PRINCIPLES AND METHODS

The Directory covers the 50 largest Italian listed companies, of which 42 are industrial and trading businesses, 6 banks and 2 insurance companies. To provide a complete picture, the Aurelia s.r.l., Cremonini, Edizione s.r.l. and Fininvest holding companies have been included even though they are not listed. The companies have been classified based on figures available as at 31 December 2016, which take account of capital invested, the market capitalization of their free float, and value added, or total revenues in the case of the banks and insurers. The companies are covered by group, as defined below.

The figures and findings on the 50 groups covered in the Directory have been set out in sections following the most uniform possible layout. This layout has been adapted and appropriate tables added to deal with the special features of banks and insurance companies. The data are based on information officially disclosed, supplemented where necessary by additional details that have been carefully screened to ensure reliability.

Data sheets have been submitted to all the companies, most of which have checked their figures and where appropriate have provided additional information. Figures and tables containing R&S's independent findings or estimates are specifically indicated. The compilers have sought to provide figures covering the past five years for each company with a view to giving the most comprehensive picture of its operating results.

The principles and methods used in compiling the Directory are summarized below.

GENERAL

The *General* section gives the year of incorporation, Registered Office (and Head Office, where this differs), Board of Directors (or alternatively, for companies which have adopted the dualistic system of governance, Supervisory Board and Management Board), Statutory Audit Committee, general managers, auditors and main shareholders. The year of incorporation is that in which the company or public entity took on its legal form. Where the year of original establishment differs from that of incorporation, it is given in the subsequent section covering *History*. *Areas of Operation* show those of both the parent company and its subsidiaries. Details of all businesses carried on by subsidiaries are set out in the sections on *Group Companies*.The governing bodies and auditors are the most recent available on going to press.

GROUP COMPANIES

This section lists the parent company and its principal direct and indirect subsidiaries, plus any other companies over which it exerts a dominant influence and which hence fall within the legal definition of a subsidiary (*società controllata*) as defined in Article 2359 of the Italian Civil Code. The legal status is given only if it differs from that of a ''società per azioni'' (joint stock

company). Minority interests are not included, unless these are deemed worthy of special mention.

PRODUCTION

This section gives information on quantities produced, market share, production facilities owned by the group. Unless otherwise indicated, quantities produced represent total group output. The share of national output has been based on group (or the company's) production as a proportion of total national output. Market share, where available, is based on group (or the company's) domestic sales as a proportion of national consumption.

EMPLOYEES

This section gives the headcount of the group by business unit and geographical area. Sales, net value added (i.e. value added less depreciation and amortization) and labour cost per employee are also given.

PROFIT AND LOSS ACCOUNTS

The profit and loss accounts have been reclassified in vertical form in order to highlight sales (including changes to work in progress), value added, gross and net margin from operations and current pre-tax profit or loss. The latter is defined as the operating margin before non-recurring items such as transfers to and from extraordinary provisions, asset revaluations and writedowns, gains and losses on disposals, etc. It is also stated before amortization of and writedowns to goodwill (where this originates from differences on consolidation), the effect of capitalizing interest and financing charges, *inter alia* given the considerable variance in amounts permitted to be capitalized under present Italian regulations, and for insurance companies capitalized acquisition fees relating to long-term contracts. Regarding the latter, where the charges concerned have been capitalized in the official profit and loss account, costs have been restated to include these charges, which have then been balanced by a specific item termed *Capitalization and amortization of acquisition fees*. The heading 'Other gains (losses) of a financial nature and other' includes the results of companies accounted for on an equity basis and assets being sold (excluding non-recurring and tax items), net exchange rate differences and the balance of financial derivative products recognized at fair value, plus gains (losses) arising on valuation or generated by disposal of securities held for trading. In the reclassified profit and loss accounts, labour costs from previous years, including those deriving from corporate restructuring programmes, have been treated as current. The result for the year is that stated in the company's published accounts in all cases.
Banks' profit and loss accounts are presented in such a way as to reflect total income from banking operations represented by the sum of (i) net interest income, i.e. the difference between interest income and expense, (ii) net fee and commission income, (iii) dividends, (iv) equity- accounted companies' earnings pro-rata, (v) net trading income, and (vi) sundry other income and expense. Writedowns and writebacks in the value of receivables are treated as current

items; while gains and/or losses arising on disposals and buybacks, and writedowns/writebacks to AFS and held-to-maturity financial assets are considered to be non-recurring.
Insurance companies' profit and loss accounts are presented in such a way as to reflect the underwriting result in general business and that in life business. It is represented by the difference between the income from and the cost of insurance operations, the latter consisting of claims, commissions, other operating expenses and sundry other items. Income from insurance operations is the sum of net premium income and net investment income, taking into account changes in unearned premiums and actuarial reserves. The current pre-tax result is computed using the same principles adopted for other companies. Revaluations, writedowns, and gains and losses on disposals which continue to be treated as income from insurance operations, have been treated as current items solely insofar as they involve financial assets and liabilities held for trading purposes and recognized at fair value; those involving other assets and liabilities have been written back and are shown after the current profit (loss) result. In assessing the insurance companies' figures the following points should be borne in mind:
a) in general business, insurance accounts comprise figures covering all classes of business transacted;
b) in life business, changes in insurance reserves include those in unearned premiums and actuarial reserves. These two items are of a different nature. Unearned premiums represent the portion of general insurance premiums written during the year but applicable to the subsequent accounting period, whereas the actuarial reserve is the portion of life premiums deferred in order to maintain compatibility between the present value of future life premiums receivable until maturity of the policy (company's asset) and the present value of the company's liabilities in terms of sums assured under life policies.

A separate table gives the revenues and prime costs attributable to outward reinsurances (i.e., business where the company cedes a portion of its own risks to other companies). The balance of these items does not constitute the result from reinsurance activity, as it does not include the investment income component (which is not available under the new presentation format). In any case, the trend in this balance (which is generally cyclical) should be considered, rather than whether it is positive or negative in any particular year. It should also be noted that, in accordance with Italian and international practice, reinsurance acceptances and retrocessions are recorded in profit and loss accounts in the year following that in which they were effected.

TAXATION

Taxation charges have been reclassified in order to show only income taxes as a deduction from the pre-tax result. In Italy, these consist of *IRES – Imposta sul reddito delle società* (tax on corporate income charged at a rate of 24% (27.5% until 2016), higher only for companies operating in the hydrocarbon research, oil and electricity sectors at 34% in 2009 (until 2014) and 38% for the 2011-13 three-year period only;[1] an extraordinary additional charge of 8.5% was made in 2013 for companies operating in the credit, financial and insurance sectors); and *IRAP - Imposta Regionale sulle Attività Produttive* (regional tax on production)

[1] Under ruling no. 10 issued on 11 February 2015, the Italian constitutional court held that this surcharge was unconstitutional, but without applying the effects of the ruling retrospectively.

charged at a standard rate of 3.9% of value added.[2] All other taxes have been included under consumables.
It should be pointed out that, expected tax liabilities for the year are based on conservative assessments by Directors, whereas the actual tax profit (or loss) hardly ever coincides with the profit or loss reflected in the company's published accounts, since the latter is adjusted upwards or downwards when tax returns are made under current regulations to take account of tax losses in prior years being allowed as a deduction, the disallowance of certain provisions for tax purposes, development area tax concessions, tax exemption on certain revenues, etc. Finally, the introduction of IAS/IFRS has meant that advance and deferred taxes have to be estimated and recorded in the accounts, based on temporary differences between the value assigned to the assets and liabilities according to statutory principles and the corresponding values used for tax purposes.

FINANCIAL STATEMENTS

Balance sheets have been reclassified to distinguish between current and non-current items. Following adoption of IAS/IFRS, the item *Liquid assets and equivalent funds* includes cash and financial assets not subject to restrictions on usage falling due within 3 months, whereas current stocks are shown net of advances to customers net of work in progress. The item *Securities* comprises those falling due within one year, and securities and equity investments originally classified as available for sale within 12 months. Medium- and long-term debt excludes repayments due in the twelve months following the balance-sheet date. The item *Equity investments* for banks only includes holdings in subsidiaries and associate companies (or other companies accounted for on an equity basis), as the Bank of Italy's instructions do not require more detailed breakdown of other interests, which are all included under the heading *Sundry securities and financial assets*.
The *patrimonio di vigilanza* (total regulatory capital as determined under Bank of Italy rules), risk/asset ratio and ''tier 1'' coefficients (CET 1) are also given for banks, as is non-fixed capital, i.e. net worth less equity investments, land and buildings, furniture and equipment, long-term charges, advance tax assets, goodwill and net impaired loans.
Total capital comprises a) Tier 1 capital (issued capital, reserves and innovative capital instruments, the latter up to a limit of 15% of the total amount less primarily own shares, intangible assets and accumulated losses), and b) Tier 2 capital (valuation reserves, subordinated liabilities and hybrid capital instruments), which in aggregate cannot exceed Tier 1 capital. Tier 1 capital in turn consists of CET1 equity and additional tier 1 equity instruments. Capital adequacy is measured by the risk/ asset ratio, which relates total capital to the bank's total assets and off-balance sheet exposures, weighted by categories of risk. The minimum required risk/ asset ratio is 8% (or 7% in individual banks forming part of groups). The Tier 1 ratio includes only regulatory capital (tier 1 equity plus additional instruments), and has a minimum limit of 5.5% in 2014 and of 6% starting from 2015. The CET ratio meanwhile has a minimum value of

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[2] This is the prevailing rate (excluding additional regional taxes); although several regional authorities have introduced higher and subsidized rates for different brackets of organization. From 2015 IRAP is deductible from staff-related expenses, and in 2016 and 2017, 70% of expenses relating to seasonal workers as well (100% in 2018).

4% in 2014 and of 4.5% starting from 2015. An additional capital ratio or surcharge to be met from CET1 is also applied to systemically important banks, which varies from 1% to 2.5%.

Assets and liabilities in respect of business units, assets and equity investments for which negotiations with a view to disposal are in progress have been offset by attributing the balance to the other fixed assets or liabilities as the case may be. Own shares and shares of consolidated companies recorded under assets have been deducted from reserves.

Total indebtedness is shown in a separate table between short-term and medium-to long-term debt. For the latter, the amounts falling due in the next five years are shown in a separate footnote to the table. Liquid assets and equivalent funds and assets being sold are also shown in a footnote. In no case have debts been offset by items on the asset side, save for assets being sold, as mentioned above.

Impaired customer loans and advances for banks have been broken down according to the new classification methods revised by the Bank of Italy with effect from 1 January 2015, to bring them into line with EU regulations, to show:

(i) non-performing loans, i.e. amounts due from individuals in a state of financial insolvency, whether or not this has been legally declared, or in similar conditions;

(ii) probable default (loans for which, without recourse to measures such as enforcement of guarantees, it is unlikely the borrower will be able to meet all their payment obligations);

(iii) overdue items, i.e. loans overdue as constantly in arrears for a period of more than 180 days until 2011, and for more than 90 days starting from January 2012.

Total impaired loans have also been calculated as a percentage of total receivables from customers and of net worth. For amounts due to banks and customers and funding for banks, a breakdown by type and outstanding duration (up to and over 12 months) is also provided; the latter does not coincide with the respective balance-sheet items, owing to the exclusion of receivables and payables of indeterminate duration and items not subject to liquidity risk.

For insurance companies a ‘‘solvency margin’’ has been provided, represented by a minimum net equity value calculated by applying pre-established parameters to volumes of business transacted (e.g. actuarial reserves, principal amounts insured, annual premiums, average percentage accounted for by claims, etc.). The solvency margin is governed by EC directives and national regulations, including regulations issued by ISVAP – replaced by IVASS, “Istituto per la vigilanza sulle Assicurazioni”, as from January 2013. The equity base taken for the purpose of determining the solvency margin under the laws currently in force consists of the company’s capital plus reserves and retained profits for the year less any treasury shares held and any intangible assets.

The equity base may include: a) cumulative preference shares and subordinated liabilities of up to half the solvency margin to be established or, if lower, that requested, bearing the various prerequisites in mind; b) securities of unlimited duration within the limits set forth under the foregoing point a). Following a reasonable request made by the company, “ISVAP (now IVASS) may authorize the additional constituents identified in the implementation provision to be included in the available solvency margin for periods of no more than twelve months”. One-third of the solvency margin required constitutes the “underwriting share” which must consist solely of tangible net equity items, and may not be lower than certain minimum levels established by IVASS. The insolvency ratio has been calculated, which consists of the ratio between the

elements that make up the margin and the solvency margin to be constituted.

SOURCES AND APPLICATIONS OF FUNDS

The figures in this table show flows of funds in the industrial and trading companies, broken down between sources and applications. These have been compiled by R&S on the basis of statements published by the companies. Funds generated by operations represent cash flow for the year. This has been calculated by adding to the net profit or loss costs not involving cash outlays (e.g., depreciation, amortization, provisions and writedowns) and then deducting income not involving cash receipts (e.g., revaluations, capitalization of interest charges and of deferred charges, etc.). Cash flow is broken down between sources from operations (adjusted profit or loss) and those arising from the divestment of fixed assets (disposals), the latter being arrived at by adding (or deducting) the surpluses (or losses) arising from such disposals to (or from) the book value of the assets sold.
Dividends are those paid during the year.

PERFORMANCE INDICATORS

This section gives financial ratios and trends therein over the period covered. Unless otherwise indicated, average figures have been based on the opening and closing balance in each year. Three ratios of indebtedness have been calculated: i) net debt as a percentage of net worth; ii) borrowings outstanding at year-end as a percentage of *tangible net worth*, i.e. net worth less intangible assets (goodwill and deferred charges excluding rights granted in the case of companies performing services under concessions); iii) net debt as a percentage at capital invested (the latter defined as the sum at net debt and net worth). Return on investment (ROI) is the ratio between net earnings from operations plus financial income (and *Other gains (losses) of a financial nature and other*, but excluding gains on exchange rates and derivatives) and capital invested at the year-end.
Return on equity (ROE), the ratio between profit (loss) for the year and shareholders' equity, is given with any capital increases during the financial year being accounted for on a pro-rata basis. In assessing ROI and ROE, it should be borne in mind that these ratios will be affected to varying degrees by the principles used by the directors in accounting for assets and liabilities (which give rise to capital invested) and for operating expenses and income (which give rise to earnings from operations and profit or loss).

GROUP COMPANIES' ACCOUNTS

This section shows the main group companies' accounts in condensed form. *Gross tangible fixed assets* include non-industrial buildings, land and additions in progress, while *Working capital* includes inventories and trade accounts receivable net of provisions. Deferred charges are classified under *Other assets*, and total indebtedness excludes the share expiring in the medium/long term of staff provisions, other provisions and deferred taxes, all of which are included under *Other liabilities and provisions*. In consolidated accounts the latter item also includes minority interests.

STOCK MARKET PERFORMANCE

This section gives the main stock market figures for listed companies. Highs and lows shown are in all cases those recorded at the so-called ‘‘official’’ price. In the case of rights issues, extraordinary dividends and changes in share denominations, share prices are adjusted to ensure they are comparable over time. The adjustment factors used are those calculated by Borsa Italiana and are given in footnotes.

COMPANY INDEX

This is a list of all companies in which the 50 enterprises have direct or indirect equity interests. In consulting this index, it should be borne in mind that certain of the percentage holdings given are not indicated separately under the sections on the parent companies concerned, owing to their relatively small size. Furthermore, for typographical convenience, all company names are printed in capitals.
Percentage equity interests have been taken from the accounts of the shareholder companies supplemented by information from other reliable sources. Unless otherwise indicated, they reflect the position at the date of the latest available accounts.