



MEDIOBANCA

2016/19 STRATEGIC PLAN GUIDELINES APPROVED

ACCELERATION OF BUSINESS MODEL RESHAPING
MEDIOBANCA TO BECOME LONG-TERM VALUE PLAYER

SUBSTANTIAL GROWTH
IN HIGH-MARGIN BANKING ACTIVITIES
(GOP FORECAST TO REACH €1BN; 3-YEAR CAGR +10%)

PRIORITIZED DEVELOPMENT OF NEW WEALTH MANAGEMENT DIVISION
(TARGET CONTRIBUTION 40% OF GROUP FEE INCOME)

100% OF BANCA ESPERIA ACQUIRED

INCREASING CAPITAL GENERATION
OPTIMIZATION OF CAPITAL MANAGEMENT AND ALLOCATION PROCESSES
(FURTHER STAKE DISPOSALS OF €1.3BN TARGETED)

DEFINITIVE TRANSFORMATION TO DIVERSIFIED BANKING GROUP
BANKING ACTIVITIES' CONTRIBUTION TO GROUP GOP UP TO 80% (FROM 60%)
STRONG REDUCTION IN CAPITAL ALLOCATED TO PI (FROM 33% TO 20%)

FURTHER ENHANCEMENT IN ASSET QUALITY

ROTE 10%, CET1 RATIO 14%

200 BPS CAPITAL AVAILABLE FOR ACQUISITIONS



The Mediobanca Group has today approved the guidelines of its 2016-19 strategic plan, which confirms the **definitive reshaping of its business model focusing on specialized high-margin banking businesses. Accelerating growth in these activities while at the same time optimizing capital use and allocation will enable Mediobanca to upgrade definitively to become a long-term value player.**

The Group will benefit from:

- ◆ **enhanced revenue generation capability** (GOP to increase from €0.7bn to €1.0bn, CAGR +10%), with **greater diversification by source (fees up from 22% to 30% of total revenues, net interest income down from 59% to 56%) and division; fee income in particular will be higher and more stable, with 40% to come from Wealth Management (currently 21%) and 44% from CIB (currently 49%); Consumer Banking will retain its role as NII growth driver for the Group;**
- ◆ **increased capital generation capability** (€1bn of net equity in three years) providing **additional resources to fund acquisitions (up to €1bn) and remunerate shareholders;**
- ◆ **definitive transformation to highly diversified banking group: Principal Investing division contribution to Group GOP to halve to 20% (currently 37%), with Consumer Banking (33%) and CIB (32%) contributing equally, confirming the effective corporate-retail diversification, while Wealth Management's contribution will double to 15% (currently 7%).**

By the end of this three-year growth path the Group will have an even more sustainable, diversified and valuable business model, able to generate high income and capital, while matching outstanding balance-sheet content with efficiency.

Growth in banking businesses is expected to derive from **leveraging on strengths and opportunities in Corporate & Investment Banking and Consumer Banking** and from **prioritizing development of the new Wealth Management platform.**

- ◆ In **CIB, where profitability is targeted to increase further (ROAC up from 9% to 13%), a new organizational model** will be implemented which provides for enhanced coverage of core clients. On the domestic market in particular, priority will be given to building up a **Mid Corporate platform**, leveraging on the integration of **Banca Esperia, of which full control has now been acquired.** The existing **factoring and credit management** platforms will also be empowered;
- ◆ In **Consumer Banking** the outstanding results delivered in recent years as a result of major empowerment of the distribution network, provide an excellent foundation from which **to keep growing revenues and profits**, while retaining value management as the sole guiding principle (ROAC to increase from 16% to 20%);
- ◆ **Priority development** of the **Wealth Management** division, which will drive a substantial increase in profitability (ROAC to increase from 8% to 20%), will consist of:
 - ◆ **Integrating and developing recently-acquired companies**, i.e. Cairn Capital, Barclays and Banca Esperia, delivering **major revenues and cost synergies;**
 - ◆ **Serving larger Affluent & Premier customer base** which CheBanca! now has following the Barclays acquisition, with proprietary distribution and new FAs networks, supported by a fair and technology-driven product offering;
 - ◆ **Creating and developing a Mediobanca Asset Management** product factory, starting by integrating and developing capabilities already present in Banca Esperia, CMB e Cairn Capital;



- ◆ **Accelerating growth process through further acquisitions.**

- ◆ The **Holding Functions** division, which brings together Treasury and ALM activities, will benefit from the **decreasing cost of funding** (due to gradual disappearance of charges linked to the financial crisis) and **normalization of costs** linked to major, non-recurring projects; while the ordered refocusing of leasing activities will continue.

Capital generation is expected to derive from growth in earnings but also from **optimizing the capital management and allocation processes**:

- ◆ In **Principal Investing** equity investments will continue to reduce, both the **AFS** segment and the **Ass.Generali** stake, **for a total of €1.3bn**; completion of this optimization process, which had already been launched significantly in the previous three-year period, will free up additional capital resources for the Group to further grow its banking activities, and to be efficient in terms of regulation and profitability (ROAC 12%);
- ◆ In all segments, **profitable use of capital** will be the guiding principle for operating decisions;
- ◆ Over the course of the plan, **the advanced models** (AIRB) **will be validated and applied** to the Large Corporate (CIB), Consumer Banking (Compass) and Mortgage Lending (CheBanca!) portfolios.

For the period-end (30 June 2019) the Group has set the following objectives:¹

- ◆ GOP (net of cost of risk): €1bn (€0.7bn), 3Y CAGR +10%
- ◆ ROTE: 10% (7.5%)
- ◆ ROAC² of banking businesses: 12% (5%), with cost of risk 105 bps (115 bps):
 - ◆ Corporate & Investment Banking (CIB): 13% (9%)
 - ◆ Consumer Banking (CB): 20% (16%)
 - ◆ Wealth Management (WM): 20% (8%)
 - ◆ Holding Functions (HF): reduction in operating losses
- ◆ CET1: 14% (12%), pay-out 40% (40%)
- ◆ Equity disposals for €1.3bn, including further sales of AFS shares (€0.6bn) and reduction in Ass.Generali investment to 10% (13%); ROAC³ of Principal Investing of 12% (17%)
- ◆ Approx. €1bn available for acquisitions (or 200 bps of capital based on Group CET1 at end-June 2019).

¹ Figures in brackets refer to end-June 2016.

² ROAC: net profit/capital allocated (K). $K = 9\% * RWAs$.

³ ROAC of PI: net profit/capital allocated (K). $K = 9\% * RWAs$; AG net profit=consensus; $K = 9\% * RWAs +$ deductions from CET1.



The Board of Directors of Mediobanca has approved the Group's 2016-19 strategic plan.

MEDIOBANCA GROUP STRONGER AFTER THE CRISIS DUE TO OUR SPECIFIC STRENGTHS

The Mediobanca Group has emerged stronger after the financial crisis with reference to its **resilience, reputation, solidity and profitability**. This has been possible due to the Group's **specific strengths: its distinctive DNA and culture, sound positioning in specialized high-margin banking activities, ability to adapt the business model to changes in the regulatory framework and market trends, and ability to grow while reshaping**. In the past three years in particular, the Group has focused on creating a simpler business model, selling the majority of our equity stakes, and developing operations in capital-light, high fee-generating banking businesses.

The 2013-16 period covered by the previous strategic plan **delivered the following results:**

- ◆ **Strong growth in revenues** (from €1.6bn to €2.0bn) **and GOP** (from €370m to €736m);
- ◆ **Creation of €1.7bn in net earnings, €600m of which returned to shareholders** as dividends;
- ◆ **Disposal of €1.5bn in equity stakes;**
- ◆ **Outstanding balance-sheet content preserved**, as shown by the CET1 ratio rising to 12% (despite absorbing the impact of the stricter regulatory environment) and asset quality indicators unparalleled in the Italian banking panorama (NPLs/loans ratio 2.9% for Mediobanca, versus 10.5% for Italian banks generally) which compare favourably with the European banks' average as well (3.4%).

These results and the strategic reshaping process have enabled the **Mediobanca stock market price to outperform the European banking index** over the past three years.

2016-19 STRATEGIC PLAN STEP UP STRATEGIC RESHAPING OF MB GROUP

The current competitive situation, characterized by the adverse macroeconomic scenario, stricter regulation and increasing investments required in technology, **means that solid banks are set to grow** while less capitalized and efficient banks will increasingly be forced to restructure. **This will create substantial opportunities for Mediobanca to grow in the CIB, Consumer Banking and Wealth Management sector.**

In order to seize these opportunities and with a view to prioritizing growth in Wealth Management business, a **new Business Unit segmentation** has been adopted as follows:

- ◆ **Corporate & Investment Banking (CIB):** this division brings together all services provided to corporate clients:
 - ◆ Wholesale Banking: Client Business (lending, advisory, capital markets activity) and proprietary trading;
 - ◆ Specialty Finance, which comprises factoring (MBFacta)⁴ and credit management (Creditech).

⁴ MB Facta, the new Group company set up to bring together the factoring businesses.



- ◆ **Consumer Banking (CB):** this division provides retail clients with the full range of consumer credit products, ranging from personal loans to salary-backed finance (Compass and Futuro);
- ◆ **Wealth Management (WM):** this new division brings together all asset management services offered to the following client segments:
 - ◆ Affluent & Premier, addressed by CheBanca!
 - ◆ Private & HNWI, addressed in Italy by Banca Esperia (now 100%-owned) and Spafid, and in the Principality of Monaco by Compagnie Monégasque de Banque.

This division also comprises Mediobanca Asset Management, the product factory which Mediobanca intends to set up to serve the MB Group sale networks by leveraging on existing capabilities: Cairn Capital (alternative AM), Duemme SGR (formerly Esperia), and Compagnie Monégasque de Gestion (CMG, formerly CMB).

- ◆ **Principal Investing (PI):** this division brings together the Group's portfolio of equity investments and holdings, including the stake in Ass.Generali;
- ◆ **Holding Functions:** this division houses the Group's Treasury and ALM activities (which previously were included in the CIB division), with the objective of optimizing management of the funding and liquidity processes; it also includes all costs relating to Group staffing and management functions, most of which were also previously allocated to CIB; and continues to include the leasing operations.

The new segmentation reflects a diversified and balanced business model. Wealth Management in particular **assumes increasing relevance**, with revenues of €470m, €57bn of assets (€38bn in AUM and AUA), and ROAC of 8%.

Excel spreadsheets containing the last five quarters' results according to the new divisional split are available on Mediobanca's website at www.mediobanca.com under Investor Relations.

DIVISIONAL OBJECTIVES AND TARGETS

CORPORATE & INVESTMENT BANKING (CIB) FURTHER INCREASE PROFITABILITY: ROAC UP TO 13%

The new CIB division – without the Group's ALM and Treasury operations and management functions expenses (which now form part of the Holding Functions division) – shows **good profitability** (ROAC 9% as at end-June 2016), **highly resilient client revenues** (which throughout the past five years have been in the €550-620m range), **and a low risk profile** (high asset quality, lack of non-performing items, low cost/income ratio).

The division is also distinctive for its **specialized, client-driven approach**, which has enabled the Group to retain its position of leadership in the investment banking sector in Italy and gain increasing visibility in Europe.

Mediobanca will concentrate its full attention on growth (unlike many other CIB players, which are forced to restructure their activities), and **this will allow it to improve its market positioning even further by exploiting the new market opportunities** deriving from:

- ◆ Expected consolidation in the FIG, infrastructure, energy and branded goods sectors;



- ◆ Flow of acquisitions of Italian businesses by international investors (Asian and US);
- ◆ Growing business in non-performing loans (NPLs) sector;
- ◆ Growth in capital markets activity deriving from generational changes in MidCaps and banking disintermediation.

To exploit these opportunities and increase the division's profitability Mediobanca will:

- ◆ **Adopt a new organizational structure** (country and product heads), giving rise to more effective and integrated coverage of core clients, domestic and international, which in turn should improve the effectiveness of the staff already recruited in the product areas (CF, ECM, DCM, Equity Sales);
- ◆ **Empower the Mid-Cap platform** with a view to becoming the investment bank of choice for Italian MidCaps: this will be achieved in part through the **integration of Banca Esperia** along with enhanced co-ordination with the Specialty Finance activities;
- ◆ **Reduce capital absorption** by focusing on profitable use of capital in asset-driven activities such as corporate lending and capital market solutions, and by introducing internal rating models (AIRB);
- ◆ **Transform the Group's credit management arm Creditech** from niche operator to leading player in the credit management sector, including acquiring and servicing NPL portfolios;
- ◆ **Develop the factoring platform** (MB Facta), underpinned by the expanded client base and distribution network with attention to be devoted specifically to the MidCaps segment.

For the period-end (30 June 2019) the CIB division has set the following objectives:

- ◆ **GOP net of cost of risk: €430m** (€340m, **CAGR: +7%**)
- ◆ **ROAC: 13%** (9%)
- ◆ **Customer loans: €18bn** (€15bn, **CAGR +6%**) with growth in the Capital Market Solutions segment in particular, **cost of risk 45 bps**
- ◆ **RWAs: €25bn** (€27bn), **reflecting benefits of AIRB** model for large corporate segment.

CONSUMER BANKING (CB) KEEP GROWING: ROAC UP TO 20%

Compass is one of the top three consumer credit operators in Italy. It has an **established customer base** (over 2 million), **broad and diversified distribution** (164 branches, 7,500 other bank branches, 14,000 post offices, and numerous agreements with large-scale distribution and agents) and a **value-driven approach** (capabilities in risk analysis and assessment both at the disbursement stage and monitoring throughout the entire duration).

In the past three years Compass has delivered impressive growth in lending (CAGR +7%) and profitability (ROAC 2016: 16%), confirming its position as the **primary source of NII growth for the Group, with an important function in terms of providing anti-cyclical diversification** compared with other divisions more heavily impacted by the negative economic scenario.

In order to **continue growing in the next three years as well, Compass will invest in empowering its distribution network** (direct, digital and variable cost) **and reshaping its loan book in favour of a more profitable product/channel mix**, in particular:



- ◆ Direct distribution will be enlarged **by opening 10 “light” branches in areas presently uncovered, 25 franchising agencies, and more extensive use of the digital channel**, including with e-commerce platforms;
- ◆ **The share of personal loans sold through the direct channel**, which is more profitable, **will rise from 47% to 55%; and salary-backed finance on special purpose loans will increase from their current level of 32% to 36%** of the total.

The above actions, along with the proven effectiveness of the credit pricing/management/recovery system, **will drive a further reduction in the cost of risk.**

For the period-end (30 June 2019) the CB division has set the following objectives:

- ◆ **GOP net of cost of risk: €330m** (€245m, **CAGR: +10%**)
- ◆ **ROAC: 20%** (16%)
- ◆ **Customer loans: €12.6bn** (€11bn, **CAGR +5%**), **cost of risk 270 bps** (330 bps)
- ◆ **RWAs: €12bn** (€11bn), including AIRB benefits

WEALTH MANAGEMENT (WM) CREATE A VISIBLE AND PROFITABLE WM PLAYER SIZEABLE CONTRIBUTION TO GROUP RESULTS EXPECTED ROAC UP TO 20%

The new division will develop the Mediobanca Group's ambitions in offering asset management products and services to all the Group's clients, with a focus in particular on the **“Affluent & Premier”** segment (CheBanca!) and the **Private & HNWI** (Banca Esperia, Spafid and CMB) segment. A new Group **product factory** will be set up to integrate the capabilities already present in the private and institutional segment (Banca Esperia, CMB and Cairn Capital).

This division will be boosted by the attractive growth opportunities arising from **integrating the three companies acquired in the past year** (Cairn Capital, Barclays and Banca Esperia) and the **market trends** which involve:

- ◆ **increasing polarization of wealth;**
- ◆ **high propensity to save** by Italian households;
- ◆ **increasing need for “protection”** perceived by investors;
- ◆ **growing consolidation in the asset management sector**, including as a result of the profound restructuring of the banking sector currently in progress.

To exploit these opportunities, the division, which starts from a base of approx. €470m in revenues and €57bn in total assets (€38bn of which AUM), in the next three years will proceed to empower the operations of CheBanca! in the affluent-premier segment, devise a new product offering in the Private-HNWI segment, and to set up a new Mediobanca AM product factory.



Affluent & Premier clients (CheBanca!)

The objective for CheBanca! in the three-year period is to exploit the option value embedded in the company, represented by its broad client base (over 800,000 clients, only part of whose investment needs are presently served), and a distribution model which is already multi-channel and predominantly digital.

Founded in 2008, CheBanca! performed the role of retail funding arm for the Mediobanca Group effectively in the course of the financial crisis, and in the past three years it has developed an innovative, fair and high-technology distribution model. At the same time it has refocused its mission from that of deposit gatherer to that of asset gatherer, raising some €4bn of AUM in the process (€7bn if Barclays is included) and breaking even at the operating level. The broad client base and the effective multi-channel distribution and primarily digital approach are today its principal strengths.

In the next three years, leveraging its competitive advantage first mover, CheBanca! will complete its definitive transformation to wealth manager focusing on the Affluent and Premier customer segment, including a significant increase in scale (€12bn in AUM estimated by end-June 2019) and profitability. In particular CheBanca! will:

- ◆ **leverage the business acquired from Barclays** in Italy, starting with the 220,000 clients acquired, optimizing the distribution network and using the €240m received in the transaction to cover the costs of restructuring and to relaunch commercial activities;
- ◆ **empower its proprietary distribution network** while maintaining its unique position on the market (advisory approach integrated with cutting-edge technology infrastructure to distribution via digital channels);
- ◆ **build up a new financial advisors' network** (320 FAs by end-June 2019, bringing in some €2bn in AUM), expected to have a strong impact in the medium term.

Private & HNWI clients

The private banking market in Italy presents appealing growth opportunities for an operator such as Mediobanca in the sense that it is:

- ◆ **Large** (AUM of €1trn) **and shows positive growth rates** (in the past six years private wealth has grown at an average annual CAGR of 3%, compared with average GDP growth of just 0.3%);
- ◆ **Mostly still under administration rather than management:** some 40% of assets are AUA;
- ◆ **Undergoing consolidation**, as many banks are restructuring their business models in favour of core markets and/or products;
- ◆ **Highly competitive but less so than previously**, as many international banks have exited the Italian market as a result of their restructuring processes.

In this scenario, with full control of Banca Esperia having been acquired, and in view of the highly complementary nature of investment banking and private banking activities, Mediobanca finds itself faced with a new opportunity.

Banca Esperia will be integrated into the Mediobanca Group, and its private offering will be marketed under the **Mediobanca brand**. At the same time the company's 75 bankers and 11 branches will work on building up private banking activity and developing the MidCaps platform, and will integrate in this bridge between corporate and private business with Spafid, the Mediobanca Group's multi-family office.



Integration of the company will enable significant cost synergies to be delivered over the three years, estimated at 20% of Banca Esperia's cost base (approx. €15m).

The offering to private clients in Monaco is completed by Compagnie Monégasque de Banque (CMB), which is among the top five operators on that market; the Group will support **CMB's ongoing growth** over the three years, **including with targeted acquisitions**.

MB Asset Management

Following the Banca Esperia acquisition, the MB Asset Management product factory can be set up. The existing structures and capabilities will be initially rationalized, and then gradually, over the course of the three years of the plan, the product offering will be enhanced in specific asset classes. To this end it is envisaged that:

- ◆ Cairn Capital, DuEmme SGR (formerly Banca Esperia) and Compagnie Monégasque de Gestion (formerly CMB) will come to form part of the new product factory;
- ◆ A dedicated sales team will be set up with responsibility for distributing all product lines;
- ◆ The individual companies' support structures (HR, Legal and Compliance units etc.) will be centralized upstream.

Cairn Capital, the specialist operator in the alternative credit segment, will pursue growth both organically (CLOs, discretionary mandates, NPLs etc.) and via small acquisitions.

For the period-end (30 June 2019) the WM division has set the following objectives:

- ◆ **GOP net of cost of risk: €140m** (€50m, with **CAGR +40%**)
- ◆ **ROAC: 20%** (8%)
- ◆ **TFA: €79bn** (€57bn, **CAGR +12%**)
- ◆ **AUM: €59bn** (€38bn, **CAGR +15%**), €12bn of which attributable to CheBanca!
- ◆ **RWAs: €6bn** (€6bn) including the benefits from adoption of AIRB models for mortgages.

PRINCIPAL INVESTING (PI) EQUITY STAKE DISPOSALS TO CONTINUE (€1.3BN) ROAC 12%

This division will continue the process of selling its equity holdings, optimizing capital and managing value of the investee companies.

For the period-end (30 June 2019) the PI division has set the following objectives:

- ◆ **Disposals of equity stakes worth €1.3bn**, consisting of **€0.6bn in AFS shares** and 3 percentage points of the **Assicurazioni Generali holding (MB stake in Assicurazioni Generali reduces from 13% to 10%)**
- ◆ **GOP: €225m** (€280m), contribution to Group results halving to 22%
- ◆ **RWAs: €2bn** (€7bn)
- ◆ **ROAC⁵: 12%** (17%)

⁵ ROAC of PI: net profit/capital allocated (K). K= 9% * RWAs; AG net profit=consensus; K=9%*RWAs + deductions from CET1



HOLDING FUNCTIONS (HF) SIGNIFICANT OPTIMIZATION OF FLOWS AND STOCKS

This division – which brings together the Group's central functions and non-core businesses (such as leasing) – **will undergo a significant rationalization process:**

- ◆ **The cost of the central functions**, despite supporting the growth in size, **will reduce as a percentage of the Group total** due to the massive investments in extraordinary projects made in the last two years gradually coming to an end;
- ◆ **Treasury management will gradually break even at the operating level** as a result of the gradual normalization of the interest rate scenario and the reduction in the cost of funding deriving from the expensive bonds issued during the financial crisis expiring;
- ◆ **Ordered deleverage and refocusing of leasing activities will continue.**

For the period-end (30 June 2019) the HF division has set the following objectives:

- ◆ **Operating loss to be cut from €180m to €110m**
- ◆ **RWAs: €3.6bn** (€4.3bn) due to more efficient market risk management.

100% OF BANCA ESPERIA ACQUIRED

Mediobanca has reached an agreement with the Mediolanum Group to acquire the other 50% of Banca Esperia it does not already own. **The acquisition forms part of the Group's strategy to grow its presence in the private (WM) and MidCaps (CIB) segments, which represent the two main guidelines of the plan approved today.**

Integration of Banca Esperia will enable the Mediobanca Group to:

- ◆ Reshape its private banking service offering in Italy, by creating the new Mediobanca Private Banking brand;
- ◆ Empower its platform for services to Mid-Corporate clients as part of its CIB activities;
- ◆ Enhance the Group's integrated product offering: synergies will be achieved with Spafid in management of fiduciary services, with CheBanca! for traditional banking products, with Mediobanca AM in extending the services offered by Banca Esperia's product factory Duemme SGR to the whole Group;
- ◆ Deliver major cost synergies.

To acquire the other 50% of Banca Esperia not already owned, a consideration of €141m will be paid, entailing absorption of approx. 25 bps of CET1 capital, 60% of which deriving from consolidation of the remaining RWAs (approx. €650m).

The acquisition will be paid for in cash at closing, and is subject to approval by the relevant authorities. Under the regulations in force and the procedure in respect of related parties adopted by Mediobanca, the deal qualifies as a transaction with a related party in view of the equity links with the Mediolanum, albeit involving an amount of minor significance. The acquisition was approved by the Board of Directors of Mediobanca with the Related Parties Committee expressing a favourable opinion.



At a meeting held earlier today, the Board of Mediobanca also confirmed the declarations made by each of the Directors respectively, finding that:

- ◆ the following Directors qualify as independent according to the definition provided in Article 148, para. 3 of Italian Legislative Decree 58/98: Maurizia Angelo Comneno, Marco Tronchetti Provera, Tarak Ben Ammar, Mauro Bini, Marie Bollore', Maurizio Carfagna, Angelo Caso', Maurizio Costa, Vanessa Labérenne, Marina Natale and Elisabetta Magistretti;
- ◆ the following Directors qualify as independent according to the definition provided in Article 3 of the Code of Conduct in respect of Listed Companies operated by Borsa Italiana: Maurizia Angelo Comneno, Tarak Ben Ammar, Mauro Bini, Maurizio Carfagna, Angelo Caso', Maurizio Costa, Vanessa Labérenne and Elisabetta Magistretti.

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As required by Article 154-bis, paragraph 2 of Italian Legislative Decree 58/98, the undersigned hereby declares that the financial information contained in this document corresponds to that contained in the company's documents, account books and ledger entries.

Head of Company Financial Reporting: Massimo Bertolini