

FOUNDATION REGGIO CHILDREN – LORIS MALAGUZZI CENTRE

Registered Office: VIA BLIGNY 1/a REGGIO NELL'EMILIA (RE)

Registered in the Register of Companies of: REGGIO NELL'EMILIA

Fiscal Code and Registration No.: 00763100351

Registered in R.E.A. of REGGIO NELL'EMILIA no. 216036

VAT No.: 00763100351

To the Assembly of Members, to the Board of Directors of the FOUNDATION REGGIO CHILDREN – LORIS MALAGUZZI CENTRE

Introductory remarks

The Board of Statutory Auditors, in the year ended on 31 December 2018, has carried out both the functions provided for by Article 2403 of the Italian Civil Code and following articles and those provided for by the Art. 2409-*bis* of the Italian Civil Code.

This comprehensive report contains in section A) the "*Report of the independent auditor in accordance with art. 14 of Legislative Decree no. 39/2010*" and section B) the "*Report under art.2429, paragraph 2, of the Italian Civil Code*".

A) Report of the independent auditor in accordance with art. 14 of Legislative Decree no. 39/2010

Report on the audit of the financial statements

Opinion

The board carried out the statutory audit of the attached financial statements of the FOUNDATION REGGIO CHILDREN, consisting of the balance sheet as of 31 December 2018, of the income statement for the concluded financial year on that date and of the supplementary notes.

In our opinion, the financial statements provide a true and fair view of the financial position and cash flows of the Foundation as of December 31, 2018 and of the net profit and cash flows for the year ended on that date, in compliance with the Italian regulations governing the criteria of preparation.

Basic elements of the opinion

The audit was carried out in accordance with the ISA Italia international standards on auditing. Our responsibilities under these principles are further described in the section Responsibility of the auditor for auditing the financial statements of this report. We are independent from the Foundation in compliance with the rules and principles on ethics and independence applicable in the Italian legal system for auditing the financial statements.

We believe we have acquired sufficient and appropriate documentary evidence on which to base our opinion.

Responsibility of the Board Members for the financial statements

The directors are responsible for the preparation of the financial statements, which provide a true and correct representation in compliance with the Italian rules governing the criteria of preparation and, within the terms provided for by the law, for that part of the internal control they deem necessary to allow the preparation of a financial statement, which does not contain significant errors due to fraud or unintentional behaviour or events.

The directors are responsible for assessing the Foundation's ability to continue operating as a going concern and, in the preparation of the financial statements, for the appropriateness of the use of the going concern assumption, as well as providing adequate information on the matter.

The directors used the going concern assumption in the preparation of the financial statements.

The board of statutory auditors is responsible for supervising, within the terms established by the law, the process of preparing the Foundation's financial information.

Auditor's responsibility for auditing the financial statements.

Our objectives are the acquisition of reasonable assurance that the financial statements as a whole do not contain significant errors, due to fraud or unintentional behaviour or events, and the issue of an audit report that includes our opinion. Reasonable security means a high level of security which, however, does not provide the assurance that an audit carried out in accordance with ISA Italia international auditing standards will always identify a significant error, if any exist. Errors can result from fraud or unintentional behaviour or events and are considered significant if it can reasonably be expected that they, individually or as a whole, are able to influence the economic decisions made by the users on the basis of the financial statements.

As part of the audit carried out in accordance with ISA Italia international auditing standards, we have exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

we have identified and evaluated the risks of significant errors in the financial statement, due to fraud or unintentional behaviour or events; we have defined and carried out audit procedures in response to these risks; we have acquired sufficient and appropriate audit evidence to base our opinion on. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error deriving from unintentional behaviour or events, since fraud can imply the existence of collusion, falsification, intentional omission, misleading representation or a breakdown in internal control;

we have acquired an understanding of the internal control relevant for auditing purposes in order to define suitable audit procedures in the circumstances and not to express an opinion on the effectiveness of the internal control of the Foundation;

we assessed the appropriateness of the accounting principles used and the reasonableness of accounting estimates made by the directors, including the related disclosure;

we have come to a conclusion on the applicability of the use by the directors of the assumption of business continuity and, based on the audit evidence, on the existence of significant uncertainty regarding events or circumstances which may give rise to significant doubts on the Foundation's ability to continue operating as a functioning entity. In the presence of significant uncertainty, we are obligated to call attention to the audit report on the related disclosures in the financial statement, or, if this report is inadequate, to reflect this fact in the formulation of our opinion. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Foundation ceasing to operate as a going concern;

we have evaluated the presentation, the structure and the content of the financial statements as a whole, including the report, and whether the financial statements represent the underlying transactions and events in order to provide a correct representation;

we have communicated to the people in charge of the governance activities, identified at an appropriate level as required by the ISA Italia, among other aspects, the scope and timing planned for the audit and the significant results emerged, including any significant deficiencies in the internal control identified over the audit.

Report on other legal and regulatory provisions

The directors of the Foundation are responsible for the preparation of the management report, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures indicated in the audit principle SA Italia no. 720B in order to express an opinion on the consistency of the management report with the financial statements as of 31/12/2018 and on compliance with the law, as well as to issue a statement on any significant errors.

In our opinion, the management report is consistent with the financial statement of the FONDAZIONE REGGIO CHILDREN as of 31/12/2018 and has been prepared in compliance with the law.

We have nothing to report referring to the statement pursuant art. 14, par. 2, lit. e) of Legislative Decree 39/2010, issued on the basis of the knowledge and understanding of the Foundation and the relative context acquired during the audit.

B) Report on supervisory activities pursuant to art. 2429, par. 2, of the Italian Civil Code

During the year concluded on December 31, 2018. our activity has been motivated by the law provisions and the Rules of Conduct of the Board of Statutory Auditors issued by the National Board of Chartered Accountants and Accounting Experts, in respect of which we carried out a self-assessment, with a positive outcome, for each member of the board of statutory auditors.

B1) Supervisory activities pursuant to art. 2403 and following, of the Italian Civil Code

The Board has supervised the compliance with the law and the By-Laws, and the respect for the principles of proper administration.

We attended all the meetings of the members and of the Board of Directors, on the basis of the available information, there is no evidence of laws or by-laws having been violated, no transactions deemed patently imprudent or risky, or that imply a potential conflict or such as to compromise the integrity of the company's assets.

During the meetings held we have acquired from the President information on the general management trend and its outlook, as well as on the most significant transactions, due to their size or characteristics, carried out by the Foundation and its subsidiaries and, based on the information acquired, we have no special observations to report.

We examined and monitored, within the scope of our responsibilities, the adequacy and organisational operation of the Foundation, also through the collection of information from departmental heads and in this regard we have no particular observations to make.

We examined and monitored, within the scope of our responsibilities, the adequacy and functioning of the administrative-accounting system, as well as on the reliability of the latter to correctly represent the management affairs, by obtaining information from managers and the examination of business documents, and in this regard, we have no particular observations to report.

There were no complaints from members ex art. 2408 of the Italian Civil Code.

During the year, the Board of Auditors has not released opinions required by law.

In the course of our supervision, as described above, no significant elements required to be mentioned in this report.

B2) Observations on the financial statements

To the best of our knowledge, the directors, in preparing the financial statements, have not waived from the law pursuant to art. 2423, paragraph 4, of the Italian Civil Code

Pursuant to Art. 2426, no. 6, of the Italian Civil Code the Board of Statutory Auditors noted that there is no value of goodwill costs listed in point B-I-5) balance sheet assets;

The results of the statutory audit of the financial statement carried out by us are contained in section A) of this report.

B3) Comments and proposals regarding the approval of the financial statements

Considering the results of the activity carried out by us, the Board of Statutory Auditors proposes that this Assembly approves the financial statements at 31st December 2018, as prepared by the Directors.

The Board of Statutory Auditors agrees with the proposal for the allocation of profit of the financial year made by the directors in an explanatory note.

Reggio Emilia, 30 April 2019

Board of Auditors

Bertella Gualtiero (President) Zucca

Mirco (Statutory Auditor) Guidetti

Vittorio (Statutory Auditor)