

(Translation from the Italian original which remains the definitive version)



## **Directors' report**



*Dear Shareholders,*

In keeping with custom, in addition to Granarolo S.p.A.'s separate financial statements, we also present the Group's consolidated financial statements, which give a more complete view of the results of operations in the year ended 31 December 2015.

One single directors' report is presented for Granarolo S.p.A. and the Group, as permitted by article 1.2.d) of Legislative decree no. 32 of 2 February 2007.

In this report, given the dynamics of the Group's development and its size, it is now, more than ever, useful to consider the national and international context in which it operates.

### **International, European and Italian scenario**

As 2015 has come to a close and we look ahead, let's see what the analysts have to say.

They confirm the expected improvement in advanced countries, with the US in the lead, but, in a break with the recent past, emerging countries show weakness, which is holding back the expansion of global trade and leading many operators to revise their expectations with respect to the potential of new markets, contributing to a depression in raw material prices. One aspect has been crucial for everyone: the price of oil bottomed out at levels lower than those seen at the worst of the 2008-29 crisis and, paradoxically, this did not present positive opportunities.

Projected global activity for 2016 and 2017 should show modest expansion on 2015. However, the start of 2016 saw new, significant tensions on China's financial market, coupled with concerns about the country's economic growth.

In the Eurozone, growth continues but remains fragile. Weak non-EU demand and the declining price of oil have paved the way for the return of risks of dips in inflation and in growth, and these risks have become more evident in recent months. Europe's difficulties in affirming its position as a political force have had obvious repercussions on economic trends, along with the decision to contain investment spending to protect the strongest economies.

In Italy, the recovery proceeds at a sloth's pace. The boost of exports, after sustaining business for the past four years, is now suffering the impact of weak non-European markets and is progressively being replaced by domestic demand,

particularly in terms of consumption and restocking. According to Banca d'Italia, Italy's central bank, consumption is what is leading the recovery. Specifically, household consumption is expected to continue rising as real disposable income recovers, in the wake of improvements in the labour market and the tax stimulus measures included in the government's Stability Act. But if we look closely, between the objectivity of these statements and the public institutions' objectives, stands an actual country that is, objectively, poorly equipped to take full advantage of the recovery given its well-known structural deficits. The widespread conservative stance of many Italians is resisting the reasonable reforms that the government has implemented.

The unemployment rate is expected to progressively contract over the next two years, falling to below the 11.0% threshold in 2017. Banca d'Italia estimates that tax relief measures applicable to newly hired employees under open-ended contracts, from which Granarolo has benefited, could boost the employment rate by some 0.3% over the three years considered. This improvement would come in the wake of the growth already reported in employment figures in the third quarter of 2015, especially among the young and in the service sector. The Banca d'Italia bulletin reports that Italy's unemployment rate dropped to 11.4% in October-November, which was the lowest level since 2012, although it is still far from the improvements seen in the European nations that are leading the continent's recovery. Companies like ours are cautiously optimistic about forecast employment.

However, it is worth noting that, as official as they may be, charts and research do not objectively reflect the ways in which national indicators are changing. As everything is subject to political debate, the public does not even see official data as reliable, and ultimately this further hampers investors' and consumers' confidence.

The credit crunch and, particularly, the media effect of local bank defaults, fuel confusion and worry among depositors. Overall, GDP is estimated to have risen by 0.8% in 2015 (+0.7% on a quarterly basis, adjusted to consider the number of business days), modest growth, but reflecting a turnaround after the worst years of the crisis. GDP could grow by around 1.5% in 2016 and 2017. Inflation could progressively rise to 0.3% in 2016 and 1.2% in 2017.

Investments, which until now have performed modestly, could benefit from demand prospects, more favourable credit conditions and the effects of the stimulus measures enacted with the Stability Act. As disposable income recovers, in part bolstered by the strengthening labour market, it could help consumption grow.

In short, Banca d'Italia's projections are, overall, in line with those published in July, but the contribution of the various factors has changed: less impact is attributed to foreign trade, due to the aforementioned slowdown in emerging economies, and this offsets the rise in domestic and EU demand, supported by economic policies (such as the Eurozone's quantitative easing and the Italian government's measures) and the improvement in credit conditions.

Significant risks remain, the most significant of which are associated with the international context and have returned to the spotlight in recent weeks: in particular, the slowdown in emerging economies seems more dramatic and long-term than previously expected and is creating serious repercussions for financial and currency markets. Consistent monetary policies will be needed to decisively contrast the risks of a downturn in inflation, which could arise from either lower-than-expected growth in demand if the currently wide margins of unused production capacity remain for a long period of time, or additional decreases in raw material prices.

Unfortunately, the world is riddled with dramatic international tension: emblematic are the images still fresh in our minds of the many terrorist attacks on world capitals and the destruction of our artistic heritage, violence on defenceless victims and the unstoppable exodus of entire populations of countries entangled in war.

As we write, the preying of speculation on international stock markets led to the loss of shocking amounts in a few short hours, demonstrating that western nations are not capable of adequately protecting their real economies. In order to confirm estimates, the bulletin states: *"Italy and the Eurozone will have to maintain the confidence of households, businesses and financial operators, and policies supporting the economic cycle will need to continue"*. Businesses, those like ours in particular, as it is owned by a cooperative group, must play a key role providing unity and reassurance. It is no coincidence that, particularly in the farming segment, cooperatives are the best performers in Italy's food industry.

## **Falling prices: deflation**

The past few weeks have seen downwards trends affecting many different factors: stock markets, oil, investor confidence and, affecting us specifically, the price of milk. This means deflation. Deflation is defined as a general drop in prices. At present, there are two global reasons for deflation, and they are linked. The first is China: showing a two-year slowdown, it is consuming less, producing more internally and importing less, similarly to Russia, although the latter is due to a European political decision. The consequence: an overall reduction in international trade has pushed prices down. The second reason is directly linked to the first: the price of oil has collapsed, along with the prices of many other raw materials, first because China is buying less, but also, and above all, because oil producing nations have not been able to reach an agreement. These two interdependent causes have given rise to others. The collapse of raw materials prices has impoverished many emerging countries, many of which are producing countries, which in turn are buying less than in the past. While it is true that energy costs us less, those who buy it from us have less money and are buying less than we need. And this is against the background of weakness on other fronts: the Eurozone

still not resumed any growth worthy of that name and has remained, for many years, a vast desert for demand or with only the most imperceptible increases. When prices fall, the weight of debt increases in real terms, unlike what happens at times of high inflation, when the cost of debt lightens on its own as time goes by. The other effect is on wages, income and corporate earnings, with consumers tending to postpone purchases, businesses postponing investments and hiring, as wages remain flat or decrease. This is also why the weight of debt rises: in a scenario in which all cash flows are thinning and many groups are growing poorer, it becomes increasingly difficult to repay debt, which is why the cost of money has never been as low as it is now. When there is deflation, tax revenue is stagnant and GDP is flat. Consequently, reducing public debt is also more challenging. This explains why we are justified in asking Europe to sustain public investment spending.

### **The Italian agri-food industry: an opportunity for the country**

In this context, Italy's agri-food industry exports are worth €36 billion for myriad reasons: around the world, scientists and the media are focusing on sustainable farming, food and cooking, Expo 2015 in Milan was dedicated to food, the Mediterranean diet is considered a model for the world and the most important chefs in the world are Italian. We are light years ahead of, say the United States, when it comes to guaranteeing consumers' health and food traceability. Naturally, Expo 2015 highlighted these aspects.

It is a widely held belief that Italy has even greater potential and that Made in Italy products stand to play a leading role in the world, with a value of over €50 billion. To promote this growth, which is necessary to support our chains, the Ministry of Farming Policies will finally be renamed the Agri-Food Ministry. We are convinced that this provides us with an important chance to turn around and tie together, including at ministerial level, the points in the chains between the earth to production facilities that give life to the Made in Italy movement, a one-of-a-kind phenomenon throughout the world.

Data prove that the potential is there. Italy remains the country with the highest number of DOP, IGP and STG products in the world: at 10 February 2016, Italy boasted 805 certified products, consisting of 282 foods and 523 wines, with 569 DOP (protected designation of origin), 234 IGP (protected geographical indication) and two STG (guaranteed traditional specialty) products. Next came France (658), Spain (318), Greece (250) and Portugal (173). An analysis by region showed that those with the highest number of certifications were Veneto and Tuscany, with 90 products, followed by Piedmont with 81, Lombardy with 77 and Emilia Romagna with 73. The world is hungry for these products. All this should support an aggressive internationalisation process based on the narrative characterising the country for its

landscape, art, culture and gastronomic traditions, loved by millions of men and women around the world, although fewer than ten DOP products enjoy a significant presence outside Italy.

Agri-food products therefore constitute a precious opportunity for Italy, but the difficulties resulting from inadequate remuneration on agricultural raw materials must be resolved through contractual agreements between the farmers who produce and the industrialists who buy, precisely because agri-food is a strategic asset for the country. With this approach, our group has made supporting the chain a key element in its way of doing business and it is no coincidence that this approach has been taken throughout the entire business.

### **Italy's livestock chain in 2016: two faces of the same coin**

After the euphoria of Expo 2015, an event that shone the spotlight on Italian agri-foods, with Granarolo showcasing the national milk chains, 2016 will most likely be a two-faced coin. While on the one hand, expectations are high, due to the importance that the agri-food industry seems to have gained in the Italian political agenda, on the other, there is an awareness that dairy farmers are suffering the most serious crisis of the past ten years, with the milk price collapse making it impossible to cover production costs and necessary investments. Many dairy farms face a real risk of closure. Medium-term measures are needed to survive and achieve our goal. Indeed, while they are appreciable, interim measures (e.g., the €25 million earmarked to support milk prices until March), are short-lived and fall short. We need a medium-term national plan to help dairy farms recover sufficient profit margins by containing production costs - which are far too higher compared to their European competitors - and adjusting various cost factors. Now that milk production limits have been abolished, we must realign production and consumption rapidly. Italian bureaucracy is too slow for the crisis, and the new Ministry will be tested on its ability to streamline and respond rapidly. Everyone must roll up their sleeves and get to work, including Granarolo, as it has representatives in a number of Italian and European work groups.

### **Granarolo's current goal**

Granarolo's goal is in line with the Italian government's stated objective and it is ambitious: make the most of excellent products and support the penetration of Italian products abroad.

These concepts have been formalised in the new 2016 / 2019 business plan. It is our duty to shareholders and stakeholders. We will face the difficulties of an economic situation in which we plan to clarify the opportunities for a group that has, since its inception (next year we celebrate 60 years of business), never shied away from playing

aggressively. To do this, we must protect smaller businesses, biodiversity, the real economy underlying our chains, our rich array of extraordinary products, and, at the same time, the right way to market ourselves in Italy and abroad. Our family has growth, many Italian and foreign partners have joined our group, and we are learning from them and teaching them a new way to do business.

The time has come to break with the past without losing sight of Italy's traditions, which are one-of-a-kind in the world. And into the world we must go, because there is room for Italian products, and if we Italians do not grab it, someone else will (the market of "Italian sounding" products is currently worth €60 billion). One's size when arriving on other markets is foremost and competing against one another in terms of lower prices, both at home and abroad, will not help us out of this crisis. Our European competitors are well aware of this, multinationals and cooperatives, with their systematic mergers and acquisitions in recent years, while we continue, often due to the demagogic use of resources in each region, to fuel our anachronistic particularities and characteristics. However, if we are to compete with the global food giants, we must be more than farmers and commodity makers. We make food and, fortunately, we make the best food in the world. It's so good that others copy us, but they cannot copy traditions as unique as ours, and this is what we must leverage.

## **More than milk, with milk in our DNA**

Granarolo strives to return to shareholders and, in particular, to the country's farmers, the greater added value that comes from the quality of its products and an efficient organisation. Our bottom line is consistent with this goal, and we propose distributing a considerable dividend, the largest in our history. Our company's result will be our shareholders' result, which is to say the achievement of the thousands of dairy farmers who supply two-thirds of the raw material we process.

Our main focus is and will remain on dairy products, to make the most of the milk contributed by our dairy farmer members, but we are working and will continue to work to expand to other, typically Italian products, which we plan to market abroad. This is the only way we can loosen the grip of low raw material prices and tight margins.

## **Granarolo today: 2015 results and challenges in the future**

A snapshot of the Granlatte-Granarolo Group today shows:

- 1,000 dairy farmers in 14 regions of Italy producing and sending fresh milk to Granarolo's sites through the country's largest milk cooperative. We process 840 million litres of milk per year. There is nothing like it.

- 12 sites in seven regions of Italy (four in Emilia Romagna, two in Lombardy, two in Sardinia, one in Tuscany, one in Lazio, one in Puglia and one in Calabria). This is because we believe that the quality of regional production cannot be delocalised. Ours is the shortest chain, a model that brings producers and consumers closer together, without intermediaries;
- two sites in France; two in Brazil and one in Chile.
- one dairy factory in Tanzania, bringing hope of a future for 1,000 small-scale dairy farmers.
- one donated human milk bank in Bologna serving the S. Orsola, Maggiore and Ferrara hospitals and, in the near future, the Parma and Imola hospitals as well;
- seven partnerships with Italian and/or foreign businesses to produce typical specialty products and sell them globally;
- 2,489 employees (2009: 1,537; 2014: 2,074). Despite the economic crisis, we have grown, especially as the group has expanded with the arrival of new subsidiaries, both Italian: Gennari Italia S.r.l. (44 employees) and Pastificio Granarolo S.r.l. (26 employees) and foreign: Granarolo Chile S.p.A. (105 employees), European Food Ltd. (33 employees) and Yema Distribuidora Ltda (183 employees);
- satellite activities managed by some 18,000 families (compared to 15,000 in 2014) whose income is based on what we do.

Only a few years ago we would have said that, at Granarolo, members, dairy farmers, workers and consumers all speak local dialects, now we can say that they speak the many languages of the world. First overwhelmed by this diversity, we are now proud.

The group results for 2015 show that turnover has exceeded one billion Euros by a wide margin, showing growth of 4% on 2014, with an improvement in EBITDA and a decrease in debt. We were only able to attain these outstanding results because of two important developments: internationalisation (today, roughly 20% of turnover is generated abroad) and innovation, which also contributes to exports. To achieve these objectives, we carried out many acquisitions and established new companies. Having participated in the Expo 2015 in Milan, which catapulted the group to the global stage, we host delegations from every continent at our sites, and in 2016 we will take part in 18 trade fairs around the world. Our products are already sold in 56 countries.

This is all thanks to the shareholders' trust for which I am personally grateful, and to everyone's dedication to the group, and I emphasise everyone: managers, workers and consultants. Granarolo is a workplace where we work hard, but we work well, a place where people want to work and a company where work improves quality and increases numbers.

Finally, with the approval of these financial statements, the term of office of the Board of Directors expires and the shareholders are called to appoint a new board. We have worked well with this board and we would like to extend heartfelt thanks to each of the directors for having supported the many projects that were carried out over these three years with informal discussion, involving us in their work.

Bologna, 14 March 2016

Gianpiero Calzolari

Chairman of the board of directors

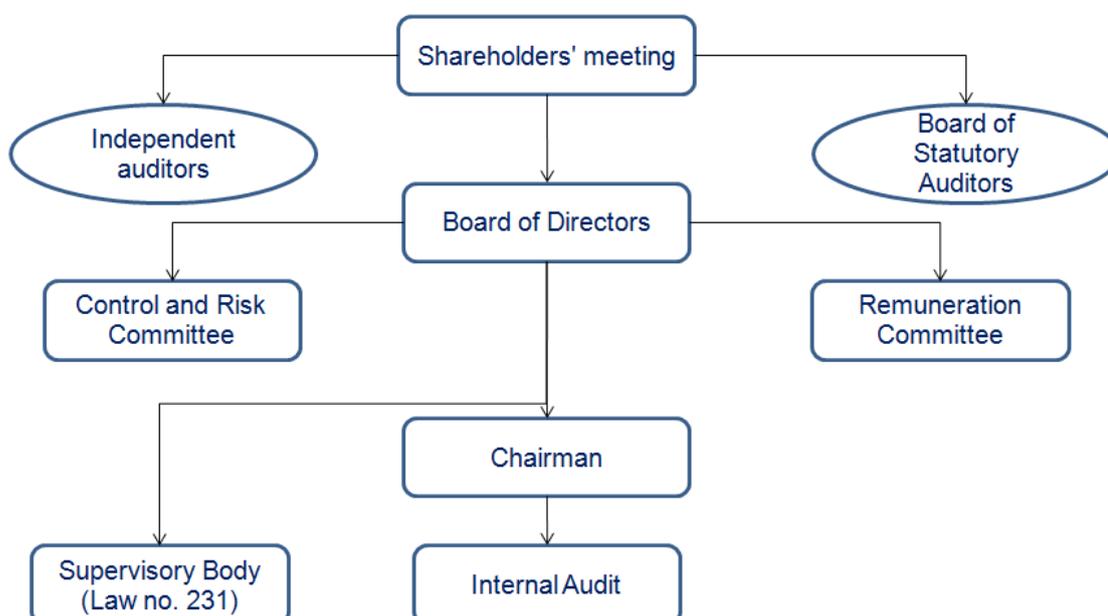
## CORPORATE GOVERNANCE

### Corporate governance structure and organisation

Granarolo S.p.A. has a corporate governance structure that is based on the recommendations and rules established in the code of conduct for listed companies, which the company upholds although it is not publicly listed, in order to ensure the utmost corporate governance transparency and efficiency.

Granarolo S.p.A. adopts the “traditional method” of administration and control, as it has the following main management bodies: board of directors, board of statutory auditors and the shareholders’ meetings.

The company has appointed the independent auditors KPMG S.p.A. to perform the legally-required audit.



#### *Board of directors*

On 4 April 2013, the shareholders renewed the company’s board of directors for a three-year term, i.e., until the shareholders’ meeting called to approve the financial statements as at and for the year ending 31 December 2015.

The board of directors consists of 11 members, including three executive members and 8 non-executive members.

<b>Board of Directors</b>		
Gianpiero	Calzolari	Chairman
Danio	Federici	Alternate Deputy Chairman
Camillo	Nola	Deputy Chairman
Adonis	Bettoni	Director
Giuseppe	Dotti	Director
Michele	Di Marziantonio	Director
Giovanni	Giambi	Director
Giovanni	La Croce	Director
Amedeo Giovanni Maria	Nodari	Director
Filippo	Pisani	Director
Vittorio	Vignoli	Director

Pursuant to the by-laws, the board of directors has the widest powers of ordinary and extraordinary management of the company. The board meets at least once each quarter. In 2015, it met eight times.

To effectively and efficiently manage the company, the board has given the Chairman ordinary management powers without expenditure limits to be exercised in the scope of the annual budget approved by the board of directors and in the implementation of such budget, but the board reserves the right to approve the budget each year and indicate, when the annual budget is being approved, which ordinary and extraordinary transactions included in the budget must be submitted to the board for examination and specific approval before the decisions implementing such transactions during the year may be made.

### *Committees*

The board has set up two committees with advisory and proposal duties, acting on a preliminary basis – by preparing proposals, recommendations and opinions – to enable the board to make more knowledgeable decisions.

#### *Control and risk committee*

This committee is composed of three non-executive directors, the majority of whom are independent: Giovanni La Croce, as Chairman, with adequate accounting and financial experience, Vittorio Vignoli and Adonis Bettoni.

The internal control committee was set up to support, by carrying out preliminary, advisory and proposal activities, the evaluations and decisions of the board of directors concerning the internal control and risk management system and periodic financial reports. The committee also supervises internal audit activities, and the committee may ask the Internal Audit Department to audit specific operational areas.

#### *Remuneration committee*

This committee is composed of three non-executive directors, the majority of whom are independent: Giovanni La

Croce, as Chairman, with adequate financial experience, Vittorio Vignoli and Adonis Bettoni.

The remuneration committee is responsible for submitting proposals to the board of directors for the remuneration of directors and key managers, as indicated in the code of conduct.

### *Board of statutory auditors*

On 10 April 2015, the shareholders renewed the term of the board of statutory auditors, appointing three standing statutory auditors and two alternate statutory auditors, with a three-year term of office, i.e., until the shareholders' meeting called to approve the financial statements as at and for the year ending 31 December 2017.

<b>Board of Statutory Auditors</b>		
Roberto	Chiusoli	Chairman
Chiara	Ragazzi	Standing Statutory Auditor
Franco	Colombo	Standing Statutory Auditor
Elio	Di Odoardo	Alternate Statutory Auditor
Romano	Conti	Alternate Statutory Auditor

The board of statutory auditors monitors compliance with the law, the by-laws and the principles of proper administration and, in particular, the adequacy of the company's organisational, administrative and accounting system and that it functions properly.

All statutory auditors are chartered accountants registered with the specific roll.

### *Supervisory body pursuant to Legislative decree no. 231*

On 23 April 2013, the board of directors renewed the term of the company's supervisory body for another three-year term from 2013 to 2015, i.e., until the shareholders' meeting called to approve the financial statements as at and for the year ended 31 December 2015, appointing:

- the lawyer Pierluigi Morara, as an external member, serving as Chairman;
- Vittorio Zambrini, Director for quality, innovation, safety and the environment;
- Francesca De Santis, Manager of Governance, Risk and Compliance.

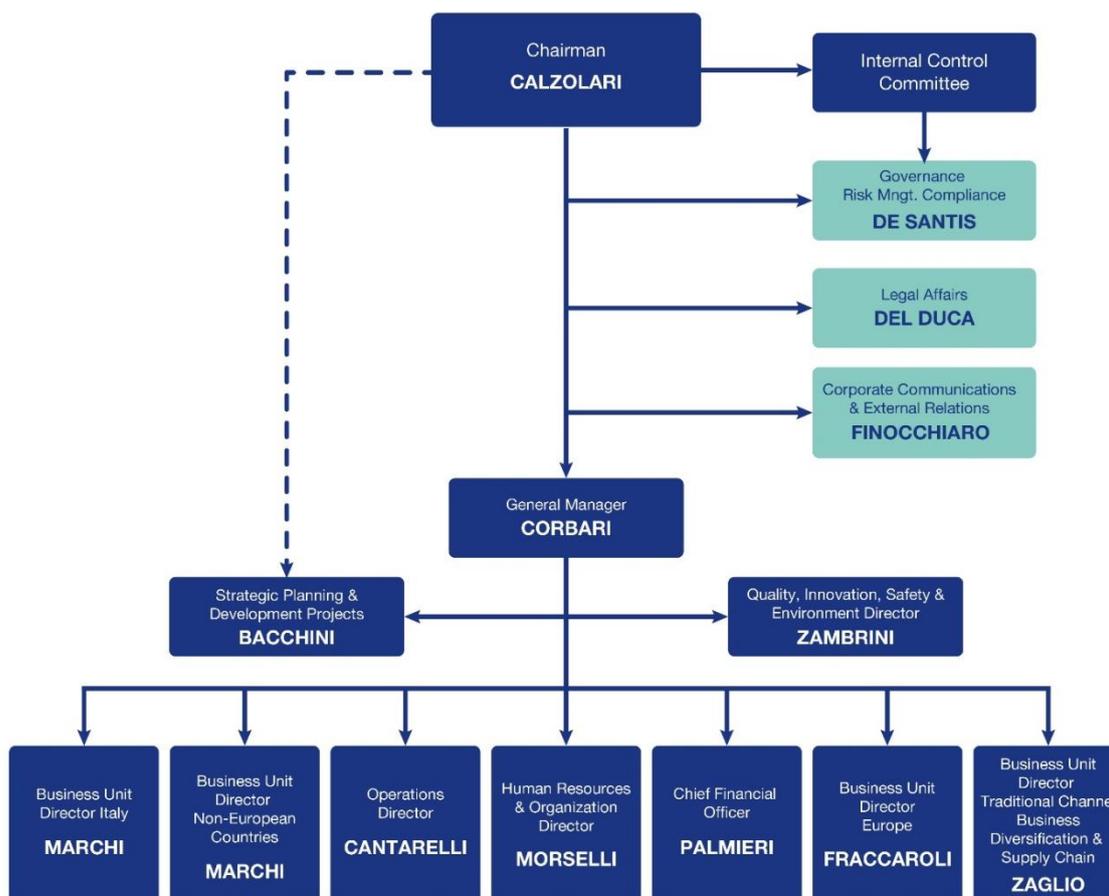
After Vittorio Zambrini resigned, on 10 March 2015, the board of directors appointed Giuseppe Carnesecchi, an independent party, to replace him as member of the Supervisory body, for a term of one year, corresponding with the term of office of the current board of directors whose term expires at the date of the shareholders' meeting approving the financial statements as at and for the year ended 31 December 2015.

In 2015, the Supervisory body's activities involved the checks provided for by the audit plan that the board of directors

approved on 24 February 2015 and examining flows of information that the relevant company functions periodically sent to the Supervisory body.

## Organisational chart

Below is Granarolo Group's organisational chart at 31 December 2015:



## Internal control and risk management system

The Granarolo Group is aware that adopting an efficient corporate governance structure helps make the business more competitive and its development more sustainable.

Indeed, the corporate governance principles, by structuring roles and responsibilities and developing an adequate control system, ensure that knowledgeable management decisions are made and that business risk management and monitoring are effective: in this way, the Group can limit risk management costs, thereby generating more profit and value for all stakeholders.

The correct functioning and sound business performance of Granarolo is ensured through an internal control system

that is both organised and managed independently by the operational departments and centrally by the Group. In particular, the control system consists of three levels:

- *first level controls*: these are the controls of the operational processes to ensure transactions are performed correctly. They require specific expertise in risks and relevant legislation and are assigned to the operational functions or are part of the company's daily operational procedures;
- *second level controls*: these controls are assigned to departments that do not carry out operations (Safety and the environment; Quality assurance and food safety; Management control; etc.) to monitor and manage typical business risks (e.g., operational, financial, market and compliance risks, etc.);
- *third level controls*: these controls are performed by the Internal Audit Department which is independent of the operational divisions, and conducts general checks of the structure and functioning of internal controls.

The Internal Audit Department reports to the Chairman of the board of directors and functionally to the control and risk committee, which checks that this department is autonomous, effective and efficient. The committee may ask the Internal Audit Department to perform checks on specific operational areas.

Internal audit activities are conducted in accordance with international standards for internal auditing.

In 2015, the Internal Audit Department performed the checks established in the audit plan, which had been prepared taking a methodological approach based on the annual findings and integrating material business control objectives for each scope of analysis (operational and financial), as the compliance targets pursuant to Legislative decree no. 231/2001 were subject to checks by the Supervisory body set up in accordance with the same Legislative decree. The audit findings were discussed with management and an action plan was defined to eliminate them.

The Internal Audit Department routinely monitors and controls the correct and timely implementation of the action plan through follow-up work. It periodically reports the outcome of its activities and the progress of action plans to senior management, the Internal Control and Risk Committee and the board of statutory auditors.

## **The organisational management model**

After Legislative decree no. 231/2001 took effect, the parent adopted the "Organisational, management and control model" (the "231 model") to prevent the crimes covered by such legislation, and it implemented a code of ethics that establishes guidelines for everyone acting in its name and on its behalf in the management of relationships with the Group's main stakeholders.

The creation of integrated corporate bodies, in accordance with the code of conduct and the code of ethics, makes it

possible to best meet the expectations of all stakeholders, foremost employees, consumers, customers and the community in which Granarolo operates.

The board of directors approved the Model on 29 March 2005 and it was revised and updated for compliance with legislation in place with subsequent resolutions.

Granarolo also implements and manages all the necessary activities to mitigate main business risks.

## THE GRANAROLO GROUP

The ultimate parent Granlatte Soc. Coop. Agricola heads the Granarolo Group and together they constitute Italy's largest milk chain directly owned by the associated farm producers as a cooperative.

Granlatte and the associated cooperatives supply Granarolo S.p.A. first with the milk produced by around 1,000 associated members.

Granlatte works to encourage and develop the collaboration of milk-producing agricultural and livestock businesses operational in Italy and to improve the quality of their milk through organisational structures that can efficiently and effectively manage activities.

### *Granarolo S.p.A.*

This is the industrial and commercial parent. Granarolo S.p.A. operates through sites in Bologna for fresh milk and soft and hard cheese products; Soliera (Modena) for UHT milk and vegan products, Pasturago di Vernate (Milan) for fresh milk, UHT milk, yoghurt and desserts; Anzio (Rome) for fresh milk; Gioia del Colle (Bari) for fresh and UHT milk; and Usmate Velate (Monza Brianza) for soft cheese.

The Company also sells the products made at the sites of its subsidiaries in Italy and abroad.

Granarolo S.p.A. manages and coordinates the commercial, management and financial policies of its subsidiaries. The legislative and economic conditions of this arrangement are specified in an intragroup regulation that is approved each year by the decision-making bodies of each group company.

The ultimate parent, Granlatte Soc. Coop. Agricola, does not act as manager and coordinator, because its role is merely to provide guidance and services mainly to its associates.

### *Zeroquattro S.r.l.*

Until 31 December 2014, Zeroquattro S.r.l. handled integrated logistics services and was specialised in the management of products at controlled temperatures of 0°C - 4°C, handling, transporting, distributing and selling products at controlled temperatures, in addition to loaning food sales support services.

On 1 January 2015, the logistics division was demerged from the distribution and commercial division. This partial and proportional demerger to Zeroquattro Logistica S.r.l. entailed the transfer of all primary and secondary transport activities to it, as well as management of product handling and warehousing at hubs and transit points.

Accordingly, since 2015, this company has operated exclusively in food distribution, specialising in the cold food chain,

selling and delivering products at controlled temperatures.

As general agent for Granarolo S.p.A. in Italy, Zeroquattro S.r.l. also performs door-to-door sales and related activities, such as taking orders and payment collection from customers.

This company is 100% owned by Granarolo S.p.A..

### *Zeroquattro Logistica S.r.l.*

Zeroquattro Logistica S.r.l. was set up on 31 July 2014 and is based in Bologna. It was the beneficiary in the partial proportional demerger of Zeroquattro S.r.l.'s logistics business on 1 January 2015.

Consequently, this company manages integrated logistics services and is specialised in handling and transporting products at controlled temperatures between 0°C and 4°C.

This company is 60.00% owned by Granarolo S.p.A..

### *Calabrialatte S.p.A.*

Calabrialatte conducts commercial and production activities on Calabria's regional market.

The company leases the industrial business unit of Agroalimentare Assolac, a farming cooperative and owner of 50% of Calabrialatte S.p.A.. The business unit is based at the production site in Castrovillari (Cosenza) for fresh milk and soft and hard cheeses.

Granarolo S.p.A. owns 50% of the company, with shareholders' agreements that, pursuant to article 2359 of the Italian Civil Code and IFRS 10, entail Calabrialatte S.p.A.'s recognition as a subsidiary.

### *Casearia Podda S.r.l.*

Based in Sestu (Cagliari), Casearia Podda S.r.l. produces and distributes food and dairy products in Sardinia, and specialises in the production of Pecorino Sardo DOP and Pecorino Romano DOP.

This company is 65% owned by Granarolo S.p.A..

### *Centrale del Gusto S.r.l.*

Based in Bologna, Centrale del Gusto S.r.l.'s core business is the preparation and serving of food and beverages and the take-away sale of breakfast, lunch, ice cream, confectionery and chocolate products.

This company is 90% owned by Granarolo S.p.A..

### *Amalattea Italia S.r.l.*

Amalattea Italia S.r.l. manages the commercial and production business unit that it leases from Amalattea S.p.A..

Based in Rome, this company processes, produces and sells goat's milk and derivatives with an operational site in Villagrande Strisaili (OG).

Granarolo S.p.A. owns 50% of the company, with quotaholders' agreements that, pursuant to article 2359 of the Italian Civil Code and IFRS 10, entail Amalattea Italia S.r.l.'s recognition as a subsidiary.

### *Pinzani 1969 S.r.l.*

With registered office in Bologna, Pinzani 1969 manages the commercial and production business unit that it leases from Caseificio G. Pinzani S.r.l., operating in the processing, production and sale of sheep's milk products, specialised in the production of raw milk pecorino cheese.

This company is 100% owned by Granarolo S.p.A..

### *Gennari Italia S.r.l.*

With its registered office in Bologna, Gennari Italia S.r.l. manages the commercial and production business unit that it leases from Gennari Vittorio S.p.A.. This business unit consists of cutting Parmigiano Reggiano and Grana Padano and dividing the cheese into portions at the Parma site and processing and ageing Prosciutto di Parma DOP at the prosciutto facility in Lesignano De' Bagni (PR).

This company is 100% owned by Granarolo S.p.A..

### *Granarolo International S.r.l.*

Based in Bologna, Granarolo International S.r.l.'s main activity is acquiring investments in companies in Italy and abroad. Particularly, it acts as a vehicle for the Granarolo Group's activities on foreign markets.

This company is 75% owned by Granarolo S.p.A..

### *Granarolo Iberica S.L.*

Based in Barcelona (Spain), Granarolo Iberica S.L. distributes dairy products in Spain and Portugal.

This company is 100% owned by Granarolo International S.r.l..

### *Granarolo UK LTD.*

Based in Chelmsford, Essex (UK), Granarolo UK LTD. distributes dairy products in the UK and Ireland.

This company is 51% owned by Granarolo International S.r.l..

### *S.A.S. Granarolo France*

S.A.S. Granarolo France, based in Metz (France) is the holding company that heads the CIPF Codipal Group. Following the merger of the wholly-owned subsidiary S.A.S. Les Fromagers de Sainte Colombe, with effect for accounting and tax purposes on 1 January 2015, S.A.S. Granarolo France now produces Savoia's traditional cheeses at the Saint Genix sur Guiers (Chambery) site. Also on 1 January 2015, the wholly-owned subsidiaries S.C.I. Charmi, a real estate company, and S.A.S. Compagnie Fromagère, a dormant company, merged into S.A.S. Granarolo France.

This company is 100% owned by Granarolo International S.r.l..

### *S.A.S. CIPF Codipal*

Based in Metz (France), S.A.S. CIPF Codipal sells dairy products in France and is specialised in high-quality Italian products sold under the Casa Azzurra brand.

The company is 100% owned by S.A.S. Granarolo France.

### *S.A.S. Les Fromagers de Saint Omer*

Based in Campagne-lès Wardrecques (France), S.A.S. Les Fromagers de Saint Omer specialises in the processing of hard cheese products.

The company is 100% owned by S.A.S. Granarolo France.

### *Parma Frais S.A.R.L.*

Based in Luxembourg (Luxembourg), Parma Frais S.A.R.L. is mainly active in the trading of goods.

The company is 100% owned by S.A.S. Granarolo France.

### *Granarolo Chile S.p.A.*

The core business of Granarolo Chile S.p.A., based in Las Condes (Chile), is the production and sale of dairy products in Chile and South America.

It began operating in January 2015.

In November 2015, as part of a production development transaction, the company acquired plant and machinery from Bioleche S.p.A. in order to produce cheese at the site at 7900 Avenida Las Industrias, Los Ángeles, Chile, hiring 105 employees and acquiring the rights to the Bioleche brand, under which Granarolo Chile's dairy products are sold in Chile.

This company is 100% owned by Granarolo International S.r.l..

### *European Foods Ltd.*

On 31 December 2015, European Foods Ltd, a subsidiary of Granarolo International S.r.l. (51.00%), entered the consolidation scope.

The company is based in Auckland (New Zealand) and its core business is importing and selling European food products sold under the Ghiotti brand.

The main product categories are Italian cold cuts and dairy products.

### *Yema Distribuidora de Alimentos Ltda.*

Yema Distribuidora de Alimentos Ltda joined the consolidation scope on 31 December 2015 and produces and sells dairy products in Brazil.

The company operates with two sites:

1. its structure in Guareí (São Paulo), which produces mozzarella from cow and buffalo milk, soft and aged ricotta, butter and creamy cheeses;
2. the site in Andrelandia, where it produces special cheeses like Gorgonzola, Brie, Provolone, Gruyère, Gouda, Emmental and Parmesan, as well as typical Brazilian cheeses like Requeijão and Padrão Minas and pulled cheeses;

This company is 60.00% owned by Granarolo International S.r.l..

*Other investments in companies not included in the consolidation scope.*

Granarolo S.p.A. owns 100% of Sitia-Yomo S.r.l. in liquidation and court-approved creditors' settlement, which in turn owns 100% of Caseificio Fratelli Merlo S.r.l. in liquidation and court-approved creditors' settlement and 100% of Caseificio Pasquale Pettinicchio S.r.l. in liquidation and court-approved creditors' settlement.

The court-approved creditors' settlement is expected to be complete by the end of 2016.

## DISTRIBUTION ANALYSIS

### Development of distribution in Italy

In 2015, modern trade (hypermarkets, supermarkets, self-service shops and discount stores) registered another loss in turnover, which fell to €91.4 billion (-0.7% on 2014) and a concurrent downsizing in the number of stores, now at 27,310 (-656 on 2014). Fast moving consumer goods maintained their turnover (€58.0 billion in 2015 compared to €57.5 billion in 2014), while fresh products sold by weight (2015 turnover of €25.7 billion, down by 2.7% on 2014) and non-food products (2015 turnover of €7.7 billion, down by 4.9% on 2014) decreased significantly.

Supermarkets constitute the main distribution channel, with a share of 41.8%, slightly up (+0.1% on 2014). Hypermarkets are steady at 31.9% (-0.1% on 2014). Self-service shops have lost some share, now at 10.9% (-0.4% on 2014), while discount stores continue to grow, now accounting for 15.5% (+0.6% on 2014).

As for groups, Coop Italia is market leader, followed by Conad in second place and Selex third. The top ten Italian retailers include two chains operating exclusively in the discount sector (Eurospin and Lidl).

<b>Purchase group</b>	<b>Market share</b>	<b>No. of POS</b>
Coop Italia	13.6%	1,578
Conad	11.4%	2,893
Selex Commerciale	9.3%	2,105
Esselunga	8.7%	151
Gruppo Auchan	6.8%	1,765
Gruppo Carrefour Italia	5.8%	1,087
Eurospin	3.4%	980
Lidl Italia	3.4%	583
Sigma	3.4%	1,917
Gruppo Pam	3.3%	862

Source: GNLC Nielsen data - July 2015

## PERFORMANCE OF THE GROUP'S MARKETS AND SALES

For a better understanding of the data in this section, we would like to specify that research institutes are only able to monitor sales reported by modern trade. All information on the size and performance of markets refers to hypermarkets, supermarkets and grocery stores. Accordingly, sales via other channels (normal trade and the hotel, restaurant and catering segment and discount stores) are not monitored.

In reading market performance data, it should be noted that changes could arise as a result of a shift in consumption from one channel to another, and not due to an actual change in consumption.

### ITALIAN MARKET

#### Fresh milk

##### *Market performance*

In 2015, the fresh milk market registered volumes of 448,708 tonnes, showing an 8.9% decrease on 2014. In terms of value, it generated €635.0 million, a loss of 9.6% on the previous year.

The top segment in terms of market volume is low-fat milk, with 149,820 tonnes (-9.8% on the previous year), worth €213.4 million (-10.6% on the previous year), while the high quality milk segment shows a sharp decrease, with 138,738 tonnes (-10.1% on the previous year), generating €202.4 million (-11.1% on the previous year).

Long-life milk, the third largest market segment, accounts for 80,844 tonnes and €103.7 million, down in terms of volumes (-7.3% on the previous year) and value (-8.2% on the previous year).

The organic segment, with 20,692 tonnes and €33.9 million, shows growth in volumes (+4.2% on the previous year) and value (+3.1 on the previous year).

Source: AC Nielsen Scan\*Track hyper+super+self-service – Figures to December 2015

*The fresh milk segment does not include enriched products.*

##### *Competitive scenario*

The Granarolo Group remains market leader with 24.5% of the market value (-0.1% on the previous year). The Parmalat Group holds 20.7% of the market value (in line with the previous year) and private labels have reached 18.7% (+0.1% on the previous year).

## *Competition in the segments*

In addition to its overall leadership, the Granarolo Group is market leader in the following segments: high quality milk (29.3% of market volumes), low-fat milk (19.2%), skim milk (53.7%) and long-life milk (24.8%). In the organic milk segment, the Granarolo Group is the top industrial brand with 33.5% of market volumes.

## **UHT Milk**

### *Market performance*

The UHT milk market generated volumes of 992,885 tonnes in 2015, showing a 4.4% decrease on 2014, with a 5.6% drop in terms of value on the previous year, down to €983.9 million.

The top market segment remains low-fat milk, with 664,097 tonnes and a value of €566.9 million, showing drops of 6.7% in volume and 9.2% in value on the previous year.

The lactose-free milk segment continued to expand in 2015 and is the second largest segment in terms of volume, with 148,276 tonnes (+14.6% on the previous year), and €213.2 million in value (+10.9% on the previous year).

The third largest segment in terms of volume is whole milk: 114,136 tonnes (-6.9% on the previous year), worth €123.1 million (-8.1% on the previous year).

The Granarolo Group remains the second largest player in this segment, holding 19.4% of the market volumes, up by 1.0% on the previous year. The Parmalat Group is still market leader with 30.1% of the market volumes, up by 1.4% on the previous year.

Private labels show a decrease on 2014, accounting for 19.5% of volume, down by 2.7% on the previous year.

Source: AC Nielsen Scan\*Track hyper+super+self-service – Figures to December 2015

### *Competitive scenario*

The Granarolo Group remains the second largest player in this segment with a market share of 19.4% in terms of volumes, up +1.0% on the previous year. The Parmalat Group is still market leader with 30.1% of the market's value (+1.4% on the previous year.).

Private labels show a decrease on 2014 and now account for 19.5% of volumes, down by 2.7% on the previous year.

## Yoghurt

### *Market performance*

In 2015, the yoghurt market generated volumes of 349,550 tonnes, showing year-on-year growth (+2.4%). In terms of value, the market generated €1,401 million, up by 2.4% on 2014.

Whole-milk yoghurt remains the top-performing market segment (volumes: 137,809 tonnes; value: €436 million), but is down in terms of volumes (-2.6% on the previous year) and value (-4.5% on the previous year).

The low-fat yoghurt segment, the market's second largest segment in terms of value, generated 59,750 tonnes and €188 million in the year, down both in volumes (-3.4% on the previous year) and value (-5.8% on the previous year).

Probiotic yoghurt is the third largest segment, with 44,546 tonnes and €193 million, recovering in volumes (+2.5% on the previous year), but down in value (-1.7% on the previous year).

Probiotic drinks also present a positive trend in terms of volumes (+1.8% on the previous year, with 33,157 tonnes), but are down in value (-1.3% on the previous year, with €152 million).

The yoghurt with mix-ins segment saw growth in volumes (+4.8% on the previous year, with 18,005 tonnes), and value (+2.1% on the previous year, with €89 million).

Furthermore, the children's yoghurt segment posted a positive trend in volumes, with 9,420 tonnes (+2.1% on the previous year), and slight growth in value (+0.1% on the previous year), generating €61 million.

The Greek yoghurt segment continues to enjoy strong growth, posting 18,619 tonnes in 2015 (+55.9% on the previous year) and €140 million (+55.1% on the previous year).

*Sources: IRI Infoscan for hypermarkets, supermarkets and self-service shops – YTD at December 2015*

### *Competitive scenario*

The Granarolo Group is the third largest brand on its market and produced 10.1% of the market's volume in 2015 (+0.1% on the previous year).

Danone remains market leader, although its market share has fallen: in 2015, its volumes came to 21.3%, down by 0.9% on the previous year

Muller, the second largest player, with 13.7% of market volume, lost 0.4% on the previous year.

Private labels have also lost 0.8% of their market share on the previous year, with volumes of 15.3%.

In 2015, the Granarolo Group was the whole milk segment leader in terms of both value and volumes, with shares of 23% and 19%, respectively.

It performed extremely well in the children's yoghurt segment, thanks to the Yomino brand and the range of baby food yoghurt (made with fresh, high quality milk): Granarolo ranked third for volume and second for value, with 19.7% of market volume (+0.4% on the previous year) and 21.2% of market value (+0.4% on the previous year).

With the launch of its specialty Greek yoghurt "selezionato per te da Yomo", the Granarolo Group reached a share of 6.9% of market volumes (+3.6% on the previous year) in the Greek yoghurt segment.

## Soft cheese and butter

### Market performance

The performance of the five main products in this segment is described below:

- Mozzarella: up in terms of volumes, 106,999 tonnes (+2.7% on the previous year), and in value, €824.9 million (+1.4% on the previous year).
- Crescenza: volumes are steady at 25,097 tonnes (-0.2% on the previous year), while value is down to €239 million (-1.6% on the previous year).
- Ricotta: down in terms of both volumes, 20,629 tonnes (-2.6% on the previous year), and value, €98.3 million (-2.0% on the previous year).
- Mascarpone: down in terms of volumes, 10,086 tonnes (-0.4% on the previous year), and value, €72.9 million (-2.1% on the previous year).
- Butter: down in terms of both volumes, 39,288 tonnes (-2.5% on the previous year), and value, €299.1 million (-6.2% on the previous year).

Sources: IRI Infoscan for hypermarkets, supermarkets and self-service shops – Figures to December 2015

### Competitive scenario

The Granarolo Group is the second largest brand on the self-serve soft cheese market (Mozzarella, Crescenza, Mascarpone and Ricotta) with a market share of 10.4% in terms of volume, in line with the previous year.

The Lactalis Group is still the leader on the self-serve soft cheese market with 35.8% of market volumes.

Private labels on the self-serve soft cheese market now account for 25.5% of volumes.

The Granarolo Group remains the second largest player in the following segments:

- Mozzarella: with 8.8% of the market value;
- Ricotta: with 14.7% of the market value;
- Mascarpone: with 13.1% of the market value.

Furthermore, Granarolo is the third largest Crescenza brand (14.1% of market value) and shows growth (+0.2% on the previous year). The market leader, Galbani (Lactalis Group) holds the following shares of value on the various markets: Mozzarella 33.7%, Crescenza 32.7%, Ricotta 47.5%, Mascarpone 38.8% and butter 5.6%.

## Eggs

### *Market performance*

In 2015, the market for packaged eggs sold in supermarket chains showed a 0.7% decrease in terms of volume, with sales of 144,844 tonnes, and a 1.6% drop in value, with turnover of €556.1 million.

*Sources: IRI Infoscan for hypermarkets, supermarkets and self-service shops – Figures to December 2015*

### *Competitive scenario*

The Granarolo Group, which has a price ratio of 131.5 compared to the average market price, holds 2.1% of the market value (-0.2% on the previous year).

The AiA-Veronesi Group, which had a price ratio of 77, has reached a market share of 9.1% in terms of value (+0.1 % on the previous year) while the Eurovo Group, with a price ratio of 91, holds 10.4% of the market value (+0.2% on the previous year).

Private labels, with a price ratio of 104, account for 45.8% of market value (+0.6% on the previous year).

## Vegan products

### *Market performance*

In January 2015, Granarolo stepped onto the vegan market with a range of 100% vegan products comprising a line of drinks, vegan yoghurt, vegan condiments and ice cream.

All vegan market segments are undergoing rapid expansion. The most significant in size and growth are vegan beverages, which generated €160.0 million in 2015 (+27.6% on the previous year) and 72,188 tonnes (+29.9% on the previous year), and “vegan yoghurt alternatives”, with €45.4 million in value (+24.6% on the previous year) and 7,751 tonnes (+27.8% on the previous year).

*Sources: IRI Infoscan for hypermarkets, supermarkets and self-service shops – Figures to December 2015*

### *Competitive scenario*

In December 2015, Granarolo had reached 9.7% of market volume and 10.4% of market value in the soy drink segment, making it the third-largest player in terms of both volumes and value.

In the rice drink segment, Granarolo ranks second, with 7.7% of market volume and 8.3% of market value.

It also enjoyed positive results in the vegan yoghurt alternative segment, with a share of 14.2% of volume and 14.9% of value in December 2015, making it the third largest brand in this segment and confirming the competitive position it had gained in April.

## THE FRENCH MARKET

### Italian cheese

The Italian cheese market in France is divided into two segments:

- aged cheese: Parmigiano Reggiano, Grana Padano, Pecorino Sardo, Pecorino Romano and hard cheeses produced using processes similar to that for Grana;
- fresh cheese: Mozzarella, Mascarpone and Ricotta.

### *Market performance*

#### Aged cheese

With slight growth in volumes to 6,080 tonnes (+0.3% on the previous year), aged cheeses show a decrease in value to €117.6 million (-1.4% on the previous year). DOP cheeses account for 84% of the market value and the leading market segment is Parmigiano Reggiano (70% of market value).

*Source: Nielsen HM+SM – at December 2015*

#### Soft cheese

Market volumes have grown by 5.1% and its value by 4.8%, with Mozzarella pushing this growth as it accounts for over 60% of the market.

- Mozzarella: up in terms of volumes and turnover, respectively by 5.7%, equal to total of 21,600 tonnes, and 6.5%, equal to €182.6 million.
- Mascarpone: up by 2.7%, equal to a total of 5,700 tonnes, in terms of volumes, although sales are down by 5.6% in terms of value, coming in at €38.7 million.
- Ricotta: up by 1.2% in terms of volumes, equal to a total increase of 1,400 tonnes, but down by 2.9%, or a total of €7.9 million in value.

### *Competitive scenario*

#### Aged cheese

The Granarolo Group competes on this market with its “Casa Azzurra” brand, which confirmed its leadership on the self-serve aged cheese market in all segments (Parmigiano Reggiano, Grana Padano and Pecorino Romano DOP), with a market share of 16.0% in terms of volumes and 17.3% in terms of value, which both show growth (+1.2 and +1.0%, respectively) and overall growth in sales, with volumes up by 8.3% and value up by 4.8% for all packages. This

achievement was due to communications, innovation and the expansion in the presence of its range of products, which is now the most complete on the market.

Private labels selling self-serve aged cheeses (63.4% of market volumes) remained steady in 2015 in terms of volumes, but saw the value of sales decrease by 1.7%.

### Soft cheese

The Granarolo Group is the second largest brand on the self-serve soft cheese market, competing with a market share of 12.1% in terms of volumes (+0.2%) and 13.9% in terms of value (+0.1%).

The Lactalis Group remains brand leader on the self-serve soft cheese market (in which Granarolo competes) with a market share of 24.2% (volume) and 28% (value), showing a downwards trend.

Private Label self-serve soft cheese products have reached a market share of 55.7% in terms of volumes and 47.4% in terms of value, showing a growth trend.

### Competition in the segments

On the soft cheese market, the Granarolo Group uses the Casa Azzurra brand and is market leader in the following segments:

- Buffalo mozzarella: market share of 19.9% in terms of volumes (+0.3% on the previous year) and 19.6% in terms of value (+0.3% on the previous year.).
- Ricotta: market share of 23.1% in terms of volume (+2.3% on the previous year) and 24.1% in terms of value (+2.3% on the previous year.).

The Granarolo Group remains the second largest player in the following segments:

- Mozzarella: 10.8% of market volumes (+0.2% on the previous year) and 12.7% of market value (-0.1% on the previous year).
- Mascarpone: market share of 14.2% in terms of volumes (-0.2% on the previous year) and 16.3% in terms of value (-0.1% on the previous year.).

The market leader is Galbani (Lactalis Group) with the following market shares considering value: Mozzarella 28.4% (-1.7% on the previous year), Ricotta 20.7% (-2.8% on the previous year) and Mascarpone 27.9% (+0.5% on the previous year).

The changes described above are summarised in the following table, which highlights the dramatic progression of the Casa Azzurra brand on the French market:

	Market share 2015	Market share 2014	Market position 2015
Aged Italian cheese	17.3%	16.1%	1st
Italian mozzarella	12.7%	12.8%	2nd
<i>of which buffalo mozzarella</i>	19.6%	19.9%	1st
Mascarpone	16.3%	16.4%	2nd
Ricotta	24.1%	21.8%	1st

Competitive position excluding private labels

Source: Nielsen HM+SM - December 2015

In 2015, the Casa Azzurra brand expanded in the Mediterranean cheese segment with Feta cheese (market of 6,200 tonnes, up by 5.7%), accounting for 3.1% of the market value.

## THE RAW MATERIAL MARKET

### The global and European scenario

The global upwards trend in milk and milk derivative consumption was confirmed in 2015, with milk powder and butter consumption respectively up by 2.6% and 1.9%, in particular. Nevertheless, total imports of milk derivatives by major markets decreased, possibly due to the rise in the production of milk in countries that had previously been known to import, such as China.

Indeed, milk production in Asia grew by approximately 1.0%, accounting for 22% of global production. In turn, global production showed a 1.9% increase on 2014.

On the other hand, the rise in global demand in the past five years has pushed raw material prices up through the entire first half of 2014, only to begin a gradual, widespread fall in summer 2014.

Like the rest of the world, Europe has seen milk production on the rise, although in Europe's case, consumption has stayed substantially steady. High forecasts of demand from non-European markets, along with the new potential of producing milk without production limits, as the milk production limits were abolished in April 2015, led to a spike in milk production, but consumption on the domestic market did not absorb the surplus.

Once again, products like milk powder, butter and industrial cheese, known as commodities, seem to be at the forefront of European and global milk production development: European exports of these products were extremely positive (+4.6% on the previous year), despite the Russian government's limits on imports, which affected milk derivative markets and pushed their prices down.

*Source: FAS - USDA*

### Milk production: 2015 was an exceptional year

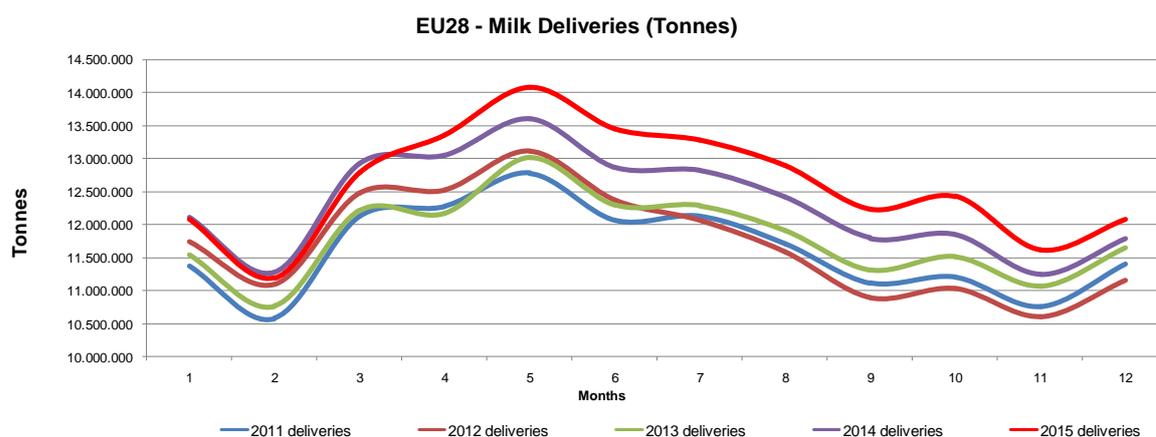
The abolition of limits to milk production with effect from 1 April 2015 gave European dairy farms the power to schedule their production freely, without outside constraints and solely on the basis of their business skills.

Already in 2014, in many countries in northern and central Europe, many farming businesses began investing in structures and land to prepare for the new free market system, despite commodity deflation. Production in 2015 was the highest of the past four years, showing a 2.5% increase on 2014, which was already a record year.

Production has long response times that are necessarily biological and, consequently different from the timing of changes in spot demand. It follows that production volumes normally adjust to changes in demand with a physiological delay.

In terms of global production, Southeast Asia, India (+5.8%) and China (+5.0%) are increasing production volumes and gradually reducing their dependence on milk imports.

Source: EU - Eurostat



**Global demand for milk and milk derivatives**

The increase in global dairy product consumption was confirmed in 2015 (+2.0% on the previous year).

While Europe still prefers the consumption of products with relatively short shelf lives, such as liquid milk, cheese, cream and yoghurt, in the rest of the world, consumption is growing for products like skim milk powder (“SMP”), whole milk powder (“WMP”), deproteinized whey concentrates (“DWC”) and whey protein concentrate (“WPC”).

The success of these products is especially due to their use, as they are destined for direct consumption and myriad food preparations, and to the fact that they are easy to store and transport. In areas like Southeast Asia and Africa, where the cold chain is not yet widespread, these products offer a good degree of food safety. This is why demand from these areas of the world often affects not only the prices of the raw material in producer countries, but also the quantities produced.

World consumption is on the rise, but commodity price competition is decisive in the allocation of milk production: milk powder prices play an increasingly key role in determining the level of production and price of milk in the various production areas.

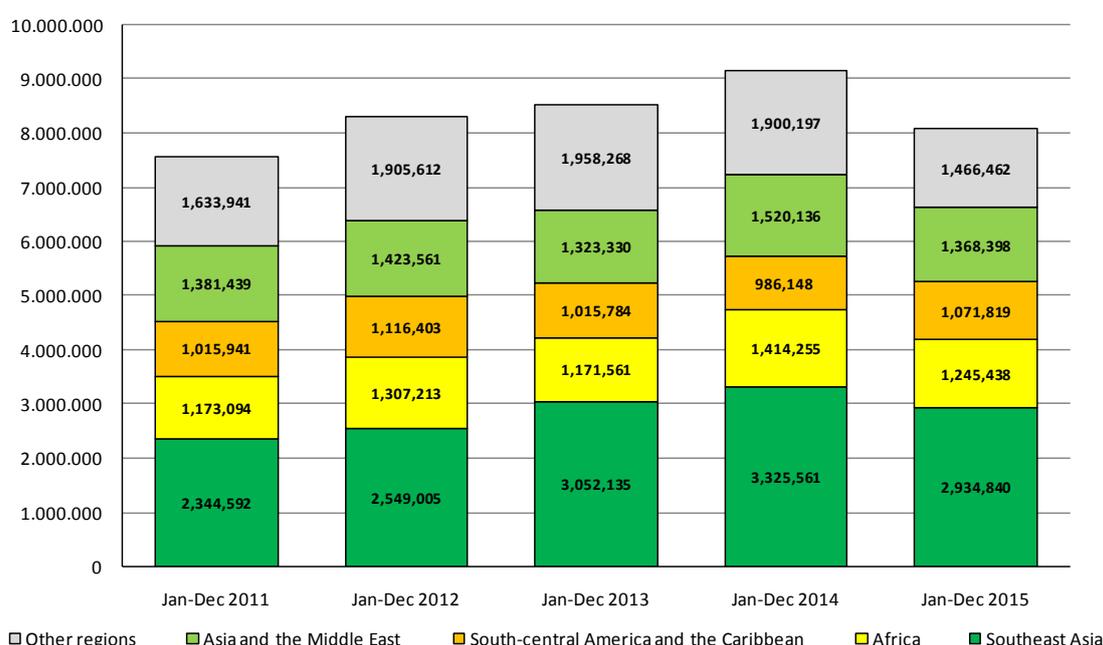
While the increase in milk production in Europe over the past three years is mostly due to the worldwide growth in

demand and the advantageous market prices of commodities, the 2015 increase in China and India is a sign of how price sensitivity is less decisive than in Europe. Indeed:

- 1) a high cost of commodities encourages the importer countries to self-produce;
- 2) even when powder prices are relatively low, countries where production costs are more competitive are favoured.

While price is the first lever in western nations, the demand/price mix is the most important factor for importer countries.

### World imports of WMP - SMP - Butter - Cheese\*



Source: GTIS

\*: 2015 data are estimated

### Milk powder – prices and production trends

When the value of commodities is high, the farm-gate raw milk price paid to dairy farms benefits, as does the price of liquid milk sold in producing countries.

On the contrary, when commodities for export are overpriced, the cost of the raw material in the producer country can inflate and encourage production in the importer countries.

In Europe, up to the first half of 2014, most of the increase in the cost of raw milk at the farm-gate and the consequent increase in milk production were precisely due to exports and the market price of commodities, which had constantly gone down. In the first few months of 2015, milk powder prices seemed to invert the 2014 trend, stabilising at around

€2.0/kg until the end of April 2015. In May, market prices began falling, pushed by declining demand and milk production in excess of such demand.

<b>Skim milk powder, ADPI-Exsta</b>			
<b>(Market prices- €/kg)</b>			
	<b>2015</b>	<b>2014</b>	<b>Change</b>
January	1.90	3.29	-42.2%
February	2.16	3.36	-35.7%
March	2.21	3.27	-32.4%
April	2.03	3.12	-34.9%
May	1.86	2.90	-35.9%
June	1.79	2.91	-38.5%
July	1.75	2.89	-39.4%
August	1.67	2.55	-34.5%
September	1.72	2.14	-19.6%
October	1.83	2.04	-10.3%
November	1.76	1.93	-8.8%
December	1.68	1.89	-11.1%
<b>Average</b>	<b>1.86</b>	<b>2.69</b>	<b>-30.8%</b>

This led to greater stocking, as it was hoped that this would mitigate the drop in prices. Indeed, in December, the EU intervention price (€1.70/kg, the same in 2014 and 2015) of milk powder was higher than the market price (€1.68/kg). In this year of record-breaking milk production, Europe sought refuge in the intervention price. Not only Europe, but the US increased stocks in 2015 as well.

Milk powder production contracted slightly for the first time in years. The drop was 0.6%, but total global production exceeded consumption by 24%.

Moreover, global powder production in the past five years has grown more rapidly than consumption, increasing by an annual average of 4.7% since 2010, while consumption has risen by 4.4%.

Thousands of tonnes	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 *</b>	<b>2015 vs 2014</b>	<b>2015 vs 2010 CAGR</b>
Powder production	7,377	8,062	8,426	8,480	9,351	9,295	-0.6%	4.7%
Powder consumption	6,058	6,533	6,872	7,068	7,310	7,503	2.6%	4.4%

Source: FAS - USDA

\* estimated data

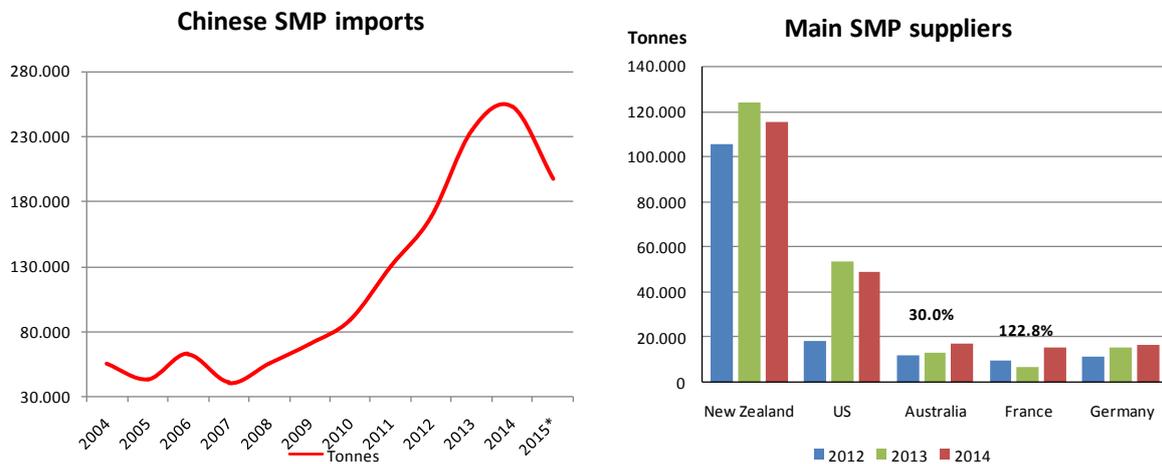
Production therefore promptly satisfies increased powder consumption, even if price trends do not reflect this availability.

It is clear that this product attracts market speculation, private stocking and sales using future contracts with investors betting on a falling or rallying market.

An analysis of powder price trends from 2010 to date shows how all competitors presented market prices far below €2/kg in 2015.

This market situation is explained by a slowdown in imports on Asian markets, particularly China. The first countries to

suffer this contraction on the Chinese market were New Zealand and Australia: New Zealand's powder exports to China fell by 7%, partly due to the reduction in Chinese imports and partly due to the return of price competition between the EU and the US.



Slower Chinese GDP growth in 2015 led to a widespread drop in imports of milk-based raw materials: after years of double-digit growth in imports, total volumes fell by 37% from January to November 2015<sup>1</sup>. In particular, whole milk powder imports decreased by 49%. Cheese imports provided the only positive signal, showing growth of 11.5% on the previous year.

The reduction in imports was due not only to the slowdown in growth described above, but also the increase in domestic production, although it is difficult to determine the actual impact of domestic production. The trend, however, is that assumed above: countries whose economies are growing tend to increase domestic production, where possible.

### *Butter*

In the four years from 2010 to 2014, global and European butter prices remained above €3.0 - €3.5/kg: as for powder in 2009, the European Union set an intervention price of €2.46/kg, in order to support the sector during such a difficult period, which had, since 2008, begun involving the entire milk chain as well.

However, as soon as the intervention price was re-established, as early as 2010, the market price had already been exceeded: from then to date, average prices have steadily remained higher<sup>2</sup>.

In 2015, the average market price of roughly €3.0/kg was 21% higher than the intervention price.

However, for all of 2015, the price of butter remained between €3.30 and €2.70/kg, and the consequence of this trend

<sup>1</sup>Source: GTIS and CLAL

<sup>2</sup>Source: ZMP Notierungskommissionen für butter und kase, Hannover

was the recovery of private butter stocks, even if the price never reached the intervention threshold.

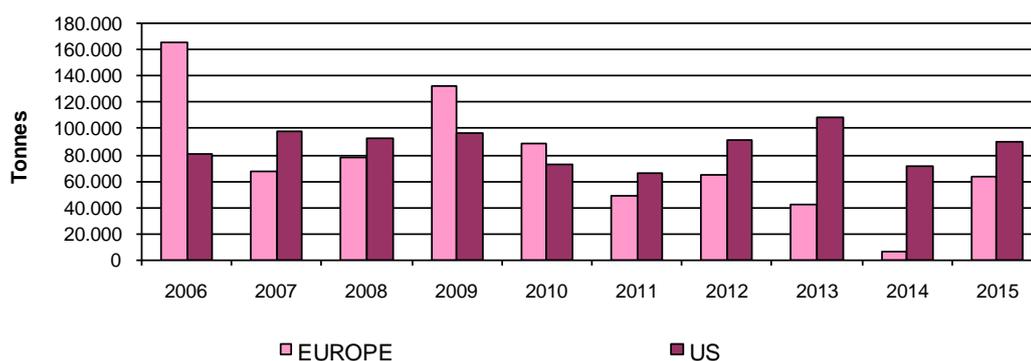
Average butter price - Hannover / Köln - €/kg			
Year	Market price	Intervention price	Delta %
2010	3.46	2.46	40.7%
2011	3.98	2.46	61.8%
2012	3.06	2.46	24.4%
2014	3.95	2.46	60.6%
2014	3.37	2.46	37.0%
2015	3.01	2.46	22.4%
2015 Dec.	2.92	2.46	18.7%

At the end of 2014, butter stocks in Europe had begun to grow.

In 2015, the average market price was lower than the previous year and production was constantly high, conditioning players in this sector and encouraging greater use of stocks.

Stocks kept the price at around €3/kg in 2015.

#### EU - US butter stocks



The return to stockpiling European butter and price levels in the past two years appear to be tied to the ratio between global butter production and consumption.

While the production to consumption ratio for powder leans heavily towards production, for butter, the difference over the past five years has been negligible.

In 2014, global butter demand grew by 2.3%, while production rose by 3.2%, exceeding consumption of 578 thousand tonnes, which is 6.58% above current requirements.

In 2015, global demand grew by 1.9%, while production rose by 2.2%, exceeding consumption of 620 thousand tonnes, which is 6.9% above current requirements. The difference between production and consumption remained fairly steady and would not justify the use of stocks, except to support and keep prices at the same levels.

Thousands of tonnes	2010	2011	2012	2013	2014	2015 *	2015 vs 2014	2015 vs 2010 CAGR
Butter production	7,999	8,486	8,837	9,069	9,355	9,561	2.2%	3.6%
Butter consumption	7,838	8,009	8,336	8,580	8,777	8,941	1.9%	2.7%

Source: FAS - USDA

\* estimated data, updated to 14 December 2015

Throughout all of 2015, the price of butter in Europe and Oceania was equivalent, while it peaked considerable in the US from March to August, then began falling.

Vegetable fats are often used in place of butter, especially in countries boasting widespread extensive farming (such as the US) and where butter is not produced primarily for export.

It follows that once butter has reached certain prices, it can be replaced with less expensive vegetable oils.

The year ended with butter stocks on the rise and average prices of less than €3.0/kg.

### *Edamer, Gouda and Cheddar cheese*

The global cheese consumption trend remained positive again in 2015. Year-end estimates indicate a 1.8% rise in consumption and growth of 1.7% in production.

Thousands of tonnes	2010	2011	2012	2013	2014	2015 *	2015 vs 2014	2015 vs 2010 CAGR
Cheese production	16,393	16,995	17,434	17,464	17,867	18,176	1.7%	2.1%
Cheese consumption	16,383	16,530	16,824	16,866	17,113	17,419	1.8%	1.2%

Source: FAS - USDA

\* estimated data, updated to 14 December 2015

Production exceeded consumption (+4.34%), and it is clear that most demand is met by current production.

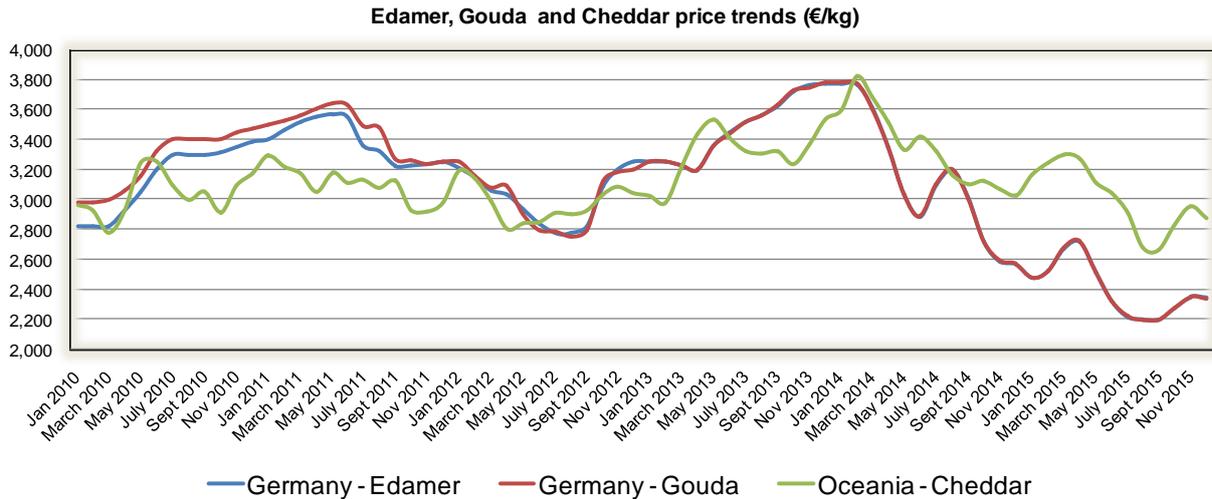
Production covered requirements, as demand rises steadily every year. The difference between product volumes and consumption is rather slight (757,000 tonnes).

Considering that there was no importing in Russia, it is possible to see that the market is highly sensitive to the smallest fluctuations in demand for cheese and raw material availability.

In the global cheese sector, excluding a few DOP products, stocks are not used on a structural basis, and the lack of this resource makes it more difficult to speculate in the medium term.

Current raw material availability and, accordingly, the availability of finished goods, impacts demand almost in real time.

It follows that prices rise or fall within the space of a few weeks. Greater product availability in 2015 encouraged a slow and gradual drop, down to prices of €2.20/kg for Gouda, €2.20/kg for Edamer and €2.70/kg for Cheddar in Oceania.



Source: USDA / ZMP

What happened in 2015 reflects how the cheese market and the cheese chain are very sensitive to demand for products and to the availability of raw materials in real time considering requirements.

The physiological timing of livestock production cannot be synchronised with market times.

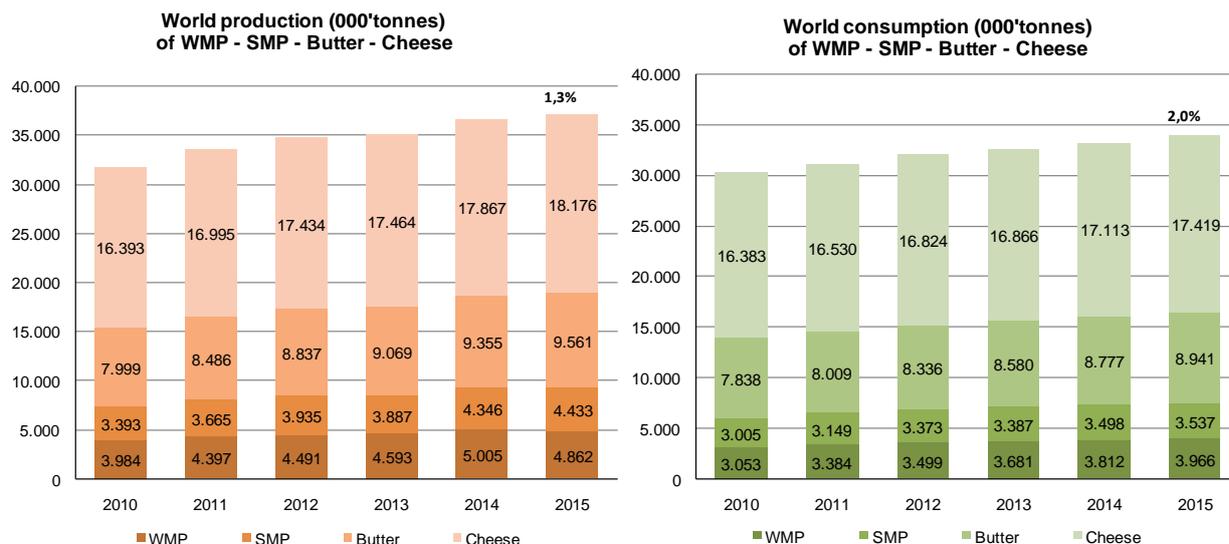
The growth in global milk production in the first few months of 2014 was due to the rise in demand for finished goods, which began in the second half of 2013 and the consequent increase in the price of milk.

From the end of 2014 and throughout 2015, the positive growth trend in global milk production continued, even when product prices that had contributed to this increase began falling. As it is tied to physiological and seasonal cycles, milk production cannot adjust in real time to fluctuations in demand.

It should be remembered that global consumption and use of dairy products is showing gradual and constant growth, which leads us to assume that milk production will follow this trend in the medium term.

We might also see a slow and gradual change in the geographical distribution of milk production areas.

Europe was already showing signs of this in 2015. Total production of milk-based products in 2015 came to 37 million tonnes in 2015, exceeding consumption by nearly 34 million tonnes, with a difference of 9.4%.

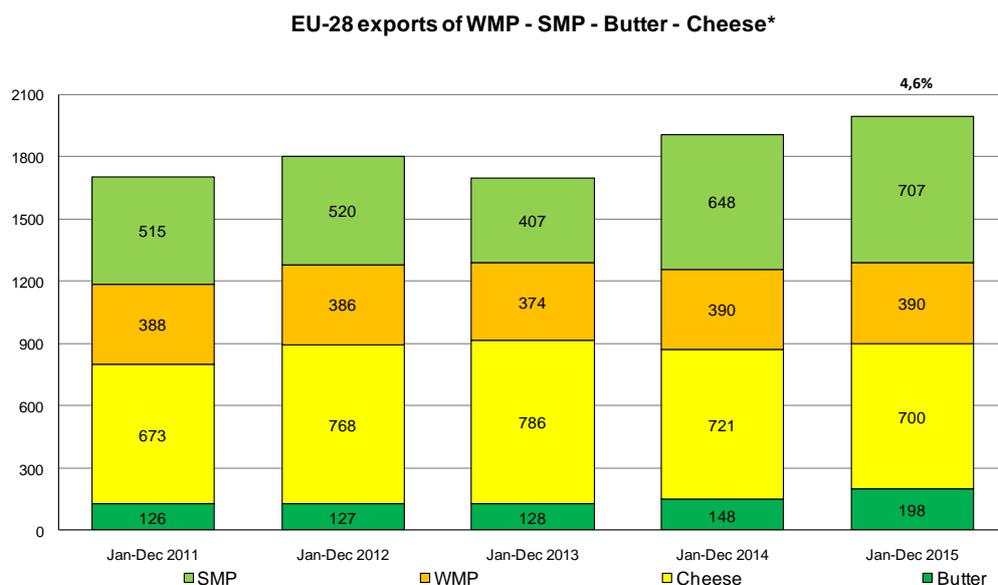


Source: Lodi chamber of commerce processing of FAS-USDA data

### European exports of WMP, SMP, butter and cheese

2015 was a positive year for European exports, with sales rising by 4.6% on the previous year despite the Russian embargo.

Considering the steady trend in Europe's consumption, exports are an even more strategic lever for the European dairy segment and, accordingly, export trends affect the price of milk and the volumes produced.



Last update: 17-12-2015

\* 2015 data is estimated

Source: GTIS

The volume effect of rising exports may have helped slightly contain the widespread drop in the price of the raw material in Europe, affected by the prices of all milk derivative products.

### *Farm-gate raw milk price in the EU*

For the 2013-14 two-year period, major European producing countries saw a progressive increase in the farm-gate raw milk price.

This increase continued until past mid-2014.

It is clear how prices encouraged an increase in dairy farm production, especially after milk production limits were abolished in April 2015. There was no drop in milk production corresponding with the progressive decrease in the price of the raw material in 2015.

<b>Farm gate milk price - Lombardy (Italy)</b>						
<b>€/100 litres</b>						
<b>Month</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Var. vs 2014</b>
January	39.00	40.70	40.00	42.00	37.00	-11.9%
February	39.00	40.70	40.00	44.50	36.50	-18.0%
March	39.00	40.70	40.00	44.50	36.50	-18.0%
April	39.00	36.00	40.00	44.50	36.00	-19.1%
May	39.00	36.00	40.00	44.50	36.00	-19.1%
June	39.00	38.00	40.00	44.50	36.00	-19.1%
July	40.20	38.00	40.00	42.00	36.00	-14.3%
August	40.20	38.00	42.00	42.00	36.00	-14.3%
September	40.20	38.00	42.00	39.00	36.00	-7.7%
October	40.30	38.00	42.00	39.00	36.00	-7.7%
November	40.30	38.00	42.00	38.50	36.00	-6.5%
December	40.30	39.50	42.00	38.50	36.00	-6.5%
<b>Average</b>	<b>39.63</b>	<b>38.47</b>	<b>40.83</b>	<b>41.96</b>	<b>36.17</b>	<b>-13.8%</b>
<b>Variation vs. 2014</b>	<b>-</b>	<b>-2.9%</b>	<b>6.2%</b>	<b>2.8%</b>	<b>-13.8%</b>	

source: Lodi chamber of commerce

<b>Farm gate milk price - Bavaria (Germany)</b>						
<b>€/100 litres</b>						
<b>Month</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Var. vs 2014</b>
January	34.32	36.29	35.14	41.87	33.18	-20.8%
February	34.53	36.16	35.40	41.84	32.80	-21.6%
March	35.00	35.59	35.56	41.73	32.75	-21.5%
April	35.57	34.74	36.07	40.81	32.57	-20.2%
May	36.06	33.24	37.22	39.90	31.69	-20.6%
Gune	36.31	32.37	37.80	39.44	31.02	-21.3%
July	36.40	31.62	38.52	39.24	30.77	-21.6%
August	36.44	31.74	39.10	38.95	30.56	-21.6%
September	36.54	32.36	40.20	38.11	30.60	-19.7%
October	36.84	33.60	41.34	36.71	30.65	-16.5%
November	36.96	34.44	42.11	35.60	30.81	-13.5%
December	36.68	34.92	42.33	34.58	n.d.	
<b>Average</b>	<b>35.97</b>	<b>33.92</b>	<b>38.40</b>	<b>39.07</b>	<b>31.58</b>	<b>-19.2%</b>
<b>Variation vs. 2014</b>	<b>-</b>	<b>-5.7%</b>	<b>13.2%</b>	<b>1.7%</b>	<b>-19.2%</b>	

source: ZMB

<b>Farm gate milk price - Rhône Alpes (France)</b>						
<b>€/100 litres</b>						
<b>Month</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Var. vs 2014</b>
January	31.83	33.69	31.46	39.96	31.35	-21.5%
February	32.33	33.77	31.73	36.97	31.03	-16.1%
March	31.09	31.93	30.48	36.28	31.16	-14.1%
April	30.58	29.16	32.18	34.75	29.73	-14.4%
May	30.71	28.53	32.27	33.63	29.90	-11.1%
Gune	35.34	33.54	36.63	35.33	30.90	-12.5%
July	35.85	33.36	37.35	37.22	31.35	-15.8%
August	35.99	32.72	37.48	39.67	34.07	-14.1%
September	36.33	31.54	37.60	39.90	32.89	-17.6%
October	32.00	29.11	34.87	39.13	31.08	-20.6%
November	32.05	30.58	34.92	34.52	30.27	-12.3%
December	31.45	30.10	37.87	33.10		
<b>Average</b>	<b>32.96</b>	<b>31.50</b>	<b>34.57</b>	<b>36.71</b>	<b>31.25</b>	<b>-14.9%</b>
<b>Variation vs. 2014</b>	<b>-</b>	<b>-4.4%</b>	<b>9.7%</b>	<b>6.2%</b>	<b>-14.9%</b>	

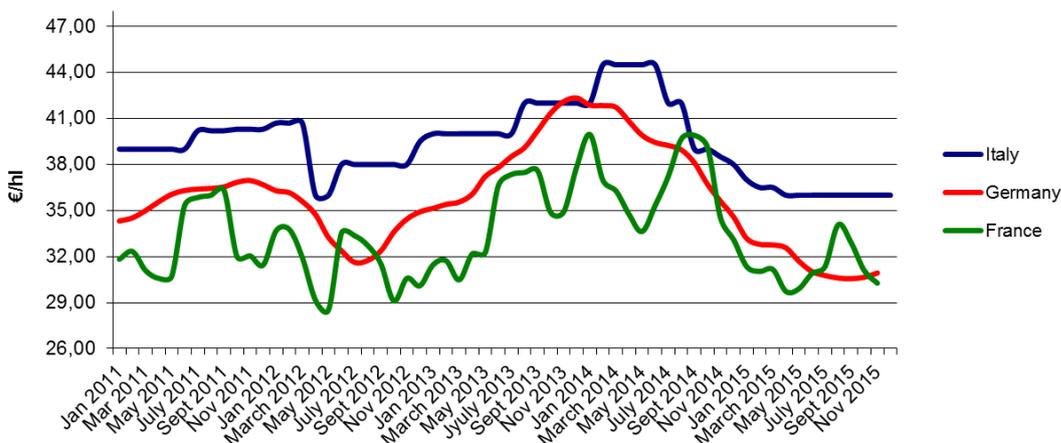
source: FranceAgriMer

To understand why the price of milk fell a few aspects can be considered:

- 1) Commodities prices remained high up until mid-2014. This affected the price paid to dairy farms for most of 2014, leading to the highest ever farm-gate raw milk prices.
- 2) The response times in farming differ from those of the market. Farm-gate raw milk prices encouraged an increase in production, but it was delayed.
- 3) The deregulation of milk production limits was favourable to livestock development projects already in 2015.

If we consider the three countries in question, it is clear that prices decreased less in Italy, both in terms of value and as a percentage.

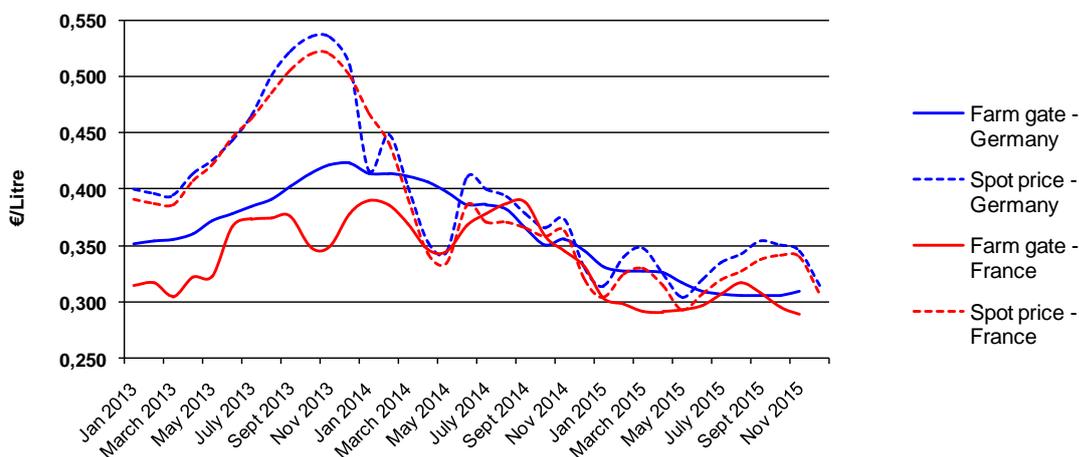
**Farm gate milk price trends**



Commodity price fluctuations have almost always had a gradual effect on farm-gate milk prices, which are affected with a few months' delay. The farm-gate milk price in 2015 reflected the negative trend in powder, butter and cheese that began at the end of 2014 and continued in 2015.

On the other hand, the *spot* milk market (quantities traded weekly on the free market) adjusts in real time to commodity prices and spot demand for liquid milk. Excess milk production at the farm gate or a lack of production has an immediate effect on *spot* milk prices.

**Farm gate and spot milk price comparison - Germany and France**



**Spot milk prices**

Spot prices for milk reflect the relationship between supply and demand in real time. In 2013 to 2015, the spot milk price and the farm-gate price mimicked each other, first rising and then, from mid-2014, falling. Since the summer of 2013, when global demand for commodities began taking this raw material out of Europe, spot milk prices reached peaks of over €0.50, remaining above €0.45 until February 2014. As shown above, greater demand for volumes and

the corresponding spot milk price and prices for powder, butter and cheese contributed to raising the farm-gate price of milk and increasing milk production.

As these requirements were progressively met, beginning with the increase in milk production in 2014, there was a gradual drop in spot milk prices. As early as March 2014, spot prices began falling to below the farm-gate price paid, to the extent that, in December 2014, spot milk prices were €0.357/litre, while €0.385/litre was the price paid to dairy farms.

Since January, the greater availability of the raw materials mitigated spot milk demand and pushed prices down. At about the same time, the farm-gate price of milk began its slow and gradual decline.

In 2015, the spot milk price never exceeded €0.37/litre in 2015 and ended the year under €0.34/litre. The farm-gate raw milk price went from €0.37/litre in January to €0.36 at year end.

<b>Farm gate and spot milk price comparison - Italy</b>						
<b>€/100 litres</b>						
<b>Month</b>	<b>2015</b>			<b>2014</b>		
	<b>Spot price</b>	<b>Farm gate price</b>	<b>Difference</b>	<b>Spot price</b>	<b>Farm gate price</b>	<b>Difference</b>
January	35,96	37,00	(1,04)	47,68	42,00	5,68
February	36,09	36,50	(0,41)	45,88	44,50	1,38
March	35,85	36,50	(0,65)	42,79	44,50	(1,71)
April	33,77	36,00	(2,23)	39,44	44,50	(5,06)
May	32,73	36,00	(3,27)	37,63	44,50	(6,87)
June	34,80	36,00	(1,20)	42,40	44,50	(2,10)
July	36,99	36,00	0,99	41,24	42,00	(0,76)
August	36,47	36,00	0,47	40,60	42,00	(1,40)
September	35,96	36,00	(0,04)	38,15	39,00	(0,85)
October	36,73	36,00	0,73	37,55	39,00	(1,45)
November	35,83	36,00	(0,17)	37,76	38,50	(0,74)
December	33,89	36,00	(2,11)	35,70	38,50	(2,80)
<b>Average</b>	<b>35,42</b>	<b>36,17</b>	<b>(0,74)</b>	<b>40,57</b>	<b>41,96</b>	<b>(1,39)</b>

source: Lodi chamber of commerce

It is difficult to determine how much the prices affect each other. There is no doubt that they are closely tied: a certain availability of the raw material produced determines a certain spot price, and the continuance of this price can, over time, affect the farm-gate price of milk, which will in turn affect product volumes. This is a reflection of the change in recent years. High-impact factors for the market, fierce competition and the globalisation of the milk-based products market, will make it difficult for there to be average "guaranteed" prices in the medium to long-term.

## Milk production trends

### *Analysis of the three years from 2013 to 2015*

In 2013, the production of milk at the farm-gate was in line with previous years, while non-European demand for dairy products began to grow. The fact that demand was not readily met kept the spot milk price high for all of 2013 and the first few months of 2014. It followed that farm-gate milk prices gradually increased, peaking between November 2013 and May 2014.

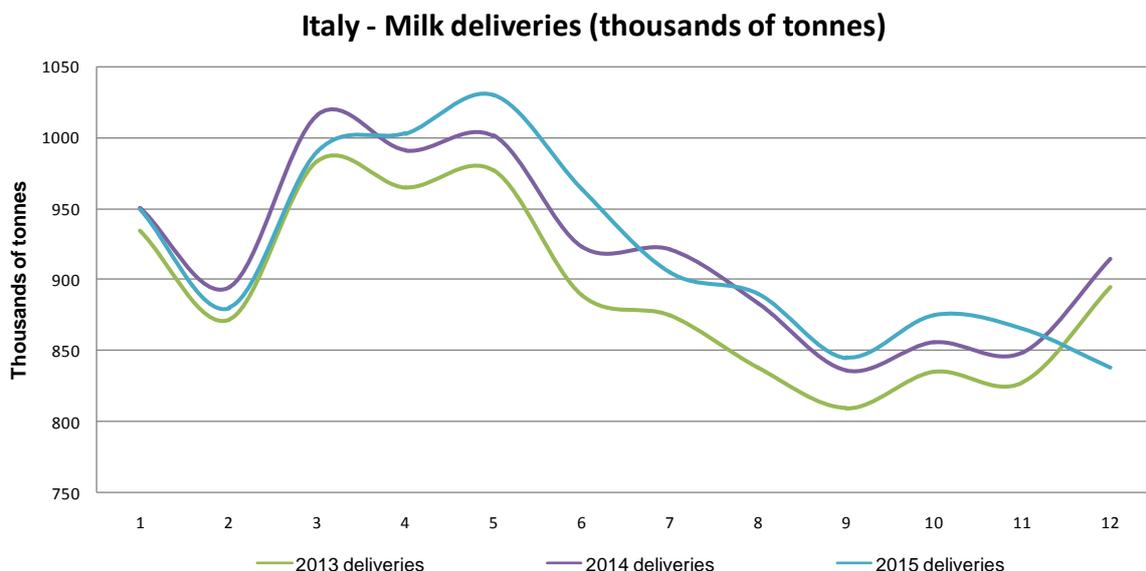
The increase in milk production, which began in Europe in 2014 and continued for all of 2015, was the consequence of the effect of the prices paid to dairy farms for over a year and a half, between spring 2013 and autumn 2014.

A long enough period to enable European dairy farms to plan and organise livestock production in 2015 and the years after the abolition of the milk production limits.

For all of 2015, the availability of milk was higher than current demand and the spot milk price reflected offer, reaching the lowest levels in the previous three years.

### *Production in Italy*

Unlike what happened in Europe and the rest of the world, milk production in Italy in 2015 remained substantially steady.



In Italy, production grew less than the European average, although in recent years, milk prices reached peaks higher than European highs. In 2015, with the first signs of falling prices, Italian milk production came to a standstill, although the price drop in Italy was less dramatic than in the rest of Europe.

The average price paid to dairy farms was about 4.5 cents per litre lower than 2014. The most significant factor is that, in the first six months of 2015, the price paid was 8 cents per litre lower than the price paid in the first six months of the previous year (€0.365/litre versus €0.445/litre in 2014).

In Europe, the lower prices paid to dairy farms in 2015 did not hold back production considerably and, except for a slight drop in France, the European figure remained positive (+2.5%).

While a drop in prices negatively affected Italian volumes, it should be remembered that Italy has a particular situation that makes it difficult for production to perform like Northern Europe, even when prices are advantageous.

### *European production*

Milk production in 2015 maintained its seasonal performance, with its customary peak in the spring and drop in the summer, presenting the same characteristics as in 2014, but with higher volumes.

For two consecutive years, total production shows growth in every single month.

Provisional data for deliveries of milk produced up to December 2015 show an increase in European production, estimated to be around 2.5%.

Production in 2015 is higher than ever, but Europe is not the only world player to increase production.

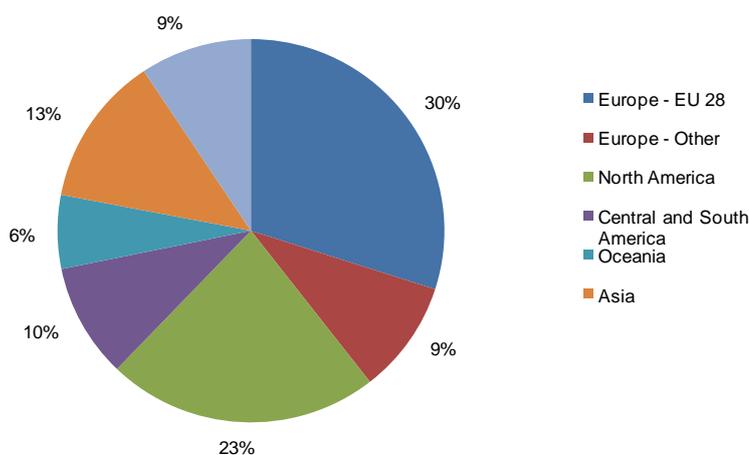
<b>European milk production</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Thousands of tonnes	139,467	140,608	141,698	147,737	151,430
Variation vs. previous year		0.8%	0.8%	4.3%	2.5%

2015 data are provisional - Source: Eurostat

### *Production in the rest of the world*

World milk production data confirm the growth in global demand for milk and milk derivatives. All major producer countries show an increase in production. Global forecasts for 2015 show an estimated increase of 1.9%, with the following distribution of values:

	2011	2012	2013	2014	2015	var. vs. 2014
<b>EUROPEAN UNION</b>	139,467	140,608	141,698	147,737	151,430	2.5%
<b>OTHER NON-EU EUROPEAN COUNTRIES</b>						
Russia	6,500	6,766	6,640	6,705	7,060	5.3%
Belarus	31,646	31,756	30,529	30,746	30,268	-1.6%
Ukraine	11,086	11,378	11,488	11,235	10,780	-4.0%
<b>NORTH AMERICA</b>						
Canada	8,400	8,614	8,443	8,437	8,682	2.9%
United States	89,016	90,867	91,272	93,462	94,509	1.1%
Mexico	11,046	11,274	11,294	11,464	11,750	2.5%
<b>CENTRAL AND SOUTH AMERICA</b>						
Argentina	11,470	11,679	11,519	11,326	11,496	1.5%
Brazil	32,091	32,304	34,255	35,992	37,137	3.2%
<b>OCEANIA</b>						
Australia	9,561	9,803	9,317	9,808	10,111	3.1%
New Zealand	18,915	20,517	20,148	21,842	21,340	-2.3%
<b>ASIA</b>						
India	53,500	55,500	57,500	60,500	64,000	5.8%
<b>SOUTHEAST ASIA</b>						
China	36,578	37,436	35,314	37,250	37,250	0.0%
Japan	7,474	7,630	7,508	7,334	7,375	0.6%
South Korea	1,888	2,111	2,093	2,214	2,200	-0.6%
Philippines	17	18	19	20	21	5.0%
Taiwan	336	348	358	363	374	3.0%
<b>TOTAL</b>	<b>468,991</b>	<b>478,609</b>	<b>479,395</b>	<b>496,435</b>	<b>505,783</b>	<b>1.9%</b>

**2015 World Milk Production**


### Italian protected designation of origin (“DOP”) cheese

Both main DOP cheeses showed steady or slightly decreasing production: Parmigiano Reggiano +0.15% and Grana Padano -0.79%. Each certainly benefited from the greater availability of milk in the past two years, but the segments have responded in different ways.

While Parmigiano Reggiano production has substantially mimicked the trend in national milk production, only slightly lower, the Grana Padano segment peaked in 2014 and, although slightly down, confirmed the same number of cheese wheels in 2015.

This could be due to a number of reasons, beyond the greater availability of milk in 2014-15, with three factors having affected Grana Padano production.

- 1) Spot milk prices in the summer and autumn were lower than the farm-gate price, which is why Grana Padano producers decreased their usual sales of summer milk.
- 2) All the usual summer spot milk buyers also found themselves with more availability of milk, which reduced their purchasing power.
- 3) However, 2015 was another year in which over 4.8 million Grana Padano wheels were produced, a modest figure in part due to the production of cheese alternatives (e.g., imitation grana).

Both DOP products presented substantially negative production trends for nearly the entire year compared to 2014, but in the final four months, each ramped up production and showed growth on the same period of the previous year. These two segments maintained sound production levels, and this probably affected prices, despite the strong trend in exports.

	Number of Parmigiano Reggiano wheels				Number of Grana Padano wheels			
	2013	2014	2015	var. vs. 2014	2013	2014	2015	var. vs. 2014
January	284,887	287,153	282,141	-1.7%	431,511	442,836	437,554	-1.2%
February	270,275	267,948	259,834	-3.0%	415,285	424,681	411,566	-3.1%
March	300,958	300,598	294,974	-1.9%	475,400	486,481	466,983	-4.0%
April	291,542	291,564	288,204	-1.2%	455,416	476,647	457,479	-4.0%
May	294,235	293,847	296,787	1.0%	445,207	469,681	454,580	-3.2%
June	270,609	272,452	279,919	2.7%	397,698	426,387	421,671	-1.1%
July	267,457	274,990	264,789	-3.7%	317,736	384,725	352,261	-8.4%
August	257,345	266,309	262,551	-1.4%	272,542	352,623	337,571	-4.3%
September	251,740	253,087	253,965	0.3%	266,536	304,088	318,708	4.8%
October	259,984	259,595	266,599	2.7%	335,512	325,273	356,222	9.5%
November	255,635	257,559	265,966	3.3%	353,030	337,543	364,647	8.0%
December	274,489	272,621	286,899	5.2%	399,464	409,054	422,687	3.3%
<b>Total</b>	<b>3,279,156</b>	<b>3,297,723</b>	<b>3,302,628</b>		<b>4,565,337</b>	<b>4,840,019</b>	<b>4,801,929</b>	
% change		0.57%	0.15%			6.02%	-0.79%	

Source: Grana Padano and Tutela Parmigiano Reggiano consortia – Lodi chamber of commerce

Prices of the two DOP products fell considerably: Parmigiano-Reggiano -8% and Grana Padano -6.74%. The most dramatic price drops for both segments were seen at the start of the year, with drops of more than 11% on the same period of the previous year.

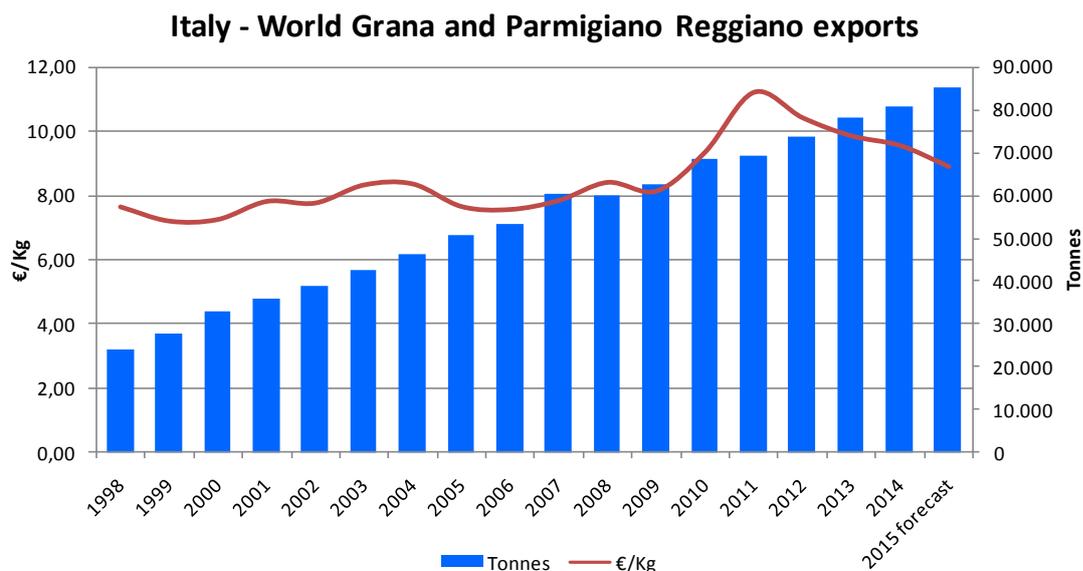
Price	Parmigiano Reggiano				Grana Padano			
	Aged 12 months and more (€/kg)				Aged 15 months and more (€/kg)			
Month	2013	2014	2015	var. vs. 2014	2013	2014	2015	var. vs. 2014
January	8,80	8,82	7,52	-14,7%	8,50	8,33	7,34	-11,9%
February	8,75	8,83	7,55	-14,5%	8,40	8,33	7,38	-11,4%
March	8,75	8,80	7,55	-14,2%	8,40	8,17	7,38	-9,7%
April	8,75	8,65	7,55	-12,7%	8,40	7,94	7,40	-6,8%
May	8,74	8,46	7,55	-10,8%	8,29	7,85	7,43	-5,4%
June	8,68	8,16	7,55	-7,5%	8,15	7,78	7,43	-4,5%
July	8,65	8,09	7,54	-6,8%	8,10	7,76	7,43	-4,3%
August	8,65	7,95	7,45	-6,3%	8,11	7,68	7,38	-3,9%
September	8,70	7,79	7,45	-4,4%	8,22	7,52	7,38	-1,9%
October	8,78	7,58	7,45	-1,7%	8,31	7,36	7,38	0,3%
November	8,80	7,50	7,47	-0,4%	8,32	7,33	7,40	1,0%
December	8,80	7,50	7,65	2,0%	8,32	7,33	7,50	2,3%
<b>Average</b>	<b>8,74</b>	<b>8,18</b>	<b>7,52</b>		<b>8,29</b>	<b>7,78</b>	<b>7,40</b>	
% change		-6,41%	-8,00%			-6,17%	-4,87%	

Source: Milan chamber of commerce

## European and Italian cheese exports

Global demand for milk derivatives is up by 2% and total European dairy exports rose by 4.6%. Unfortunately, within this European total, cheese is down: in 2015, Europe exported 700,000 tonnes of cheese, compared to 731,000 in 2014 (-2.9%).

There is no doubt that the Russian embargo has had a huge impact, as Russia is a large consumer of cut cheese, such as Gouda and Edamer. In this scenario, in terms of volumes, typical Italian cheeses held strong, but prices have been affected. The trend in total Italian exports at 30 October 2015 is diametrically opposed to the European figure, and confirms an increase of about 9% in global exports, with forecasts for 31 December 2015 showing volumes of 265,000 tonnes for the entire dairy segment.



Source: GTIS, Istat and Lodi chamber of commerce

Grana Padano and Parmigiano Reggiano show growth of 6.3% up to October, with an annual forecast of roughly 85,000 tonnes in exports.

The trend in Italian cheese exports countered that for Europe, partly because Russia is not one of the main markets for Italy's aged DOP cheese.

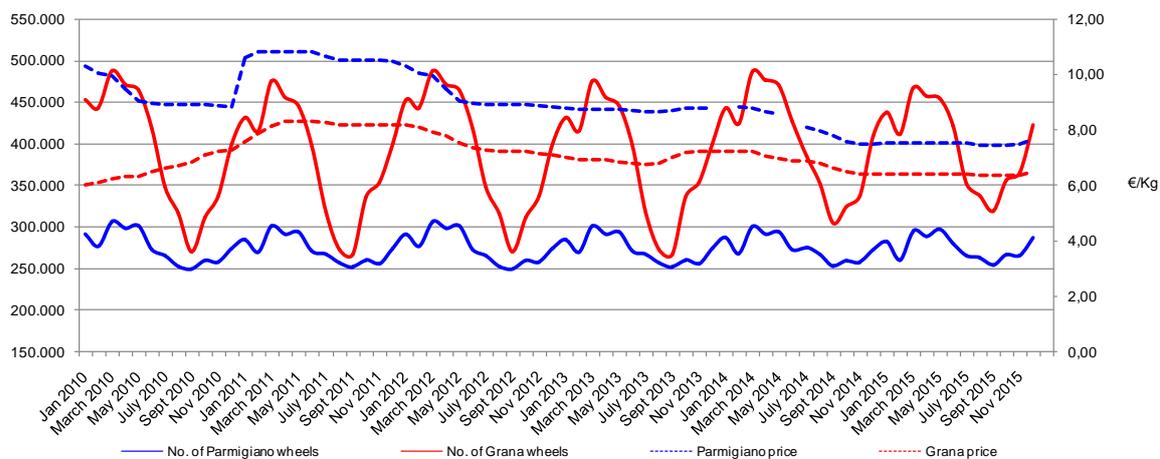
The main buyers for these products remain European countries and the US. Their combined total is also expected to grow by 5.85% while export volumes are steady.

Prices have suffered as production has increased due to greater milk availability.

Monthly production in 2015 was in line with 2014, but it was higher in the summer.

In particular, the past three summers present a constant progression of production, resulting from the high availability of the raw material and unattractive spot milk prices, which caused sales of milk by cheese makers to fall.

### Grana and Parmigiano production and price comparison



Source: Milan chamber of commerce, Consorzio per la tutela del Grana Padano and Consorzio tutela Parmigiano Reggiano

Global consumption continued its growing trend of recent years in 2015, and continues to fuel milk production, which is extremely price sensitive since a change of just a few Eurocents in the farm-gate price leads to almost immediate surges in production.

This is especially true in China and India, where production is growing rapidly, stimulated by prices and demand. Production costs are far lower than the global average in these countries, and are therefore competitive on a globalised market, where a commodity's most important feature is its price.

In this context, Europe and Italy find themselves fighting on two fronts: on the milk production side, which is responding haphazardly to the elimination of the production limits, while competing on commodities markets. It is no coincidence that European production is slowly moving towards areas with lower operating costs, partly because more land is available, making it possible to exploit economies of scale.

The territory and the availability of new land remain the factors affecting the performance of production in line with the performance of Asian countries. It will be interesting to see which European areas will manage to compete on the commodities market and which will grow through cheese exports, which offer higher added value. On the global market, Granarolo plans to focus on growth in consumption and new consumers' tendency to buy the excellent products that Italy offers. An increase in Italian milk volumes is not feasible unless it is tied to these products, which guarantee prices that remunerate the entire dairy chain, remuneration that commodities prices do not presently allow.

## GROUP STRATEGIES

In 2015, the Group achieved its strategic targets and confirmed 2016 targets.

2016 will be the year in which it drafts the guidelines of the new strategic plan, which are organised into four development areas, with the aim of increasing profits margins in the medium term:

- 1) consolidation of its leadership position on the Italian market in its core business of milk derivative products, with a specific focus on products and markets in which the fact that they are Italian is recognised as added value;
- 2) optimisation of the Group's industrial, logistics and commercial assets to increase profit margins on products and markets in Italy and abroad. Sharing logistics assets with a specialised partner and creating the Zeroquattro Retail BU in 2015 are part of this strategy;
- 3) business diversification with the production and sale of high-end Italian agri-food products around the world, exploiting the most significant international consumption growth trends and leveraging all the expertise and synergies within the Group's planned chain. This strategy requires a product portfolio that is in line with the Group's growth ambitions. To this end, the launch of the 100% vegan range in 2015 is an example that is in line with the chain and this strategy. Acquisitions in the Prosciutto and Pasta segments are additional examples of diversification, and they have enabled the Group to deeply penetrate international markets;
- 4) international growth through a direct presence on markets with its own distribution and productive structures to operate on markets for the Group's core products and high-end Italian food products in general. Entering the hard aged cheese and DOP food markets has enabled the Group to expand the scope of its business, exporting Italian products to areas that are, for logistics and distribution reasons, inaccessible to other fresh Italian products. As a result of these market restrictions, the Group is also expanding the scope of its production. The Group's sites in France, Chile and Brazil constitute one example of this. This strategy of establishing production abroad entails making and marketing typically local products, making new products and creating hubs for importing high-end Made in Italy cheese and food products.

Control of the chain, which began with cow's milk, in which the Group excels in Italy, will extend to its other sheep's and goat's milk chains in Italy and abroad, as well as to other products for which Granarolo can efficiently take advantage of all synergies. One example is the soy and organic chain.

The Group's strength will be further seen as it manages and develops the Italian market, which is still undergoing difficulties but provides significant room for opportunities still to be exploited. The Group will continue to pursue

innovation processes and strategic acquisitions, capable of increasingly making the most of Italian milk.

The Group's acquisitions are in line with the strategy described above and must meet the requirements of financial stability and returns set for the medium term, ensuring significant, well-balanced and sound growth over the long term.

## Commercial strategy

### *Italy - Supermarket chains*

Retail sales of fast moving consumer goods recovered slightly in 2015. The performance of grocery products, with the current sales network, grew by 1.5% in terms of value on 2014, with a less dramatic increase in terms of volumes, i.e., 1.0% on 2014. However, the different channels showed varying performances, with a considerable drop in the value of sales to hypermarkets (-0.9% on 2014), self-service stores (-2.1% on 2014) and traditional shops (-6.9% on 2014), while supermarket and superstore sales held strong (+2.6% on 2014) and significant growth was seen in discount stores (+5.2% on 2014) and specialist drug stores (+10.4% on 2014).

Two aspects are worthy of note: promotional pressure has decreased, dropping to 28.8% in 2015 (-0.5% on the previous year), and private labels have recovered their market share, now at 18.1% (+0.6% on the previous year).

The supermarket dairy market continues to perform negatively and this is why, the Granarolo Group increased the diversification of its portfolio by devoting more attention to markets with the most significant growth potential: foremost yoghurt and soft cheese.

The Group also developed and successfully covered the "health" food market with vegan products, lactose-free products and goat's milk products.

*Source: Nielsen Top4Top December 2015*

### *Italy - Normal trade*

Commercial operations on the normal trade channel are managed by Zeroquattro S.r.l. in Italy. Normal trade includes traditional retail sales and consumption outside the home and, in 2015, saw the development of activities and turnover in the core business (milk, yoghurt and soft cheese) and the aged cheese market (Grana and Pecorino cheeses), completing the range of products by commercialising major products, which now account for 26% of the Group's total turnover in Italy (+1% on 2014). Specific attention was paid to the specific sales policies for distribution sub-channels (traditional shops, bars, ice cream shops, hotels, restaurants and pizzerias) to maximise promotional investments and boost the efficiency of product assortments.

### *Italy – Food service*

In 2015, Granarolo forged stronger supply agreements with leading catering/restaurant and commercial food players, offering to supply not only standard products but also those more in line with emerging consumer trends (organic products, lactose-free products and vegan products).

### *Italy – Private labels*

In 2015, Granarolo remained the partner of leading Italian retailers, consolidating its supplies to the milk market (both fresh and UHT milk) and increasing the number of contracts on soft cheese and aged cheese markets.

### *Europe*

Again in 2015, EU markets were the main target for Italian agri-food products, with these exports worth more than €24 billion and showing total growth of 6.1% (source: Istat). The dairy segment was particularly strong, with volumes up by a total of over 12% on 2014. The main EU markets for this segment are France, Germany and the UK.

In terms of distribution, 2015 saw significant business combinations, particularly the merger of Ahold Delhaize and the creation of new, important purchasing groups in central and southern Europe.

The Granarolo Group has continued to consolidate its European business, with the latter exceeding €185 million in 2015, up by 6.4% on 2014, mainly through:

- brand development of €5.2 million, up by 7.4% on 2014.
- innovation, accounting for over 5% of branded product sales.
- highlighting products that most embody the authenticity of Made in Italy production, with the Group's main DOP products showing significant growth in sales.

The French-speaking countries (France, Belgium and Luxembourg) are the most important for the Group's European business, with 2015 sales in these areas exceeding €125 million, up by 2.2% on 2014. As shown in the section on market results, the Casa Azzurra brand continues to grow and the Group continues to consolidate its leadership position in the DOP cheese segment. The private label market also presents substantial growth in terms of soft and aged Italian cheeses. The Group performed very well in the food service segment (+12% on 2014) and industrial segment (+26% on 2014) by consolidating its relationships with leading food service and transformation industry players.

Its commercial performance in other countries where it has a direct presence (Granarolo UK and Granarolo Iberica)

was also positive. Sales in the UK reached €18 million, up by 3.9% on 2014, while sales in Spain and Portugal topped €6 million, showing growth of 10.1% on 2014 thanks to the substantial increase in the Group's business with supermarket chains.

Furthermore, business surged in the Scandinavian and Baltic countries (sales up by 22.6% on 2014), where the Group's brands consolidated important leadership positions. Its performance in the German-speaking countries (Germany, Austria and Switzerland) was also very strong, with sales of over €25 million (up by 28% on 2014). Finally, it also consolidated its soft cheese leadership in Greece.

## *Asia*

In 2015, the commercial office in Shanghai began operating, giving the Granarolo Group access to the Far East market. The Group developed business in the Middle East by consolidating its business relationship with one of the largest distributors in this area.

It was active in India in the last few months of 2015, starting up a distribution company to promote Made in Italy products.

## *Oceania*

2015 was also the year in which the Granarolo Group acquired an interest in European Food New Zealand, giving it access to the New Zealand and Australian market (dairy products and typical Italian food).

## *South America*

Specific attention has been devoted to developing the South American market. The target countries are Chile and Brazil, where the Group has made significant industrial investments (one site in Chile and three in Brazil) and commercial investments (in Chile with the Bioleche brand and in Brazil with the Yema brand). In addition, through partnerships with these players, the Group expects to enter key markets for Made in Italy foods.

## **Business strategy**

The Granarolo Group's business strategy for 2015 focuses on pursuing the path taken in 2008, aimed at optimising the sourcing of raw materials and finished goods and reducing transformation costs by improving transformation efficiencies, all while making the continuous improvement of its product quality and safety in the workplace an ongoing priority.

Its production units have focused on containing fixed transformation costs, devoting particular attention to improving

the efficiency of production lines, energy costs, insourcing the production of all product categories currently carried out by copackers through investments or by expanding existing lines and ramping up the development of plants to meet the increase in cheese product transformation yield.

In particular, the areas in which specific inter-functional projects were developed included:

- striving for utmost synergy between production planning, raw material procurement and raw material allocation;
- redesign of the procurement strategy for raw materials and semi-finished and finished goods;
- optimisation of production and technical support for product innovation;
- maximised internal use of milk components (transformation yield);
- optimisation of production structures with the reallocation of cheese production;
- saturation of production lines with production on behalf of third parties or private labels;
- boosting the efficiency of production lines through WCM methods;
- improving energy efficiency with specific regard to reducing waste;
- supporting international business development projects;
- supporting the diversification of raw materials;
- developing quality, food safety, safety in the workplace and environmental improvement plans;
- ongoing search for utmost production flexibility through specific agreements with trade unions.

### *The 2015-2016 business plan*

In 2015, specific attention was devoted to the following projects:

- optimisation and increase in cheese production at Usmate Velate;
- development of innovative cheese technologies with a redesign of production structure;
- optimisation of production processes for semi-finished and finished goods, with specific regard to cheese yield and dairies' production scraps;
- completion and inspection of the Gioia del Colle lines;
- start of the new Soliera lines;
- development of internal production of vegan products (vegan milk and yoghurt);
- development of internal production of the lactose-free line, including both cheese and yoghurt-based products;

- integration of sales, production and procurement functions;
- internal development of hard aged cheese production and packaging;
- completion of the integration of Amalattea Italia S.r.l. and Pinzani 1969 S.r.l. with all the Group's supply chain structures in Italy;
- launch of the integration of logistics and production processes of Gennari Italia S.r.l. within the Group.

Cheese production was developed through projects to concentrate production in Usmate Velate (Ricotta and Mascarpone) and growth in the production capacity at Bologna (Mozzarella and Stracchino). Significant focus was placed on the quality of soft pulled cheese, with support from the Quality assurance structure for the development of innovative and industrially efficient control methods. The organisation of labour also lent flexibility to production schedules, in line with commercial requirements.

With respect to UHT/ESL products, the Group focused on using Italian milk more as a raw material, while streamlining packaging at the same time. Investments at Gioia del Colle made it possible to discontinue the use of third party copackers and fully use Italian raw materials from the local area.

Yoghurt production lines at the Pasturago site were expanded, especially the lines for packages including different formats and flavours, in which greater flexibility and responsiveness in production are required. The production of yoghurt made with goat's milk was also rolled out at the Pasturago site.

This process innovation applied to all product families (fresh milk, UHT products, vegan products, yoghurt and cheese), including with the launch of children's products and lactose-free products.

### *Improvement of production standards*

Each production site kicked off campaigns to maximise transformation yields and reduce scraps, using WCM (world class manufacturing) methods and especially through the monitoring of each day's results, and the effects of these campaigns on results have been consolidated over the years.

At production sites where improvement processes have been underway for some time, the target KPIs of the year were achieved (both those for raw material waste and the use of packaging and ingredients).

Following the reduction in the number of employees compared to 2014, the impact of labour per tonne produced had a positive impact on the efficiency on production lines, particularly at the Pasturago, Soliera, Gioia del Colle, Castrovillari and Cagliari sites.

Indicators relating to the use of energy in production improved on the previous year, as the cost of natural gas and Kwh

fell and new cogeneration systems installed at the main production sites were used for the full year in 2015. The impact of the cost of energy per tonne of product was over 3.5%. The Group will pursue energy savings projects for both natural gas and electrical energy consumption at smaller sites in 2016 as well.

The additional rationalisation of general costs offset greater maintenance costs incurred for work needed at newly acquired production sites.

Overall, transformation costs decreased by more than 1%, with an impact on efficiency of 2.5%.

With respect to safety, the Group decided to extend the pilot project implemented in Pasturago using Du Pont methodology to its other sites as well. The project will continue throughout 2016, but it has already led to considerable improvements in the Group's indicators. The identified objectives have been achieved through training and targeted investments (13% of total investments was spent on quality, safety and the environment).

### *Reorganisation*

The turnover and change management project continues to incorporate the value of industrial efficiency in management culture through the use of accounting and management tools.

A daily factory yield reporting system was introduced, even at the recently acquired sites, and, more importantly, the SAP system was fully rolled out and is leading to an increasingly complete and rapid understanding of production processes, speeding up decisions and improving outcome analysis.

The site organisational charts were updated, to better define the organisational aspects among the individual roles and responsibilities.

The progressive roll-out of SAP in production structures required an in-depth analysis of processes and roles, along with changes in the organisation of both production staff and managers. Particular emphasis was given to strengthening management and results control duties. This will continue in 2016 as well.

### *Integration of Amalattea Italia and Pinzani 1969*

The integration of Amalattea Italia S.r.l. and Pinzani 1969 S.r.l. into the Granarolo Group continued throughout all of 2015. Specific attention was paid to all the quality aspects relating to the production process, coordinating internal functions with those at other sites in Central and Southern Italy.

The following specific activities have begun:

- analysis and rationalisation of suppliers of sheep and goat raw materials;

- improvement of cheese yield and rationalisation of recipes;
- analysis of logistics flows, with a reorganisation of logistics assets;
- improvement in the food safety and quality of products made;
- improvement and strengthening of environmental management and products made;
- improvement of SAP manufacturing and product costing;
- expansion and rationalisation of the logistics hub.

The results of the steps taken were seen in 2015 and will consolidate in 2016.

### *Integration of Gennari Italia*

Since January 2015, the sites under management under the business unit lease agreement by Gennari Italia S.r.l. were included in the Granarolo Group's production network.

These two sites are located in Parma and the surrounding province and produce two of the most important Italian DOP products: Parmigiano Reggiano and Prosciutto di Parma DOP.

Focus continues on the following processes:

- reducing scraps and rationalising recipes;
- developing a procurement network for semi-finished goods including synergies with current purchases;
- improvement in the food safety and quality of products made;
- analysis of logistics flows for Parmigiano Reggiano and Prosciutto di Parma DOP, their optimisation and integration with other sites;
- implementation of SAP manufacturing and product costing;
- integration of environmental and safety management within the Granarolo Group.

The results will be seen in 2016.

### **Logistics and distribution strategy**

Since 1 January 2015, logistics was separated from distribution and commercial operations through the partial and proportional demerger of Zeroquattro S.r.l. to Zeroquattro Logistica S.r.l.. In particular, primary and secondary transport activities were transferred to the beneficiary company, along with management of product handling and warehousing at hubs and transit points.

The distribution and commercial function, which remained with the demerged company Zeroquattro S.r.l., also manages

door-to-door activities in the normal trade segment and the delivery of products to supermarket chains and food service customers.

Accordingly, two separate management and development strategies have been outlined.

### *Distribution and commercial activities*

Although distribution and commercial activities currently mainly relate to Group products, it intends to pursue development strategies for the sale of products on behalf of third parties. Part of the reason is to offset the drop in the volumes of fresh milk that are handled (-6% on 2014). This is why the Group has strengthened its commercial organisation, so it can operate on a global scale on the food market, with expertise in traditional retail channels and consumption outside the home, specifically with a non-exclusive emphasis on the fresh food chain and specialisation in line with the parent's development strategies in the soft, very soft and aged cheese segment.

In particular, the distribution and commercial strategy, pursued through Zeroquattro S.r.l., is to develop its organisational model, in order to improve specific expertise on the independent retailer market (Normal Trade and Ho.Re.Ca.), currently based on three pillars:

- 1) increasing Group revenue with the commercialisation of non-dairy and non-cheese products (in 2015, these generated revenue of roughly €9.0 million, +€3.9 million on 2014);
- 2) opening directly-operated stores to reduce the produce waste for Group products that have short residual shelf lives and can no longer be sold on normal sales channels;
- 3) implementing a pre-sale unit (April 2015) to increase volumes and turnover for non-milk product families destined for the HO.RE.CA. POS channel (in 2015, the rise in turnover over 2014 was €2.1 million).

### *Logistics*

A new partner specialising in logistics acquired an interest in Zeroquattro Logistica S.r.l., leading the logistics function to plan to establish an organisation that can independently perform portage and integrated logistics services in Italy and abroad as well as domestic and international shipments, through:

- 1) structure sharing strategies and cost synergies,
- 2) development of transport and handling services for customers outside the Group's companies (volumes +39% on 2014 and 2015 turnover of €7.4 million, +18% on 2014).

## IT system strategy and processes

The IT system and processes function operated in accordance with the Group's business plan, ensuring updates to legal requirements, supporting the business, overseeing the efficiency of processes and systems and improving service and safety levels. In 2015, the application and infrastructural integration of the various group companies that can ensure full alignment of processes continued. The extension of the SAP ERP to Gennari Italia S.r.l. and Amalattea Italia S.r.l. was part of this context.

### *Infrastructures*

A significant, complex technological revision has commenced, entailing the introduction of engineered databases to improve performance and activate the Group's disaster recovery processes.

Furthermore, to cut costs, the Group's VOIP restructuring project was completed.

### *Processes*

In the sales area, all door-to-door sales processes were revised and a new computer-based order collection channel was introduced. This was supported with the creation of new infrastructure.

An administration, finance and control project was kicked off for the management of contracts with supermarket chains and an integrated system was introduced to simulate and prepare and the business plan.

### *System security*

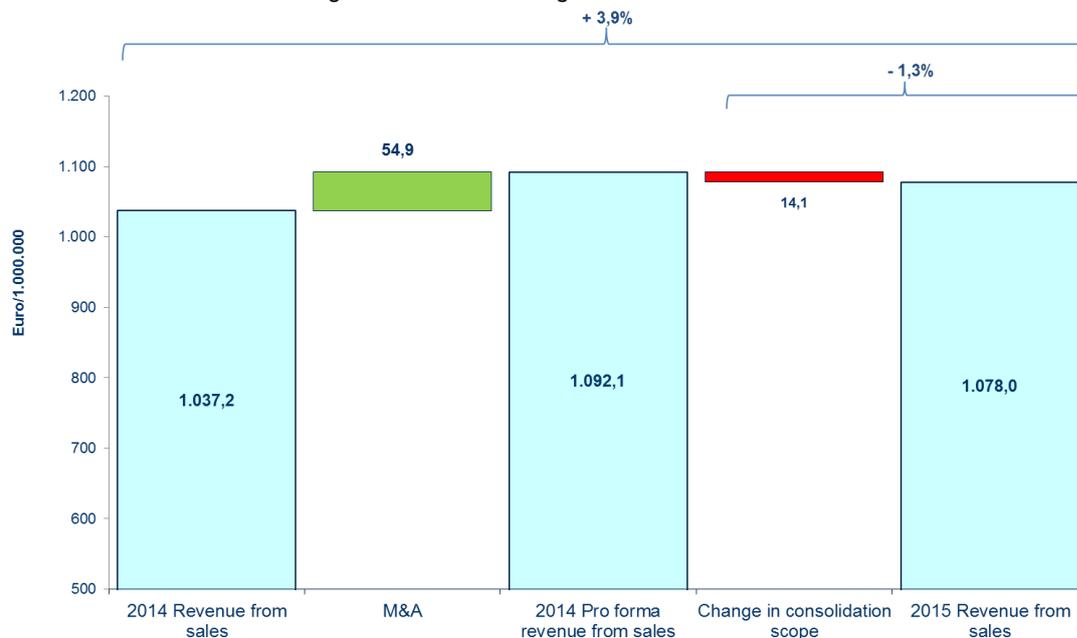
Ensuring the security of IT systems and company data is one of the Group's primary objectives in the management of IT systems. Company policies are periodically updated, in accordance with data protection and safety regulations. In 2015, the Group was involved in identity management projects to define the criteria and technologies that would enable its functions to facilitate and concurrently control user access to applications and critical data, while protecting personal data from unauthorised access.

In addition, periodic risk vulnerability assessments were conducted on systems in use.

## THE GROUP'S RESULTS OF OPERATIONS

Consolidated turnover came to €1,078 million in 2015, up by 3.9% on the previous year.

The contribution of non-recurring transactions to this growth in turnover is illustrated below:



The decrease in turnover on a like-for-like basis (-1.3%) is mainly due to the slump on markets where Granarolo operates. The Italian fresh milk market lost 9.6% in terms of value in the year, while the UHT milk market lost 5.6%. These trends affected the sales performance of Granarolo, which generates over one third of its turnover on these markets.

Gennari Italia S.r.l.'s and Granarolo Chile S.p.A.'s results were consolidated beginning in January 2015, while Pastificio Granarolo S.r.l. was included in the consolidation scope from June 2015. The newco Amalattea Italia S.r.l. was consolidated from August 2014.

The Group's gross operating profit (EBITDA) came to €69.8 million, equal to 6.5% of revenue, showing growth of €10.0 million (+ 16.6% on 2014), thanks to product innovation and the strength of the Group's brands.

The operating profit (EBIT) totals €29.5 million, equal to 2.7% of revenue from sales, €3.3 million higher than in 2013.

The profit for the year amounts to €18.0 million, more than twice the profit for 2014.

The Group improved its net financial debt by €25.9 million, reporting net financial debt of €97.6 million at the end of 2015.

Equity increased by €26.5 million and now exceeds €228.0 million.

## RESULTS OF OPERATIONS

The consolidated income statement is reclassified by nature below.

(thousands of Euros)	2015		2014		Change	
<b>Revenue from sales</b>	<b>1,078,087</b>	<b>100%</b>	<b>1,037,214</b>	<b>100%</b>	<b>40,873</b>	<b>3.9%</b>
Direct production costs	(783,167)	-72.6%	(766,166)	-73.9%	(17,001)	2.2%
<b>Contribution margin</b>	<b>294,921</b>	<b>27.4%</b>	<b>271,049</b>	<b>26.1%</b>	<b>23,872</b>	<b>8.8%</b>
Selling, marketing and commercial costs	(152,704)	-14.2%	(145,035)	-14.0%	(7,669)	5.3%
Indirect personnel expense	(42,249)	-3.9%	(38,101)	-3.7%	(4,148)	10.9%
Other overheads	(25,633)	-2.4%	(25,893)	-2.5%	261	-1.0%
Other income and expense	(4,599)	-0.4%	(2,228)	-0.2%	(2,371)	n.s.
<b>Gross operating profit (EBITDA)</b>	<b>69,736</b>	<b>6.5%</b>	<b>59,791</b>	<b>5.8%</b>	<b>9,945</b>	<b>16.6%</b>
Amortisation of trademarks	(5,554)	-0.5%	(5,611)	-0.5%	57	-1.0%
Amortisation of other intangible assets	(4,682)	-0.4%	(5,791)	-0.6%	1,109	-19.2%
Depreciation of property, plant and equipment	(19,961)	-1.9%	(19,968)	-1.9%	7	0.0%
Impairment losses	(411)	0.0%	(195)	0.0%	(216)	n.s.
Net non-recurring expense	(9,592)	-0.9%	(1,962)	-0.2%	(7,631)	n.s.
<b>Operating profit (EBIT)</b>	<b>29,537</b>	<b>2.7%</b>	<b>26,264</b>	<b>2.5%</b>	<b>3,272</b>	<b>12.5%</b>
Net financial expense	(10,208)	-0.9%	(12,781)	-1.2%	2,573	-20.1%
Actuarial loss on post-employment benefits	(271)	0.0%	(576)	0.00	305	-53.0%
Net losses on equity-valued investees	(61)	0.0%	(400)	0.00	339	n.s.
<b>Pre-tax profit</b>	<b>18,997</b>	<b>1.8%</b>	<b>12,507</b>	<b>1.2%</b>	<b>6,490</b>	<b>51.9%</b>
Income taxes	(958)	-0.1%	(3,932)	-0.4%	2,974	-75.6%
<b>Profit for the year</b>	<b>18,039</b>	<b>1.7%</b>	<b>8,575</b>	<b>0.8%</b>	<b>9,464</b>	<b>110.4%</b>

*EBITDA and EBIT are not standard financial statements captions under Italian GAAP or the IFRS endorsed by the European Union. Accordingly, the way in which they are calculated is not necessarily unequivocal and the Group's calculation criterion could differ from that adopted by other groups. Consequently, EBITDA and EBIT may not be comparable with captions of the same name presented by others.*

## REVENUE FROM SALES

Revenue from sales in the year is reported below for the two operating segments, compared with prior year figures:

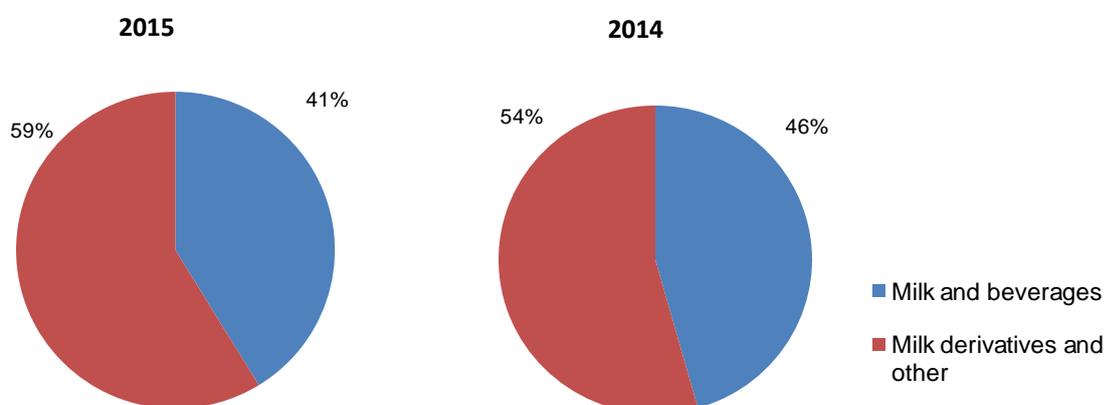
<b>Revenue by CGU</b> (thousands of Euros)			
	<b>2015</b>	<b>2014</b>	<b>Change</b>
Milk and beverages	444,919	472,923	(28,004)
Milk derivatives and other	633,168	564,291	68,877
<b>Total</b>	<b>1,078,087</b>	<b>1,037,214</b>	<b>40,873</b>

In 2015, revenue grew by €40.9 million, or 3.9% on 2014.

On a like-for-like basis, the growth in sales came to €14.1 million, or 1.3%.

Turnover in the milk and beverages CGU decreased by 5.9%, a drop that was in line with the fresh milk market's performance, while Granarolo UHT milk outperformed the market. Granarolo's UHT milk market share rose by 1%, while its share of the fresh milk market remained substantially the same.

The Milk derivatives and other CGU showed growth of 12.2%, partly due to the rise in core sales and partly to the change in the consolidation scope.

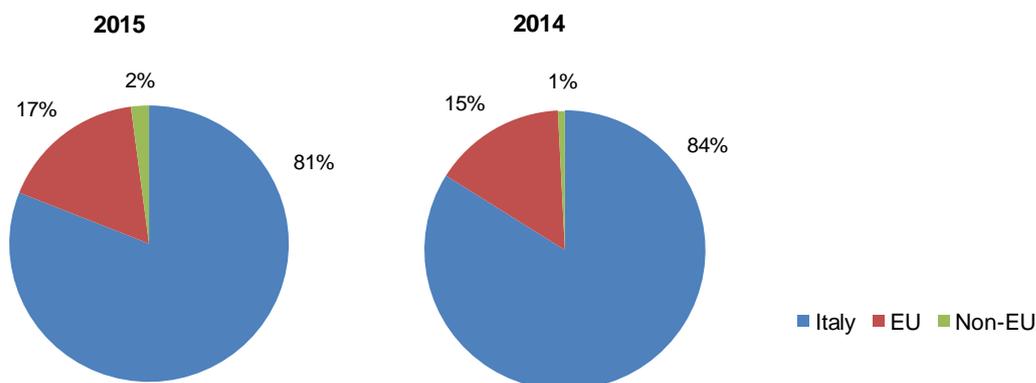


Group sales are traditionally concentrated in Italy (81% of revenue), although the percentage of foreign sales grew considerably on the previous year.

The percentage of sales in the European Union rose by 15.3% and sales on non-European markets more than doubled on the previous year.

**Revenue by geographical segment**  
 (thousands of Euros)

	2015	2014	Change
Italy	873,433	870,968	2,465
EU	182,182	157,946	24,236
Non-EU	22,472	8,300	14,172
<b>Total revenue from sales</b>	<b>1,078,087</b>	<b>1,037,214</b>	<b>40,873</b>



## ANALYSIS OF MAIN COST CAPTIONS

### *Direct production costs*

In 2015, direct production costs rose by 2.2%. Their total impact on the Group's sales is down by more than 1% on 2014.

### *Direct selling, marketing and commercial costs*

These costs constitute one of the most significant composite captions: they are closely related to the type of service required of the sales organisation and the distribution structure, including marketing costs.

In 2015, direct selling costs rose by 5.3% on 2014, with an impact on turnover down from 14.0% to 14.2%.

This caption includes the cost of transporting products from production sites to customers, such as:

- primary logistics costs incurred to move products from sites to distribution hubs, and from such hubs to the Group's transit points or to customers with proprietary distribution centres;
- distribution costs incurred to carry products from transit points to customers' POS;
- operating costs for logistics structures: costs incurred to manage the hubs, transit points and for the handling of products within the structures;

- marketing costs incurred for communications campaigns and the cost of trade marketing initiatives based on promotions at POS.

The increase in direct selling costs in 2015 was due to the growth in turnover and the increase in investments in communications and marketing to support the launch of new product ranges.

### *Indirect personnel expense*

In 2015, this caption increased, partly due to the change in the consolidation scope compared to 2014, with the inclusion of Gennari Italia S.r.l., Amalattea Italia S.r.l. and Granarolo Chile S.p.A. for 12 months and Pastificio Granarolo S.r.l. for 7 months and partly to the greater impact of performance-based bonuses. The impact on revenue grew by 0.2%.

### *Overheads*

Overhead costs were reduced in 2015 compared to 2014, both in terms of their impact on revenue (from 2.5% to 2.4%) and absolute value (-€0.3 million).

This caption includes:

- the commercial structures' operating costs: costs incurred for the sales force's travel throughout Italy;
- the marketing structures' operating costs: costs incurred for market analysis and the area managers' operational management activities;
- central structures' operating costs: administrative costs of the structures responsible for quality control, research and development, IT system management and personnel management.

### *Amortisation and depreciation*

Amortisation and depreciation total €30.2 million (2014: €31.4 million).

There were no material changes in the useful lives of amortisable/depreciable assets in 2015.

Refer to the consolidated annual report for additional information.

### *Impairment losses*

Impairment losses mainly relate to uncompleted development projects of €411 thousand.

## Non-recurring income and expense

The profit for the year was influenced by the following non-recurring expense:

<b>Proventi e oneri non ricorrenti</b> (migliaia di euro)			
	<b>31/12/2015</b>	<b>31/12/2014</b>	<b>Variazione</b>
Eccedenza fondi ristrutturazione esercizi precedenti	217	-	217
Indennizzi da terzi su operazioni straordinarie	437	-	437
Minor debito verso terzi per acquisizioni societarie	-	4.200	(4.200)
<b>Proventi non ricorrenti</b>	<b>654</b>	<b>4.200</b>	<b>(3.546)</b>
Oneri di ristrutturazione del personale	(1.519)	(1.940)	421
Progetto ristrutturazione commerciale / distributivo	(6.500)	(1.500)	(5.000)
Oneri per aggregazioni aziendali	(1.357)	(2.722)	1.365
Indennizzi a terzi su operazioni straordinarie	(870)	-	(870)
<b>Oneri non ricorrenti</b>	<b>(10.246)</b>	<b>(6.162)</b>	<b>(4.084)</b>
<b>Totale proventi e oneri non ricorrenti</b>	<b>(9.592)</b>	<b>(1.962)</b>	<b>(7.630)</b>

Net non-recurring expense of €9,592 thousand in 2015 consists of:

- indemnities of €437 thousand received from the former owners of S.A.S. Granarolo France to recover environmental reclamation costs at the Saint Genix sur Guiers site;
- excess accruals of €217 thousand for restructuring and leaving incentives of previous years;
- accruals and charges incurred for restructuring and leaving incentives for group company personnel, totalling €1,519 thousand;
- expected risks and charges for a major restructuring of the commercial and distribution network, totalling €6,500 thousand, consisting of €5,500 thousand for potential penalties and settlements with third party debtors and €1,000 thousand for costs to implement and develop the plan;
- costs of €1,357 thousand for advisory services and other costs relating to business combinations;
- indemnities paid to third parties to settle prior-year disputes regarding corporate acquisitions.

## Financial income and expense

The significant decrease in financial expense is due to the continuous reduction in market interest rates during the year and the Group's strategy, which, between the end of 2014 and the first half of 2015, entailed the revision of the Group's debt structures with the agreement new loans at lower rates than the average in place in 2014.

Furthermore, in 2014, financial expense had been affected by the early repayment of the €100 million syndicated loan agreed in October 2012.

### *Income taxes*

This caption totals €955 million and includes:

- income taxes of the year of €9.8 million;
- net deferred tax assets of €6.3 million on temporary tax differences. The Italian companies' deferred taxes were adjusted to consider the new IRES rate of 24.0%, which will be in place as from 1 January 2017, replacing the current 27.5%. Granarolo S.p.A. also updated the carrying amounts of deferred tax assets on the prior year tax losses of the merged companies, following the positive response to its petition to the tax authorities.
- other tax credits of €2.5 million, which mainly consist of corrections and adjustments to accruals of prior years, in part after the tax authorities permitted the deduction of prior year expense for Granarolo S.p.A..

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position is given below, showing total net invested capital and the corresponding sources of financing, i.e., equity and debt:

	31/12/2015	31/12/2014	Change
Trademarks	76,034	80,059	(4,025)
Goodwill	63,850	55,953	7,897
Intangible assets	13,415	14,897	(1,482)
Property, plant and equipment	303,323	293,474	9,849
Equity-accounted investments	1,910	-	1,910
Equity investments in other companies	411	416	(5)
Other non-current investments	1,643	1,572	71
<b>A Total non-current assets</b>	<b>460,586</b>	<b>446,371</b>	<b>14,215</b>
Inventories	89,209	64,230	24,979
Trade receivables	146,619	158,894	(12,275)
Trade payables	(343,659)	(316,940)	(26,719)
Payables to employees and social security charges payable	(21,389)	(19,861)	(1,528)
Other assets	24,299	18,825	5,474
Other liabilities	(7,774)	(9,840)	2,066
Current and deferred tax assets and liabilities	28,671	30,937	(2,266)
<b>B Total other assets and liabilities</b>	<b>(84,024)</b>	<b>(73,755)</b>	<b>(10,269)</b>
Employee benefits	(25,186)	(22,708)	(2,478)
Provisions for risks and charges	(25,854)	(24,637)	(1,217)
<b>C Total provisions</b>	<b>(51,040)</b>	<b>(47,345)</b>	<b>(3,695)</b>
<b>D=A+B+C Net invested capital</b>	<b>325,522</b>	<b>325,271</b>	<b>251</b>
<b>E Assets and liabilities held for sale</b>	<b>153</b>	<b>-</b>	<b>153</b>
<b>F=D+E Total net invested capital</b>	<b>325,675</b>	<b>325,271</b>	<b>404</b>
Paid-up share capital	157,939	157,939	-
Reserves, retained earnings	52,056	35,194	16,862
Profit for the year	18,039	8,575	9,464
<b>G Equity</b>	<b>228,034</b>	<b>201,708</b>	<b>26,326</b>
Non-current financial debt	162,837	126,563	36,274
Current financial debt	54,508	87,516	(33,008)
Financial assets and cash and cash equivalents	(119,704)	(90,516)	(29,188)
<b>H Net financial debt</b>	<b>97,641</b>	<b>123,563</b>	<b>(25,922)</b>
<b>I=G+H Own funds and debt</b>	<b>325,675</b>	<b>325,271</b>	<b>404</b>

Notes to the individual captions of consolidated net invested capital and equity are provided in the more comprehensive section "Notes to the statement of financial position" in this annual report.

## NET FINANCIAL DEBT

Net financial debt is detailed below.

	31/12/2015	31/12/2014	Change
Bank loans and borrowings	(101,739)	(61,254)	(40,485)
Bond	(49,678)	(49,573)	(105)
Loans and borrowings from other financial backers	(112)	(992)	880
Liabilities to non-controlling owners	-	(1,162)	1,162
Derivatives	(1,592)	(1,881)	289
Payables to lease companies	(9,716)	(11,701)	1,985
<b>Non-current financial liabilities</b>	<b>(162,837)</b>	<b>(126,563)</b>	<b>(36,274)</b>
Bank loans and borrowings	(29,483)	(57,442)	27,959
Loans and borrowings from other financial backers	(1,559)	(529)	(1,030)
Derivatives	(505)	(580)	75
Loans and borrowings from parents	(271)	(1,292)	1,021
Payables to lease companies	(1,998)	(2,313)	315
Payables to factoring companies	(20,692)	(25,360)	4,668
<b>Current financial liabilities</b>	<b>(54,508)</b>	<b>(87,516)</b>	<b>33,008</b>
Securities classified as non-current assets	-	-	-
Non-current loan assets	1,400	1,400	-
<b>Non-current financial assets</b>	<b>1,400</b>	<b>1,400</b>	<b>-</b>
Securities	6	712	(706)
Current loan assets	962	43	919
<b>Current financial assets</b>	<b>968</b>	<b>755</b>	<b>213</b>
<b>Cash and cash equivalents</b>	<b>117,336</b>	<b>88,361</b>	<b>28,975</b>
<b>Net financial debt</b>	<b>(97,641)</b>	<b>(123,563)</b>	<b>25,922</b>

The Granarolo Group's net financial debt decreased by €25.9 million. Cash flows generated by operating activities and the positive impact of another reduction in the time taken to collect VAT credits were partially offset by investments in property, plant and equipment and intangible assets of €23.3 million, investments for M&As of over €11 million and the pay-out of dividends of €3.9 million.

With respect to commercial working capital, the greater cash outflows used to increase inventories as the percentage of hard cheese and prosciutto products increased in the business mix were offset by an improvement in DSO.

Non-current bank loans and borrowings increased as new loans were agreed for a net total of roughly €48 million. This led to a reduction in current bank loans and borrowings.

Liabilities to non-controlling owners was reduced to nil due to the repurchase of non-controlling interests in Zeroquattro S.r.l. before it was demerged.

The increase in current loans and borrowings from other financial backers is mainly due to the liability of €0.5 million

referring to the deferred payment of the acquisition price for 50% of Pastificio Granarolo S.r.l..

In general, the balance of cash and cash equivalents is high because collections were significantly concentrated in the last two days of the year.

At the end of 2015, Granarolo had higher cash and cash equivalents than at the end of the previous year, as it was planning potential investments in the first half of 2016.

Payables to factoring companies mainly relate to collections of receivables that Granarolo S.p.A. transferred without recourse under securitisation agreements. These amounts, which were recognised as increases in cash and cash equivalents, had not yet been paid to the factoring companies at the reporting date because they were collected in the last few days of 2015. This caption also includes receivables of €1.4 million that Codipal transferred with recourse to a leading French bank (this payable amounted to €6.6 million at the end of 2014).

## Summarised statement of cash flows

The Group's statement of cash flows is summarised below.

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities	72,202	46,135
Cash flows used in investing activities	(30,250)	(34,598)
Cash flows used in financing activities	(12,486)	(26,370)
Net exchange rate gain (loss)	(339)	62
<b>Net cash flows</b>	<b>29,127</b>	<b>(14,771)</b>
	-	-
Opening cash and cash equivalents	88,363	103,133
Closing cash and cash equivalents	117,489	88,363
<b>Closing cash flows</b>	<b>29,127</b>	<b>(14,771)</b>

## RISK ANALYSIS

The main risk factors or uncertainties that could have a material effect on Granarolo S.p.A. and its subsidiaries are described below.

Additional risks and uncertain events which are not currently foreseeable or that are presently deemed improbable could, in any case, affect the Granarolo Group's business, financial situation and prospects.

### *Commercial risks*

The Group operates in the dairy sector, which is highly competitive with a vast number of operators. Its main competitors are large international groups undergoing concentration, often equipped with greater financial resources and more diversified brands and geographical areas, in addition to commercial distributors operating with their own brands (private labels) that implement aggressive competitive strategies.

The Granarolo Group's competitive positioning, as leader, or just behind the market leader, exposes it to particularly significant risks typically related to market competition.

To mitigate these risks, the Group differentiates its product range, quality/price and commercial positioning.

### *Consumer product compliance and safety risks*

Product quality is a crucial priority for the Granarolo Group. It has implemented control procedures to ensure compliance and safety in terms of the quality and healthiness of the products produced at group sites, in accordance with current legal requirements and voluntary certification standards.

In addition, guidelines have been defined to manage accidents, such as the withdrawal and recall of products from the market.

### *Raw material price risks*

The Group is exposed to the price risk with respect to raw materials. To manage this risk, it does not use financial markets for hedging purposes, but prefers to partially hedge the risk of fluctuations in the cost of its main raw material – milk – by signing contracts with suppliers that entail setting valid prices on a periodic basis (quarterly/half-yearly).

### *Environmental risks*

The Group's production activities do not entail specific environmental risks. However, the Granarolo Group pays

specific attention to safety, preventing environmental pollution and disposing of waste and water, with specifically assigned personnel.

### *Employee risks*

Relationships with employees are regulated and governed by the national labour agreements and current legislation. Any reorganisations and restructuring, if strategically necessary, are defined on the basis of plans that are agreed and discussed with workers' representatives. The Group constantly monitors the safety of work areas and implements procedures and invests to continuously reduce the workplace accident rate at sites.

### *Financial risks*

The Group's main financial instruments are current and non-current bank loans and borrowings, finance leases and bank deposits. The main purpose of these instruments is to support the parent's operating activities and those of its subsidiaries.

Granarolo S.p.A. has various other financial instruments, such as trade payables and receivables, arising from operations.

Furthermore, it has traded in hedging derivatives, mainly interest rate swaps and caps to manage the risk of fluctuations in interest rates. The Granarolo Group does not hold derivatives for speculative purposes.

The risks related to the financial instruments used by the Group are interest rate risk, currency risk, price risk, credit risk and liquidity risk.

### *Interest rate risk*

The Group has floating rate financing in place and believes it is exposed to the risk that a potential rise in interest rates could increase financial expense. To mitigate this risk, it has entered into hedging derivatives that cover a portion of its debt and provide for the exchange of a spread between the floating rate and one or more previously established fixed rates applied to a notional amount, or that set a maximum limit to a floating rate.

### *Currency risk*

Exposure to currency risk is considered limited, given the small number of purchase and sale transactions performed in foreign currency.

### *Credit risk*

Credit risk consists of the Group's exposure to potential losses arising from breach of obligations by a counterparty.

The Group's exposure to credit risk with respect to customers is mitigated by the fact that Granarolo mainly deals with well-known, reliable customers, particularly supermarket chains.

The Group has credit control processes in place providing for the analysis of customer reliability, the granting of credit and monitoring each customer's exposure, through an ageing reporting system, and average DSO (days sales outstanding). The SAP customer management system also receives all public data (financial statements, payment rejections, etc.) that, together with internal evaluations, are considered in the Group's internal rating system.

This process provides for ongoing monitoring and discussion each month between the administrative and commercial department. Customers with turnover below a minimum threshold are mostly asked to pay upon delivery. In addition to credit control, the process includes an administrative customer service employee who manages and responds to customers' complaints, which makes it possible to more rapidly resolve problems and, accordingly, collect payment.

At the end of 2014, as part of its financial diversification policy, the Group implemented an IFRS-compliance without recourse securitisation programme to replace the arrangement for the factoring of trade receivables without recourse in place since 2012. It also signed two more trade receivable factoring agreements without recourse with two major Italian customers.

The maximum amount of credit risk on other financial assets, which include cash and cash equivalents, is equal to the carrying amount of these assets in the event of the counterparty's insolvency.

### *Liquidity risk*

Liquidity risk is the risk that available financial resources will not suffice to cover financial obligations at the agreed terms and due dates.

The Group has adopted policies to optimise the management of financial resources by maintaining suitable liquidity levels, agreeing adequate credit lines and continuously monitoring prospective liquidity conditions. To prevent unexpected cash outlays from becoming a critical issue, the Group's objective is to maintain a balance between funding and flexibility through the use of available cash and credit lines.

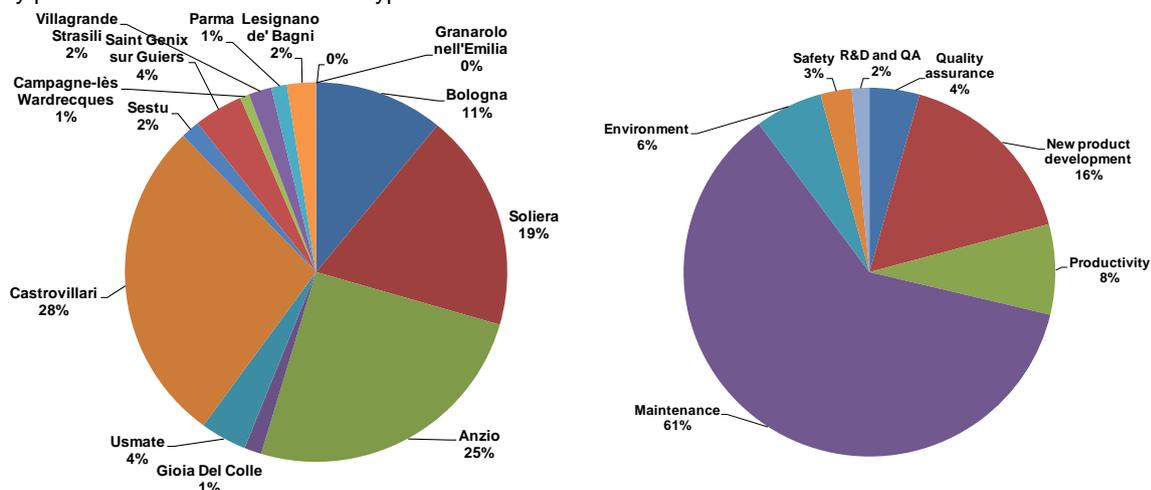
A portion of bank debt is subject to financial covenants that refer to EBITDA, net debt, equity and financial expense, as defined in the specific loan agreements. This obligation is not expected to jeopardise the Group's financial stability and was complied with in 2015.

Furthermore, the current portion of bank debt is covered by cash and cash equivalents, while non-current debt is evenly distributed over future years.

## INDUSTRIAL INVESTMENTS

Investments in assets used in operations totalled roughly €19.0 million in 2015, broken down as follows, respectively

by production site and investment type:



In 2015, most investments were aimed at maintaining production efficiency, with extraordinary maintenance on existing plant at all the sites that the Group manages.

Constant focus on containing production costs and the ongoing search for improvement solutions lie at the base of investments in industrial productivity.

At all sites, the Group has invested in plant capable of producing new products or new packages in line with customers' and consumers' requirements, and continued to invest in structural and infrastructural upgrades at the main sites, which will enable them to meet the requirements for exporting to markets in English-speaking countries and the Far East.

Each year, it becomes increasingly crucial to work on plant and structures at all production sites to improve and ensure the safety of the work environment, the quality of products and environmental protection.

In particular, in 2015, work continued to install metal detectors and x-ray machines on the production lines at various sites.

Structural work was performed to upgrade the Saint Genix sur Guiers site for IFS certification.

In Usmate Velate, where waste water is currently conveyed to the consortium network, as the Group must meet increasingly stringent specific requirements for the quality of waste water, work began to build a water treatment plant.

The initial stage that has been authorised entails a chemical process (flotation).

In Bologna, an additional cogeneration engine was rolled out, joining another two engines that have been operating since 2011, bringing total power to 3.6 MW. Furthermore, plants that recover low temperature waste heat (hot water) are fully up and running now at the Bologna, Usmate and Pasturago sites.

## HUMAN RESOURCES POLICIES

The results of the Granarolo Group's development process confirm the success of the internationalisation strategy and its central role, including in the management of human resources.

The strategic areas highlighted over the years of structural change were confirmed:

- management of the organisational complexity due to the growth in the number of companies (production and non-production companies) in Italy and abroad and the diversification of new markets/products in terms of costs and the efficiency of management;
- the cultural change triggered by internationalisation processes, both in terms of different business cultures influencing and enriching each other, as colleagues and stakeholders with different languages and cultural backgrounds multiply, and in terms of the effective integration of the new foreign companies within the Group's organisation, with the possibility of new experiences and international professional paths constituting a significant part;
- new organisational structures that more closely align the Group's decisions and responsibility for business results to customers and markets, and this may include adjusting consolidated functions to create divisions, at least for the commercial development of markets, which encourage a more effective and efficient management of complexity;
- innovation in key management skills, where entrepreneurship is increasingly important, including with respect to the personal assumption of new professional risks and greater pro-activeness and courage when taking innovative managerial action.

As for previous observations and guidelines for HR management with respect to relationships with trade unions:

- although it did not complete the overall restructuring of labour rules, the Group completed the substantial modification of the system of welfare benefits, considerably changing (and often eliminating) tools that it previously used to manage the rationalisation plans for the Group's production and logistics/commercial structures. A crucial key factor for success is the ability to manage the reorganisation and production refocusing plans that will be necessary as acquisitions continue in close relation to the development of new products/markets and adequate programmes to encourage social sustainability;
- the (late) changes introduced into the country's welfare system are creating new challenges for companies, including, first and foremost, management of the Group's ageing population, with professionals who must be receptive to the profound changes necessary in order to stay abreast of evolving market competition. This is the issue debated through the labour world, by companies and trade unions, and in relation to which the government

- and parliament have promised to provide answers. These answers cannot be anything but partial, due to well-known public finance limits and, considering how high the unemployment rate is for young people, too late;
- the lengthy years of economic crisis, which cost GDP many percentage points and nearly 25% of Italian manufacturing output, needed radical cultural change from all players in the world of labour and an ability to work together to find a new balance more in tune with the challenges that companies and labour players will face in the future (relationships with trade unions, which are transparently but strictly based on new, more effective and consistent organisation of labour, the organisation of contractual tools to bring a company's ability to remunerate its workers as close as possible to expressed value, etc.). This challenge was partly faced and many discussions began. There have been some results, but the recent renewal of the national labour agreement applicable to the food industry, although there were many positive aspects, confirmed how difficult it is to revise Italian companies' labour organisation methods and tools.

Lastly, the Human Resources division will need to increasingly commit to the exciting, complex challenge of the new context of labour rules, practices and issues in other countries, both in Europe and - ever more frequently - outside Europe.

## Employment

The Group's workforce grew to 2,489 employees in 2015 from 2,074 at 31 December 2014.

This increase was mostly due to the consolidation of new subsidiaries in Italy: Gennari Italia S.r.l. (44 employees) and Pastificio Granarolo S.r.l. (26 employees); and especially abroad: Granarolo Chile (105 employees), European Foods Ltd. (New Zealand, 33 employees) and Yema Distribuidora de Alimentos (Brazil, 183 employees).

In addition, the workforce grew when the Group ramped up processes to hire personnel operating in Italy on an open-ended basis, a choice that has made it possible to concurrently meet operating requirements while taking advantage of the regulatory and cost benefits introduced at the start of the year (there were 90 new hires and confirmations of open-ended employment in 2015 that were eligible for the three-year contribution exemption). These hires were only slightly offset by the redundancy of employees as part of the reorganisation processes at a few of the Group's sites, particularly following the completion of the reorganisation at Gennari Italia S.r.l..

Employee turnover consisted of 103 outgoing employees and 122 incoming employees, leading to a net balance of 19 new employees.

New hires total 122 and show a significant increase compared to 84 in 2014, of these, 82 employees were hired under open-ended contracts (showing a sharp rise on the 42 of 2014), reflecting the pro-active management of natural

turnover, with the aim of taking advantage of the opportunities offered by the advantageous legislation in effect during the year while also meeting new business requirements.

The number of employees in service at 31 December 2015 differs marginally from the figure for the total workforce, as four of the subsidiary Amalattea Italia S.r.l.'s employees worked zero hours under government-sponsored temporary lay-off schemes.

The Group's human resources at 31 December 2015 are analysed in the tables below:

<b>Company</b>	<b>2015</b>	<b>2014</b>	<b>Change</b>
Granarolo S.p.A.	1,297	1,265	32
Calabrialatte S.p.A.	56	55	1
Zeroquattro S.r.l.	356	523	(167)
Zeroquattro Logistica S.r.l.	153	-	153
Centrale del Gusto S.r.l.	8	10	(2)
Casearia Podda S.r.l.	40	38	2
Amalattea Italia S.r.l.	31	34	(3)
Gennari Italia S.r.l.	44	-	44
G Food S.r.l.	5	-	5
Pastificio Granarolo S.r.l.	26	-	26
Pinzani 1969 S.r.l.	18	14	4
<b>Italy</b>	<b>2,034</b>	<b>1,939</b>	<b>95</b>
Granarolo Iberica S.L.	4	4	-
S.A.S. CIPF Codipal	31	31	-
S.A.S. Granarolo France	36	11	25
S.A.S. Les Fromagers de Saint Omer	55	55	-
S.A.S. Les Fromagers de Sainte Colombe	-	27	(27)
Parma Frais S.A.R.L.	8	7	1
<b>Europe</b>	<b>134</b>	<b>135</b>	<b>(1)</b>
Granarolo Chile S.p.A.	105	-	105
European Foods Ltd.	33	-	33
Yema Distribuidora de Alimentos Ltda.	183	-	183
<b>Rest of the world</b>	<b>321</b>	<b>-</b>	<b>321</b>
<b>Total Granarolo Group</b>	<b>2,489</b>	<b>2,074</b>	<b>415</b>

#### **Number of employees by position**

	<b>2015</b>	<b>2014</b>	<b>Change</b>
Managers	50	42	8
Junior managers	149	137	12
White collars	1,064	936	128
Blue collars	1,226	959	267
<b>Group total</b>	<b>2,489</b>	<b>2,074</b>	<b>415</b>

**Number of employees by gender**

	Men	Women	Total
Managers	41	9	50
Junior managers	104	45	149
White collars	720	344	1,064
Blue collars	1,091	135	1,226
<b>Group total</b>	<b>1,956</b>	<b>533</b>	<b>2,489</b>

**Number of employees by nationality**

	EU	Non-EU	Total
Managers	43	7	50
Junior managers	135	14	149
White collars	963	101	1,064
Blue collars	917	309	1,226
<b>Group total</b>	<b>2,058</b>	<b>431</b>	<b>2,489</b>

**Number of employees by age**

	20-30	30-40	40-50	50-60	60+	Total
Managers	1	3	23	18	5	50
Junior managers	6	26	53	52	12	149
White collars	81	216	329	386	52	1,064
Blue collars	121	273	405	374	53	1,226
<b>Group total</b>	<b>209</b>	<b>518</b>	<b>810</b>	<b>830</b>	<b>122</b>	<b>2,489</b>

## Training

2015 saw the consolidation of the 2014 trend in training activities. Indeed, the total number of training hours provided is nearly the same as in the previous year (28,658 in 2015, compared to 28,326 in 2014) and corresponds with growth of 8% on 2013. In 2015, 1,584 workers received training.

An analysis of the various training areas confirms that focus was placed on areas that not only provide specialised content tailored to the employee's position, but also develop skills that are functional to the Granarolo Group's internationalisation process. Training activities mainly related to the following areas:

- quality, safety and the environment, accounting for nearly 44% of the training hours;
- languages, accounting for roughly 27% of the training hours;
- specialised technical training, coming in at just under 27%;
- managerial training making up the residual hours.

### *Quality, safety environmental training*

The activities organised within the scope of quality, safety and the environment included two key initiatives for personnel at the registered office and the individual sites to educate trainees on the requirements of the BRC Global Standard for

Safety, version 7 (38 trainees for a total of 400 hours) and IFS FOOD (International Featured Standards; 30 trainees for a total of 240 hours).

Commercial personnel given a company car to carry out their duties received road safety training, including both theory and practice, to optimise their driving and inform trainees of risks and consumption/health and environmental concerns (76 trainees for a total of 608 hours).

### *Technical/specialised training*

In line with the policy of building up technical/specialised skills, this type of training was planned on an ad hoc basis for various professional families. In Operations, in addition to technical training on packaging lines (72 trainees for a total of 1,337 hours at the Gioia del Colle, Pasturago, Soliera and Usmate sites), 928 hours of training focused on maintenance were offered as part of the Granarolo Group's larger continuous improvement plan and involved 48 trainees.

Training was offered to the procurement team in order to develop the new skills required by this role, giving the growing complexity of global markets. Specifically, this intensive training covered procurement marketing and the procurement mix, as well as advanced negotiation techniques and innovative supplier vetting and assessment strategies (16 trainees for a total of 384 hours).

Finally, specific training on the various production technologies and the specific physical, microbiological and sensory properties of cheese products was offered to employees in the Sales, Marketing, Research and Development and Manufacturing divisions (53 trainees for a total of 742 hours).

### *Language training*

In 2015, the internationalisation process sped up dramatically, requiring a rapid alignment of language skills at various levels. This entailed 7,805 hours of individual and collective training (equal to 27% of total hours of training) and the involvement of 184 employees. English accounts for over 86% of total language training hours and, showing a significant rise in the number of trainees (+17% on 2014), is the primary language for the Group's business.

### *Expo 2015*

The Granarolo Group participated in Expo 2015 and developed a project for employee participation, giving each group employee a ticket to the Expo. Most importantly however, the Granarolo Group organised its own space at the Expo,

representing the Italian milk chain to actively involve personnel and increase their sense of belonging and create an opportunity to represent their company in the spotlight. In the six months in which the Universal Expo was held, 187 employees volunteered to cover shifts – which generally lasted four days, including the weekend - and each shared their professional skills with the visitors.

## The organisation and trade unions

In 2015, the Group organised particularly important organisational initiatives for its development, segregating the divisions that handle commercial operations for market development in Italy and around the world.

Indeed, in February, it set up:

- the European Market business unit to develop continental markets, including searching for potential partnerships in line with the Group's growth plans for the area. This business unit, is responsible not only for sales activities but also marketing and trade marketing policies and activities to support commercial development in the area/country for which it has been made the exclusive process owner;
- the Rest of the World Markets business unit, which was assigned the development of non-European markets, with the same responsibilities as those described above;
- the Italian Market business unit, responsible for defending the Group's position on the domestic market and taking advantage of growth opportunities.

In December 2015, the fourth Normal Trade and Diversification business unit was established, which, through the subsidiary Zeroquattro S.r.l., manages the Normal Trade and Ho.Re.Ca. channels, which operate independently on the domestic market and, with cross-channel responsibilities, on international markets (with the support of the Group's direct and affiliated commercial structures), the new businesses (pasta, cold cuts, etc.) through which the Group pursues its diversification strategy.

The establishment of the structure for the four business units and, in particular, the Italian Market business unit has entailed the definition of an Italian Sales Department, with a restructuring of the key internal responsibilities and the creation of a specific sales department for cut-to-order products at supermarket chains, which the Group is now in a position to approach with significant development potential, in part thanks to the growth in the cut-to-order product portfolio following its recent acquisitions: Amalattea Italia S.r.l., Pinzani 1969 S.r.l. and Gennari Italia S.r.l.

Other material organisational initiatives concern the Supply Chain and Operations, with the redefinition of the scopes of responsibility for the procurement and management of flows of raw materials and the creation of an organisational

structure to support the project for the continuous improvement of technical/industrial performance within the Operations division.

The Group's supplementary agreement was renewed in 2014 and negotiations continued with the trade unions to support organisational and production needs relating to the development of the business plan.

This process was developed within the Group's production area and was applied in particular to the subsidiaries, where agreements were reached introducing new flexible work schemes (Amalattea Italia) or incentives indexed to productivity and organisational efficiency parameters (Casearia Podda).

The subsidiary Gennari Italia S.r.l. was drastically reorganised in 2015, and through this subsidiary, a major Parma-based company was acquired with two sites. The first site portions and grates Parmigiano Reggiano and hard cheese in general, while the second processes Prosciutto di Parma DOP. A similar reorganisation project was commenced at Amalattea Italia S.r.l.'s Rome site, consisting of the centralisation of all non-production activities at the parent's site.

With respect to activities abroad, although many extraordinary transactions were carried out in the year, with acquisitions in Brazil, Chile and New Zealand, discussions with trade unions essentially involved the French group Codipal, in connection with the mandatory disclosure steps for the extensive corporate streamlining project that included the merger of three group companies (Charmi, Compagnie Fromagere and Les Fromagers de Sainte Colombe) into the newly named Granarolo France (formerly Compagnie du Forum).

## RESEARCH AND DEVELOPMENT

Research and development activities were included in the Group's growth plan, in accordance with the following areas of development:

- ✓ **100% Vegan Granarolo:** a line of products made using soy and rice extract was launched, using Italian OGM-free raw materials with natural flavourings and prebiotic soluble fibres. The following products were developed using these ingredients:

- soy drinks enriched with vitamins and calcium, both UHT and pasteurised at high temperatures;
- soy yoghurt in plain, strawberry, pineapple and grain
- soy ice cream (chocolate, hazelnut and vanilla)
- soy sauce;
- UHT rice drinks with no sugar added

To expand the range, the end of 2015 saw the launch of new organic soy, almond, hazelnut and coconut/rice drinks, in addition to new berry, peach and apricot flavoured yoghurt.

- ✓ **Yoghurt:** Yomo Melinda was launched to better highlight the apple ingredient with the Melinda brand. In addition, the Yomo Più&Più yoghurt was repositioned with a new 150-gram package.

In addition, the "*Less Sugar*" project was kicked off with the aim of reducing the sugar added to yoghurt starting with the Yomo low-fat yoghurt line. The lower sugar content in food products is a driver for development that is taking on increasing importance, as nutritionists have widely demonstrated that high simple sugar consumption increases the risks of weight gain, obesity and cavities.

Activities continue to improve goat's milk yoghurt, alongside the transfer of production to the Pasturago production site.

- ✓ **Milk:** Accadì Fresco Digeribile, fresh easy-to-digest milk and the new Tetra Evero packaging for vitamin-fortified Accadì milk were launched. New milk products were developed for babies and specific formulas continue to be worked on for the European market and the Chinese and Korean markets. In addition, lactose-free UHT children's milk was developed and a gluten-free béchamel sauce was formulated for the English market.

- ✓ **Cheese:** technological innovation was particularly significant in the cheese segment, enabling the Group to create two new production lines. A production line was installed at the Soliera site for long-life mascarpone in Tetrabrik

packages, particularly for markets on the other side of the Atlantic. At the Usmate Velate site, the new IQF (Individual Quick Freezing) line was tested and approved, and will make it possible to freeze small-size mozzarella (julienne, bites, slices and cubes) and other pre-cut cheeses in perfect conditions, ensuring better quality and service to users of these ingredients, especially on foreign markets.

- ✓ **Industrial optimisation:** new processes were analysed to improve the yoghurt structure and increase soft cheese production yield. Studies were carried out to optimise ingredients used for fermentation, in order to ensure compliance with UNI standards for yoghurt and to streamline their use in cheese-making. Other key developments were the alignment of various subsidiaries' production sites to Granarolo guidelines and the revision and optimisation of references, in addition to the optimisation of production processes (particularly the Ricotta line in Montemiccioli).
  
- ✓ **Packaging:** the optimisation of packaging materials continues, both for cost reduction activities and better product durability. Innovative packaging materials are researched to be able to guarantee the sensory and composition characteristics of our export products. These materials must protect against air and light. The internationalisation process entails ongoing re-formulations of primary and secondary packaging to support the specific distribution methods.

Activities to optimise the quality of products and ingredients and the technological parameters of existing process lines, and to study and verify product shelf lives are ongoing.

## Research and development

The research and development laboratories are located at three production sites:

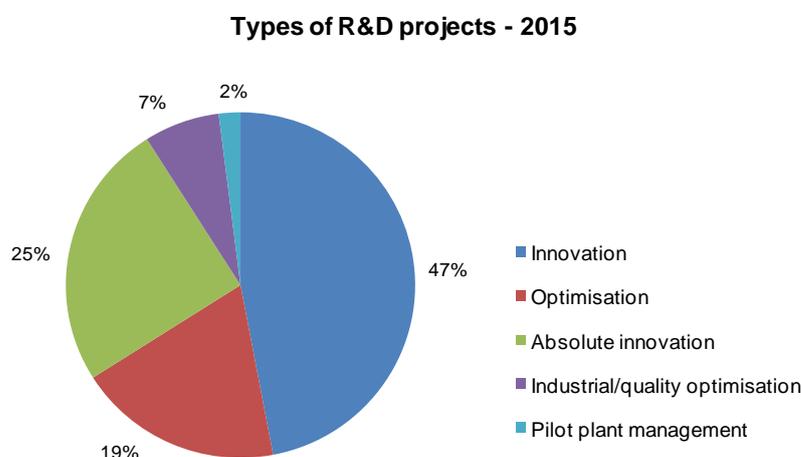
- Bologna: milk and cream product development
- Usmate Velate: cheese product development
- Pasturago: yoghurt, desserts and vegan product development. This site also includes a pilot centre that can support the development of the various product types.

16 researchers involved in the research and development department handle all product innovation stages from conception to implementation, new product development and launch at all the Group's production sites. In addition,

they also attend to post-launch activities. Experiments on products and packaging play a key role in the development of new products. These tests are carried out with subsequent scaling up until production begins. The performance of the project requires the creation of a work group, with the involvement of all business departments concerned (Marketing, Technical Management, Procurement, Manufacturing and Quality Assurance in particular), to check production, financial, commercial and distribution feasibility.

## The team's activities

The chart shows the time that researchers have devoted to the various projects, broken down by type of innovation.



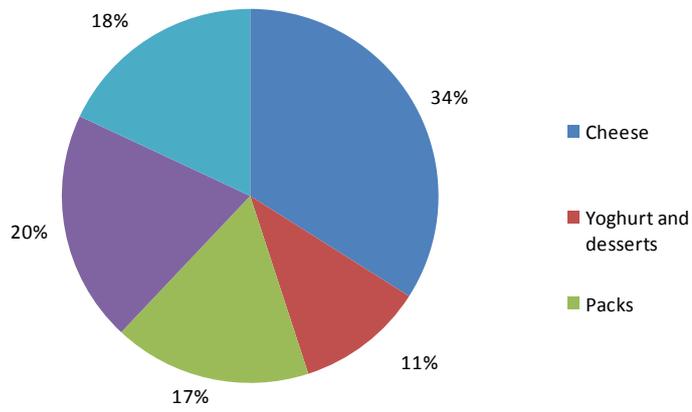
Most projects relate to product innovation (47% of time), with product and process optimisation coming in second (19%).

The amount of time devoted to overall innovation is significant (25%), and includes the development of particularly innovative products in terms of formulation, technology or product category. The development of the new line of vegan beverages and derivative products, the creation of the IQF line at the Usmate site and the long-life mascarpone line at the Soliera site are part of this type of innovation.

A significant amount of time is devoted to scientific research (7%) and implementing new technological plants at the Pasturago pilot centre.

The Group's deep focus on innovation has enabled it to launch many new products on the market in the different product categories. The chart shows the amount of time devoted to these activities, broken down by the various product types.

**R&D activities by business segment - 2015**



## QUALITY ASSURANCE AND FOOD SAFETY

### Certification

In 2015, the Group successfully continued the adoption of the FSSC 22000:2010, an international standard for food safety management system certification, resulting from the integration of ISO 22000:2005 and PAS 220:2008 standards.

These activities began in 2010 with the certification of the Anzio site and in 2011 progressively extended to the Pasturago, Bologna, Gioia del Colle and Soliera sites. In 2013, the Usmate Velate site, which already held BRC and IFS certification and, from 2004, UNI ISO UNI EN 9001:2008 certification, received ISO 22000 certification.

Thus, in 2015, these Granarolo sites operated in accordance with an integrated management system for quality and food safety. In September 2015, the Sestu site received confirmation of its BRC certification, improving from level B in 2014 to the current level A.

The Parma site also received confirmation of its BRC certification. In addition, in January 2015, the integrated Quality, Safety and Environment policy was confirmed and the details on this policy in the three specific areas will follow in 2016. In February 2015, the multi-site certification was confirmed for the registered office (supply chain, commercial, marketing, research and development and human resources). The certification process consisted of an analysis of food safety dangers for all production site departments and the central quality group.

The integration of systems for quality management (ISO 9001:2008), food safety (FSSC 22000:2010), health and safety in the workplace (OHSAS 18001:2007) and the environment (ISO 14001:2004) continues.

The optimisation and simplification of flows, personnel's routes, ingredients and packaging in the production units, which Quality Assurance had already begun, continued in 2015 as well, and the experience gained and the models tested at Granarolo's sites were also extended to the Sestu, Castrovillari and Usmate Velate sites. At the latter, a tunnel was built connecting the Brianza-based site's two separate production buildings to unite them in one single structure and update them to BRC, IFS and ISO 22000 standards. Leading UK players recognised the value of this structural project, the high quality standards and the excellence of the food and production structure safety management systems, confirming their 2015 orders with the Usmate site.

Ongoing training activities continued with the aim of maximising personnel's awareness of specific operational methods to increase the safety and hygiene of products.

To guarantee and maintain the management systems (ISO9001, FSSC22000, BRC, IFS, NO OGM plant certification, product, chain and organic certification), a management and control system was set up, providing for:

- compliance with the internal audit plan. All sites and site functions are inspected regularly and the findings make it possible to take the appropriate corrective action;
- regular site hygiene assessments by central Quality Assurance ("QA") staff (annually) and the individual sites' QA staff (monthly);
- updates of documentation and monitoring of indicators (BMQ and quality indicators).

The CORE project continued in 2015 as well, aimed at reducing foreign bodies in products. All sites continued the detailed analysis of the dangers posed by foreign bodies due to the construction characteristics of production and packaging plant, along with the analysis of the technical features and the adequacy of metal detectors and X-ray machines in place, evaluating the improvements to be made to this equipment, training personnel on how to manage MD/XR equipment and, finally, implementing specific check lists.

The "Molli Zero" project at the Bologna cheese factory was successfully concluded. The aim of the project was to reduce the number of complaints received, and the results were extremely positive, with stracchino-related complaints down by 23% on 2014.

Following the considerable investments made in recent years, the bagged mozzarella packaging lines are now equipped with modern, highly sensitive metal detectors or x-ray machines.

In addition to operating aspects, significant structural projects were carried out, including changes to the road system and site access, protecting plant and machinery from physical harm, updating software and increasing the degree of automation of thermal treatment systems to maximise food safety levels.

The Manufacturing Quality Assurance Office's work was crucial, leading to the following results:

- the Sestu site completed its upgrade of documentation for the UK market, defining new processing flows in production rooms and partially restructuring the building to meet the food defence standards;
- the Parma and Montemiccioli sites were aligned to the Group's food safety standards.

In order to increase food safety levels, monitoring plans were adopted again in 2015 covering milk supplies, packaging and purchased finished goods. 85 audits were conducted, including 26 on suppliers of milk, cream, rennet and whey, 10 on ingredients, 29 on suppliers of finished goods and 20 on suppliers of packaging materials.

The OFDC BIO certification obtained in 2014 was renewed in 2015. It covers organic milk and UHT milk production for the Chinese market.

To meet commercial requirements, the Group decided to double the number of certified dairy farms from five to ten in 2015.

In 2015, the foundation was laid for an improvement in the quality of sheep's milk. Activities will begin in 2016.

Product complaints decreased significantly and the ambitious target of 3.00 complaints for every million units sold was achieved.

Packaging continued to be monitored, with a specific focus on the plastic film used to seal packages, and a risk analysis was conducted to check data gathered in recent years in relation to solvents, heavy metals and the total and specific migration of aromatic amine, with the definition of a minimum audit plan. A similar approach was taken for all containers that come into direct contact with products.

The Group expects to offer greater quality guarantees of raw materials, ingredients and, accordingly, finished goods, through the central laboratory's continuous search for new analytical methods to detect pharmacological residue, the sites' adoption of methods for the rapid detection of total bacteria in incoming milk and cream, the constant use of rapid detection systems for mycotoxins, an increase in the number of analyses conducted on contaminants and the ongoing application of georeferencing for milk production, with the mapping of raw material production sites and potential risk sources near dairy farms.

As part of the vegan project, Granarolo no-OGM soy/corn specifications have been defined in accordance with DTP030, minimum control specifications have been drawn up in line with food and chain safety principles, and it is followed by all chain operators, seed producers, soy extract suppliers, transporters of semi-finished goods and production sites. The minimum control plan not only provides for analyses to exclude any OGM products throughout all processing stages, but it also requires utmost attention to monitoring potential contaminants in the water and soy seeds and the validation of CIP washes in tanks and plants to prevent any cross contamination. DTP030 no-OGM and 100% Italian certification was obtained in February 2015.

In terms of AFM1 monitoring, all production sites continued to check all raw milk tanks upon their arrival and an alert threshold of 30 ppt was set for self-analyses performed every 15 days on bulk milk. This is more restrictive than the limit set by the supervisory authorities. In view of close cooperation with milk suppliers, the central laboratory has offered to help Granlatte dairy farmers determine mycotoxin in milk when the cow's diet is changed and when new lots of corn, silage or feed arrive. Indeed, rather than focusing solely on product analysis, Granarolo is increasingly convinced that it is important to go upstream in the production chain and assess the factors that, at a product's origin, could affect its quality, before looking solely at the product itself. Moreover, as it oversees the entire production chain, raw material control systems are more stringent and efficient.

## Product quality and food safety activities and checks

Throughout the year, activities to ensure the safety of supplies were ramped up further, especially with respect to raw materials and branded finished goods. All milk-based raw materials (raw and pasteurised milk, cream and whey) complied with technical specifications, including restrictions on how much time could pass after milking in the cowshed before the milk was delivered ("milk age" restriction). To gain more control over ingredients, in collaboration with suppliers, all information and data necessary to prepare technical specifications was gathered.

Auditing on the supply of eggs continued: the selection and packaging centres, poultry farms and feed producers were audited in accordance with an annual plan and received an inspection from the certifying body, which confirmed their compliance with the standards established in the relevant specifications. In June, the Group decided to forego this certification. Again in 2015, the use of the *L. Acidophilus*D2 CSL probiotic was used in the feed given to hens: the Group is convinced that this practice, as it has a positive effect on laying hens' intestinal flora, improves the nutritional content of eggs, the characteristics of the shell and, consequently, has a positive impact on the product's quality and food safety.

In accordance with the annual audit plan, 29 suppliers of branded finished goods were audited for quality, defining the technical specifications with restrictions on chemical, microbiological and sensory parameters.

The monitoring plan was confirmed for raw materials and branded finished goods (including both those produced internally and those produced by third parties). As in 2015, the plan entailed about 14,000 checks, approximately 600 of which to monitor pesticide, dioxin, PCB and heavy metal content.

Projects to improve quality and food safety management, along with the objectives for the related KPI were formalised and published in the "2015 Quality, Safety and Environment Plan". The monthly progress reports were performed and discussed at various group levels.

Site and product safety are new issues that all large distribution chains in Europe and America require of their suppliers. The strategies developed to meeting food safety standards must be integrated with specific actions to improve safety in terms of food defence. In this respect, in 2014, the food defence project began to define a food defence policy, take structural and management steps to make stalls safer and define a plan that can be followed, with corrective action to be taken if an intentional attack or deliberate tampering occurs.

These data and the activities carried out reinforce the awareness that quality is a key asset for Granarolo, which must be constantly monitored and continuously improved.

## ENVIRONMENTAL SUSTAINABILITY FROM THE COWSHED TO DISPOSAL

### The environment

#### *Environmental certification*

In terms of environmental sustainability, Granarolo has set the following strategic targets:

- prevent, control and reduce environmental impact by setting tangible, measurable objectives;
- making its entire production chain sustainable;
- increasing environmental awareness through training and communications programmes;
- informing stakeholders, including consumers, of the results of environmental management through clear, accessible communications.

In the pursuit of these targets, the Group:

- readily complies with all environmental legislation;
- adopts certified management systems to improve environmental performance;
- conducts LCA (Life Cycle Assessment) studies as a decision-making tool for new products and projects;
- reports strategies to stakeholders.

In 2015, all Granarolo S.p.A. sites maintained their “multi-site” certification in accordance with UNI EN ISO 14001 and OHSAS 18001 standards, passing the audits with new findings for the continuous improvement of production sites.

None of the audits showed any violations of laws. The Bologna and Soliera sites maintained their EMAS registration and prepared the related environmental declarations. The company is committed to keeping its multi-site certificates active and functional, enabling the single and homogeneous management of production sites, with synergies between them, and implementing shared solutions for similar issues.

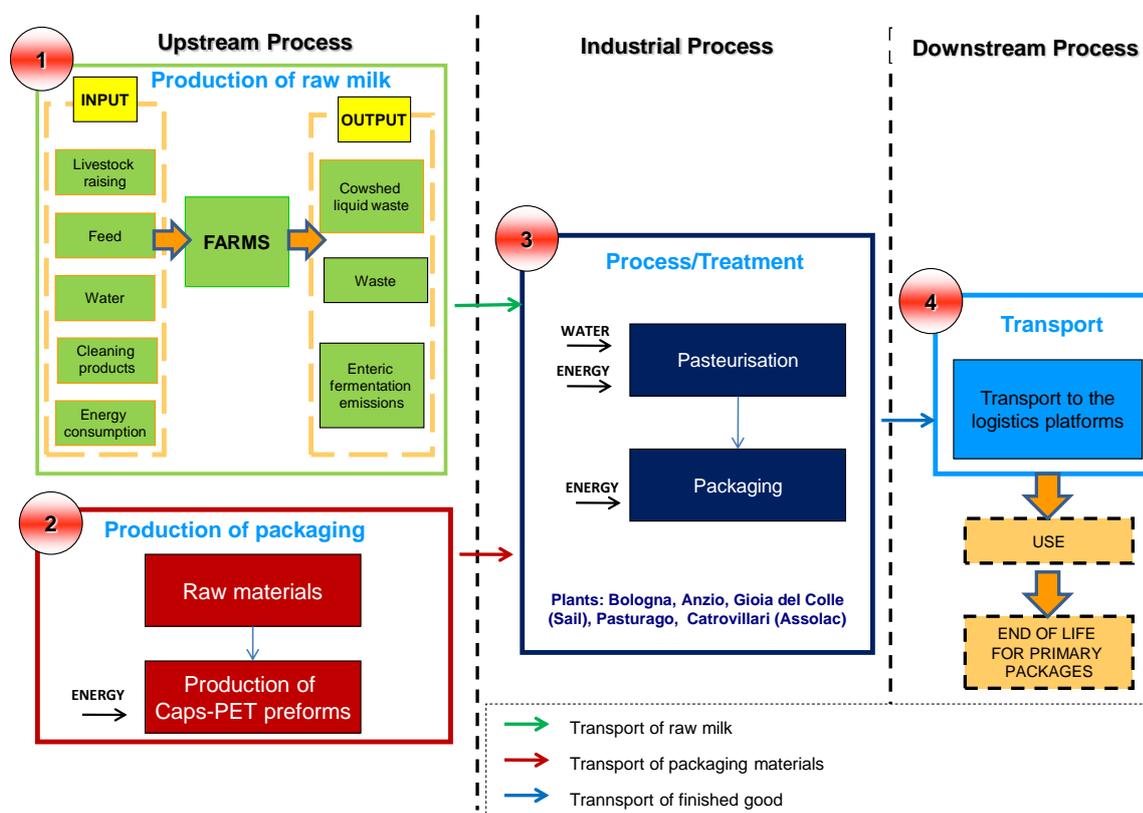
The company aims to certify production sites acquired through mergers and acquisitions in accordance with UNI EN ISO 14001 and OHSAS 18001 standards within 12 months. In 2015, the foundation was laid to introduce management systems at certain group companies with procedures, instructions and registration forms that are simplified and streamlined.

### Granarolo S.p.A.'s EPD process

In 2015, Granarolo continued to develop and maintain its certified “EPD process” to report on the environmental impact of its products and publish verified information on the basis of the EPDs (environmental product declarations), which are validated in accordance with International EPD® System standards (www.environdec.com).

EPDs are Type III ISO (Environmental declarations - Principles and Procedures - ISO 14025) declarations based on a product life cycle analysis (LCA) with the main aim of providing relevant, verified and comparable information on the environmental impact of a given product or service.

The following chart provides general information on the scopes of the system subject to analysis as part of the LCA studies of the milk and derivatives (yoghurt, cheese, etc.) chain.



In 2015, nine new EDPs were implemented and published for Granarolo brand products, in addition to those already in place, which are periodically updated. During the routine review of the EPD process in October 2015, the company decided to include a series of new products in 2016, specifically UHT soy drinks and Granarolo and Accadi brand cheese products.

EPDs were prepared for the following products:

- high quality, light/organic fresh milk;

- high quality mozzarella;
- organic eggs;
- Accadi mozzarella;
- Accadi milk and cream;
- organic, high quality and Accadi yoghurt.

In addition to reporting information on the production process and each product's characteristics, the EPDs include specific environmental indicators on carbon footprints, ecological footprints and virtual water consumption. For example, the impact of one litre of lactose-free milk (UHT) and one kg of high quality mozzarella is disclosed.

*Footprint of one litre of lactose-free milk (Accadi)*

 ENVIRONMENTAL FOOTPRINT	UPSTREAM			CORE	DOWNSTREAM			TOTAL
	 Raw materials	 Packaging	 Ancillary materials	 Process	 Distribution	 Home conservation	 Packaging end of life	
 ECOLOGICAL FOOTPRINT	2.4	0.5	0.1	0.5	0.3	0.3	<0.1	4.1 global m <sup>2</sup> /litre
 CARBON FOOTPRINT	0.7	<0.1	<0.1	0.2	0.1	0.1	<0.1	1.3 kg CO <sub>2</sub> eq/litre
 VIRTUAL WATER CONTENT	913	8	1	4	<1	<1	<1	927 litres/litre

Footprint of one kg of high quality mozzarella

ENVIRONMENTAL FOOTPRINT	UPSTREAM			CORE	DOWNSTREAM			TOTAL
	Raw materials	Packaging	Ancillary materials	Process	Distribution	Home conservation	Packaging end of life	
ECOLOGICAL FOOTPRINT	23.6	1.3	0.2	2.4	0.2	1.4	<0.1	29.2 global m <sup>2</sup> /litre
CARBON FOOTPRINT	7.1	0.4	0.1	0.9	0.1	0.5	<0.1	9.1 kg CO <sub>2</sub> eq/litre
VIRTUAL WATER CONTENT	9 173	3	1	36	<1	2	<1	9 216 litres/litre

## Steps taken to reduce the environmental impact of the Granarolo Group's products

The LCA analyses and the published results on the EPDs are one of the ways in which the Group has identified key areas on which to focus when seeking to reduce the environmental impact of its products, and the steps taken involve the main elements of the chain.

### Environmental projects

A series of inter-related activities are carried out as part of the LCA (life cycle analysis) of traditional and organic products, including:

- development of LCAs (ISO 14040 and 14044 standards) to assess the environmental impact of products over their entire life cycle, from the cow feed to milk production at the dairy farms, milk pasteurisation and processing, packaging, transport and distribution, use and end-of-life;
- definition and development of a communications strategy for the environmental impact of products and the results achieved on the basis of EPDs (ISO 14025), product environmental profiles ("PEP") (ISO 14025) and environmental product labelling (BP X30-323). with end consumers in mind;

- identification of potential measures to be taken to reduce emissions in the life cycle of the selected consumer products. To this end, the results of Granarolo's LCA project are incorporated in the definition of its environmental policy and, accordingly, its environmental programmes;
- definition of targets and implementation of steps to reduce environmental impact (with a specific focus on carbon footprints) through more efficient farming practices, the widespread use of solar power systems and/or anaerobic digestion systems in cowsheds, the installation of cogeneration systems at sites and environmental efficiency projects for product packaging;
- introduction of ecodesign criteria in business processes to improve the environmental performance of products with particular regard to packaging based on specific calculation tools;
- widespread application of guidelines for the dairy farms supplying raw milk, which were drawn up in 2014.

### *Water conservation and waste management*

Water conservation efforts have included:

- reporting projects on the water consumption of the production units at the Group's various sites, by installing water metres, to optimise consumption and establish targeted efficiency strategies;
- steps to be taken in the washing of production lines and plant with the use of single-product sanitizers which do not need to be rinsed twice, saving significant water volumes.

In 2015, the amount of water that was recovered and reused thanks to reverse osmosis systems met roughly 7% of total water needs at a site.

Water consumption, restated on a like-for-like consolidation basis, has decreased over the past five years. This positive trend is due to the water savings projects that have been carried out.

### *Energy conservation*

In 2014, two complementary projects were launched at the cogeneration systems already in place (at the Usmate Velate and Pasturago di Vernate sites), to recover low-temperature heat for process plant, such as automated and manual washing systems (CIP) and production room heating systems (UTA). The two recovery systems were rolled out in 2015 and increased the amount of recovered heat by 40%.

With respect to the cogeneration systems, in 2015, Granarolo rolled out the third cogeneration engine at the Bologna site, bringing installed capacity to approximately 15MW, equal to the energy consumption of about 5,000 households. Following this project, the Granarolo Group self-produces electricity covering 55% of its total energy consumption.

As part of the 2015 energy plan and in accordance with Legislative decree no. 102 of 4 July 2014 and ENEA (Italian Agency for New Technologies and Energy) guidelines, energy audits were conducted at Granarolo S.p.A.'s main production sites.

The findings of the energy diagnoses led to the identification of 45 energy efficiency projects, with expected savings of approximately 4,200,000 kWh/year in electricity and 500,000 Sm<sup>3</sup>/year in natural gas (-3% of the Group's total). These savings would also translate into a reduction of about 2,000 tonnes/year in the CO<sub>2</sub> released into the atmosphere.

Following the diagnoses and as part of the Energy Efficiency Plan, 2016 will see the completion of two multi-site projects to improve the efficiency of ammonia-based refrigeration systems and the low-temperature heat recovery circuits, which are two of the biggest energy users at sites.

Finally, two projects began on the compressed air energy system in 2015 to search for and manage leaks at the Gioia del Colle and Bologna sites. These projects led to the identification of air circuit leaks creating waste of roughly 1,500,000 kWh. A specific maintenance plan to be carried out in 2016 will reduce leakage to a physiological minimum.

### *2016 environmental targets*

The following environmental targets have been set for 2016:

- completion of the first chemical/physical stage (the activity began in 2015) of the water treatment plant at the Usmate Velate site;
- continuing research and development to reuse packaging waste and reduce it by promoting ecological packaging (ongoing activity);
- 10% reduction of the waste portion of mixed packaging compared to 2015 in order to encourage the sorted waste collection of other packaging;
- reporting and comparison with the targets of the main CSR indicators according to the GRI4 (Sustainability Reporting Guidelines) using the calculation tool implemented in 2015, the use of which will be consolidated in 2016 with the involvement of the Group's subsidiaries as well;
- completion of the Europeo Life+ Climate Chang E-R project to quantify greenhouse gas emissions in the farming systems in the Emilia-Romagna region, by surveying the good practices in place at certain farm businesses that were selected in advance and involved in the project, with the aim of extending these practices to other farms in the same region and throughout Italy.

## HEALTH AND SAFETY IN THE WORKPLACE

The Group Policies cover Granarolo's commitment to health and safety in the workplace. Following the Group's increased internationalisation, these policies were revised to fill in the gaps with respect to issues like food defence and the creation of operating standards for the management of all activities in a way that better responds to the needs of international customers.

The Group's goals in terms of safety consider the 2014 performance and have been set with the aim of continuously improving such performance, evaluating the potential of each individual site considering its size, number of employees, hours worked, volumes produced and investments planned for the year.

2015 saw the official appointment of all safety representatives at Granarolo's and its subsidiaries' production sites and this should increase the involvement of people in the various positions in the management of safety indicators and the achievement of the targets set.

The three Charters of Quality, Safety and the Environment were prepared for the entire Granarolo Group to better detail its targets in these areas. Moreover, the QSE Plan was drawn up to tangibly plan how to uphold the principles in the charters.

In 2015, the Group implemented safety management software that had been created ad hoc with the support and involvement of the Protection and Prevention Service Managers for each site. This will enable it to create a general risk assessment document using the same standard for all sites. Related activities like those concerning individual protective devices, health monitoring, deadlines for training courses and the preparation of interference risk assessment documents will equip the Group with consistent documents that make it possible to truly coordinate many sites that are geographically distant.

The creation of a specific safety tool enables Protection and Prevention Service Managers to immediately report an accident to the Site Manager, Employer and Group Safety and Environment Manager. An email is automatically sent to those concerned so they know of the event and the seriousness in real time.

All specific risk assessment documents were updated using the same calculation method and the same format, and their content was reported in the general risk assessment document drawn up for each individual job. Finally, management software was implemented that is always up-to-date on developments in legislations and the related requirements, so Protection and Prevention Service Managers are always updated and informed on the laws in effect that apply to their site.

## Safety indicators

### *Number of accidents and the number of days lost*

Approximately 1,600,000 hours were worked in the production units (compared to 600,000 hours worked by administrative personnel). A total of 2,200,000 hours were worked in all, and the number of days lost was 834 in 2015, 341 days fewer than in 2014.

There was a total of 38 accidents, 37 of which involved operating personnel and one of which administrative personnel. There were 15 fewer accidents than in the previous year and, despite the increase in the number of hours worked, the number of days lost was reduced by one quarter.

The average duration of recovery time following an accident was 18 days, compared to an average of 22 days in 2014.

The Group plans to strive for “no accidents”, continuing to analyse accidents and near misses and to implement a management system to achieve this goal.

### *Frequency ratio and accident seriousness rates*

The Group complied with the frequency ratio and seriousness rates recommended by INAIL (national labour insurance institution).

The Group's frequency ratio was 17.39, which is significantly lower than the ratio that INAIL recommends for the sector (26.41). The same stands for the accident seriousness rate, which came to 0.38 in the year, compared to the INAIL rate of 2.31 for the sector.

The sites affected were those that Granarolo S.p.A. manages (Gioia del Colle, Pasturago di Vernate, Bologna, Anzio, Usmate Velate and Soliera).

## THE ITALIAN MILK CHAIN AT THE MILAN EXPO 2015: A WINDOW TO THE WORLD

Granarolo represented the Italian milk chain at the Milan Expo 2015 and decided to promote and highlight quintessential Made in Italy qualities by providing extensive information to consumers from around the world and by organising many international events.

The Granarolo Milk Experience in the Italian Pavilion gave visitors the chance to experience installations showing the history and artisanal, geographical and artistic tradition of milk and its derivatives.

Exciting, fun, interactive activities were offered, including tastes of the special foods that best embody the authenticity of Made in Italy production.

In its exhibition space spanning 200 square metres, Granarolo displayed a prestigious sculpture of the Nursing Madonna from the fifteenth century, loaned by the Fondazione Lercaro di Bologna and shown to the public for the first time at Expo 2015, as the event provided an excellent opportunity to talk about the importance of breastfeeding up through a child's first year of life and of the banks of donated human milk that save the lives of babies born underweight (moreover, the Granarolo Group founded the first human milk bank established through a public/private synergy).

Videos and interactive kiosks entertained hundreds of thousands of visitors who were able to discover the rich world of milk, an extraordinary raw material that no one transforms better than Italians.

Discussion repeatedly returned to milk, cooperation and the importance of protecting Italian dairy production.

Mainly international delegations of institutions and buyers visited the Group's exhibition space and its sites in Italy during Expo 2015.

### Granarolo's Expo highlights:

- Granarolo's space in the Italian Pavilion spanned 200 square metres;
- 187 of Granarolo's people worked on the Expo project during the six months it was held;
- 510,000 visitors came from over 30 different countries, including 22,875 students;
- 57 delegations visited from 29 countries;
- 18 foreign delegations and buyers toured Granarolo's sites;
- Granarolo directly organised 17 major events;
- Granarolo participated in 22 major events;
- 3 international conferences were held;

- Over 1,000 publications were issued (711 online posts, 271 paper publications and 39 TV/radio broadcasts)

All the Group's stakeholders were involved in the Expo 2015 project, including employees who actively participated over the six months in which the Expo was held with an average shift of four days at the pavilion to support the Communications and Marketing task force; shareholders, whose close, pro-active presence is always felt, especially in the battle to defend the Italian dairy chain (for example, with respect to awareness campaigns against the use of milk powder in Italian cheese making); institutions; opinion leaders and the press. Furthermore, standing alongside Granarolo during conferences and events (namely: the Prime Minister, Matteo Renzi, the Minister of Agricultural and Forest Policies, Maurizio Martina, European Parliament Member, Paolo De Castro, leading reporters who contribute to Italy most influential newspapers *Il Sole 24 Hours*, *Il Corriere della Sera* and *La Repubblica*), the main European cooperatives (Friesland Campina, Arla and Sodiaal); leading Italian and foreign banks, with their observers and experts in the sector and, last but certainly not least, consumers who, despite the weak economy, have begun see Granarolo as the company that holds up the Italian torch in the dairy chain and shared their sentiments on the social networks that the Group monitors using a sophisticated daily reporting system for online conversations.

## FOCUS ON KEY STAKEHOLDERS: EMPLOYEES, COOPERATIVE MEMBERS, CONSUMERS, THE COMMUNITY AND NEW GENERATIONS

### *Employees*

In 2015, management organised meetings with the various divisions to explain to employees the market scenario in which the Group is operating and the strategies it has adopted to face current and future challenges, including the commitment it expects from each division, especially considering the new strategic plan.

"A Gran Voce", the quarterly newsletter created in 2011 as a platform for employees and dairy farmers, now also includes contributions from people outside the Group about current issues (like the reasons behind non-recurring transactions farm-gate raw milk prices and Expo 2015) and contributions from operating division personnel. Upon the Chairman's request, in 2016 it will be expanded further and be distributed outside the Group to farms that have not received it until now.

The Group renewed its commitment to company welfare by promoting a series of initiatives to tangibly support employees' families from a socio-economic standpoint. Of the many initiatives carried out, the most important was certainly employees' participation in Expo 2015. In addition, the Group awarded merit-based scholarships to help protect the right to education, offered mothers half the day off on Mother's Day and launched the Archimede project midway through the year with the aim of gathering ideas from anyone in the company who has an idea for achieving any kind of savings in terms of processes or to launch a new product on the market. Given the significant value of these initiatives and the high level of participation, management plans to promote the Archimede project again in 2016.

Allattami, the donated human milk bank, continued with the successful involvement of Granarolo pensioners and young unemployed people, who helped collect milk and distribute it to the Sant'Orsola, Maggiore and Ferrara hospitals after it had been pasteurised. They received a small sum in exchange for their help.

The Group has begun carefully reflecting ethics, and this has led to the definitive drafting of a new code of ethics. At the same time, a campaign to gather feedback from Granarolo's various stakeholders is underway. This feedback will be used to generate a new materiality map which will be included in the Group's 2015 Sustainability Report. Three out of six focus groups were employee focus groups.

### *Cooperative members*

Like every year, in 2014, the Chairman and General Manager of Granarolo and General Manager of Granlatte met with all members of the Granlatte cooperative twice: once in the spring and once in the autumn to update them on

developments in the business plan, especially in the light of the price of the raw material, as we approach the end of the milk production limits. These periodic meetings are held in Milan, Bologna, Anzio, Benevento-Campobasso and Gioia del Colle.

## Consumers

Again in 2015, the Granarolo Group continued to reinforce the communications systems whereby consumers and customers (mainly supermarket chains) can contact the group companies, to make it easier and faster for them to do so. In particular communications systems include:

- a free call centre;
- a website that enables users to send general requests or product defect reports via email;
- Facebook and Twitter.

In 2015, in the light of the investments made on the Facebook page and the monitoring of social networks using the Reputation Manager, the number of fans has grown significantly with investments in tools to content “go viral”.

## *“Digital Granarolo” initiatives: listening, participation and inspiration*

In 2015, key projects were carried out, in line with developments in the Granarolo Group. The consumer and corporate areas were divided, creating three macro sites, each with its own specific aim and each designed to be more responsive to its respective purpose:

1. The corporate website [www.gruppogranarolo.it](http://www.gruppogranarolo.it)

The main areas are: Company, Finance, Sustainability and Mediaroom, with a focus on Expo 2015, for the entire six months of the exhibition. The corporate site mainly focuses on company information relating to the chain, history, commitment to sustainability, performance, certification and initiatives.

2. The consumer website [www.granarolo.it](http://www.granarolo.it)

The website focuses on the Group's brands and products, with a modular homepage that gives a hierarchical order to the information, with a mosaic of transversal content relating to each brand. There are four macro areas: About us, Trademarks, Products and Recipes. The products are organised by brand, category, when they are enjoyed and special needs and specific targets. The Recipe section is filled with different recipes for over 400 dishes, featuring step-by-step instructions. Users can search recipes by category, time needed and other, more advanced search criteria.

### 3. The international website [www.granarologroup.com](http://www.granarologroup.com)

A multilingual website set up to publish the Group's corporate finance content and range of products. The website was created to reassure and guarantee the Group's solidity and commitment and the safety of its products.

Since 2007, Granarolo has published its annual report online. The section where it is published was entirely redesigned with new graphics and navigation features, making it accessible to mobile devices in both Italian and English.

### **Viral video: Growing up with Granarolo milk**

Granarolo wanted to use a viral video to communicate the importance of eating breakfast and the role that milk plays in children's growth. Its message is light, playful and not overly "branded", in order to contrast the negative sentiment about milk resulting from the vegan movement. The video, which conveys the social value of breakfast, received over 380,000 views and more than 19,000 hits on social networks in three weeks. The campaign was launched around the Christmas holidays and is still being shown (January 2016). It also involves bloggers.

### **Social networks**

Granarolo is active on the major social networks:

- Facebook: Granarolo, Granarolo 100% Vegetale, Granarolo Bimbi and Yomo
- Youtube: a company channel and a product channel
- Instagram: Yomo and Pettinicchio
- Twitter: mainly for live tweeting during events and important days

In 2015, Granarolo increased its use of social networks with Instagram accounts for Yomo and Pettinicchio, Twitter for live tweeting during the Expo 2015 events and important days. Social networks are an increasingly crucial tool for Granarolo to engage users and encourage their loyalty, while also increasing Granarolo product awareness and conveying the brand's values. Social communications always use light tones and exciting graphics, letting images speak for themselves, seeking to inspire and captivate fans so they will take part in initiatives (e.g., the 101 hard things to digest).

Granarolo also uses social networks to answer consumers' questions and/or respond to their complaints, as part of its interfunctional company collaboration approach.

## The community and new generations

### *The Allattami project*

Each year in the city of Bologna, 100 premature babies are born and face a daily struggle against countless difficulties, from infections to serious complications that put their lives at risk. Scientific research clearly shows that human milk increases the survival rate of premature babies and encourages their growth and development. However, mothers whose babies are born prematurely are often under significant physical and psychological stress and do not produce enough or any milk at all. To meet this need, Granarolo and the Policlinico di S. Orsola hospital established "Allattami" in September, a donated human milk bank for Bologna.

"Allattami" selects donor mothers, picks up their milk directly at home, stores it in total security and supplies it to the city hospitals.

This project has now extended outside the province: in addition to the Ferrara hospital, which was added to the project's scope in 2013, the Parma and Imola hospitals will soon be included through an agreement reached with Croce Rossa Italiana. This model is such an excellent example of efficient cooperation between the public and private sectors that it is often cited in articles in the press.

### *Africa Milk Project*

The Africa Milk Project merits specific mention. It is an international cooperation project for self-development promoted by Cefa Onlus in cooperation with the Granarolo Group. The aim of this initiative, which began over a decade ago, is to develop a micro milk chain around the Njombe Milk Factory (a cooperative dairy factory in one of the most impoverished areas of Tanzania) a small but self-sufficient farming/livestock system that can produce milk and distribute it to homes and schools, offering food, work and economic activity all at the same time. Since the project began, Granarolo has supported the development of the Njombe Milk Factory by providing financial contributions, educating Tanzanian dairy farmers, including training at the Bologna site and by offering other types of assistance. Since 2009, through the Africa Milk Project, the Group has attempted to more significantly ramp up this initiative, also involving its consumers, in line with the principles of cooperation for self-development. To publicise the initiative and involve a growing number of people, Granarolo created a website and Facebook page: [africamilkproject.org](http://africamilkproject.org). In 2015, the newco under the direct supervision of the local authorities and Tanzanian dairy farmers took off, achieving the project's objective: self-development and independent management.

With the Africa Milk Project: love your land, combat poverty and drink your milk”, CEFA “il seme della solidarietà”, Granarolo, the Ministry of Foreign Affairs and the Tanzanian Njombe Livestock Association, won first prize for their best practices in the “Sustainable development of small rural communities in marginal areas” category at Expo 2015. 800 competing projects were judged by a panel consisting of renowned photographer Sebastiao Salgado, Prince Albert of Monaco, the Minister of Farming, Food and Forest Policies Maurizio Martina and Andrea Illy, Chairman of Illy Caffè. Africa Milk Project placed first in its category: “Sustainable development of small rural communities in marginal areas” ([www.feedingknowledge.net](http://www.feedingknowledge.net)) and was one of only three projects recognised for their global best practices in food safety at Pavilion Zero, the space developed in collaboration with the United Nations, which introduced the 24 million visitors to the theme of Expo 2015. The AMP project was presented in a film by Enrico Carlesi, which was shown for six months in Pavilion Zero, telling the story behind the “heroes” of this small miracle. AMP was naturally hosted inside Granarolo’s space in the Italian pavilion.

### *Initiatives with schools*

In 2015, the Granarolo Group continued its fruitful initiatives with schools in the cities where its largest production sites are located, hosting schoolchildren of all ages (preschool, primary school, middle school, high school, university and post-graduate) at its sites for educational tours about the production process, including classroom lessons to explore areas of interest. During the year, 1,095 people visited the Pasturago site, 4,084 the Bologna site, 681 the Gioia del Colle site, 346 the Usmate Velate site and 172 the Soliera site, for a total of 6,378 visitors (compared to 5,360 in 2014). Expo 2015 provided a substantial boost to these numbers (over 1,200 were not students, but foreign delegations).

In 2015, the “La casa di Lola” edutainment project commenced for primary school students (4th and 5th year classes) and was a smash hit. It is a role-playing game to encourage children to reflect on the complexity of the milk and milk derivative production process and to discover the secret behind its mysteries. The project will be offered again in 2016.

### *The Gain Your Health campaign*

Granarolo has always made it its mission to supply safe food in terms of hygiene and nutrition and to offer suggestions for a healthy diet, which constitutes a significant social commitment. It has been involved in an important initiative in this respect for several years, which it continued in 2015: publishing brochures to support the Earn your Health campaign. 40,000 brochures were distributed through events and initiatives. These are guides for a balanced diet for children and teenagers, the elderly and athletes, specifically written in a way that is simple and easy to understand, but

with a scientific basis. The brochures were sponsored by the Ministry of Health. They aim to help all target groups. The brochures, which can be downloaded for free at [www.gruppogranarolo.it](http://www.gruppogranarolo.it) are distributed at schools, sports events that Granarolo sponsors and centres for the elderly.

## EVENTS AFTER THE REPORTING DATE

### *Granarolo International S.r.l.'s investment in Granarolo Baltics*

On 28 January 2016, Granarolo International S.r.l. acquired an interest in Granarolo Baltics OÜ, an Estonian company based in Tallinn, Estonia, by subscribing new shares worth a total of €200,000.00, €5,500 of which for the share capital increase and €194,500.00 for the share premium. According to IFRS 10, this acquisition gave Granarolo International S.r.l. control of the company.

Granarolo Baltics OÜ commercialises dairy products and imports high-quality Italian products onto the Estonian market.

### *Merger of Pinzani 1969 S.r.l. into Granarolo S.p.A.*

The plan for the merger of Pinzani 1969 S.r.l. into Granarolo S.p.A. was filed with the Bologna company registrar on 29 January 2016 for the merging company and on 1 February 2016 for the company to be merged, after the plan had been approved by their respective boards of directors. The purpose of the merger is to simplify their organisation and management.

The merger will take effect for accounting and tax purposes as from 1 January 2016.

### *Granarolo International S.r.l.'s quota capital increases*

On 22 February 2016, the quotaholders Granarolo S.p.A. and Cooperare S.p.A. increased Granarolo International S.r.l.'s quota capital by €14,000,000, from €36,000,000 to €50,000,000, as follows, based on their respective percentages of ownership:

- Granarolo S.p.A.: €10.5 million, equal to 75%;
- Cooperare S.p.A.: €3.5 million, equal to 25%.

### *Sale of the entire investment in G Food S.r.l.*

The entire investment in G Food S.r.l. was sold on 25 January 2016. Because it was sold at its equity value (€20 thousand), no gain or loss was generated.

## CHAIRMAN'S CONCLUSIONS

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2015 show a net profit of €18,297,320.00.

These financial statements give a true and fair view of the financial position and results of operations and are consistent with the accounting entries.

The board of directors proposes:

1. approving the 2015 directors' report;
2. approving Granarolo S.p.A.'s separate financial statements as at and for the year ended 31 December 2015, in their entirety, and allocating the net profit for the year of €18,297,320.00 as follows:
  - €914,866.00 to the legal reserve,
  - €5,682,454.00 to the extraordinary reserve,
  - €11,700,000.00 as dividends to shareholders.

*Gianpiero Calzolari*

Chairman of the board of directors

Bologna, 14 March 2015

