

SUMMARY OF THE SUSTAINABILITY REPORT 2018



LETTER TO THE STAKEHOLDERS

About 200 American multinationals including Amazon, General Motors and JP Morgan as well as other giants in their reference sectors, have recently shared a new company philosophy, according to which the only way to succeed in the long run is to create value and share it with all of the stakeholders. A company's competitiveness is closely linked to "good jobs, a strong sustainable economy, innovation, a healthy environment and economic opportunities for everyone".

Having read our slogan in this sort of "magna carta" written by the most important companies in the world, has just further confirmed the goodness of Colacem's strategy. "Strong and sustainable". What is really meant by sustainability? Why are there still contrasting visions of the world and development even among those who claim to be sustainable?

Economic, social and environmental sustainability is a complex topic and cannot be reduced to just rhetoric without being in touch with reality. Above all, it cannot be imbued with irrational prejudice and superficiality.

For us, sustainability is a possible solution to problems. It starts with know-how and technological development in search of and by finding a necessary balance between human needs and respect for nature. This is the reason why we continue to invest with the goal of having extremely efficient plants with increasingly low environmental impact.

We encourage the implementation of circular economy good practices, where processing scraps from other sectors and waste replace natural raw materials.

We are continuously focused on reducing CO₂ emissions, even by substituting traditional fuels with alternative ones (so called CSS) wherever possible.

Our sector does contribute in 'closing' the waste cycle.

Schools, universities, research centers and good politics have a crucial role in these "paths" where the concept of sustainable business is changing continuously, thus becoming the promoters of a real, tangible and responsible sustainability.

Cement is "molten stone" produced by firing limestone and clay. There is nothing more natural: an extremely versatile material necessary to build or rebuild our living environments. It is up to mankind and our intelligence to make use of it responsibly, as recommended by ONU in its 2030 agenda for sustainable development, referring to infrastructures.

We strongly believe that in the future cement will become an increasingly all-important and indispensable environmentally friendly product.

We have been working on this challenge over the years, by revamping and improving our production units, thanks to investments and new plant acquisition, strictly following the dynamics of market demand, thus providing our clients with "sustainable" high quality cements.

Such sustainability is also proven by the EPD certification of Caravate cements, obtained in 2018. A certification that we shall extend to all of our plants and to our concrete in the course of 2019.

Dear readers, these and other topics will be the 'background' of this twelfth edition of the Colacem Sustainability Report, where you will find useful information to understand the company and the market economic/financial trend, the management of industrial plants and mining areas, as well as the activities aimed at social growth. It also provides some synthetic data concerning our foreign subsidiary companies and Colabeton, the company of the Group operating in the concrete sector, in order to better show you our sustainable way of doing business, which remains unchanged all across the world and among the various sectors, as it is something found directly in the DNA of the whole Group.

Nevertheless, as much as this publication may be complete, we confirm that our plants are open to anyone who wishes to visit them every day of the year, ask questions and directly see what we describe. We strongly believe in human relationships and dialog, so much so that we usually organize an "open day" at our plants, which is aimed at giving full detailed information on our production processes and on Colacem's business culture.



The Chairman
Giovanni Colaiacovo



The Chief Executive Officer
Carlo Colaiacovo

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A handwritten signature in black ink, appearing to read "Giovanni Colaiacovo".

The Chief Executive Officer
Carlo Colaiacovo

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KEY SUSTAINABILITY INDICATORS

KEY SUSTAINABILITY INDICATORS	UNIT OF MEASUREMENT	2016	2017	2018
GENERAL DATA: PRODUCTION OF CLINKER AND CEMENT				
Clinker	t/year	2.960.377	2.658.578	2.936.934
Cement	t/year	3.128.844	2.883.528	3.174.475
ECONOMIC PERFORMANCE				
Revenue	thousands €	199.200	192.238	234.986
Gross operating margin [Ebitda]	thousands €	60.708	52.800	67.531
Profit	thousands €	10.346	3.014	14.710
ENVIRONMENTAL PERFORMANCE				
Total and specific energy consumption				
Total energy consumption	GJ/year	12.345.192	11.217.374	12.209.227
Total thermal energy	GJ/year	10.825.519	9.818.608	10.682.348
Specific thermal energy	GJ/t clinker produced	3,66	3,68	3,64
Total electrical energy	GJ/anno	1.519.673	1.398.766	1.526.878
Specific electrical energy	GJ/t cement produced	0,44	0,44	0,48
Waste recovery in the production process				
Waste recovery as material compared to % total quantity of material used	%	6,2	5	5,1
Waste recovery as fuel compared to % total quantity of fuel used	%	13,4	16,2	13,9
Atmospheric emissions				
Total emissions of CO ₂	t/year	2.494.154	2.237.797	2.461.381
Specific emissions of CO ₂	Kg of CO ₂ /t clinker produced	842,5	841,7	838,1
Emissions of dust, sulphur dioxide (SO₂) and nitrogen oxides (NO_x) related to clinker firing lines				
Total dust emissions	t/year	25,3	21,4	19,4
Specific dust emissions	g/t clinker produced	8,5	8,1	6,6
Total emissions of sulphur dioxide	t/year	98,2	99,2	160,9
Specific emissions of sulphur dioxide	g/t clinker produced	33,2	37,3	54,8
Total emissions of nitrogen oxides	t/year	4.480	3.198	3.499
Specific emissions of nitrogen oxides	g/t clinker produced	1.513	1.203	1.191
Environmental investments				
Investments for environmental protection	thousands €	4.475	4.841	7.670
Expenditures and investments for environment monitoring	thousands €	771	715	825
SOCIAL PERFORMANCE				
Staff				
Total Colacem staff	No.	901	878	868
	No. men	865	842	832
	No. women	36	36	36
Worker health and safety				
Accidents - <i>frequency index</i>	accidents which occurred every million hours worked	23,05	12,47	4,16
Accidents - <i>severity index</i>	days lost for hours worked, multiplied by 1,000	0,81	0,58	0,23

THE FINANCO GROUP AND COLACEM S.P.A.

Colacem S.p.A. is the main company of the Financo Group, a holding of the Colaiacovo families with its headquarters in Gubbio, Italy which employs about **2,000 people**. The core business of **Financo** is the production of cement and concrete. The holding company has also strengthened its presence in other sectors, pursuing a policy of diversification of subsidiary activities, including: the companies **Tracem** and **Inba**, operating in the transport sector; **Santamonica S.p.A.**, owner of the "Misano World Circuit" race track in Misano Adriatico, the **Park Hotel Ai Cappuccini** in Gubbio; the estate of **Poggiovalle** in Città della Pieve. The Group also operates in the media industry with **Tele Radio Gubbio** and **Umbria TV**; insurance brokerage field, with **Grifo Insurance Brokers**.

Colacem S.p.A. is the third largest producer of cement in Italy, with a national production of cement in 2018 of about **3.2 million tonnes**. The company is now present throughout Italy with 8 complete-cycle production sites, 1 factory for the production of pre-mixed products and 4 port terminals. The company headquarters are based in the Italian town of Gubbio (Perugia) in Via della Vittorina, 60.

FACILITIES IN ITALY

- 1 Caravate VA
- 2 Rassina AR
- 3 Ghigiano in Gubbio PG
- 4 Sesto Campano IS
- 5 Maddaloni CE
- 6 Galatina LE
- 7 Ragusa RG
- 8 Modica RG

Other production facilities

- 9 Salone in Rome, for the production of pre-mixed products

Port terminals

- 10 Malcontenta VE
- 11 Savona
- 12 Ravenna
- 13 Livorno

Storage facilities

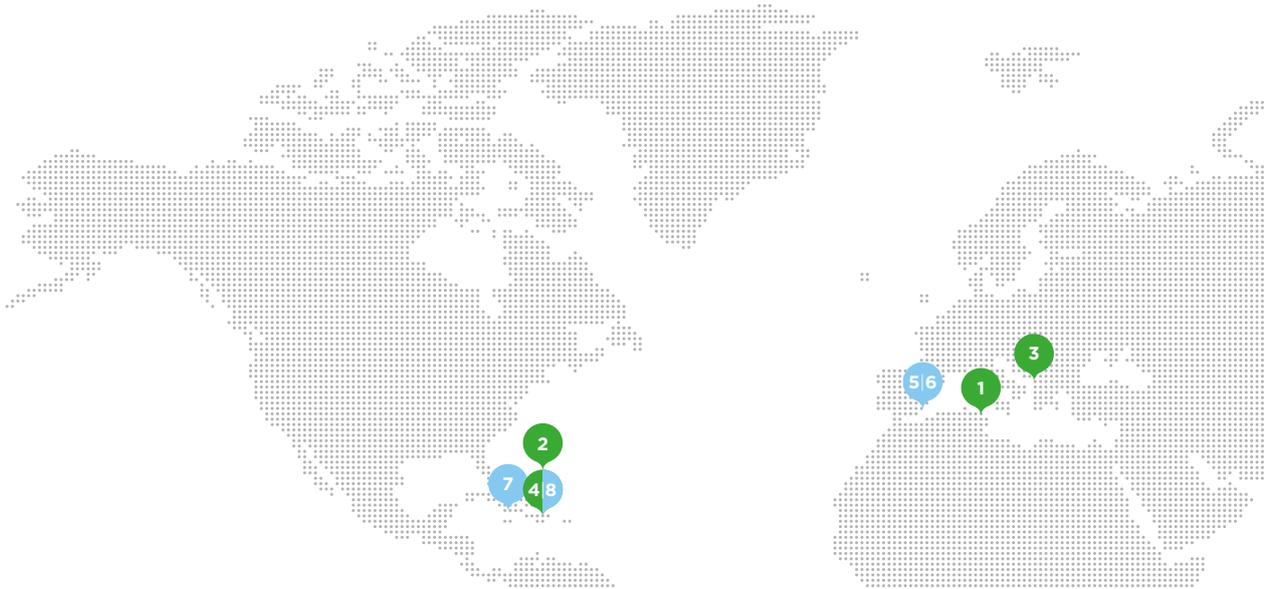
- 14 Livorno

General management

- 15 Gubbio PG



FACILITIES WORLDWIDE



- 1 Tunisi (Tunisia)
- 2 Sabana Grande de Palenque (Dominican Republic)
- 3 Balldre (Albania)
- 4 Lafito (Haiti)

Port terminal

- 5 Alicante (Spain)
- 6 Cartagena (Spain)
- 7 Kingston (Jamaica)
- 8 Lafito (Haiti)

COLACEM'S COMMITMENT TO SUSTAINABILITY



Colacem is one of the most recently-formed cement producing companies in Italy, yet it has long since established itself as the **third largest company in the Italian market and the first in exports**.

For the most part, the factors behind this rapid growth can be found in the company's **vision, which has always focused on sustainability**.

In an industrial sector that shifts large volumes and with a significant impact inflicted by energy costs, having **extremely efficient factories**, capable of minimising the waste of fuel and raw materials, has been a factor in the company's success.

All this has been made possible by the commitment to constantly focus on the **best technology available** and on the continuous modernisation of the plants, which are now among the most advanced in Europe.

Because, now more than ever, **sustainability means competitiveness**.

COMMUNICATING SUSTAINABILITY



The approach Colacem takes towards its **stakeholders**, especially the **local communities**, is based on **dialogue** and **transparency**. This goal is pursued by Colacem with all the tools currently available: from institutional or marketing publications to the website, from social networks to **factory visits**.

This document is the revised summary of the eleventh edition of the **Sustainability Report** that Colacem has produced annually since 2008. The report, drafted according to the **International Standards of the GRI** (Global Reporting Initiative) and **revised by Deloitte & Touche S.p.A.**, is the most detailed source of how the company generates industry.

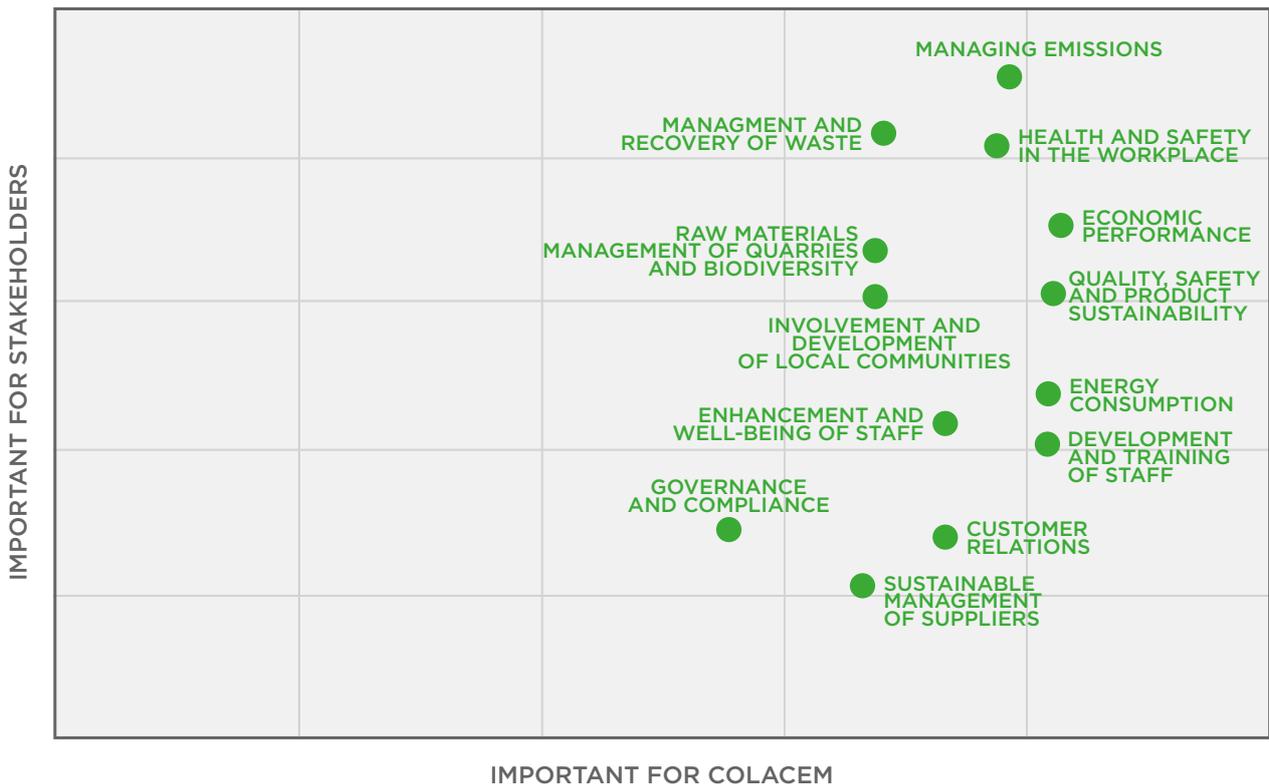
The full version of the report is available on the website www.colacem.it.

MATERIALITY ANALYSIS: WHAT INTERESTS OUR STAKEHOLDERS?

The desire to best meet the **needs of its stakeholders** is a primary goal for the company, thus calling for the **analysis of materiality** to show which issues should be dealt with by the Sustainability Report. The results have shown that the most relevant issues are those listed in the **table** below which compares what is important to Colacem with what is important to the stakeholders.



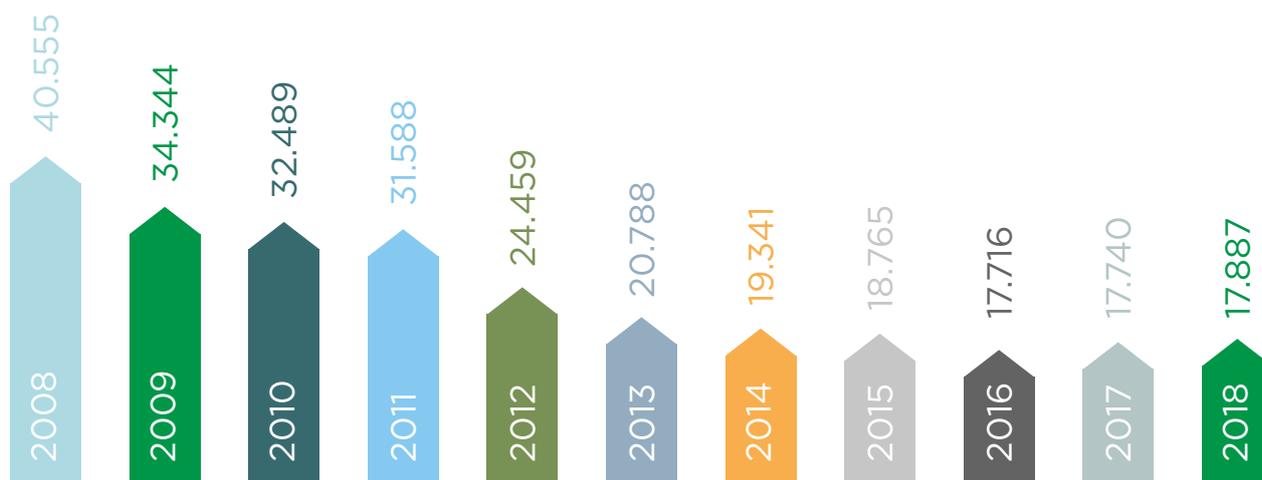
MOST SIGNIFICANT ISSUES



SOSTENIBILITÀ ECONOMICA

2018 was the first year of slight growth after consecutive years of **crisis** for the **construction sector in Italy**. Yet it still remains the weakest sector in the Italian economy, especially slowed down by the umpteenth decline of the social housing sector. **Italian cement production** increased by **1,6%** in 2018, **amounting to 19,9 million tons**, while **cement delivery**, about **17,9 million tons**, registered an increase of **0,6%** compared to 2017, thanks only to the North, as it continued to decrease in the Center and South of the country. The crisis had structural effects on the production framework of the entire cement sector [Source: Eurostat and internal estimates].

[CEMENT DELIVERIES IN ITALY 2008-2018] (figures in thousands of tonnes)



Economic and financial situation on 31/12/2018	2018	2017	Difference	Variation % 2018/2017
Revenue	234.986	192.238	42.748	22,2
Gross operating margin [Ebitda]	14.710	3.014	11.696	>100
Profit	3.519	1.505	2.014	133,8
Cash Flow (Profit+depreciation+value adjustments)	25.335	12.736	12.599	98,9
Net worth	291.648	314.555	(22.907)	(7,3)
Net financial position towards Third parties	(115.626)	(116.435)	809	0,7
Technical investments	3.799	2.654	1.145	43,1
Equity investments	56.069	7.830	48.240	>100

CONTRIBUTION TO MAIN STAKEHOLDERS



ECONOMIC VALUE GENERATED:

266 MLN €

ECONOMIC VALUE DISTRIBUTED:

248 MLN €

The contribution of Colacem to the development of the territory, as well as with **the recruitment of local staff** that make up the majority of the company's workforce, is demonstrated in the wider economic business that has been generated. In 2017, the economic value of purchases made amounted to about **185 million Euros**, about **43%** of which involved **local suppliers**. The graph shows how the **added value was distributed** in 2018, when the sole shareholder did not receive any dividend.

STAFF 52.820.803 € 83,3%

FINANCIAL BACKERS 6.726.353 € 10,6%

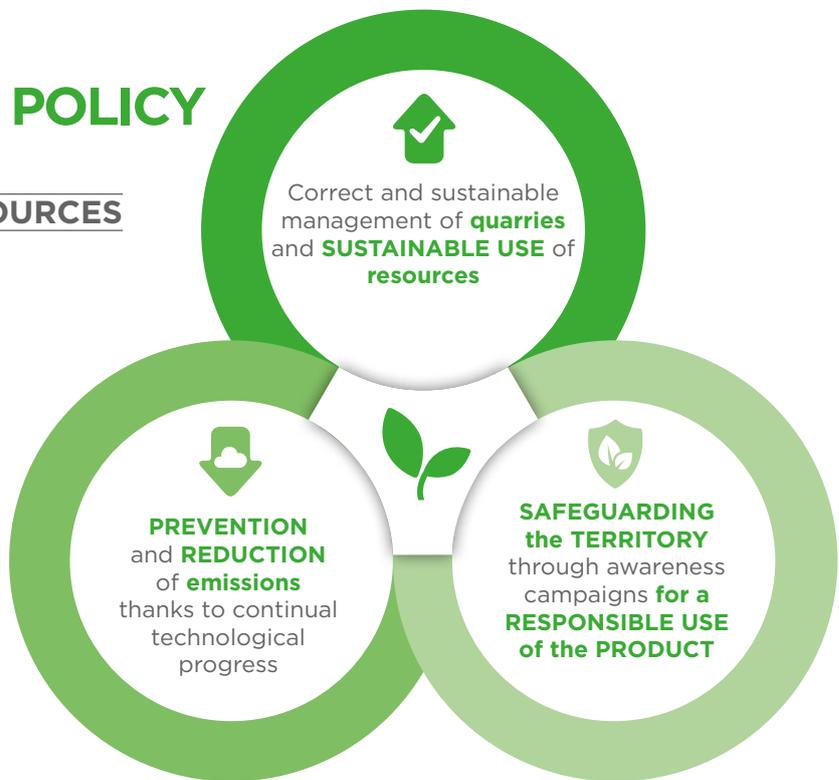
PUBLIC ADMINISTRATION 3.845.319 € 6,1%

ENVIRONMENTAL POLICY

SUSTAINABLE USE OF RESOURCES

Any human activity, albeit simple and innocuous on the surface, has an impact to some extent on the environment. This does not mean that we should forego some necessary activity or work (housing, roads, schools, hospitals, etc.) for which **cement is indispensable**.

This is why Colacem's concept of sustainability means **the ability of its plants to produce cement with the highest possible efficiency, minimising the waste of fuels and non-renewable natural raw materials, preventing and limiting the impact on the environment as far as possible**.



RAW MATERIALS

Cement is a **mixture of marl, limestone, clay and gypsum**, which is ground and fired at around **1450 °C**. In some cases, kaolins, pozzolan and other materials that are all extracted in nature, are also used. In line with the principles of **circular economy**, Colacem manages in part to limit the use of natural raw materials by using non-hazardous materials in the production process, resulting from processing waste from other industries. This is a good practice fostered by the European Community. In 2018, Colacem used about 5.1 million tonnes of raw materials, continuing the downward trend that has persisted for many years. **Non-hazardous waste recovered as material** amounts to about **262,800 tonnes**, representing **5.1% of the total**.

RECOVERED FROM NON-TOXIC WASTE (tonnes)

2016 **321.400**
 2017 **237.000**
 2018 **262.800**



ENERGY CONSUMPTIONS

Cement production is an energy-hungry process. The cost of the **energy component**, whether thermal or electric, represents **more than 50% of the cost** of all purchases made. In 2018, total **electricity consumption** was **1,526,878 GJ** with a consumption index of 0.48 GJ per tonne of cement. For **thermal energy, petroleum coke** is mainly used, a fossil fuel that the company is trying to **replace with SRF**, i.e. Solid Recovered Fuels derived from specially selected and treated non-hazardous waste. In 2018, of the **total 10,682,348 GJ** of thermal energy consumed, **13.9%** was recovered from waste. This good practice of **circular economy**, fostered by the European Community, unfortunately is hindered in Italy by political issues which prevent it from being implemented. In the **best performing countries**, energy replacement with SRF **exceeds 50%**.

COKE FROM FUEL OIL

RECOVERABLE WASTE (SRF)

OTHER FUELS



MONITORING AND REDUCTION OF EMISSIONS

Colacem's continuous dedication to **emission reduction** has shown its effectiveness over the years with data to prove it.

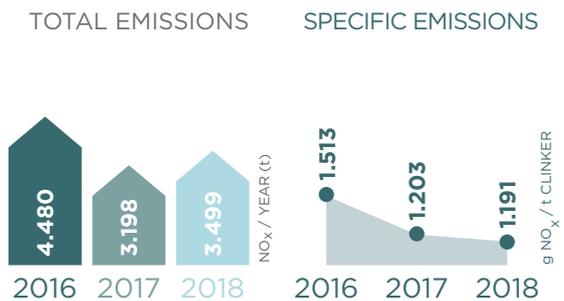
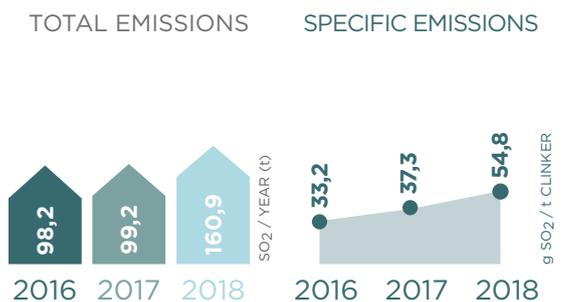
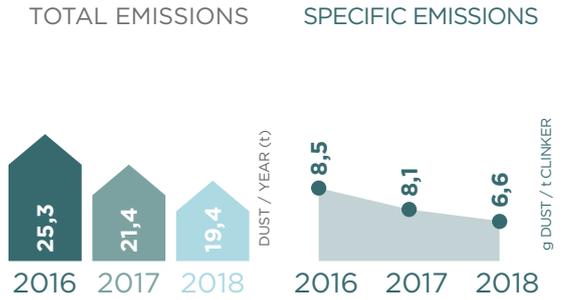
SO₂ values are far below the standard limits in every plant (in some even 200 times) and **the variations registered are absolutely irrelevant**, considering the absolute value reached.

Every Colacem cement plant is equipped with **over 20.000 sensors that monitor every single production phase 24 hours a day**, from raw material mining activity in the quarry to product shipment/delivery. The firing lines of Colacem plants are equipped with special **Continuous Monitoring Systems (SMCE)**, whose data is **constantly controlled by various regional ARPA**, which also manages its publication.

As far as **CO₂ emissions are concerned**, Colacem, for its own industrial activity, is authorized to emit certain **amounts of CO₂**, granted by the competent national authority, on the basis of the Kyoto Protocol for the **Fight against climatic change**.

In the past recent years, due to the crisis and also thanks **numerous activities aimed at improving energy efficiency**, the consumption of CO₂ has drastically dropped, amounting to about 2,5 million tons in 2018, with a **specific emission index of 838 FEM** (kg CO₂/ton clinker).

[EMISSIONS REFERRING TO THE CLINKER FIRING LINE]



MANAGEMENT OF EXTRACTIVE AREAS AND BIODIVERSITY

Cement production cannot neglect the use of natural raw materials. Colacem has gained considerable experience in managing these activities throughout the years, not only by minimizing environmental **impact** during material mining activity, but especially in the restoration and **environmental recovery of sites** no longer in production. The protection of **biodiversity** and **ecosystems** is the result of our business culture, recognized by important environmental organizations (among which **Legambiente**, in "Guidelines for the Planning, Management and Recovery of Mining Areas"), in addition to having been used as virtuous example by science journalism shows like **Superquark** by Piero Angela.

EXAMPLE OF ENVIRONMENTAL RECOVERY DURING EXCAVATION

Planting in extraction activities, both in quarries and mines, takes place on horizontal descending tracts, from top to bottom, so that environmental recovery interventions can be feasibly implemented at the same time as raw materials are extracted. In short, you do not have to wait decades before you can "see green again". Just a few years after the completion of planting, vegetation is already thriving.



PEOPLE AND WORK

One of the key factors that has led to Colacem becoming the third largest cement producer in Italy, is undoubtedly **the company's staff**, consisting of highly motivated and hard-working individuals, who are constantly trained, plus their **know-how acquired over time**. Data shows how the ten-year crisis in the industry led to a fall in employment which Colacem has tried to contain as far as possible. Indeed, if you consider that production volumes and revenue have fallen over 60% in a ten-year period, the reduction in the number of staff has, in actual fact, been very small, especially if compared to other sectors in the building industry. In 2018, Colacem employees numbered **868 individuals, 99.8% of them with a permanent contract**. About 96% of the staff are male (a factor common to the entire sector), with an average age of 49 (for men) and 46 (for women), and an **average seniority** in the company of 22 years (for men) and 18 years (for women).

COMPOSITION OF THE WORKFORCE

NUMBER OF EMPLOYEES BY TYPE OF CONTRACT ON 31ST DECEMBER

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Employees with permanent contracts	863	36	899	838	36	874	830	36	866
Employees with fixed-term contracts	2	0	2	4	0	4	2	0	2
Total	865	36	901	842	36	878	832	36	868

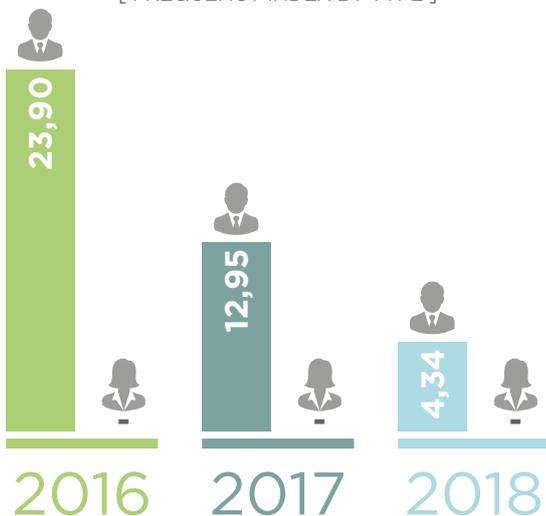
DISTRIBUTION OF EMPLOYEES BY PROFESSIONAL CATEGORY AND TYPE ON 31ST DECEMBER

	2016			2017			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Executives	24	3	27	25	3	28	25	3	28
Managers	49	5	54	49	5	54	50	5	55
Office workers	306	28	335	298	28	326	294	28	322
Workers	486	0	486	470	0	470	463	0	463
Total	865	36	901	842	36	878	832	36	868

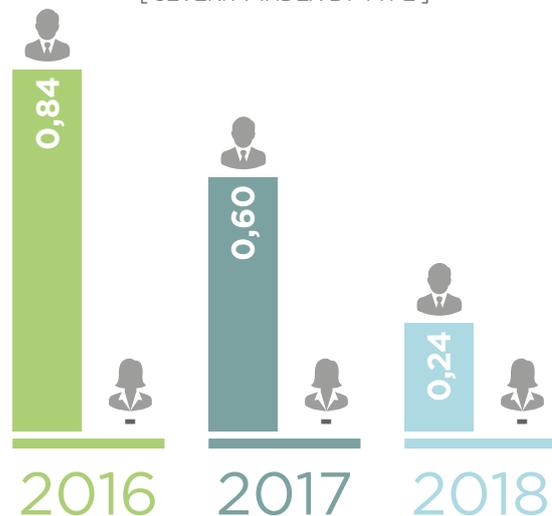
SAFETY IN THE WORKPLACE

The health and safety of workers has always been one of the main goals focused on by the company. This area is, moreover, the one on which staff training has been mainly concentrated in recent years. Since 2016, this area has been promoted with the **"Sicuramente" project**, aimed at preventing accidents and occupational diseases, **with a strong emphasis on the cultural aspects of individuals**, with interventions to **correct conduct**, whilst encouraging a strong team spirit. A cultural evolution that affects the approach to the safety of every individual **not only in the workplace, but also outside it**, in everyday life. The results are excellent and constantly improving.

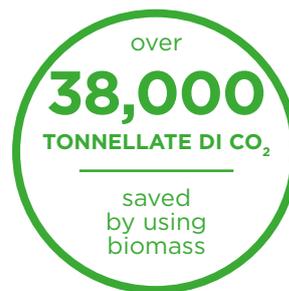
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COLACEM SUSTAINABILITY FIGURES





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