilities and other post employment benefits | 1,558,246.26 | 1,364,688.61 | 193,557.65 |
| 2) | for taxes, also deferred | 10,737.00 | 7,803.00 | 2,934.00 |
| 4) | other | 433,925.76 | 433,925.76 | 0.00 |
| | | **2,002,909.02** | **1,806,417.37** | **196,491.65** |
| **C) Severance Indemnity** | | **869,931.27** | **983,262.59** | **(113,331.32)** |
| **D) Payables** | | | | |
| 4) | due to banks | 1,327.68 | 1,414.26 | (86.58) |
| 7) | trade | 24,326,513.30 | 24,034,062.62 | 292,450.68 |
| 10) | due to associates | 37,541.20 | 17,865.57 | 19,675.63 |
| 11) | short-term payables due to parent companies | 19,138,044.50 | 17,140,980.65 | 1,997,063.85 |
| 11 bis) | amounts due to companies subject to control by parent companies | 8,790.42 | 39,874.24 | (31,083.82) |
| 12) | tax payables | 647,346.95 | 616,758.36 | 30,588.59 |
| 13) | amounts due to social security institutions | 661,724.77 | 693,116.51 | (31,391.74) |
| 14) | other payables | 2,976,295.55 | 3,091,197.81 | (114,902.26) |
| | | **47,797,584.37** | **45,635,270.02** | **2,162,314.35** |
| **E) Accruals and deferrals** | | **0.00** | **0.00** | **0.00** |
| **TOTAL LIABILITIES** | | **123,380,886.05** | **127,577,172.06** | **(4,196,286.01)** |

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Giorgio Squinzi)

# INCOME STATEMENT FY FROM 1/1/2018 TO 31/12/2018

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| **A) Value of production** | | | |
| 1) revenues from sales and services | 181,192,967.42 | 171,062,131.49 | 10,130,835.93 |
| 2) changes in inventories of finished products | (472,141.60) | 2,202,164.62 | (2,674,306.22) |
| 5) other revenues and income | 996,334.68 | 752,130.67 | 244,204.01 |
| | **181,717,160.50** | **174,016,426.78** | **7,700,733.72** |
| **B) Cost of production** | | | |
| 6) raw, ancillary materials, consumables and goods | (122,385,064.42) | (114,348,740.26) | (8,036,324.16) |
| 7) for services | (27,876,153.72) | (26,388,262.83) | (1,487,890.89) |
| 8) for use of third party assets | (917,218.57) | (856,135.99) | (61,082.58) |
| 9) for employees | | | |
| a) salaries and wages | (17,581,871.73) | (16,939,732.04) | (642,139.69) |
| b) social security contributions | (6,216,058.50) | (5,985,440.13) | (230,618.37) |
| c) severance indemnity | (1,135,635.17) | (1,088,399.26) | (47,235.91) |
| d) pension liabilities and other post employment benefits | (205,343.35) | (179,920.72) | (25,422.63) |
| e) other costs | (80,230.24) | (83,237.91) | 3,007.67 |
| | **(25,219,138.99)** | **(24,276,730.06)** | **(942,408.93)** |
| 10) amortisation, depreciation and write-downs | | | |
| a) amortisation of intangible fixed assets | (34,718.44) | (21,744.68) | (12,973.76) |
| b) depreciation of tangible fixed assets | (4,928,059.13) | (5,583,849.55) | 655,790.42 |
| | **(4,962,777.57)** | **(5,605,594.23)** | **642,816.66** |
| 11) changes in left-over stocks | (2,413,097.26) | 7,185,095.06 | (9,598,192.32) |
| 14) other operating expenses | (862,445.77) | (806,238.65) | (56,207.12) |
| | **(184,635,896.30)** | **(165,096,606.96)** | **(19,539,289.34)** |
| **Difference between value and cost of production** | **(2,918,735.80)** | **8,919,819.82** | **(11,838,555.62)** |
| **C) Financial income and charges** | | | |
| 15) d) income from investments in associates | 212,202.03 | 440,541.16 | (228,339.13) |
| 16) other financial income | | | |
| d) financial income | | | |
| from parent companies | 33,547.69 | 0.00 | 0.00 |
| other | 0.00 | 7,628.48 | (7,628.48) |
| | **33,547.69** | **7,628.48** | **25,919.21** |
| 17) interest and other financial charges | | | |
| a) interests payable to parent companies | (22,679.17) | (2,808.52) | (19,870.65) |
| d) other financial charges | (44,594.60) | (50,252.74) | 5,658.14 |
| | **(67,273.77)** | **(53,061.26)** | **(14,212.51)** |
| **17) bis exchange gains and losses** | **(506,261.84)** | **481,504.40** | **(987,766.24)** |
| **Total (15 + 16 - 17)** | **(327,785.89)** | **876,612.78** | **(1,204,398.67)** |
| **D) Value adjustments to financial assets** | **0.00** | **0.00** | **0.00** |
| **EARNINGS BEFORE TAXES** | **(3,246,521.69)** | **9,796,432.60** | **(13,042,954.29)** |
| 20) a) current income taxes for the year | 0.00 | (2,452,269.00) | 2,452,269.00 |
| 20) b) taxes relevant to previous years | 8,667.00 | (53,570.10) | 62,237.10 |
| 20) c) deferred and prepaid taxes | 3,704.00 | (259,451.00) | 263,155.00 |
| 20) d) income from participation in the tax consolidation regime | 792,390.00 | 0.00 | 792,390.00 |
| | **804,761.00** | **(2,765,290.10)** | **3,570,051.10** |
| **PROFIT (LOSS) FOR THE YEAR** | **(2,441,760.69)** | **7,031,142.50** | **(9,472,903.19)** |

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Giorgio Squinzi)

| | 2018 | 2017 | changes |
|---|---|---|---|
| **A. Cash flows from operating activities (indirect method)** | | | |
| **Profit (loss) for the year** | **(2,441,760.69)** | **7,031,142.50** | **(9,472,903.19)** |
| Income taxes | (796,094.00) | 2,711,720.00 | (3,507,814.00) |
| Interest payable/(interest income) | (10,861.12) | 2,808.52 | (13,669.64) |
| (Dividends) | (212,202.03) | (440,541.16) | 228,339.13 |
| **1. Profit (loss) before income taxes, interest, dividends and gains/losses on disposals** | **(3,460,917.84)** | **9,305,129.86** | **(12,766,047.70)** |
| *Adjustment for non-monetary elements that were not offset in the net working capital* | | | |
| Provisions | 208,907.46 | 188,880.04 | 20,027.42 |
| Provisions for severance indemnity | 54,503.02 | 48,248.85 | 6,254.17 |
| Amortisation and depreciation of fixed assets | 4,962,777.57 | 5,605,594.23 | (642,816.66) |
| **2. Cash flow before changes in net working capital** | **5,226,188.05** | **5,842,723.12** | **(616,535.07)** |
| *Changes in net working capital* | | | |
| Decrease/(increase) of inventories | 2,885,238.86 | (9,387,205.36) | 12,272,444.22 |
| Decrease/(increase) of trade receivables | 2,291,306.25 | (3,784,796.08) | 6,076,102.33 |
| Decrease/(increase) of receivables due from associates | (9,359.66) | 1,192,725.07 | (1,202,084.73) |
| Decrease/(increase) of receivables due from parent companies | (565,047.31) | (125,362.81) | (439,684.50) |
| Decrease/(increase) of other receivables | (811,451.56) | (1,374,113.63) | 562,662.07 |
| Decrease/(increase) of accrued income and prepaid expenses | (32,695.18) | 129,831.19 | (162,526.37) |
| Increase/(decrease) of trade payables | 292,450.68 | 5,724,909.40 | (5,432,458.72) |
| Increase/(decrease) of payables due to parent companies | (394,552.81) | 885,289.23 | (1,279,842.04) |
| Increase/(decrease) in payables due to associates | 19,675.63 | (4,400.93) | 24,076.56 |
| Increase/(decrease) of other payables | (146,789.23) | (339,760.31) | 192,971.08 |
| **3. Cash flow after changes in net working capital** | **3,528,775.67** | **(7,082,884.23)** | **10,611,659.90** |
| Interest collected/(paid) | (11,489.22) | (3,354.05) | (8,135.17) |
| (Income taxes paid - parent company) | (1,983,753.00) | (3,467,947.00) | 1,484,194.00 |
| (Income taxes paid - IRAP) | (99,359.00) | (753,934.00) | 654,575.00 |
| Use of severance indemnity | (167,834.33) | (60,365.34) | (107,468.99) |
| Use of provisions | (15,349.81) | 0.00 | (15,349.81) |
| **4. Cash flow after other adjustments** | **(2,277,785.36)** | **(4,285,600.39)** | **2,007,815.03** |
| **Cash flow from operating activities (A)** | **3,016,260.52** | **3,779,368.36** | **(763,107.84)** |
| **B. Cash flow from investment activities** | | | |
| **Tangible fixed assets** | **(2,376,878.96)** | **(3,328,541.31)** | **951,662.35** |
| (Investments) | (2,376,878.96) | (3,328,541.31) | 951,662.35 |
| **Intangible fixed assets** | **(3,195.00)** | **(246,520.00)** | **243,325.00** |
| (Investments) | (3,195.00) | (246,520.00) | 243,325.00 |
| **Financial fixed assets** | **0.00** | **(85.87)** | **85.87** |
| (Investments) | 0.00 | (85.87) | 85.87 |
| **Cash flow from investment activities (B)** | **(2,380,073.96)** | **(3,575,147.18)** | **1,195,073.22** |
| **C. Cash flow from financing activities** | | | |
| *Loan capital* | | | |
| Increase (decrease) in short-term payables to banks | (86.58) | (11.00) | (75.58) |
| Increase (decrease) in payables due to cash pooling | 3,323,560.00 | 3,836,675.00 | (513,115.00) |
| *Shareholders' equity* | | | |
| Dividends (and interim dividend payments) paid | (4,000,000.00) | (4,000,000.00) | 0.00 |
| **Cash flow from financing activities (C)** | **(676,526.58)** | **(163,336.00)** | **(513,190.58)** |
| **Increase (decrease) in liquid assets (A ± B ± C)** | **(40,340.02)** | **40,885.18** | **(81,225.20)** |
| **Disponibilità liquide al 1 gennaio** | **49,639.48** | **8,754.30** | **40,885.18** |
| **Disponibilità liquide al 31 dicembre** | **9,299.46** | **49,639.48** | **(40,340.02)** |

**VINAVIL S.p.A.**

**Registered office in Viale Jenner 4, Milan, Italy**

**Share Capital Euro 6,000,000**

**Direction and coordination: Mapei S.p.A.**

**Italian Tax Code and registration with the Registry of Companies in Milan no.11222570159 – E.A.I. no. 1445835**

## Preparation standards

The Financial Statements as at 31 December 2018, were prepared in compliance with the provisions of the Italian Civil Code, as amended by Italian Legislative Decree 139/2015, interpreted and supplemented by the accounting standards issued by the Italian Accounting Body ("OIC").

The Financial Statements consist of the Balance Sheet (prepared in compliance with the framework envisaged by art. 2424 and 2424-bis of the Italian Civil Code), Income Statement (prepared in compliance with the framework envisaged by arts. 2425 and 2425 bis of the Italian Civil Code), the Cash Flow Statement (whose content, in compliance with art. 2425-ter of the Italian Civil Code, is filed pursuant to the provisions of Accounting Standard OIC 10) and these Explanatory Notes, prepared pursuant to the provisions of arts. 2427 and 2427-bis of the Italian Civil Code.

The following Explanatory Notes analyse and integrate the data of the Financial Statements with the additional information deemed necessary for a true and correct representation of the data illustrated.

When preparing the Financial Statements there were no extraordinary cases that required to resort to the exceptions envisaged by art. 2423 et seq. of the Italian Civil Code.

It should be noted that the Company does not hold treasury shares or shares of its parent company.

Furthermore, comments relevant to the nature of the activities carried out by the Company and the research and development activities are described in the Report on Operations used as a reference to the information on relations with parent companies and with other related parties and the other information envisaged by Article 2497 ter of the Italian Civil Code relevant to Companies that exercise direction and coordination activities.

## Direction and Coordination

As noted in the Report on Operations, the Company is subject to the direction and coordination of Mapei S.p.A. with registered office in via Cafiero 22 Milan, Italy, pursuant to arts. 2497 sexies and 2497 septies of the Italian Civil Code. The information on the last approved Financial Statements of this Company is reported at the end of this document.

With regard to the information relevant to relations with the subject that carries out the Direction and Coordination activities and with the other companies subject to the same, as well as the effect that this activity had on company business and on its results, we refer to the Report on Operations. The same report also details, analytically, the reasons for the decisions made by the Company that were influenced by the subject that exercises Direction and Coordination activities.

## Postulates and reporting standards

In compliance with the provisions of art. 2423 of the Italian Civil Code, the general postulates of clarity and the truthful and correct representation of the financial situation of the Company and the economic results for the year were observed in the preparation of the Financial Statements.

The recognition, valuation, presentation and disclosure of the items may differ from those regulated by the provisions of the law on financial statements in cases where their failure to comply has irrelevant effects on the true and fair representation of the financial situation of the Company and the economic result for the year. To conclude all the information that is considered relevant, based on qualitative and/or quantitative aspects, when its omission or misstatement could reasonably influence the decisions made by users based on the Company's Financial Statements. Additional specific criteria were adopted to define the concept of irrelevance and can be indicated in correspondence with the individual items of the Financial Statements when affected by its application. The relevance of each item is considered in the context of other similar items.

The principles set out by art. 2423-bis of the Italian Civil Code were also observed as shown below.

The valuation of the items of the Financial Statements was carried out prudently and on a going concern basis, as well as taking into account the substance of the transaction or contract. For each transaction or fact and, in any case, for all business events, the substance of the same was identified, regardless of its origin and possible interdependence of several contracts forming part of complex transactions was evaluated.

Profits indicated in the Financial Statements are exclusively those as at the reporting date.

Revenues and expenses shown are those pertaining to the financial year, regardless of the date of collection or payment.

Risks and losses pertinent to the year were taken into account, even if known subsequent to the reporting date.

Heterogeneous elements included in each item were valuated and booked separately.

In compliance with art. 2423, subsection 5-ter of the Italian Civil Code, for each item of the Balance Sheet and Income Statement, the amount of the corresponding item of the previous year is shown. Should the items not be comparable, those of the previous year are appropriately adjusted and the non-comparability and adaptation or impossibility of this are reported and commented in these Explanatory Notes.

Pursuant to Article 2423 ter, subsection 2, of the Italian Civil Code, items preceded by Arabic numerals may be further broken down, without eliminating the item and corresponding amount; the same can be aggregated only when the aggregation, due to its amount, is irrelevant for a fair and true view of the financial position of the Company and the economic result of the year or when it favours the clarity of the Financial Statements. In the second case, the Explanatory Notes separately describe the items that have been aggregated.

Unless otherwise indicated, all amounts are expressed in thousands of Euro.

The amounts indicated in the annexes to these Explanatory Notes are expressed in Euro.

The information herein these Explanatory Notes relevant to the items of the Balance Sheet and related items of the Income Statement are presented in the order in which the related items are reported in the Balance Sheet and Income Statement, pursuant to art. 2427, subsection 2, of the Italian Civil Code.

## Valuation criteria

The valuation criteria for the various items of the Financial Statements are in compliance with those established by art. 2426 of the Italian Civil code and accounting standards of reference.

In 2018 new standards and amendments came into effect for the first time from 1/1/2018. It is noted that the only one applicable to the Company's Financial Statements is OIC 11 "Purposes and postulates of the financial statements", whose impact on the preparation of the Financial Statements was irrelevant.

With exception for the above applied valuation criteria, they remained unchanged compared to the previous year.

The most significant valuation criteria and first-time application rules adopted are

shown below, with a specific indication of the choices made among several accounting alternatives if allowed by the law.

### *Intangible fixed assets*

Intangible fixed assets are recognised in the Balance Sheet assets when they are individually identifiable and their cost can be estimated with sufficient reliability. Intangible fixed assets are booked at purchase price or production cost, including accessory charges, net of amortisations and write-downs. Intangible fixed assets are amortised on a straight-line basis over their estimated useful life.

The Company, at each reference date of the Financial Statements, valuates the presence of impairment indicators, should such indicators exist, it estimates the recoverable value of the asset and performs a write-down, pursuant to Article 2426, subsection 1, number 3, of the Italian Civil Code, should the same result and consistently lower than the net book value. Refer to the following paragraph "Write-downs for impairment of tangible and intangible fixed assets" for further details on their booking.

Start-up and expansion costs with ongoing use are booked under the assets with the consent of the Board of Statutory Auditors.

For intangible assets, the amortisation period is at most equal to the statutory or contractual limit. If the Company expects to use the asset for a shorter period, useful life reflects such lesser period compared to the statutory or contractual limit for the purpose of calculating amortisation.

The amortisation rates applied are as follows:

| | |
|---|---|
| Intellectual property rights | 33% |
| Concessions, licences, trademarks and similar rights | 10% |

### *Tangible fixed assets*

Tangible fixed assets are booked at cost of purchase actually incurred for purchase or production and are recognised when risks and benefits are transferred, which normally coincides with the transfer of the ownership. This cost includes the purchase cost, accessory purchase costs and all costs incurred to bring the asset to the place and in the conditions necessary for it to be a durable asset for the Company. The cost of production includes direct costs (materials and direct labour, design costs, external supplies, etc.), and general production costs, for the amount reasonably attributable to the asset for the period of its manufacturing up to the time that the asset is ready for use.

Tangible fixed assets, whose use is limited over time, are depreciated on a straight line basis in each financial year in relation to their residual useful life. Depreciation starts

when the asset is available and ready for use.

The amount of depreciation attributable to each financial year refers to the distribution of the cost incurred over the entire estimated useful life.

The initial amount to be depreciated, initially estimated at the time of preparation of the sinking plan based on the prices available on the market through the sale of fixed assets similar both in terms of their technical characteristics and useful life, is reviewed periodically in order to check that the initial estimate is still valid. This amount is considered net of possible removal costs. Should the removal cost exceed the realisable value, the excess is set aside over the useful life of the asset by booking, pro rata, provisions for recovery or restoration or similar provisions.

The realisable value is not taken into account when it is considered meagre compared to the amount to be depreciated.

If the tangible fixed asset includes components, fixtures or accessories, with useful lives having a different duration than the main asset, the depreciation of these components is calculated separately from the main asset, unless this is not significant or practicable.

The depreciation rates applied, unchanged from the previous financial year, are as follows:

| | |
|---|---|
| Industrial buildings | 4% |
| Plants and machinery | 11.5% |
| Various small and laboratory equipment | 40% |
| Electric machinery | 20% |
| Office furniture and fittings | 12% |
| Vehicles | 25% |
| Transport vehicles | 20% |

With regard to the increases for the year, depreciation of fixed assets has been determined by applying 50% of the rate, deemed representative of the average period of availability of the asset.

If, as at the reporting date, the fixed asset has suffered impairment and thus its value is lower than the book value, it is written down to this lower value. If in subsequent years the reasons for the write-down cease to exist, steps are taken to reinstate the original value, taking into account depreciations not calculated due to said write-down.

Ordinary maintenance costs are booked in full to the Income Statement at the time they

are incurred; maintenance costs that increase the production capacity or useful life are assigned to the assets to which they refer and are depreciated on the basis of their useful life.

Tangible fixed assets that the Company decides to sell are classified separately from tangible fixed assets in a separate item of current assets and measured at the net book value or the realisable value inferable from the market trend, whichever lower, without being further depreciated. This reclassification is made if the following requirements are met:

- the fixed assets can be sold at their current conditions or do not require changes such as to defer their disposal;
- the sale seems highly probable in light of the initiatives undertaken, the expected price and market conditions;
- the transaction should be completed in the short term.

The valuation criteria adopted for assets for sale is also applied to obsolete assets and in general to assets that will no longer be used or are usable in the production cycle.

Buildings have been revaluated on the basis of Italian Law 2 of 28 January 2009.

Tangible fixed assets are revaluated only where allowed by law.

### *Write-downs due to impairment of tangible and intangible fixed assets*

Write-downs due to impairment of tangible and intangible fixed assets are booked in compliance with Accounting Standard OIC 9.

At each reporting date, the company assesses if there is any indication that a fixed asset has suffered impairment. If such an indication exists, the recoverable amount of the fixed asset is estimated.

In particular, if the recoverable amount of a fixed asset (i.e. its value in use or fair value, whichever higher) is less than its book value, the fixed asset is recognised at this lower value. The difference is recognised in the Income Statement as impairment under item B10) c).

In order to consider whether an asset has been impaired, the Company at least checks for the existence of the following indicators:

- if the market value of an asset decreased significantly during the financial year, more than would have been expected to occur over time or with the normal use of the asset in question;

- if significant changes occurred or will occur during the financial year with a negative impact for the Company in the technological, market, economic or regulatory environment in which the Company operates or in the target market of the asset;
- if the market interest rates or other returns on investment increased during the year and it is likely that these increases will influence the discount rate used in the calculation of the value in use of an asset and significantly reduce the recoverable amount;
- if the obsolescence or physical damage of an asset is evident;
- if significant changes occurred during the year with a negative impact on the company (such as non-use of the asset, disposal or restructuring plans, redefinition of the useful life of the fixed asset), or are supposed to occur in the near future, to the extent or manner in which an asset is used or expected to be used.

If it is not possible to estimate the recoverable amount of the individual fixed asset, the recoverable amount of the cash-generating unit to which the fixed asset belongs is calculated. This occurs when individual fixed assets do not generate cash flows independently of other fixed assets. In this case, if the recoverable amount of the CGU is lower than its book value, the reduction of the book value of the assets that form the CGU is firstly recognised in the value of the goodwill allocated to the CGU and, subsequently, to the other assets on a pro rata basis, based on the book value of each asset belonging to the CGU.

In the absence of indicators of potential impairment, the recoverable amount is not determined.

The impairment is reversed if the reasons for the write-down for impairment no longer exist and is carried out within the limits of the value that the asset would have had if the impairment had never occurred.

The write-down recognised on goodwill and on deferred charges cannot be reinstated in that not allowed by the regulations in force.

### *Investments*

Investments are booked under financial fixed assets if they are expected to have a long-term continuity in the corporate portfolio, otherwise they are recognised in Current Assets.

### *Long-term investments in non-controlled holdings*

Investments in non-controlled companies are booked at purchase or incorporation cost, including any accessory charges. The cost incurred at the time of purchase of a

long-term investment is maintained in the Financial Statements for subsequent years, unless impairment occurs. At each reporting date, the Company evaluates if there is any indication that an equity investment has suffered an impairment. The impairment is calculated by comparing the carrying amount of the investment with its recoverable amount, determined on the basis of expected future economic benefits to the economy of the participating company. The write-down for impairment no longer applies if the reasons for the write-down no longer exist.

### *Inventories*

Inventories are booked at the lower between purchase or production cost and the estimated realisable value based on market performance, as at the reporting date, determined using the Weighted average cost method.

In addition to the invoice price, the cost includes accessory charges, such as customs, transportation and other direct taxes of that material, net of returns, trade discounts, allowances and bonuses.

The value of inventories thus obtained is written down in order to take into account the obsolescence of goods, as well as the actual possibilities of sale based on their handling.

The value of inventories is reinstated in the financial year in which the reasons for the previous write-down made cease to exist within the limits of the original cost incurred.

### *Receivables*

Receivables arising from revenues for the sale of goods or the provision of services are recognised in current assets on an accruals basis when the conditions for recognising the related revenues occur.

Receivables arising for different reasons are booked when there is a "claim" to the receivable and, therefore, when they actually represent a third-party obligation towards the company; if financial, they are classified as financial fixed assets, with an indication of the amount payable within the next financial year.

Receivables are valuated in the Financial Statements at amortised cost, taking into account the time factor, and within the limits of their estimated realisable value and, therefore, they are shown in the Balance Sheet net of the relevant provisions for bad debts considered appropriate to reasonably hedge expected losses due to non-recoverability.

If the interest rate of the transaction is not significantly different from the market rate, the initial book value of the receivable is represented by the nominal value net of all bonuses, discounts, rebates and any costs directly attributable to the transaction that generated the receivable. These transaction costs, any commission receivable and

payable and any difference between the initial value and the nominal value at maturity are spread over the duration of the loan using the effective interest method.

When the interest rate of the transaction inferable from contractual conditions is significantly different from the market rate, the receivable (and the corresponding revenue for commercial transactions) is initially booked at a value equal to the present value of the future cash flows plus any transaction costs. The rate used for discounting future cash flows is the market rate.

In the case of receivables arising from commercial transactions, the difference between the initial recognition value of the receivable so determined and the forward value is recognised in the Income Statement as a financial income over the period of the receivable using the effective interest rate method.

In the case of financial receivables, the difference between cash and cash equivalents paid and the present value of future cash flows, is determined using the market interest rate, and recognised under financial charges or income in the Income Statement at the time of initial recognition, unless the substance of the transaction or contract does not lead to attributing a different nature to this component. Subsequently, the interest income accuring on the transaction is calculated at the effective interest rate and charged to the Income Statement offsetting the credit value.

The value of the receivables is subsequently reduced due to the amounts received, both in terms of principal and interest, and due to any write-down bringing the receivables to their estimated realisable value or due to losses.

The Company assumes that the effects arising from the application of the amortised cost and the discounting when the expiry of the receivables is within 12 months are not relevant, also taking into account all contractual and substantial considerations in place relevant to the recognition of the receivable for which the differential between the initial value and nominal value at maturity are of an insignificant amount.

It should be noted that the Company has not booked significant receivables in the Financial Statements due beyond 12 months.

### *Receivables due from Group companies*

Items “C-II-3” and “C-II-4” include receivables from associates and parent companies, respectively, as defined pursuant to art. 2359 of the Italian Civil Code. These receivables are separately indicated in the Balance Sheet.

Receivables due from companies subject to joint control (so-called sister companies), other than subsidiaries, associates and parent companies, are recognised in item “C-II-5”.

### *Write off of receivables*

A receivable is written off from the Financial Statements when:

- the contractual rights to the cash flows arising from the receivable expire;
- or the ownership of the contractual rights to the cash flows arising from the receivable is transferred and all the risks related to the receivable are basically transferred with it.

For the purposes of assessing the transfer of risks, all contractual clauses are taken into consideration, such as repurchase requirements when certain events occur or the existence of commissions, excesses and penalties due to non payment.

When the receivable is written off from the Financial Statements following a disposal that implies the substantial transfer of all risks, the difference between consideration and recognition value of the receivable at the time of sale is recognised as a loss on disposal to be booked under the item B14 of the Income Statement, unless the contract allows to identify other types of economic components, financial or otherwise.

### *Liquid assets*

Bank, postal deposits and cheques (from a current account, banker's drafts and similar instruments) are valuated pursuant to the general principle of the estimated realisable value, which coincides with the nominal value in absence of hard to collect situations.

Cash and revenue stamps are valuated at nominal value.

### *Cash pooling*

Cash pooling, represented by the centralised management of the treasury by a company within a Group, makes it possible to optimise the use of financial resources and is characterised by outstanding payables and receivables due to/from the company that manages the cash pooling, respectively for withdrawals from the common current account and for the liquidity paid into it. The Company recognises receivables that are generated in the item "Financial assets for cash pooling" by indicating the counterpart, which can be the subsidiary or parent company, among Financial assets that are not fixed assets. If the receivables are not due in the short term, they are classified as Financial fixed assets. Any write-downs and revaluations of such receivables are booked in the Income Statement, in the item "Write-downs of financial assets for cash pooling" and "Revaluations of financial assets for cash pooling" indicating the counterpart. Any debt position arising from a cash pooling is classified pursuant to the provisions of OIC 19 "Payables".

### *Accruals and deferrals*

These items include the portion of costs and income, common to two or more years, on a accrual basis. On the basis of this method, the recognition of an accrual or deferral occurs when the following conditions are met:

- the contract starts in a financial year and ends in a subsequent financial year;
- the consideration for the services is contractually due in advance or afterwards for services common to two or more consecutive periods;
- the amount of accruals and deferrals changes over time.

Income and prepayments do not include income and charges whose accrual is accrued in full in the financial year to which the Financial Statements refer or in subsequent years.

At the end of each financial year, it is verified whether the conditions that led to the initial recognition of the accrual or deferral are still met; if necessary, the required value adjustments are made. This assessment takes into account not only the passing of time but also the possible recoverability of the amount booked in the Financial Statements.

### *Shareholders' Equity*

This item includes all financial transactions executed between the Company and its subjects exercising their rights and duties as Shareholders.

### *Provisions for risks and charges*

"For Pension liabilities": is relevant to the indemnity for the termination of agency relationships (qualified based on the National Collective Agency Agreements) and to Provisions for Junior Manager and Manager bonuses.

"For taxes": includes probable taxes relevant to tax assessments in progress, determined taking into account the evolution of the interpretation both of legal theory and case law and also assessed by acquiring suitable professional opinions, and deferred taxes determined pursuant to that which is described in the section "Income taxes".

"Others": these mainly concern provisions for risks and charges intended to cover known or likely losses or liabilities, the timing and extent of which however could not be determined as at the reporting date.

Provisions are quantified on the basis of estimates that take account of all items available, on an accrual basis and pursuant to the principle of prudence. These elements also include the time line when an exact requirement exists as at the reporting date, pursuant to a contractual or legal obligation, whose cash outlay can be reliably estimated and the contingency date, reasonably determinable, is sufficiently distant in time to render the

current amount of the requirement as at the reporting date significantly different from the amount estimated at the time of the cash outlay.

No generic risk provisions were set up without economic justification.

Potential liabilities, when existing, are recognised in the Financial Statements and booked in the provisions only if they are considered likely and if the amount of the related charge can be reasonably estimated. No provisions were made for remote risks, however, in the case of contingent liabilities considered possible, even if not probable, the Explanatory Notes included information on uncertainty, where relevant, which could cause loss, the estimated amount or the indication that it cannot be calculated and other possible effects as well as the opinion of the Company's management and its legal counsel and other experts.

### *Provisions for severance indemnity*

Provisions for severance indemnity are allocated to hedge the entire liability accrued towards employees in compliance with current laws and the collective labour and additional corporate agreements. This liability is subject to revaluation pursuant to art. 2120 of the Italian Civil Code.

Severance indemnity booked in the Financial Statements corresponds to the total amount of individual indemnities accrued by employees, including revaluations, net of advances paid, and taking into account the effects of the reform introduced by Italian Law 296 of 27 December 2006 (2007 Italian Finance Bill), concerning the allocation of Severance Indemnity (to the INPS Treasury or other chosen entities).

As a result of this reform, the amounts of Severance Indemnity accrued up to 31 December 2006, remain with the company and contribute to forming the provisions for severance indemnity allocated in the Financial Statements.

Starting from 1 January 2007, the amounts of Severance Indemnity accrued during the year are recognised and reflected in the Income Statement, for the part still to be paid to the INPS Treasury Fund or to other funds, in current payables under item "D) 14".

### *Payables*

Payables from the purchase of goods are booked in the Balance Sheet when significant risks, charges and benefits connected to ownership have been substantially transferred. Payables for services are booked when the services have been supplied.

Financial payables for financing transactions and payables that arise for reasons other than the purchase of goods and services are booked when the Company has an obligation towards the counterpart, identified based on legal and contractual standards.

The item advances includes advances from customers for goods or services not yet supplied.

Payables are valuated in the Financial Statements at amortised cost, taking into account the timing.

If the interest rate of the transaction is not significantly different from the market rate, the payable is initially booked for an amount equal to the nominal value net of all transaction costs, bonuses, discounts and allowances arising directly from the transaction that generated the payable. These transaction costs, i.e. accessory expenses to obtain loans, commissions receivable and payable and all differences between the initial value and nominal value at maturity are spread over the duration of the payable using the effective interest method.

When the interest rate of the transaction obtained from the contractual conditions is significantly different from the market rate, the payable (and corresponding cost for commercial transactions) is initially booked at an amount equal to the current value of future cash flows and taking into account any transaction costs. The rate used for discounting future cash flows is the market rate.

In the case of payables arising from commercial transactions, the difference between the initial recognition value of the payable so determined and the forward value is recognised in the Income Statement as a financial expense over the period of the payable using the effective interest rate method. In the case of financial payables, the difference between the liquid assets used and the current value of future cash flows, is determined using the market interest rate and recorded among financial incomes or charges of the Income Statement as at the date of initial valuation, unless the substance of the transaction or contract does not lead to attributing a different nature to this component. Subsequently, the interest payable accruing on the transaction is calculated at the effective interest rate and charged to the Income Statement by offsetting the amount of the payable.

The amount of the payables is subsequently reduced for the amounts paid, both in terms of principal and interest.

The Company considers the effects arising from the application of the amortised cost and discounting as un relevant when the maturity of the payables is within 12 months, also taking into account all of the existing contractual and substantial considerations upon recognition of the payable, and the transaction costs and all other differences between the initial and nominal value at maturity are insignificant amounts. In this case, discounting is omitted, interest is calculated at nominal value, and transaction costs are recognised as deferrals and amortised on a straight-line basis over the period of the payable to adjust the nominal interest expense.

It should be noted that the Company has not booked any payables due after 12 months.

### *Payables due to Group companies*

Items "D) 9" and "D) 11" include, respectively, payables due to associates and parent companies as defined pursuant to art. 2359 of the Italian Civil Code. These payables are indicated separately in the Balance Sheet.

Payables due to companies subject to joint control (so-called sister companies), other than subsidiaries, associates and parent companies, are recognised in item "D) 11-bis".

### *Revenues*

Revenues for the sale of goods are recognised on an accruals basis when both of the following conditions are met:

- the production process of goods and services was completed;
- the transfer has already taken place, i.e. the substantial and not formal transfer of the ownership occurred. For the sale of goods, this event is represented by the dispatch or delivery of the movables, whereas for goods requiring a public deed (real estate and movable properties) by the signing date of the purchase and sale agreement. In the case of services, the exchange is considered to have taken place when the service is rendered, i.e. the service is performed.

Revenues from the provision of services are recognised on the date of completion the services, for those depending on contracts with periodic fees, on the date on which the fees accrue.

Sales revenues are recognised net of returns, discounts, allowances and bonuses, as well as net of taxes directly related to the sale of the products and the provision of services and revenue adjustments pertaining to the financial year are booked as a direct reduction of the item revenues.

The item "other revenues and income" includes positive non-financial income items, deriving only from ancillary management.

### *Costs*

Purchase costs are recognised on an accruals basis. Raw, ancillary materials, consumables and goods include accessory purchase costs (transport, insurance, loading and unloading, etc.) if included by the supplier in the purchase price, otherwise they are booked separately in Services based on their nature.

Costs include the ones with a certain amount and those still to be documented but for which the transfer of the property or service has already taken place.

### *Financial income and charges*

Include all positive and negative components of the profit (loss) for the year relevant to the Company's financing activities and are recognised on an accruals basis.

### *Dividends*

Dividends are recognised when, subsequent to the resolution passed by the Shareholders' Meeting of the subsidiary to distribute the profit or reserves, the right to collection arises for the participating company. The dividend is recognised as financial income, regardless of the nature of the reserves being distributed. The participating company verifies that, as a result of the distribution, the recoverable amount of the equity investment has not decreased to such an extent as to require the recognition of an impairment loss.

### *Income taxes, deferred and prepaid taxes*

Taxes for the year are determined based on the taxable income calculated using a prudent interpretation of current tax legislation.

Given that the Company participates in the tax consolidation, for which the Holding Mapei S.p.A. is the consolidating company, tax credits and payables (relevant to IRES) pertinent to the year are reclassified among the receivables and payables due to the parent company.

In the event of a negative taxable income, the tax yield on these losses is booked, only in the cased of verified capacity by the National Tax Consolidation regime.

Income taxes for the year relevant to IRAP are instead allocated to the item "tax payables", net of any advances paid.

In compliance with the provisions of the Italian Civil Code and accounting principles, as in previous years, deferred and prepaid taxes have been recognised.

In particular, prepaid taxes are recognised if there is reasonable certainty of their realisation. These taxes are calculated based on the tax rate for the year in which the temporary differences will be carried forward.

The tax benefit associated with the losses that can be carried forward, not recognised within the scope of the National Tax Consolidation regime, is booked in the Financial Statements only when the following conditions simultaneously exist:

- reasonable certainty exists of obtaining taxable income in the future that may absorb said losses that can be carried forward, within the period the same are deductible pursuant to tax laws;

- the losses in question arise from well-identified circumstances, and it is reasonably certain that such circumstances will not occur again.

Prepaid and deferred taxes are not discounted.

### *Translation of foreign currency items*

In compliance with art. 2426, subsection 1, no. 8-bis of the Italian Civil Code, monetary assets and liabilities are made in any currency except the functional currency used in the Financial Statements (so-called "coin of account"), are subsequent to the initial valuation and booked at the spot exchange rate as at the reporting date. The resulting exchange gains and losses are booked to the Income Statement in item c17-bis) "exchange gains and losses" and any net gain, which forms the profit (loss) for the year, is set aside in a specific reserve that is not distributable until realized.

Non-monetary assets and liabilities in currencies other than the reporting currency are recorded at the exchange rate in force as at the time of purchase. If the exchange rate in force at the end of reporting period is significantly different from the one existing at the date of acquisition, the change in the exchange rate is one of the elements taken into consideration in the valuation process to determine the book value of individual non-monetary assets. Thus, any exchange rate differences (positive or negative) contribute to determining the recoverable amount.

With reference to the investments valuated using the equity method, in which the underlying Financial Statements are expressed in foreign currency, the same are translated into the money of account in compliance with the provisions of OIC 17 "Consolidated financial statements and the equity method", and subsequently, the investment is valuated pursuant to the specific accounting discipline of the equity method.

Significant fluctuations are those that cannot be predicted in exchange rates subsequent to the reporting date with the foreign currencies to which the company is most exposed without hedges; significant fluctuations are not reported in these Financial Statements due to the fact that they are pertinent to the following year but are illustrated in the Explanatory Notes under the section "significant events subsequent to the reporting date".

### *Changes to accounting standards*

The change of an accounting standard is recognized in the year on which it is adopted, and the relevant facts and transactions are handled in compliance with OIC 29 that is applied considering the effects retroactively. The change implies the accounting recognition of these effects on the opening balance of the Shareholders' Equity for the year.

For comparative purposes only, the opening balance of the previous year's equity and the comparative data for the previous year are adjusted as if the new accounting principle has always been applied. However, when the effects arising from the change of the standard are not significant, the Company may decide not to restate the comparative data.

When all else has failed and it is not feasible to calculate the previous effect, the company does not restate the comparative data and applies the new accounting principle prospectively.

The relevant effects deriving from the adoption of the new standards on the Balance Sheet, Income Statement and Cash Flow Statement were shown and analyzed in these Explanatory Notes, especially the ones that are relevant to the items of the Financial Statements.

# BALANCE SHEET

## ASSETS

### *Intangible fixed assets*

The following is a breakdown of the net amounts as at 31 December 2018 and 31 December 2017:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Intellectual property rights | 1 | 0 | 1 |
| Concessions, licences, trademarks and similar rights | 224 | 257 | (33) |
| **Total** | **225** | **257** | **(32)** |

The tendency in intangible fixed assets is illustrated in Annex 1, which forms an integral part of these Explanatory Notes.

The amount of the item "Concessions, licences, trademarks and similar rights" refers to licenses purchased in 2017 by Mapei S.p.A. (€ 240 thousand) for the use of the new operating system (note that as part of the IT system used by the Company, on 1 January 2017 it completed the transition from the "AS400" platform to the Microsoft Dynamics architecture called "AX", already used by the parent company). These costs amortised over 8 years.

### *Tangible fixed assets*

The following is a breakdown of the net amounts as at 31 December 2018 and 31 December 2017:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Lands and buildings | 12,600 | 12,738 | (138) |
| Plants and machinery | 13,852 | 16,868 | (3,016) |
| Industrial and trade equipment | 106 | 166 | (60) |
| Other assets | 182 | 180 | 2 |
| Fixed assets under construction and advances | 1,862 | 1,201 | 661 |
| **Total** | **28,602** | **31,153** | **(2,551)** |

The tendency in tangible fixed assets is illustrated in Annex 2, which forms an integral part of these Explanatory Notes.

The net decrease of € 2,551 thousand is the result of investments made during the year

for € 2,377 thousand, net of total depreciation for € 4,928 thousand. The investments mainly relate to the following investments:

- modernisation of the railway line to Villadossola for € 206 thousand;
- modernisation of a warehouse in Villadossola for € 199 thousand;
- redevelopment (coverage) of buildings in Villadossola for € 153 thousand;
- completion of the new acrylic production line in Villadossola for € 145 thousand;
- setting up the "Methyl-methacrylate" storage tank in Ravenna for € 144 thousand;
- purchase and installation of a new boiler in Villadossola for € 135 thousand;
- purchase of semi-trailers with tanks for transporting ethylene for € 77 thousand;
- extraordinary maintenance of the containment basins for flammable raw materials for € 48 thousand in Ravenna.

During the financial year, several other measures for the adaptation to new safety regulations. Durining were carried out, in Villadossola and in Ravenna.

The item "Assets under construction and advances" suffered a net decrease during the year for € 661 thousand. This amount is a result of capitalisations made during the year for € 2,237 thousand, and transfers to other items of the available asset for the total amount of € 1,576 thousand.

### *Monetary revaluations*

Pursuant to Article 10 of Italian Law 72/83 and Article 11 of Italian Law 342/2000, Annex 3 shows the list, by category, total Company as at 31 December 2018, on which monetary revaluations have been made, with reference to the relevant regulations.

### *Financial fixed assets*

The breakdown of financial fixed assets is detailed in Annexes 4 and 5 and equals € 18,247 thousand.

Financial fixed assets refer exclusively to investments in associates and other companies. Investments are stated at purchase cost.

For the comparison between the booking cost and amount of Shareholder's Equity pertinent to Vinavil S.p.A., see Annex 5, which also illustrates the most important data for each company.

The item investments in "associates" is represented by the acquisition executed in June

2013 for a 49.95% stake in Vinavil Egypt for Chemicals SAE, equal to 74,925 shares, with nominal value of EGP 14,985,000 for an amount of € 18,050,651.96.

The difference between the amount of the investment in Vinavil Egypt and the amount of pertinent Shareholders' Equity is justified by the expected future income of the Subsidiary over the following years, as well as on the basis of the synergistic strength that can be developed with Italian production sites.

Pursuant to art. 2426, subsection 1, no. 3 of the Italian Civil Code, it is noted that the stake in Vinavil Egypt for Chemicals SAE is booked for a higher amount in comparison to the amount of equity held by Vinavil S.p.A. (equals to 49.95%), resulting from the 2018 Financial Statements of Vinavil Egypt for Chemicals SAE, which is in the process of being approved (based on the pre-closing data as at 31/12/2018, the data summarized in Annex 5 of these Explanatory Notes are expected). The expected result for the 2018 financial year, net of taxes, is negative for approximately 18.34 million of Egyptian Lira, equal to € 0.89 million.

Considering the economic situation of Vinavil Egypt for Chemicals SAE, the turnover as at 31 December 2018 has increased by 16% compared to 2017 and makes a total of 628 million In Egyptian Lira.

The EBITDA of Egyptian Lira decreased for 13.7 million in comparison to 2017 (- 78%) due to the increase in raw material prices, which was only moderately reflected on sales prices. Earnings before taxes as at 31 December 2018, show a negative value of approximately 18.47 million Egyptian Lira, mainly due to the financial costs incurred for the loan that was requested for the construction of the new production site of the "acrylics" line.

The Company performed an *impairment* test using the *Discounted Cash Flow* method to verify the preservation of the book value as at 31 December 2018. This impairment test was carried out based on discounted cash flow estimates relevant to the *Business Plan* (hereinafter referred to as the Plan) developed for the 2019-2023 five-year period and on the projection of these cash flow estimates beyond the time line of the Plan.

The Plan envisages an increasing EBITDA due to *business* growth, higher production capacity forecast in relation to the investments made and the expected inflation rate for the country. The assumptions used for preparing the Plan and for the impairment test are based on reasonable estimates and based on the information available to date.

The valuations performed did not show the need to make adjustments to the book value of the investment, which is considered recoverable.

The item investments in "other companies" is represented by the:

investment for a nominal value of € 195,909 equal to 3.5% in Ravenna Servizi Industriali soc. cons. p. a., for a cost of € 195,909;

- from the purchase executed in 2017 for a 0.05% stake in Mapei Egypt for Construction Chemicals, equal to 10 shares, for a nominal amount of USD 100 for a value of € 85.87.

### *Current assets - Inventories*

The following is a breakdown of inventories as at 31 December 2018 and 31 December 2017:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Raw and ancillary materials | 17,426 | 19,840 | (2,414) |
| Finished products | 9,200 | 9,672 | (472) |
| **Total** | **26,626** | **29,512** | **(2,886)** |

The decrease in inventories compared to the previous year is mainly due to a rationalisation of the procurement of raw materials at the production sites.

Moreover, at the end of 2017, in anticipation of the AVM price increase, the Company increased the inventories of the raw material.

The valuation of the inventories is carried out using the weighted average cost method.

### *Current assets - Receivables*

The following is a breakdown of the balances as at 31 December 2018 and 31 December 2017:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Customers | 25,621 | 27,913 | (2,292) |
| Associates | 726 | 504 | 222 |
| Parent companies | 9,591 | 7,159 | 2,432 |
| Group companies | 11,225 | 10,001 | 1,224 |
| Taxes | 1,750 | 1,768 | (18) |
| Prepaid taxes | 332 | 325 | 7 |
| Other | 191 | 486 | (295) |
| **Total** | **49,436** | **48,156** | **1,280** |

Trade receivables, due within 12 months, essentially refer to normal sales transactions and are made up as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Trade receivables | 26,905 | 29,197 | (2,292) |
| Provisions for bad debts | (1,284) | (1,284) | 0 |
| **Total** | **25,621** | **27,913** | **(2,292)** |

In the Financial Statements there are trade receivables in foreign currency for € 1,840 thousand; the main currencies are USD and GBP.

The information required, ex art. 2427, point 6, of the Italian Civil Code, is provided in Annex 6, which forms an integral part of these Explanatory Notes. It should be noted that there are no receivables with a residual duration greater than one year and that the data, in the Annex, are shown gross of provisions for bad debts.

Provisions for credit risks are within the normal range. This conclusion is made based on a prudential valuation of bad trade receivables and shows that the provisions did not change compared to the previous year.

### *Receivables due from associates*

Amount to € 726 thousand (€ 504 thousand as at 31 December 2017) and refer mainly to dividends approved by Vinavil Egypt for Chemicals, which have not yet been collected as at 31 December, of which:

- € 441 thousand refer to dividends approved in 2017;
- € 212 thousand refer to dividends approved in 2018.

### *Receivables due from the Parent Companies*

Receivables due from the parent company, Mapei S.p.A., due within 12 months, amount to € 9,591 thousand (€ 7,159 thousand as at 31 December 2017), of which:

- € 6,866 thousand refer to commercial transactions executed with the parent company, which are regulated at arm's length;
- € 1,074 thousand relevant to the positive balance on giro account used for transactions in foreign currency-USD ("cash-pooling");
- € 1,167 for taxes; of which:
  a) € 792 thousand refer to the amount of the receivable relevant to the tax loss for the year transferred to the parent company due to the participation in the tax consolidation (the economic offsetting entry is booked in the item "Income from participation in the tax consolidation regime").

b) € 375 thousand represents the residual amount of the consolidated income transferred in 2014, due to the participation in the tax consolidation.

The amounts of the aforementioned receivables will be liquidated by the parent company at the same time as the use by the same of the tax losses to which the receivables refer.

- € 484 thousand: attributable to the amount reported in the IRES Reimbursement Application for the failure to deduct IRAP, relevant to expenses for employees and similar, pursuant to article 2, subsection 1-quater, of Italian Law Decree 201 of 2011, introduced by article 4, subsection 12, of Italian Law Decree 16 of 2 March 2012, converted, with amendments, by Italian Law 44 of 26 April 2012, for tax periods prior to that of 31 December 2012.

### *Receivables due from companies subject to control by parent companies*

These are receivables from companies controlled by Mapei S.p.A.; all due within 12 months and amount to € 11,225 thousand (€ 10,001 thousand as at 31 December 2017).

The following is the breakdown by geographical area:

- Italy 2%;
- EEC 15%;
- Non-EEC 83%.

### *Tax credits*

Tax credits, due within 12 months, amount to € 1,718 thousand (€ 1,746 as at 31 December 2017), of which:

- € 1,274 thousand: for VAT;
- € 417 thousand: are the IRAP advance payments made during the year,given that the taxable income for the year is negative;
- € 21 thousand: equal to the tax credit usable in 2019 following the donations made during the year and in 2017 towards the Italian public cultural heritage.
- € 6 thousand: for the IRES tax credit outstanding from the previous tax return.

Tax receivables due beyond 12 months, for € 31 thousand, refer to tax credits usable in 2020 for € 21 thousand and in 2021 for € 10 thousand, following the payments made during the year and in 2017 in support of the Italian public cultural heritage.

### *Receivables for prepaid taxes*

The item refers to the booking of prepaid taxes (€ 332 thousand). The breakdowns, also inclusive of the deferred taxes as per item "B 2)" of the liabilities and the related economic effect, are shown in enclosure 7, which represents an essential part of these Explanatory Notes.

Prepaid taxes consist, mainly, of depreciations on the revaluation of buildings (executed in 2008) that are not deductible for tax purposes and, for provisions for sundry risks and charges.

As at 31 December, deferred tax assets were recognised relevant to the insufficient ACE in the current year IRES income for € 78 thousand, usable in subsequent tax periods given that the Company had a tax loss as at 31 December 2018.

On the basis of future income-earning prospects, no doubts have emerged on the recoverability of these prepaid taxes.

### *Receivables due from others*

Receivables due from others, all within 12 months, amount to € 191 thousand (€ 486 as at 31 December 2017); are broken down here below:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| – Receivables due from employees | 171 | 159 | 12 |
| – Advances to suppliers | 1 | 1 | 0 |
| – Caution deposits | 11 | 11 | 0 |
| – Other | 8 | 315 | (307) |
| **Total** | **191** | **486** | **(295)** |

### *Current assets – liquid assets*

These amount to € 9 thousand (€ 50 thousand as at 31 December 2017).

The decrease compared to the previous year is attributable to the company, from 2018, pooling with the Group's Centralised Treasury also the foreign bank current account (USD) (opened in 2017 for the ordinary management of the supplies and collections in the Dollar area), which presented a balance of approximately € 44 thousand as at 31 December 2017.

### *Accrued income and prepaid expenses*

Amount to € 236 thousand (€ 203 thousand as at 31 December 2017) and essentially refer to insurance premiums and portions of fees pertaining to the following year.

## LIABILITIES

### *Shareholders' equity*

The analysis of the changes in Shareholders' Equity during the year is shown in the following table:

| | Share capital | Revaluation reserves | Legal reserve | Other reserves | Profit carried forward | Operating loss | Total |
|---|---|---|---|---|---|---|---|
| Balance as at 31/12/2017 | 6,000 | 43,246 | 1,200 | 4,832 | 16,843 | 7,031 | 79,152 |
| Allocation profit carried forward | | | | | 7,025 | (7,031) | (6) |
| ex art. 2426 no. 8 bis of the Italian Civil Code reserve | | | | 6 | | | 6 |
| Dividend distribution | | | | | (4,000) | | (4,000) |
| 2018 Operating loss | | | | | | (2,441) | (2,441) |
| **Balance as at 31/12/2018** | **6,000** | **43,246** | **1,200** | **4,838** | **19,868** | **(2,441)** | **72,711** |

The changes for the year are:

- that envisaged by the Shareholders' Meeting of 18 May 2018, which resolved to allocate the operating profit for 2017 to "Profits carried forward" for € 7,025 thousand and to the ex art. 2426 no. 8 bis of the Italian Civil Code reserve for € 6 thousand;
- those envisaged by the Shareholders' resolution of 16 November 2018, that provided for the distribution of a dividend for a total of € 4,000 thousand under the item "Profits carried forward" (as detailed in Annex 9 to which we refer).

Shareholders' Equity as at the reporting date is broken down as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Share capital | 6,000 | 6,000 | 0 |
| Revaluation reserve Italian Law 266/2005 | 39,416 | 39,416 | 0 |
| Revaluation reserve Italian Law 2/2009 | 3,830 | 3,830 | 0 |
| Legal reserve | 1,200 | 1,200 | 0 |
| Other reserves: | | | |
| – *Tax realignment reserve Italian Law 266/2005* | 4,832 | 4,832 | 0 |
| – *Ex art. 2426 n.8 bis of the Italian Civil Code reserve* | 6 | 0 | 6 |
| Profits (Losses) carried forward | 19,868 | 16,843 | 3,025 |
| Operating result | (2,441) | 7,031 | (9,472) |
| **Total** | **72,711** | **79,152** | **(6,441)** |

### *Share capital*

The share capital as at 31 December 2018 amounted to € 6,000, fully paid in, and is represented by 6,000,000 ordinary shares with a nominal value of € 1 each.

### *Revaluation reserves*

The revaluation reserve, Italian Law 266/2005, is composed of the amount of the revaluation for € 44,791 thousand, net of the 12% substitute tax.

The revaluation reserve, Italian Law 2/2009, is composed of the amount of the revaluation for € 3,948 thousand net of the substitute tax of 3%.

### *Legal reserve*

The legal reserve amounts to € 1,200 thousand and is made up by provisions for profits and has reached the limit of 20% of the share capital.

### *Other reserves*

Other reserves amount to € 4,838 thousand, of which:

- € 4,832 for the Realignment reserve: consists of the amount of the accelerated depreciation tax provisions as at 31/12/2004 for € 5,491 thousand net of the 12% substitute tax;
- € 6 thousand for the ex art. 2426, point 8 bis of the Italian Civil Code reserve

### *Other information*

Annex 8 illustrates the breakdown of the items of Shareholders' Equity, pursuant to point 7-bis, sub. 1, of art. 2427 of the Italian Civil Code.

To complete the disclosure, changes in Shareholders' Equity over the two previous years are shown in Annex 9.

### *Provisions for risks and charges*

The following table illustrates changes in provisions for risks and charges:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| For pension liabilities and other post emp | 1,558 | 1,364 | 194 |
| For taxes | 11 | 8 | 3 |
| Other | 434 | 434 | 0 |
| **Total** | **2,003** | **1,806** | **197** |

**Provisions for pension liabilities and other post employment benefits** refer to the "Provisions for Supplementary Customer Allowances", which represents the overall amounts accrued envisaged by the collective bargaining agreement that regulates the agency relationship and "Provisions for Junior Manager and Manager bonuses".

During 2018 the following changes occurred:

| | Supplementary indemnity for agents | Provisions for Junior Manager and Manager bonuses | Total |
|---|---|---|---|
| Balance as at 31/12/2017 | 48 | 1,316 | 1,364 |
| Operating profits | 0 | (15) | (15) |
| Provisions for the year | 4 | 205 | 209 |
| **Balance as at 31/12/2018** | **52** | **1,506** | **1,558** |

"**Provisions for taxes"** changed as follows:

| | Deferred taxes | Total |
|---|---|---|
| Balance as at 31/12/2017 | 8 | 8 |
| Provisions | 5 | 5 |
| Utilisations | (2) | (2) |
| **Balance as at 31/12/2018** | **11** | **11** |

Provisions for deferred taxes refer to:

- the decision to recognise an accrual basis dividends resolved by the associate in FY 2017 and FY 2018, but not yet collected by Vinavil S.p.A. In fact, it is noted that the taxation of the dividends functions by applying the so-called "cash basis" in place of the "accruals basis", as more fully illustrated in the corresponding item of the Income Statement ("Income from investments in associates" item "C15) b") to which reference is made;
- to "expected exchange gains", which are also managed exclusively in the tax return.

The decrease of "Provisions for taxes" refers to the effects arising from the reversal of deferred taxes relevant to the amount of dividends resolved by the associate in FY 2016 and collected in FY 2018.

"**Sundry risks provisions**" (€ 434 thousand) covers the probable liabilities to the charge of the company for risks related to any return of income deriving from the activities linked to energy efficiency certificates.

These provisions were valuated pursuant to the principle of prudence and on an accruals basis.

### *Severance indemnity*

Provisions as at 31 December 2018 amounted to € 870 thousand (€ 983 thousand at December 31, 2017) and corresponded to the total amount of Severance Indemnity accrued by employees in service at the end of 2018, net of advances pursuant to article 1 of Italian Law 297 of 29 May 1982.

The payments also include the portions accrued and paid during the year to the supplementary pension and welfare funds for the employees that have joined said fund.

The change during the year was as follows:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Opening balance | 983 | 995 |
| Provisions for the year | 1,136 | 1,088 |
| Utilisations/Payments | (1,249) | (1,100) |
| **Total** | **870** | **983** |

The average number of employees as at the end of 2018 is shown in the section "Other information".

### *Payables*

There are no payables with a residual duration of more than one year.

There are no payables secured by collateral on Company assets.

The information required (ex art. 2427, point 6 of the Italian Civil Code) is provided in Annex 6, which forms an integral part of these Explanatory Notes.

The following is the breakdown of the amounts as at 31 December 2018 and 31 December 2017, all due within 12 months:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Banks | 1 | 1 | 0 |
| Suppliers | 24,327 | 24,034 | 293 |
| Associates | 38 | 18 | 20 |
| Parent companies | 19,138 | 17,141 | 1,997 |
| Group companies | 9 | 40 | (31) |
| Taxes | 647 | 617 | 30 |
| Social Security Institutions | 662 | 693 | (31) |
| Others | 2,976 | 3,091 | (115) |
| **Total** | **47.798** | **45.635** | **2.163** |

### *Trade payables*

Trade payables are booked for € 24,327 thousand (€ 24,034 thousand in 2017) and refers to supplies of goods and services, brokerage and consulting.

Credit notes receivable have been deducted from the balance of this item of the Financial Statements given that they can be legally offset against supplier invoices.

The item includes payables in foreign currencies apart from the Eurozone for a total of € 3,945 thousand, mainly in USD.

### *Payables due to associates*

Payables due from the associate Vinavil Egypt for Chemicals are of a commercial nature.

### *Payables due to parent companies*

Payables due from the parent company Mapei S.p.A. as at 31 December 2018, are booked for € 19,138 thousand (€ 17,141 thousand in 2017).

Payables due from the parent company refer to:

- commercial transactions and provision of services for € 1,704 thousand;
- to the negative balance of the giro account (cash pooling) of € 17,444 thousand (€ 13,036 thousand as at 31 December 2017);

### *Payables due to companies subject to the control of parent companies*

Payables due from Group companies amount to € 9 thousand (€ 40 thousand in 2017) and are all of a commercial nature and due within 12 months.

### *Taxes payables*

The balance of € 647 thousand (€ 617 thousand in 2017) consists mainly of payables for withholdings.

### *Payables due to social security and welfare institutions*

Amount to € 662 thousand and are mainly represented by contributions relevant to ordinary salaries for December 2018, and to the contributions on additional monthly salaries for the amount pertinent to the year.

### *Other payables*

Amount in total to € 2,976 thousand as at 31 December 2018 (€ 3,091 thousand in 2017) and mainly include the amounts due to employees relevant to remuneration and

payables for holiday entitlement accrued and not taken of € 660 thousand, the accrual of the 14th month wage of € 745 thousand and the participation bonus of € 833 thousand.

### *Financial charges allocated to the amounts booked in the assets of the Balance Sheet*

All financial charges are allocated to the Income Statement, therefore, there are no financial charges allocated to asset entries of the Balance Sheet.

## COMMENTS ON INCOME STATEMENT ITEMS

### Value of production

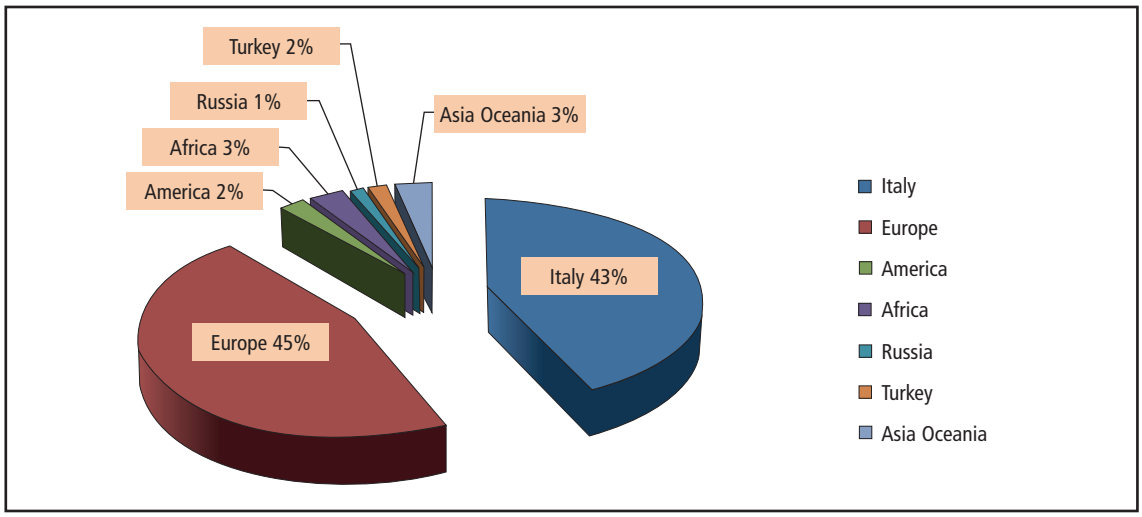
Please refer to the Report on Operations for comments relevant to revenue performance.

### *Revenues from sales and services*

As at 31 December 2017, sales and services amounted to € 181,193 thousand, compared with € 171,062 thousand in the previous year, with an increase of € 10,131 thousand, equal to + 5.93%, due both to an increase in sales prices applied on the market, and an increase in volumes sold.

Sales are stated net of trade discounts and consumption bonuses as at year end.

The geographical breakdown of Revenues is as follows:




The table containing the information required by point 10 of art. 2427 of the Italian Civil Code is illustrated in Annex 6, which forms an integral part of these Explanatory Notes.

The breakdown of revenues from Group companies and the Parent company are illustrated in Annex 2 to the Report on Operations.

### *Changes in inventories of products under construction, semi-finished and finished products*

This item includes:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Initial inventories of finished products | (9,672) | (7,470) | (2,202) |
| Final inventories of finished products | 9,200 | 9,672 | (472) |
| **Total** | **(472)** | **2,202** | **(2,674)** |

The changes shown reflect the performance of the business, as further illustrated in the corresponding item in the Balance Sheet ("Inventories" item "C I") to which reference is made.

### *Other revenues and income*

Amount to € 996 thousand, up by € 244 thousand compared to 2017.

Other revenues and income mainly consist of charges for services (€ 133 thousand), revenues from non-recurring activities for € 464 thousand, various charge backs to employees (€ 99 thousand)m and revenues for € 193 thousand from the sale of "white certificates" relevant to the Villadossola Cogenerator ["white certificates" - Energy Efficiency Certificates - are awarded for the achievement in energy savings by applying efficient technologies and systems].

Revenue was generated from non-recurring activities, in addition to the acknowledged differences between the provisions made in the financial statements and the actual values. € 118 thousand were recorded as an offsetting entry to the tax credit for research and development costs, the amount was calculated based on the incremental expenses for R&D activities carried out in FY 2017 (for more details, please refer to the "Research and Development" section of the Report on Operations).

The breakdown of other revenues from Group companies and the Parent Company is illustrated in Annex 2 to the Report on Operations.

## COST OF PRODUCTION

The cost of production as at 31 December 2018, was € 184,636 thousand, compared to € 165,097 thousand in for the previous year, up by € 19,539 thousand or +11.8%.

### *Raw, ancillary materials, consumables and goods*

As at 31 December 2018, they amounted to € 122,385 thousand, compared to € 114,349 thousand for the previous year, up by € 8,036 thousand.

Annex 2 to the Report on Operations illustrates the breakdown of the purchases made by Group companies and from the Parent company, which amount to € 2,482 thousand.

### *Services*

As at 31 December 2018, they amounted to € 27,876 thousand, compared to € 26,388 thousand for the previous year, up by € 1,488 thousand.

Costs for services ia s general term that includes: industrial services of € 21,050 thousand, commercial services of € 2,052 thousand and general services of € 4,774 thousand.

The main changes refer to increased transport expenses due to higher sales volumes.

| **Costs for industrial services** | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Customer transportation charges | 9,946 | 8,818 | 1,128 |
| Energy consumption | 5,116 | 5,408 | (292) |
| Provision of services | 2,773 | 2,344 | 429 |
| Maintenance | 2,934 | 2,734 | 200 |
| Other industrial services | 281 | 214 | 67 |
| **Total** | **21,050** | **19,518** | **1,532** |

| **Costs for commercial services** | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Commissions payable, social security charges | 1,122 | 1,111 | 11 |
| Staff travel expenses | 731 | 674 | 57 |
| Advertising, sponsorships, customer assistance, fairs | 174 | 160 | 14 |
| Other commercial services | 25 | 25 | 0 |
| **Total** | **2,052** | **1,970** | **82** |

| **Costs for general services** | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Professional and other consultancy | 2,055 | 2,376 | (321) |
| Insurance | 656 | 624 | 32 |
| Directors and Statutory Auditors fees | 330 | 376 | (46) |
| Corporate canteen | 353 | 362 | (9) |
| Cleaning | 215 | 166 | 49 |
| Miscellaneous maintenance and repair costs | 391 | 333 | 58 |
| Post, telephone | 149 | 186 | (37) |
| Auditors' fees | 56 | 55 | 1 |
| Lawyers | 84 | 46 | 38 |
| Other general costs | 485 | 376 | 109 |
| **Total** | **4,774** | **4,900** | **(126)** |

Annex 2 to the Report on Operations illustrates the breakdown of the purchases made by Group companies and from the Parent company, which amount to € 1,042 thousand.

### *For use of third party assets*

As at 31 December 2018, they amounted to € 917 thousand, in comparison to € 856 thousand for the previous year.

They mainly consist of long-term rentals of vehicles used by employees (€ 323 thousand), fees for the use of fork-lift trucks (€ 182 thousand) and commercial leases for the Milan offices owned by third parties (€ 163 thousand).

### *For employees*

The total cost of labour as at 31 December 2018 is € 25,219 thousand shows an increase of € 942 thousand compared to the previous year, due in part to new recruits started during year and the increase in salaries for seniority.

The item includes the cost spendt on employees, including the not taken holidays, other legal provisions and collective agreements.

The average number of employees at the end of 2018 is shown in the section "Other information".

Employee costs are as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Wages and salaries | 17,582 | 16,940 | 642 |
| Social security contributions | 6,216 | 5,985 | 231 |
| Severance indemnity | 1,136 | 1,088 | 48 |
| Pension liabilities and similar post empl. benefits | 205 | 180 | 25 |
| Other costs | 80 | 83 | (3) |
| **Total** | **25,219** | **24,276** | **943** |

The increase compared to the previous year is mainly attributable to the programmes implemented by the company during the year, aimed at developing the resources in terms of quality and quantity and their improved integration.

### *Amortisation, depreciation and write-downs*

Amortisation/depreciation of fixed assets are made up as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Amortisation of Intangible Fixed Assets | 35 | 22 | 13 |
| Depreciation of Tangible Fixed Assets | 4,928 | 5,584 | (656) |
| Write-down of trade receivables | 0 | 0 | 0 |
| **Total** | **4,963** | **5,606** | **(643)** |

Amortisation and depreciation were calculated based on the rates representing the estimated useful life of all assets. The reduction is due to the completion of amortisation/depreciation periods. No disposals were made during the year.

### *Changes in inventories of raw, ancillary materials, consumables and goods*

This item includes:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Initial inventories of raw materials | (16,893) | (9,930) | (6,963) |
| Final inventories of raw materials | 14,382 | 16,893 | (2,511) |
| Initial packaging inventory | (651) | (601) | (50) |
| Final packaging inventory | 693 | 651 | 42 |
| Initial inventories of promotional material | (3) | 0 | (3) |
| Final inventories of promotional material | 19 | 3 | 16 |
| Initial inventories of maintenance materials | (2,292) | (2,123) | (169) |
| Final inventories of maintenance materials | 2,332 | 2,292 | 40 |
| **Total** | **(2,413)** | **7,185** | **(9,598)** |

The changes indicated reflect the trend of the company's activities, as more fully illustrated in the corresponding balance sheet item ("Inventories" item "C I") to which reference is made.

### *Other operating charges*

As at 31 December 2018, they amounted to € 862 thousand, compared to € 806 thousand for the previous year, up by € 56 thousand.

The balance is made up as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Membership fees | 201 | 176 | 25 |
| Tax charges | 169 | 181 | (12) |
| Entertainment expenses | 117 | 134 | (17) |
| Contingent liabilities | 252 | 170 | 82 |
| Donations in support of culture "ART BONUS" | 48 | 50 | (2) |
| Benefits and donations | 18 | 14 | 4 |
| Other costs | 57 | 81 | (24) |
| **Total** | **862** | **806** | **56** |

Contingent liabilities arise mainly from differences between allocations made in the Financial Statements and actual amounts.

Annex 2 to the Report on Operations detailed costs incurred for Group companies and the Parent Company.

## FINANCIAL INCOME AND CHARGES

The item discloses a negative net balance as at 31 December 2018 of € 328 thousand, compared with a positive balance of € 877 thousand in the previous year.

### *Income from stakes in associates*

The position as at 31 December 2018, for € 212 thousand (€ 441 thousand in 2017), refers to the accounting of the dividend in May for the associate Vinavil Egypt for Chemicals SAE.

### *Sundry financial income*

This item, for € 33 thousand, refers to interest income accrued on the giro account with the parent company in USD.

The amount for the previous year was represented exclusively by discounts granted by some of our suppliers for advance payments (€ 7 thousand).

### *Interest and other financial charges*

These amount in total to € 67 thousand.

The balance is made up as follows:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Interests payable of the "pooling" account | 23 | 3 | 20 |
| Financial discounts | 44 | 50 | (6) |
| **Total** | **67** | **53** | **14** |

Rates are in line with market rates.

### *Exchange gains and losses*

The realised and unrealised differences in exchange on payments and collections during the year and the adjustment of the receivables and payables to the year-end exchange rates, produced an exchange loss as at 31 December 2018 of € 506 thousand compared with a profit of € 481 thousand in 2017, as analysed below:

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Exchange gains for the year | 378 | 790 | (412) |
| Exchange losses for the year | (949) | (1.479) | 530 |
| Adjustment of liquid assets | 77 | 1.247 | (1.170) |
| **Profit/(Loss) on exchange gains/losses** | **(494)** | **558** | **(1.052)** |
| | | | |
| Customers adjustments for exchange | (5) | (83) | 78 |
| Suppliers adjustments for exchange | (7) | 6 | (13) |
| **Unrealised exchange Profit/(Loss)** | **(12)** | **(77)** | **65** |
| **Total** | **(506)** | **481** | **(987)** |

The change is due to a different performance of currencies during the year.

## INCOME TAXES FOR THE YEAR, PREVIOUS FINANCIAL YEARS, PREPAID AND DEFERRED

As at 31 December 2018, there were positive taxes for € 805 thousand; they are relevant to the positive balances of:

- taxes relevant to previous years of € 9 thousand;
- prepaid and deferred taxes for € 4 thousand.
- incomes from participation in the tax consolidation regime for € 792 thousand.

### *Taxes relevant to previous financial years*

The positive situation for the year represents the contingent asset that arose during the year, relevant to the higher direct taxes allocated during the previous year, resulting in the tax return.

The position as at 31 December of the previous year referred mainly to the negative balance that resulted from the adjustment of the IRES tax rate from 27.50% to 24%, of the receivables due from the parent company for the residual tax loss for FY 2014.

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| **Taxes previous financial years** | | | |
| IRES | (9) | 54 | (63) |
| **Total** | **(9)** | **54** | **(63)** |

### *Deferred taxes*

In consideration of the application of the correct accounting standards presently in force, the Company has taken steps to calculate the pertaining deferred and prepaid taxes. The positive balance amounts to € 4 thousand.

The economic effect for the year is illustrated in the comments on point "C II 4 ter)" of the assets.

The table of the information required by point 16 of art. 2427 of the Italian Civil Code is illustrated in Annex 7, which forms and integral part of these Explanatory Notes.

The reconciliation between theoretical and effective taxes is illustrated in Annex 10, which forms an integral part of these Explanatory Notes.

### *Incomes from participation in the tax consolidation regime*

The item as at 31 December 2018, shows a positive balance and represents the "Income from participating in the tax consolidation regime", in which the remuneration from

the consolidating company Mapei S.p.A. is booked against the transfer to the Group of the tax loss for the year, which amounted to € 3,032 thousand. The remuneration was, therefore, equal to 24% of the aforementioned loss and was set at € 792 thousand.

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Consolidation income | (792) | 0 | (792) |
| **Total** | **(792)** | **0** | **(792)** |

## OTHER INFORMATION

### *Memorandum accounts*

Refer to:

- € 466 thousand for a surety issued in favour of the company G.S.E. S.p.A. of Rome to hedge a payable arising from the verification activity performed on a cogeneration unit at the Villadossola production site;
- € 12 thousand, to a surety issued in favour of "Rete Ferroviaria Italiana" for the railway link to Villadossola;
- € 21 thousand, to sureties issued for property leases.
- 3,300,000 USD issued in favour of Bank of Alexandria, Cairo - Egypt (subject not resident in Italy), in the interest of the associate against a credit line granted by the same.

### *Average number of employees*

The average company workforce registered the following changes

| | 31.12.2018 | 31.12.2017 | difference |
|---|---|---|---|
| Managers | 11 | 11 | 0 |
| Junior managers | 50 | 49 | 1 |
| White collars | 120 | 118 | 2 |
| Blue collars | 193 | 188 | 5 |
| **Total** | **374** | **366** | **8** |

The employment contract belongs to the Chemical type for the Chemical-Pharmaceutical Industry.

### *Directors', statutory auditors' and independent auditors' fees*

The fees for the services provided are as follows:

| | |
|---|---|
| Directors' fees | € 272 thousand |
| Board of Statutory Auditors' fees | € 58 thousand |
| Fees for the statutory audit of the accounts | € 56 thousand |

The fees take into account the services provided and completed during the year.

### *Financial lease transactions*

There are no financial lease transactions to report.

### *Transactions with related parties and off-balance sheet transactions*

Transactions with related parties, other than those mentioned previously in the Report on Operations have not been indicated; there are no off-balance sheet transactions.

### *Repurchase transactions*

There were no repurchase transactions as at the reporting date.

### *Receivables and payables with a residual duration of more than 5 years and payables secured by collateral on corporate assets*

There were no outstanding receivables or payables secured by collateral on corporate assets with a residual duration exceeding five years as at the reporting date.

### *Figures of the last financial statements of the company that exercises the activity of direction and coordination*

In compliance with the provisions of art. 2497-bis of the Italian Civil Code, Annex 11 represents and forms an integral part of these Explanatory Notes (from the 2017 Financial Statements of the parent company Mapei S.p.A.). As it was approved in the last Shareholders' Meeting.

### *Significant events subsequent to the reporting date*

No significant events occurred subsequent to 31 December 2018 that could change the financial situation of the Company resulting from the Financial Statements submitted for approval to the Shareholders' Meeting.

Furthermore, it should be noted that there are no other types of risks such as to cause the Company to take specific actions, except those already provided for in the Financial Statements.

## *Disclosure on public funds*

In FY 2018, the Company received € 193 thousand from the sale of "white certificates" pertaining to the Villadossola Cogenerator (with respect to the achievement of energy savings through the application of efficient technologies and systems). The Company did not receive other amounts beyond the aforementioned from the national public administration for services that were not performed within ordinary business activity.

Furthermore, during FY 2017 the company continued its research and development activities, directing its efforts towards particularly innovative projects; for the development of these projects the Company incurred expenses in 2017 for € 1,831,497.02, divided between categories of costs eligible for the "research tax credit" established by Italian Law Decree 145 of 12/23/2013, amended by art. 1, subsection 35 of Italian Law 190 of 23/12/2014 (Stability Law 2015).

The tax credit for investments in research and development was calculated, on the basis of the incremental expenditure (compared to the three-year period of 2012-2013-2014) from € 236,881.08, to € 118,440.47, and was booked in the item "A) 5 - Other revenues and income" in the Income Statement.

Research activities continued during FY 2018.

This section has also been prepared for the purpose of fulfilling the disclosure requirements pursuant to Italian Law 124, article 1, subsections 125-129 of 4 August 2017.

## *Proposal with regard to the profit for the year*

Dear Shareholders, we are submitting for your review and approval the Draft Financial Statements as at 31 December 2018, and the relevant Report on Operations, that both present a loss of € 2,441,760.69, which we propose to reimburse for the same amount by partially using the item of the Shareholders' Equity "Profits (losses) carried forward".

We also propose to resolve the transfer from the "Reserve for unrealized net exchange gains" (ex art. 2426 no. 8 bis of the Italian Civil Code), composed of the profit from the previous year, for € 5,855.22, in favour of the item "Profits (losses) carried forward".

**THE CHAIRMAN**
**OF THE BOARD OF DIRECTORS**
**(Mr. Giorgio Squinzi)**

## INTANGIBLE FIXED ASSETS

| | Software use rights ann. 1.B.I.3 | Licenses and Concessions ann. 1.B.I.4 | Other ongoing charges ann. 1.B.I.7 | Total |
|---|---|---|---|---|
| Historical Cost | 0.00 | 295,205.00 | 0.00 | 295,205.00 |
| + Revaluations previous years | 0.00 | 0.00 | 0.00 | 0.00 |
| – Write-downs previous years | 0.00 | 0.00 | 0.00 | 0.00 |
| – Amortisations previous years | 0.00 | (38,468.50) | 0.00 | (38,468.50) |
| **Value as at beginning of year** | **0.00** | **256,736.50** | **0.00** | **256,736.50** |
| + Purchases for the year | 3,195.00 | 0.00 | 0.00 | 3,195.00 |
| + Transfers from other items | 0.00 | 0.00 | 0.00 | 0.00 |
| – Write-downs for the year | 0.00 | 0.00 | 0.00 | 0.00 |
| – Amortisation/Depreciation for the year | (1,597.94) | (33,120.50) | 0.00 | (34,718.44) |
| **Value as at year-end** | **1,597.06** | **223,616.00** | **0.00** | **225,213.06** |

| | | | | |
|---|---|---|---|---|
| Gross fixed assets as at beginning of year | 0.00 | 295,205.00 | 0.00 | 295,205.00 |
| Increases for the financial year | 3,195.00 | 0.00 | 0.00 | 3,195.00 |
| Decreases for the financial year | 0.00 | 0.00 | 0.00 | 0.00 |
| | **3,195.00** | **295,205.00** | **0.00** | **298,400.00** |
| Sinking fund as at the beginning of the year | 0.00 | 38,468.50 | 0.00 | 38,468.50 |
| Amortisation for the year | 1,597.94 | 33,120.50 | 0.00 | 34,718.44 |
| Utilisation for the year | 0.00 | 0.00 | 0.00 | 0.00 |
| | **1,597.94** | **71,589.00** | **0.00** | **73,186.94** |
| **Net value** | **1,597.06** | **223,616.00** | **0.00** | **225,213.06** |

## TANGIBLE FIXED ASSETS

| | Lands and buildings (Ann. 1.B.II.1) | Plants and machinery (Ann. 1.B.II.2) | Fixtures, fittings, tools and equipment (ann. 1.B.II.3) | Other goods (Ann. 1.B.II.4) | Fixed assets under construction and advances (Ann. 1.B.II.5) | Total |
|---|---|---|---|---|---|---|
| Historical Cost | 19,523,740.91 | 113,933,590.34 | 1,209,831.83 | 3,370,329.39 | 1,201,172.56 | 139,238,665.03 |
| + Revaluations previous years | 3,948,000.00 | 44,790,981.65 | 0.00 | 0.00 | 0.00 | 48,738,981.65 |
| – Write-downs previous years | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| – Amortisation/Depreciations previous years | (10,733,840.67) | (141,856,667.85) | (1,044,196.34) | (3,190,052.72) | 0.00 | (156,824,757.58) |
| **Value as at beginning of year** | **12,737,900.24** | **16,867,904.14** | **165,635.49** | **180,276.67** | **1,201,172.56** | **31,152,889.10** |
| + Purchases for the year | 0.00 | 53,535.29 | 17,701.36 | 68,321.31 | 2,237,321.00 | 2,376,878.96 |
| + Transfers from other items | 657,292.41 | 872,547.36 | 41,007.78 | 5,570.00 | 0.00 | 1,576,417.55 |
| – Disposals for the year | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| + Transfers to other items | 0.00 | 0.00 | 0.00 | 0.00 | (1,576,417.55) | (1,576,417.55) |
| + Revaluations for the year | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| – Write-downs for the year | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| – Amortisation/Depreciation for the year | (795,896.85) | (3,941,825.56) | (118,406.32) | (71,930.40) | 0.00 | (4,928,059.13) |
| Value as at year-end | 12,599,295.80 | 13,852,161.23 | 105,938.31 | 182,237.57 | 1,862,076.01 | 28,601,708.93 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Gross fixed assets as at beginning of year | 23,471,740.91 | 158,724,571.99 | 1,209,831.83 | 3,370,329.39 | 1,201,172.56 | 187,977,646.68 |
| Increases for the financial year | 657,292.41 | 926,082.65 | 58,709.14 | 73,891.31 | 2,237,321.00 | 3,953,296.51 |
| Decreases for the financial year | 0.00 | 0.00 | 0.00 | 0.00 | (1,576,417.55) | (1,576,417.55) |
| | **24,129,033.32** | **159,650,654.64** | **1,268,540.97** | **3,444,220.70** | **1,862,076.01** | **190,354,525.64** |
| Sinking fund as at the beginning of the year | 10,733,840.67 | 141,856,667.85 | 1,044,196.34 | 3,190,052.72 | 0.00 | 156,824,757.58 |
| Depreciation for the year | 795,896.85 | 3,941,825.56 | 118,406.32 | 71,930.40 | 0.00 | 4,928,059.13 |
| Utilisation for the year | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | **11,529,737.52** | **145,798,493.41** | **1,162,602.66** | **3,261,983.12** | **0.00** | **161,752,816.71** |
| Value as at year-end | 12,599,295.80 | 13,852,161.23 | 105,938.31 | 182,237.57 | 1,862,076.01 | 28,601,708.92 |

## MONETARY REVALUATIONS

| | GOODS NOT REVALUATED | GOODS REVALUATED | | Balance as at 31/12/2018 |
|---|---|---|---|---|
| | **Historical Cost** | **Italian Law 266 of 23/12/2005** | **Italian Law 2 of 28/01/2009** | |
| Lands and Buildings | 20,181,033.32 | 0.00 | 3,948,000.00 | 24,129,033.32 |
| Plants and machinery | 114,859,672.99 | 44,790,981.65 | 0.00 | 159,650,654.64 |
| Industrial and trade equipment | 1,268,540.97 | 0.00 | 0.00 | 1,268,540.97 |
| Other assets | 3,444,220.70 | 0.00 | 0.00 | 3,444,220.70 |
| **Value as at year-end** | **139,753,467.98** | **44,790,981.65** | **3,948,000.00** | **188,492,449.63** |

## FINANCIAL FIXED ASSETS

| | Associates (ann. 1.B.III.1/b) | Other companies (ann. 1.B.III.1/d) | Total |
|---|---|---|---|
| Historical Cost | 18,050,651.96 | 195,994.87 | 18,246,646.83 |
| + Revaluations previous years | 0.00 | 0.00 | 0.00 |
| – Write-downs previous years | 0.00 | 0.00 | 0.00 |
| **Value as at beginning of year** | **18,050,651.96** | **195,994.87** | **18,246,646.83** |
| + Purchases for the year | 0.00 | 0.00 | 0.00 |
| – Disposals for the year | 0.00 | 0.00 | 0.00 |
| + Revaluations for the year | 0.00 | 0.00 | 0.00 |
| – Write-downs for the year | 0.00 | 0.00 | 0.00 |
| **Value as at year-end** | **18,050,651.96** | **195,994.87** | **18,246,646.83** |

## ASSOCIATED COMPANIES

| Name | Book Value as at 31/12/2017 | Increases | Other changes | Decreases and write-downs | Book Value as at 31/12/2018 |
|---|---|---|---|---|---|
| Vinavil Egypt for Chemicals SAE<br>Registered office: Suez (Egypt)<br>Attaqa Industrial Area, Pieces 175 | 18,050,652 | 0 | 0 | 0 | 18,050,652 |
| **Total** | **18,050,652** | **0** | **0** | **0** | **18,050,652** |

### Comparison between the cost booked in the Financial Statements and the amount of Shareholder's Equity pertinent to Vinavil S.p.A.

The 2018 Financial Statements of Vinavil Egypt for Chemicals SAE are in the process of being approved, but, on the basis of pre-closure data as at 31/12/2018, the data shown in the following table is expected.

| Name | Shareholders' Equity as at 31/12/2018 (in foreign currency) | Profit (loss) as at 31/12/2018 (in foreign currency) | Shareholders' Equity as at 31/12/2018 (in Euro) | Stake | Exchange as at 31/12/2018 | Amount due (in Euro) | Carrying amount of investment in the Financial Statements (in Euro) |
|---|---|---|---|---|---|---|---|
| Vinavil Egypt for Chemicals SAE | 44,892,820 | (18,343,907) | 2,188,741 | 49.95% | 20.51080 | 1,093,276 | 18,050,652 |

**Share Capital: EGP 30,000,000**

## OTHER COMPANIES

| Name | Book Value as at 31/12/2017 | Increases | Other changes | Decreases and write-downs | Book Value as at 31/12/2018 |
|---|---|---|---|---|---|
| Industrial Services Ravenna S.con.p.a.<br>Registered office: Ravenna<br>Via Baiona no. 107 | 195,909 | 0 | 0 | 0 | 195,909 |
| Mapei Egypt for Construction Chemicals<br>Registered office: New Cairo, Egypt.<br>the second floor, plot no. 15, Teseen Street, Fifth Settlement | 85.87 | 0 | 0 | 0 | 85.87 |
| **Total** | **195,994.87** | **0.00** | **0.00** | **0.00** | **195,994.87** |

### Comparison between the cost booked in the Financial Statements and the amount of Shareholder's Equity pertinent to Vinavil S.p.A.

| Name | Shareholders' Equity as at 31/12/2018 (in foreign currency) | Profit (loss) as at 31/12/2018 (in foreign currency) | Shareholders' Equity as at 31/12/2018 (in Euro) | Stake | Exchange as at 31/12/2018 | Amount due (in Euro) | Carrying amount of investment in the Financial Statements (in Euro) |
|---|---|---|---|---|---|---|---|
| Mapei Egypt for Construction Chemicals | 17,166,274 | (9,562,550) | 836,938 | 0.05% | 20.51080 | 418 | 85.87 |

**Share Capital: USD 1,500,000**

## BREAKDOWN OF RECEIVABLES, PAYABLES AND REVENUES BY GEOGRAPHIC AREA

| Description | Italy | Foreign | Total |
|---|---|---|---|
| **Receivables** | | | |
| trade | 15,126,410 | 11,779,470 | 26,905,880 |
| due from companies subject to control by parent companies | 205,468 | 11,019,462 | 11,224,930 |
| due from associates | | 725,629 | 725,629 |
| due from parent companies | 9,590,832 | | 9,590,832 |
| due from others | 2,139,455 | 133,060 | 2,272,515 |
| Provisions for Bad Debt | -1,197,766 | -86,491 | -1,284,257 |
| **Total** | **25,864,399** | **23,571,130** | **49,435,529** |
| **Payables** | | | |
| Trade | 13,093,197 | 11,233,316 | 24,326,513 |
| due from associates | | 37,541 | 37,541 |
| due from companies subject to control by parent companies | 197 | 8,593 | 8,790 |
| due from parent companies | 19,138,045 | | 19,138,045 |
| due from others | 4,285,368 | | 4,285,368 |
| **Total** | **36,516,807** | **11,279,450** | **47,796,257** |
| **Revenues** | | | |
| revenues from sales and services | 78,447,769 | 102,745,198 | 181,192,967 |
| **Total** | **78,447,769** | **102,745,198** | **181,192,967** |

## PREPAID AND DEFERRED TAXES

| | FY 2017 | | | Changes FY 2018 | | FY 2018 | | | 2018 economic effect (- REVENUES) (+ COSTS) |
|---|---|---|---|---|---|---|---|---|---|
| | Amount of temporary differences | Rate % | Tax effect | Provisions | Uses | Amount of temporary differences | Rate % | Tax effect | |
| **Prepaid taxes** | | | | | | | | | |
| Provisions for Taxable Supplementary Customer Allowances | 14,060.14 | 27.90% | 3,923.00 | | | 14,060.14 | 27.90% | 3,923.00 | 0.00 |
| Provisions for other risks and charges | 433,925.76 | 27.90% | 121,065.00 | | | 433,925.76 | 27.90% | 121,065.00 | 0.00 |
| Surplus ACE Tax | | 24.00% | | 78,233.00 | | 78,233.00 | 24.00% | 18,776.00 | -18,776.00 |
| Membership fees | 18,585.00 | 24.00% | 4,460.00 | 26,207.00 | 18,585.00 | 26,207.00 | 24.00% | 6,290.00 | -1,830.00 |
| Depreciation on revaluation of buildings | 631,680.04 | 27.90% | 176,239.00 | | | 631,680.04 | 27.90% | 176,239.00 | 0.00 |
| Unrealised exchange losses | 82,698.06 | 24.00% | 19,848.00 | 24,501.83 | 82,698.06 | 24,501.83 | 24.00% | 5,880.00 | 13,968.00 |
| Rounding | | | | | | | | | 0.00 |
| Total | 1,180,949.00 | | 325,535.00 | 128,941.83 | 101,283.06 | 1,208,607.77 | | 332,173.00 | -6,638.00 |
| **Deferred taxes** | | | | | | | | | |
| Unrealised foreign exchange rate gains | 5,855.22 | 24.00% | 1,405.00 | 12,104.81 | 5,855.22 | 12,104.81 | 24.00% | 2,905.00 | 1,500.00 |
| 2016 Dividends (not collected as at 31/12) | 4,631.34 | 24.00% | 1,112.00 | | 4,631.34 | 0.00 | 24.00% | 0.00 | -1,112.00 |
| 2017 Dividends (not collected as at 31/12) | 22,027.06 | 24.00% | 5,286.00 | | | 22,027.06 | 24.00% | 5,286.00 | 0.00 |
| 2018 Dividends (not collected as at 31/12) | | 24.00% | | 10,610.10 | | 10,610.10 | 24.00% | 2,546.00 | 2,546.00 |
| Total | 32,513.62 | | 7,803.00 | 22,714.91 | 10,486.56 | 44,741.97 | | 10,737.00 | 2,934.00 |
| Net deferred (prepaid) taxes | | | (317,732.00) | (106,226.92) | (90,796.50) | | | -321,436.00 | |
| Prepaid taxes relevant to tax losses for the year | | | | | | | | | |
| Prepaid taxes relevant to tax losses for the previous year | | | | | | | | | |
| Temporary differences excluded from the calculation of (prepaid) deferred taxes | 0 | | | 0 | | **Total in the Income Statement** | | | **-3,704.00** |

## SHAREHOLDERS' EQUITY

| Description | amount | possibility of use | amount available | summary of uses in the previous three years | | | other reasons |
|---|---|---|---|---|---|---|---|
| | | A - B - C (*) | | FY 2015 | FY 2016 | FY 2017 | |
| Share capital | 6,000,000 | | | | | | |
| **Capital reserve** | | | | | | | |
| Revaluation reserve Italian Law 266/2005 | 39,416,064 | A-B-C | 39,416,064 | | | | |
| Revaluation reserve Italian Law 2/2009 | 3,829,560 | A-B-C | 3,829,560 | | | | |
| | | | 0 | | | | |
| **Asset reserves** | | | 0 | | | | |
| Legal reserve | 1,200,000 | B | | | | | |
| Realignment reserve Italian Law 266/2005 | 4,832,465 | A-B-C | 4,832,465 | | | | |
| Reserve ex art. 2426, point 8 bis of the Italian Civil Code | 5,855 | A-B | | | | | |
| Profits carried forward | 19,868,278 | A-B-C | 19,868,278 | 4,000,000 | 4,000,000 | 4,000,000 | 12,000,000 |
| **Total** | **75,152,222** | | **67,946,367** | **4,000,000** | **4,000,000** | **4,000,000** | **12,000,000** |
| Non-distributable amount from unrealised foreign exchange gains | | | 12,105 | | | | |
| Remaining distributable amount | | | **67,934,262** | | | | |

(*) A. capital increase
B. loss coverage
C. distribution to shareholders

## SHAREHOLDERS' EQUITY

| Changes | Share capital | Legal reserve | Other reserves | Profits and losses carried forward | Operating result | Total |
|---|---|---|---|---|---|---|
| **balance as in the Financial Statements as at 31/12/2015** | **6,000,000** | **1,200,000** | **48,083,909** | **10,747,602** | **5,043,328** | **71,074,839** |
| *allocation of the operating result* | | | | | | |
| profit carried forward FY 2015 | | | | 5,043,328 | (5,043,328) | 0 |
| *other changes* | | | | | | 0 |
| dividend distribution | | | | (4,000,000) | | (4,000,000) |
| profits on foreign exchange from previous years | | | (5,820) | 5,820 | | 0 |
| *2016 operating result* | | | | | 8,854,986 | 8,854,986 |
| **balance as in the Financial Statements as at 31/12/2016** | **6,000,000** | **1,200,000** | **48,078,089** | **11,796,750** | **8,854,986** | **75,929,825** |
| *allocation of the operating result* | | | | | | |
| profit carried forward FY 2016 | | | | 8,854,986 | (8,854,986) | 0 |
| effect arising from the change in valuation criteria for Inventory from F.I.F.O. to C.M.P. as at 01/01/2017 | | | | 191,255 | | 191,255 |
| *other changes* | | | | | | |
| dividend distribution | | | | (4,000,000) | | (4,000,000) |
| *2017 operating result* | | | | | 7,031,142 | 7,031,142 |
| **balance as in the Financial Statements as at 31/12/2017** | **6,000,000** | **1,200,000** | **48,078,089** | **16,842,991** | **7,031,142** | **79,152,222** |
| *allocation of the operating result* | | | | | | |
| profit carried forward FY 2017 | | | | 7,031,142 | (7,031,142) | 0 |
| *other changes* | | | | | | |
| dividend distribution | | | | (4,000,000) | | (4,000,000) |
| profits on foreign exchange from previous years | | | 5,855 | (5,855) | | 0 |
| *2018 operating result* | | | | | (2,441,761) | (2,441,761) |
| **balance as in the Financial Statements as at 31/12/2018** | **6,000,000** | **1,200,000** | **48,083,944** | **19,868,278** | **(2,441,761)** | **72,710,461** |

## RECONCILIATION BETWEEN THEORETICAL AND EFFECTIVE TAX LIABILITY

| | IRES |
|---|---|
| **Profit before taxes** | **-3,246,522** |
| contingent assets | 257,020 |
| Property Tax | 102,108 |
| costs for apartments | 67,086 |
| telephone expenses | 27,392 |
| car costs deductible 70% | 121,139 |
| membership fees | 7,622 |
| donations | 34,827 |
| administrative penalties | 6,857 |
| amount of Severance Indemnity to pension funds (4%) | (43,239) |
| IRAP deduction | |
| dividend from associate | (207,571) |
| entertainment expenses | 11,959 |
| contingent asset R&D tax credit | (118,441) |
| maxi amortisation/depreciation (ex art. 1, subsection 91, 2016 Financial Act) | (276,693) |
| VAT paid and other non-deductible costs | 19,279 |
| exchange rate differences | (64,446) |
| **Taxable amount** | **-3,301,623** |

| | Taxable income | Rate | |
|---|---|---|---|
| **IRES** | -3,301,623 | 24.00% | **-792,390** |
| Prepaid taxes for the year | | (6,638) | |
| Deferred taxes for the year | | 2,934 | |
| | | | (3,704) |
| IRES charged to the Income Statement | | | (796,094) |
| Effective rate | | | 0.00% |
| Theoretical rate | | | 24.00% |
| **Difference between theoretical and effective tax liability** | | | **-24.00%** |

Company exercising the activity of direction and coordination
Mapei S.p.A.

## BALANCE SHEET

| **Assets** | **data as at 31/12/2017** |
|---|---|
| A) Receivables due from Shareholders for outstanding payments | 0 |
| B) Fixed Assets | 508,046,745 |
| C) Current assets | 581,799,027 |
| D) Accrued income and prepaid expenses | 2,406,483 |
| **Total assets** | **1,092,252,255** |

| **Liabilities** | |
|---|---|
| A) Shareholders' Equity | 421,504,521 |
| B) Provisions for risks and charges | 46,348,882 |
| C) Severance Indemnity | 4,410,162 |
| D) Payables | 619,302,367 |
| E) Accrued expenses and deferred income | 686,323 |
| **Total and net liabilities** | **1,092,252,255** |

## INCOME STATEMENT

| | |
|---|---|
| A) Value of production | 517,954,363 |
| B) Cost of production | (533,430,664) |
| C) Financial income (charges) | 63,233,611 |
| D) Value adjustments to financial assets | (20,053,969) |
| Income taxes | 5,042,662 |
| **Operating result** | **32,746,003** |

# Board of Statutory Auditors' Report pursuant to Article 2429, subsection two of the Italian Civil Code.

## To the Shareholders' Meeting of VINAVIL s.p.a.

**Whereas**

In the financial year ended 31 December 2018, the Board of Statutory Auditors carried out the functions envisaged by arts. 2403 et seq. of the Italian Civil Code since those envisaged by Article 2409-bis of the Italian Civil Code are the responsibility of the independent auditor EY S.p.a

During the financial year as at 31 December 2018, we conducted our work in compliance with legal requirements and Rules of conduct for the Board of Statutory Auditors issued by the National Board of Accountants, with regard to which we have carried out a positive self-assessment for each member of the Board of Statutory Auditors.

**Supervisory activities pursuant to Article 2403 et seq. of the Italian Civil Code**

We monitored compliance with the law, articles of association and principles of proper administration.

We participated in Shareholders' and Board of Directors' Meetings, in relation to which, on the basis of the available information, we did not note any breaches of the law or Articles of Association, or any transactions that were manifestly imprudent, hazardous, in potential conflict of interest or such that they would compromise the integrity of the Company's equity.

During the meetings held, we acquired information from the Directors on the general operating performance and outlook for the future as well as on the most significant transactions in terms of size or characteristics, executed by the Company and its subsidiaries, on the basis of the information acquired, we have no particular comments to report.

We met the Supervisory Body and no critical issues emerged in relation to the correct implementation of the organisational model that need to be highlighted in this report.

We acquired knowledge and monitored, within the area of our responsibility, the adequacy and functioning of the company's organisational structure, also by collecting information from department heads and, in this regard, we have no particular comments to report.

We acquired knowledge and monitored, within the area of our responsibility, the adequacy and functioning of the administrative-accounting system as well as its reliability to correctly represent management related issues, by means of obtaining information from department heads and analysing corporate, we have no particular comments to report.

No complaints were received by the Shareholders *ex* art. 2408 of the Italian Civil Code.

**Comments and proposals regarding the approval of the Financial Statements**

Considering the results of our activity, as well as the results of the Report on the Financial Statements issued by the Independent Auditor, the Board of Statutory Auditors proposed to the Shareholders' Meeting to approve the Financial Statements as at 31 December 2018, as prepared by the Directors.

The Board of Statutory Auditors agreed with the proposal by the Directors in the Explanatory Notes for the allocation of the operating result.

Milan, 12 April 2019

The Board of Statutory Auditors

Guglielmo Calderari

Mariella Giunta

Maurizio Dragoni

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# External Auditors' Report in compliance with art. 14 of Italian Legislative Decree 39 of 27 January 2010

To the Shareholder of
Vinavil S.p.A.

## Report on the audit of the Financial Statements

### Opinion

We performed the audit of the Financial Statements of Vinavil S.p.A. (the Company), consisting of the Balance Sheet as at 31 December 2018, Income Statement and Cash Flow Statement for the year ended on the aforementioned date and the Explanatory Notes.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2018, the operating result and cash flows for the year ended on that date, in compliance with the Italian regulations governing their preparation.

### Elements on which the opinion is based

We have performed the audit in compliance with the International Auditing Standards (ISA Italy). Our responsibility pursuant to such standards are further described in the section Responsibilities of the External Auditor for the audit of the Financial Statements covered by this report. We are independent of the Company in compliance with the rules and standards on ethics and independence applicable in the Italian legal system for auditing financial statements. We believe that we have acquired sufficient and appropriate evidence on which to base our opinion.

### Responsibility of the Directors and Board of Statutory Auditors for the Financial Statements

Directors are responsible for the preparation of the Financial Statements that give a true and fair view in compliance with the Italian Legislation governing the preparation criteria and, within the terms envisaged by the law, for that part of the internal control they deem necessary to allow the preparation of the Financial Statements that does not contain significant errors due to fraud or unintentional behaviour or events.

Directors are responsible for assessing the Company's ability to continue operating on a going concern basis and, in drafting the Financial Statements, for the suitability of using the going concern basis, as well as for an adequate disclosure on the subject. The Directors use the assumption of a going concern for the preparation of the Financial Statements unless they have assessed that the conditions exist for the liquidation of the of the Company or for the interruption of the business or should they have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for the supervision, within the terms envisaged by law, of the preparation process of the Company's financial information.

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## Responsibility of the External Auditor for the audit of the Financial Statements

Our objectives are the acquisition of a reasonable certainty that the Financial Statements on a whole do not contain significant errors, due to fraud or unintentional behaviours or events, and the issue of an Audit Report that includes our opinion. Reasonably security means a high level of security which, however, does not provide the guarantee that an audit carried out in compliance with International Auditing Standards (ISA Italia) always identifies a significant error, if it exists. Errors can result from fraud or unintentional behaviours or events and are considered significant if it can reasonably be expected that they, individually or together, will be able to influence the economic decisions made by users on the basis of the Financial Statements.

In the scope of the audit performed in compliance with the International Accounting Standards (ISA Italy), we have exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- we have identified and assessed the risks of significant errors in the Financial Statements, due to fraud or unintentional behaviours or events; we have defined and performed audit procedures in response to these risks; we have acquired sufficient and appropriate audit evidence on which to base our opinion. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error deriving from unintentional behaviour or events, as fraud can imply the existence of collusion, falsification, intentional omission, misleading representations or the use of force in the internal control;
- we have acquired an understanding of the internal audit that is relevant for the purposes of the audit in order to define appropriate audit procedures in the circumstances, and not to express an opinion on the effectiveness of the Company's internal audit system;
- we assessed the appropriateness of the accounting principles used as well as the reasonableness of the accounting estimates made by the Directors and the relevant disclosure;
- we have reached a conclusion regarding the appropriateness of use by the Directors of the going concern basis and, based on the audit evidence obtained, on the possible existence of a significant uncertainty regarding events or circumstances that can give rise to significant doubts about the capacity of the Company to continue to operate on a going concern basis. In the presence of significant uncertainty, we are required to draw attention in our audit report to the relevant Financial Statements disclosure or, should such information be inadequate, to reflect such circumstance when formulating our opinion. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Company ceasing to operate as a going concern;
- we assessed the presentation, structure and content of the Financial Statements as a whole, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in order to provide a correct representation.

We have notified the governance managers, identified at an appropriate level as required by the International Audit Standards (ISA Italia), inter alia other aspects, the importance and timing planned for the audit and significant results arising from the same, including any significant shortcomings within the internal control as identified during the audit.

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# Report on other legal and regulatory provisions

## Opinion pursuant to art. 14, subsection 2, letter e), of Italian Legislative Decree 39 of 27 January 2010

The Directors of Vinavil S.p.A. are responsible for the preparation of the Report on Operations for Vinavil S.p.A. as at 31 December 2018, including its consistency with the relevant Financial Statements and compliance with the law.

We have carried out the procedures indicated in audit standard (SA Italia) 72OB a), in order to express an opinion on the consistency of the Report on Operations with the Financial Statements of Vinavil S.p.A. as at 31 December 2018, and the compliance of the same with the law, as well as to issue a declaration on any significant errors.

In our opinion, the Report on Operations is consistent with the Financial Statements of Vinavil S.p.A. as at 31 December 2018, and is prepared in compliance with the law.

With reference to the declaration set out in art. 14, c.2, letter e), of Italian Legislative Decree 39 of 27 January 2010, issued based on the knowledge and understanding of the business and the relevant context acquired during the audit, we have nothing to report.

Milan, 12 April 2019

EY S.p.A.

Renato Macchi
Shareholder

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