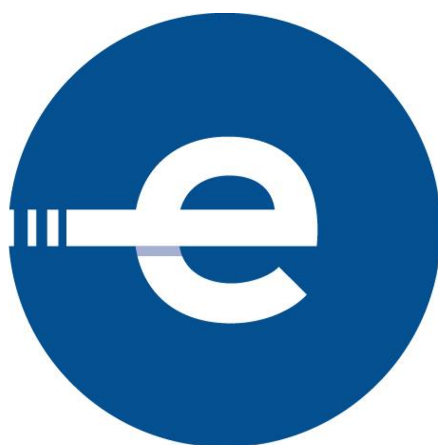
Esprinet Group



Annual Report 2018

Parent Company:

Esprinet S.p.A.
VAT Number: IT 02999990969
Companies' Register of Milan, Monza e Brianza, Lodi and Tax Number: 05091320159
R.E.A. 1158694
Registered Office and Administrative HQ: Via Energy Park, 20 - 20871 Vimercate (MB)
Subscribed and paid-in share capital as at 31/12/2018: Euro 7,860,651
www.esprinet.com - info@esprinet.com

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Declaration pursuant to Art.81-ter Consob Regulation

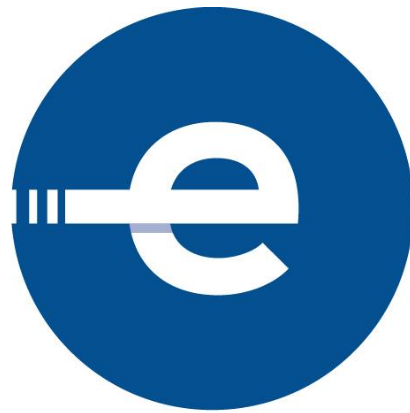
Declaration pursuant to Art.81-ter Consob Regulation

Report of the Board of Statutory Auditors

Independent Auditor's Report

[1] Each booklet has a separate table of contents to facilitate the reader

[2] Esprinet S.p.A. separate financial statements, as defined by international accounting principles IFRSs



Directors' Report on Operations 2018

Consolidated results overview

1. Letter from the Chairman

To our Shareholders,

The Esprinet Group ended 2018 with a consolidated net profit, including the share attributable to minority interests, of 14.2 million euro, down by 46% on 26.3 million euro in 2017, while revenues were up 11% to 3.57 billion euro.
The fall in net profit was due entirely to a non-recurring item of approximately 12.8 million euro, without which there would have been a slight increase to 26.9 million euro.

All the major statement of financial position and income statement indicators were once again broadly positive; even though operating profit was down, it would have risen by 13% year on year ignoring the aforementioned non-recurring item.
As in recent years, the Group has retained its market-leading position in both Italy and Spain, improving its share in the former and keeping it more or less stable in the latter.

The ICT market

The information and communication technology (ICT) sector in which the Esprinet Group operates tends to grow at a similar rate to GDP as a whole, to ICT spending as a portion of GDP and to the distribution channel versus direct distribution (i.e. technology manufacturers selling directly to end users).
Key factors influencing overall ICT demand are degree of technological innovation, average product prices, the populations degree of computer literacy and the propensity of businesses to use new technologies, which is sometimes encouraged by tax breaks.

The macroeconomic climate

The turbulence that characterised 2018 was due mainly to geopolitical tensions arising from the customs tariffs introduced by the Trump administration and uncertainties surrounding Brexit.
In addition, there was plenty of tension caused by the installation of new coalition governments in Italy and Spain.

Overall, however, the Group benefited from a broadly positive economic climate in Italy, Spain and Portugal, albeit there were signs of a slowdown in the Italian and Eurozone economies in particular during the final months of the year.

Product Innovation

The major innovations during the year came in the high-tech segment, which features products typically destined for companies' data centres.
After several years of analysts agreeing that the IT workload of companies was shifting considerably from on-premise to on-cloud solutions, the consensus has now shifted towards hybrid cloud models, which provide both for computing and memory power to be installed on site and for connection to cloud solutions in order to manage particular workloads or data storage tasks.
The onset of data collection sensors and the internet of things (IOT) is responsible not only for a growing need for data storage systems but also for smart systems for analysing data at the place of collection rather than at processing centres.
This trend, known as intelligent edge, is resulting in the spread of advanced systems located in factories or close to the data collection points in general.
There is also a greater need for advanced solutions for analysing growing amounts of information using software linked to artificial intelligence (AI) and to ever-faster data transmission systems, all of which in itself generates a greater need for cybersecurity systems that can protect both the data and the systems that manage them.

Overall, the market continues to display high levels of innovation both in terms of products and of new ways of exploiting technology, thanks in particular to companies' growing propensity for using third-party rather than proprietary systems.
In this constantly evolving scenario, partly as a result of greater complexity, there is a growing need for training and information, i.e., as a general rule, services that a distributor such as Esprinet is typically asked to provide to both professional resellers and manufacturers.

As regards office IT, particularly PCs and printers, there was (just like the previous year) a gradual decline in printing volumes and therefore ink consumption.
Product innovation in printers partially restricted the downward trend but volumes are structurally destined to fall.
PCs, however, proved fairly resilient in terms of volumes due both to continual innovation, particularly in the notebooks segment, and to the gradual renewal of the installed base, and forecasts for the current year are also positive because Microsoft has stopped supporting old versions of Windows, forcing many users, particularly professionals, to upgrade.

Consumer electronics, on the other hand, are in a phase of transition.
Smartphones, which have been the sector's driving force in terms of both volumes and innovation, saw relatively few developments during the year.
The arrival of new models with folding screens in 2019 could see the start of a new cycle of innovative products with different form factors.
Flexible screens and changes linked to transmission standards are helping to retain interest in the TV segment, but the areas where most developments are expected are smart appliances, wearable devices and, above all, electric mobility.
The first products to exploit voice-user interfaces are taking hold, and the internet of things could lead to further developments and opportunities.

To summarise, technological innovation continues to support a long-term growth trend in technology consumption, thereby providing all companies in our sector with considerable prospects for growth.

Technology distribution

The Italian technology distribution sector grew by 11% in 2018, and we managed to increase our market share.
In Spain, the distribution market grew by 9% compared with the previous year, and our share remained stable.
The underlying reasons for the continual growth of the distribution channel among manufacturers' selling methods would appear to be behind the growth of the sector: greater technological complexity and thus the need for efficient and far-reaching sales structures, distribution points to ensure provision of an ever broader range of technologies and a gradual change in cost structures for manufacturers.
In 2018, the trend seen in recent years of the distribution channel being the predominant way of making technology available to end users continued.

There was a gradual improvement of market conditions in 2018, and overall inventory volumes along the distribution chain remained fairly stable.
In both Italy and Spain, distributor sales to retailers grew more quickly than sales to professional resellers, particularly thanks to the performance of the phone segment, which is increasingly transmitted among distributors.
The trend of growth among online retailers and severe difficulties for traditional retailers continued.
The growing weight of the retail segment, which has inherently low margins, together with persistently (especially in the first part of the year) highly competitive trading conditions, brought about a pressure on unit margins that was largely offset by higher revenue volumes.

Activities in Italy

In 2018, there was a sharp rise in Italian business volumes owing to the overall growth of the market in question and the increase in our market share.
Pressure continued on the first production margin as a result of competitive pressure, especially in the retail segment, and was only partially offset by work on improving the product mix.
The so-called 'value' market segment - i.e. products and services for data centres - continued to perform excellently, comfortably surpassing 400 million euro in revenues and delivering stable margins, proof of the effectiveness of the considerable investments made in this segment since 2011.
After posting disappointing profits in 2017 in the wake of incurring significant promotional costs aimed at protecting sales volumes, our subsidiary Celly achieved excellent results in 2018 thanks to successful cost containment and, above all, improving product margins.
As explained in more detail in the notes to the financial statements, our Group posted losses of over 17 million euro in relation to the voluntary liquidation of our long-standing supplier of products in the sport technology line.
This high-margin product line has undergone in-depth restructuring, including a brand new senior management team, and we hope it will resume growth in 2019.
In line with the content of our strategic plan, the effects of the cost structure streamlining policies launched in 2017 took full effect during the year.

Business on the Iberian peninsula

The distribution market on the Iberian peninsula again performed superbly in 2018, thanks in particular to an excellent performance from the smartphone segment.
The integration of Vinzeo was all but completed, and we continued to develop and enhance the 'value' business now managed using the divisional brand 'V-Valley', like in Italy.
The high levels of competitive pressure experienced in 2017 reduced slightly during the year, meaning that although our Group's market share fell in the first part of the year, we recovered it gradually from the summer onwards to achieve a share across the year in line with 2017.
Improved processes, together with cost-cutting and better customer services, meant we could get that market share back without compromising margins.
Business in Portugal has not developed as we expected, and we have initiated further efforts to make us more competitive there, starting with opening a logistics hub near Lisbon.
The growth of the 'Celly' brand is worthy of note, in particular a major contract with a leading chain of retail outlets.

The new initiatives

In the first part of the year, our Group launched an important customer satisfaction initiative with the primary aim of significantly improving our customers' purchasing experience.
The 'value' segment continues to grow, topping 520 million euro in sales in 2018 and posting further major growth numbers in the first part of this year.
We have completed the restructuring of our sport technology division, which should resume profitable growth this year.
Investment in human resources continued by making full use of attracting, training, motivation and control methodologies developed over the last few years.

Conclusions

The changes affecting both our reference market and more generally the socio-economic environment in which our Group operates represent a threat, but above all they provide us with opportunities.
Thanks to an optimised cost structure and excellent positioning (now including the 'value' product segment as well as the traditional 'consumer' and 'IT client' segments), we believe that our Group can capitalise on a series of opportunities to improve the standards of creating value of our shareholders.

Together with our investments in improving customer satisfaction, the higher returns on invested capital that we are posting in certain product/client combinations give us confidence that we will improve our competitive position again this year.
I would like to conclude by thanking our team, who work tirelessly and with integrity every day to achieve the growth and value creation targets that our shareholders expect from us.
I wish all our employees, clients, suppliers and investors a very happy and successful 2019.
Thank you for investing in our Company.

Maurizio Rota
Chairman of the Board of Directors

2. Summary of the Group's economic and financial results

The 2018 earning and financial results and those of the relative periods of comparison have been drawn up according to International Financial Reporting Standards ('IFRS') endorsed by the European Union and in force during the period. In the chart displayed below, in addition to the conventional financial indicators laid down by IFRSs, some 'alternative performance indicators', although not defined by the IFRSs, are presented. These 'alternative performance indicators', consistently presented in previous periodic Group reports, are not intended to substitute IFRSs indicators; they are used internally by the Management for measuring and controlling the Group's profitability, performance, capital structure and financial position. As required by the ESMA/2015/1415 Guidelines issued by ESMA (European Securities and Market Authority) under Article 16 of the ESMA Regulation, updating the previous recommendation CESR/05-178b of the CESR (Committee of European Securities Regulators) and adopted by Consob with Communication no. 0092543 of 12/03/2015, the basis of calculation adopted is defined below the table.

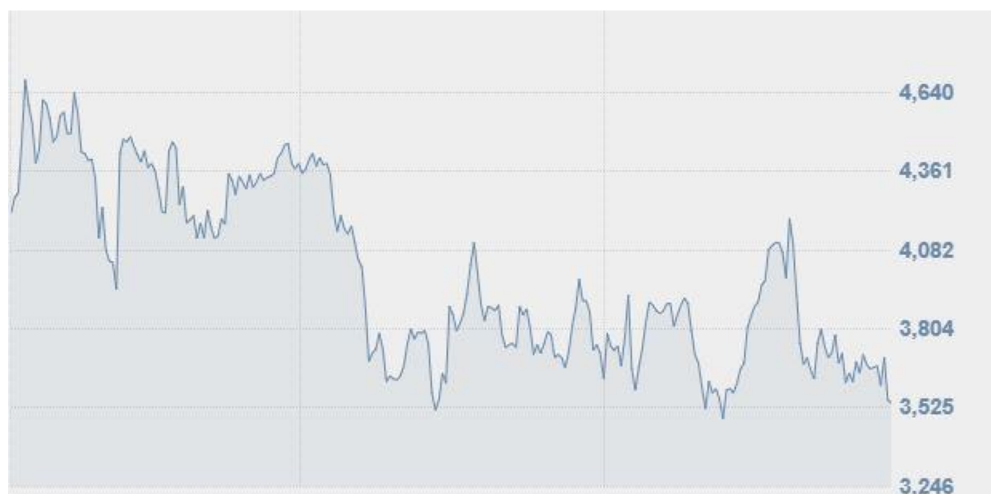
(euro/000)	notes	2018	%	2017	%	% var. 18/17	2016	%
Profit & Loss								
Sales from contracts with customers		3,571,190	100.0%	3,217,172	100.0%	11%	3,042,330	100.0%
Gross profit		162,272	4.5%	167,763	5.2%	-3%	163,895	5.4%
EBITDA	(1)	28,591	0.8%	39,475	1.2%	-28%	43,117	1.4%
Operating income (EBIT)		23,720	0.7%	34,347	1.1%	-31%	38,566	1.3%
Profit before income tax		19,179	0.5%	33,634	1.0%	-43%	35,720	1.2%
Net income		14,158	0.4%	26,279	0.8%	-46%	26,870	0.9%
Financial data								
Cash flow	(2)	18,847		31,033			30,820	
Gross investments		3,064		3,843			11,710	
Net working capital	(3)	(2,224)		107,133			102,322	
Operating net working capital	(4)	10,443		104,175			102,046	
Fixed assets	(5)	118,502		122,403			124,516	
Net capital employed	(6)	101,855		215,128			212,535	
Net equity		342,898		338,188			317,957	
Tangible net equity	(7)	251,579		246,522			225,299	
Net financial debt	(8)	(241,044)		(123,058)			(105,424)	
Main indicators								
Net financial debt / Net equity		(0.7)		(0.4)			(0.3)	
Net financial debt / Tangible net equity		(1.0)		(0.5)			(0.5)	
EBIT / Finance costs - net		5.2		45.9			13.5	
EBITDA / Finance costs - net		6.3		52.7			15.1	
Net financial debt/ EBITDA		(8.4)		(3.1)			(2.4)	
Operational data								
N. of employees at end-period		1,263		1,247			1,327	
Avarage number of employees	(9)	1,256		1,288			1,172	
Earnings per share (euro)								
- Basic		0.27		0.51		-47%	0.52	
- Diluted		0.27		0.50		-46%	0.51	

(1) EBITDA is equal to the operating income (EBIT) gross of amortisation, depreciation and write-downs and accruals for risks and charges.
(2) Sum of consolidated net profit and amortisations.
(3) Sum of current assets, non-current assets held for sale and current liabilities, gross of net current financial debts.
(4) Sum of trade receivables, inventory and trade payables.
(5) Equal to non-current assets net of non-current derivative financial assets.
(6) Equal to capital employed as of period end, calculated as the sum of net working capital plus fixed assets net of non-current non-financial liabilities.
(7) Equal to net equity less goodwill and intangible assets.
(8) Sum of financial debts, cash and cash equivalents, assets/liabilities for financial derivatives and financial receivables from factoring.
(9 Calculated as the average of opening balance and closing balance of consolidated companies.

3. Share performance

Ordinary shares in Esprinet S.p.A. (ticker: PRT.MI) have been listed in the STAR segment of the MTA market of Borsa Italiana S.p.A., the Italian Stock Exchange since July 27, 2001.

The graph below illustrates the share performance from 1 January till 31 December 2018:



As at 31 December 2018, the official closing price of the Esprinet share was 3.574 euro, down 14.1% compared with its price at the previous year-end date (4.161 euro).
Compared with a placement price of 1.4 euro per share in July 2001, taking into account the 1:10 share split-up effected during 2005 and without considering the reinvestment of the dividends paid out in shares, growth was 155%.
The average quotation in 2016 was 3.998 euro; the maximum official price reached during the year was 4.643 euro, recorded on 16 January 2018.
During the year, a dividend of 0.135 euro per share was distributed, a 3.38% dividend yield when compared with the average quotation of the year.

An average volume of 225,875 shares per day was traded during 2018, increasing by 24% than the average volumes daily traded in 2017 (181,510). Volumes reached an all-time high (1,557,885 shares traded) in the session held on 6 February 2018. Average volumes daily traded were 467,077 shares in the same month.[1]

On 29 March 2018 the Esprinet share price was 3.205 euro, a 10.32% decrease compared with the closing price at last year end (3.574 euro). Average daily trading up to the same day was 91,393 shares per day.

[1] Unweighted average of Esprinet shares volumes traded according to a Bloomberg Finance L.P. time series. Source: Banca IMI

Call of Shareholders' Meeting

ESPRINET S.p.A.
Head-quarter in Vimercate (MB), Via Energy Park n. 20
Share capital € 7,860,651.00, fully paid-up
Listed on the Register of Companies of Milan, Monza Brianza, Lodi at number 05091320159
Tax code 05091320159 - VAT number 02999990969 – Economic Administrative Index MB1158694
Website: www.esprinet.com

Notice of Ordinary Meeting of Shareholders

The Ordinary Meeting will be held at 11:00 a.m. on 8 May 2018 - single call, to discuss the following:

Agenda

1. Financial statements at 31 December 2018:
   1.1. Approval of 2018 Financial Statement; Directors' Report on Operations, Statutory Auditors' Report, Independent Auditors' Report Presentation of the Consolidated Financial Statement as at 31 December 2018 and Consolidated disclosure of non-financial information in accordance with Italian Legislative Decree 254/2016 - sustainability report.
   1.2. Appropriation of the net result for the year.
   1.3. Dividend distribution.

2. Report on Remuneration. Report on Remuneration. Resolutions on the first section of the Report on Remuneration pursuant to par. 6 of the art. 123-ter of the legislative decree 58/1998.

3. Proposal for authorisation of a 18-month buy-back plan for the maximum number of shares legally allowed and concurrent repeal of the authorisation for the unused portion of the plan (if any) resolved by the Shareholders' Meeting of 4 May 2018.

4. Appointment of the independent auditors, also for a limited audit of the condensed half-yearly report, for the years 2019 to 2027 pursuant to Lgs. 39/2010 and to the European Regulation (EU) no. 537/2014; Determination of auditors' fees.

For information on the Share Capital, on the amendment to the agenda and presentation of new resolution proposals, entitlement to attend the meeting and voting by proxy and right to ask questions about the items on the agenda, refer to the whole text of the call published on the Company's internet site www.esprinet.com, Investor Relations – Corporate Documentation – 2019 Shareholders' Meeting.

DOCUMENTATION

Documentation relating to the Agenda matters pursuant to law in force, as well as resolution proposals, will be available to the public at the company's head office by the legal deadline. A copy is available to the shareholders and will be published on the Company's website www.esprinet.com, section Investor Relations - Corporate Documentation - 2019 Meeting as well as on the storage service at www.emarketstorage.com.

Those authorised to attend and vote are invited to arrive at least one hour before the start of the Meeting, in order to facilitate the registration process.

Corporate Governance

1. Company Officers

Board of Directors:

(Term of office expiring with approval of the financial statements for the year ending 31 December 2020)

Chairman	Maurizio Rota	(SC) (CSC)
Chief Executive Officer	Alessandro Cattani	(SC) (CSC)
Director	Valerio Casari	(SC) (CSC)
Director	Marco Monti	(SC)
Director	Matteo Stefanelli	(SC) (CSC)
Director	Tommaso Stefanelli	(SC) (CSC)
Director	Ariela Caglio	(InD)
Director	Cristina Galbusera	(InD) (CRC) (RAC)
Director	Mario Massari	(InD) (CRC) (RAC)
Director	Chiara Mauri	(InD) (RAC)
Director	Emanuela Prandelli	(InD)
Director	Renata Maria Ricotti	(InD) (CRC)
Secretary	Manfredi Vianini Tolomei	Studio Chiomenti

Notes:

(InD): Independent Director
(CRC): Control and Risk Committee
(RAC): Remuneration and Nomination Committee
(SC): Strategy Committee
(CSC): Competitiveness and Sustainability Committee

Board of Statutory Auditors:

(Term of office expiring with approval of the financial statements for the year ending 31 December 2020)

Chairman	Bettina Solimando
Permanent Auditor	Patrizia Paleologo Oriundi
Permanent Auditor	Franco Aldo Abbate
Alternate Auditor	Antonella Koenig
Alternate Auditor	Mario Conti

Independent Auditor:

(Term of office expiring with the approval of the annual financial statements as at 31 December 2018)

EY S.p.A.

2. Waiver of obligation to provide information on extraordinary transactions

Pursuant to Art. 70, paragraph 8, and Art. 71, paragraph 1-bis, of the Issuers' Regulations issued by Consob, on 21 December 2012 the Board of Directors of Esprinet S.p.A. resolved to make use of the right to waive the obligation to publish the information documents stipulated for significant transactions relating to mergers, demergers, increases in capital by the contribution of goods in kind, acquisitions and transfers.

3. Corporate Governance

Esprinet S.p.A. adopts and complies with the Corporate Governance Code for Italian Listed Companies (the Code), adapting it to the Group's characteristics.
In compliance with the disclosure requirements provided for by industry legislation, a 'Corporate Governance Report and ownership structure' is drafted every year with a general description of the corporate governance system adopted by the Group, as well as information regarding its ownership structure, its organisational model adopted as per Legislative Decree No. 231 of 2001 and its degree of compliance to the Corporate Governance Code for Italian Listed Companies. It also includes the main governance practices used and features of the risk management and internal auditing systems regarding the financial reporting process.

The 'Report on Corporate Governance and ownership structure' is available under Investor Relations – Corporate Documents – 2019 Shareholder Meeting on the Company website (www.esprinet.com). The Corporate Governance Code for Italian Listed Companies is available on the Borsa Italiana S.p.A. site at www.borsaItaliana.it.

Activities and structure of the Esprinet Group

1. Description of the activities

Esprinet S.p.A. (hereafter 'Esprinet' or the 'parent company') and its subsidiaries (the 'Esprinet Group' or the 'Group') operate in Italy, Spain and Portugal.

The Group is active in the 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics, and is now the biggest distributor in Southern Europe and the 4th in Europe, having brought to completion a strategy fully focused on pure 'business-to-business' ICT distribution, specifically addressed to achieve the leadership in each country where the Group operates.

In the Italian market, the distribution of IT products (hardware, software, value-added services) and consumer electronics constitutes the Group's primary business. Besides the more traditional IT products (desktop PCs, notebooks, printers, copiers, servers, standard software etc.) and to their 'consumables' (cartridges, tapes, toners, magnetic supports), the Group also distributes tablet, mobile devices (smartphones) and their accessories, networking products (modems, routers, switches), state-of-the-art digital and entertainment products such as TVS, photo cameras, video cameras, videogames and MP3/MP4 readers.
The 'sales by product family and customer type' section provides a more detailed description of the main product categories marketed.

The Esprinet Group distributes branded IT products (hardware and software), mobile devices and, by its subsidiary Celly S.p.A., in the wholesale distribution of accessories for mobile devices, pitching itself at a customer base made up of resellers that in turn target both consumer and business users. Its markets in geographical terms are Italy and Iberian Peninsula.

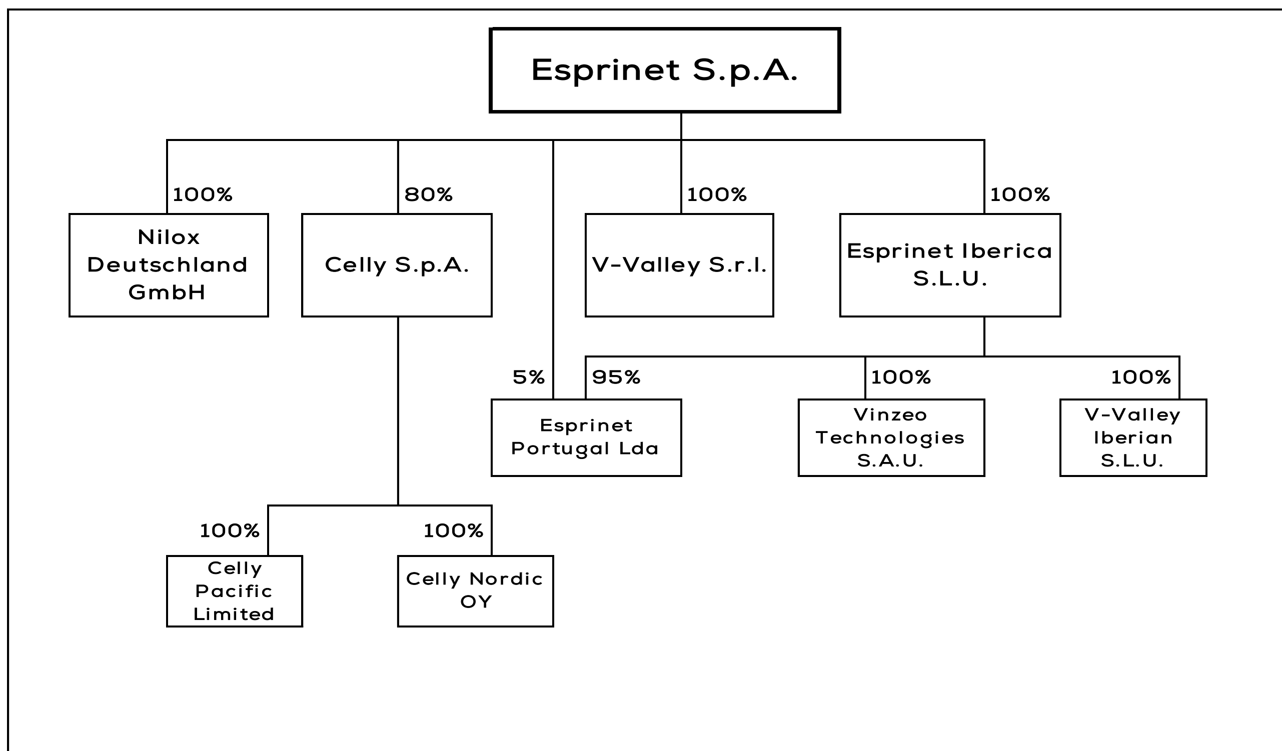
The range marketed by the Group consists of over 600 brands by more than 200 primary standing technology manufacturers (vendors), including all the world's leading technology manufacturers (HP, Apple, Samsung, Asus, Lenovo, Dell, Microsoft, Acer and Epson, to name just a few).
The Group has also been distributing, in both geographic markets, house-branded products commissioned by third parties; these brands are Nilox, for entertainment sport products and PCs accessories, and Celly for mobile devices accessories.

Customers, made up of the various types of IT resellers present in the Italian and Iberians markets, range from value-added resellers (VAR) to system integrators/corporate resellers, from dealers to shops (independent and/or affiliated stores), from major general and/or specialist retailers to sub-distributors.
Total professional customers in 2018 in the B2B market were approx. 36,000, of which approx. 23,000 in Italy and approx. 13,000 in Spain.

Logistics activities are carried out at the three main logistics centres at Cambiago (MI), Cavenago (MB) and Zaragoza (Spain), all leased premises, totalling approx. 130,000 sqm (approx. 90,000 sqm in Italy and 40,000 sqm in Spain).

2. Group Structure

The chart below illustrates the structure of the Esprinet Group as at 31 December 2018:



In legal terms, the parent company, Esprinet S.p.A., was formed in September 2000 following the merger of the two leading distributors operating in Italy: Comprel S.p.A. and Celomax S.p.A..
The Esprinet Group later assumed its current composition as a result of the carve-out of micro-electronic components from the parent company and of various business combination and establishment of new companies carried out over the years.

References to 'Subgroup Italy' and 'Subgroup Iberica' can be found below.

At period end, 'Subgroup Italy' included parent company Esprinet S.p.A. and its direct subsidiaries, V-Valley S.r.l., Celly S.p.A. and Nilox Deutschland Gmbh (which was established on 11 July 2017 and started operating during the first half 2018).

When referring to the Subgroup Italy, the subsidiary Celly S.p.A., a company operating in the 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics, and more specifically in the wholesale distribution of accessories for mobile devices, also includes its wholly owned subsidiaries:

- Celly Nordic OY, a Finnish-law company (non operating from May 2017);
- Celly Pacific LTD, a Chinese-law company;

all of which are operating in the same segment as the Holding Company.

At the same date, Subgroup Iberica is made up of the Spanish-law and Portuguese-law subsidiaries operating in the Iberian Peninsula, i.e. Esprinet Iberica S.L.U. as well as its subsidiaries, Esprinet Portugal Lda, Vinzeo Technologies S.A.U. and V-Valley Iberian S.L.U..

Esprinet S.p.A. has its registered office and administrative headquarters in Vimercate (Monza e Brianza) in Italy, while warehouses and logistics centres are located in Cambiago (Milan) and Cavenago (Monza e Brianza).
Esprinet S.p.A. uses Banca IMI S.p.A. for specialist activities.

Subgroup Italy

Celly S.p.A. and its foreign subsidiaries

Established in 1998, Celly S.p.A is headquartered in Italy and is specialized in the design, production and distribution of mobile devices accessories. The Company has always been focussing on the development of concepts such as 'Italian identity' and 'quality' for its Celly branded products.

On 12 May 2014 Esprinet S.p.A. bought a 60% stake in the share capital of Celly S.p.A.. This deal was executed through a purchase of shares from former shareholders as well as company's own shares and, ultimately, the subscription of a share capital increase.

On July 20th, Esprinet S.p.A acquired 20% stake in Celly S.p.A. from GIR S.r.l., a company owned by Claudio Gottero, Celly's former co-Chief Executive Officer. As consequence of this acquisition, Esprinet owns 80% in Celly's share capital.

Celly S.p.A. wholly owns the companies operating in the same industry: Celly Nordic OY, Celly Pacific LTD.

V-Valley S.r.l.

Established in June 2010 as Master Team S.r.l. and named V-Valley S.r.l. in September, the company is headquartered in Vimercate (MB), and is 100%-owned by Esprinet S.p.A..
In this company, in fact active since December 2010, the distribution of 'high-value' products and solutions (high-end servers, networking and storage, virtualization, security software, bar-code scanning, mainly) has been concentrated.

Nilox Deutschland GmbH

On 11 July 2017 the new legal entity Nilox Deutschland GmbH was established, in order to expand selling and distribution activities of Nilox products (brand owned by Esprinet S.p.A.) also in Germany. The company's headquarters is in Düsseldorf and started operating during the first half of 2018.

Subgroup Iberica

Esprinet Iberica S.L.U.

Originally established by the Group as the non-operating company governed by Spanish law to aid in the Spanish acquisitions effected between the end of 2005 and the end of 2006, due to the mergers through incorporations made in 2007, Esprinet Iberica S.L.U. is now the third distributor in Spain from a standalone point of view. Taking into account the consolidated values, Esprinet Iberica S.L.U. is the market leader in 2016, as consequence of the 2016 business combinations.

Esprinet Iberica's offices and warehouses are in Zaragoza, only approx. 300 km from all the main cities in Spain (Madrid, Barcelona, Bilbao and Valencia) which total over 80% of Spain's IT consumption.

Esprinet Portugal Lda

On April 29th 2015 the new legal entity Portugal Lda was established according to the Portuguese law with the purpose of further enhance Groups' distribution activities in Portugal territory.

Vinzeo S.A.U.

On 1 July 2016 Esprinet S.p.A., through its fully owned subsidiary Esprinet Iberica, completed the purchase of the entire capital of Vinzeo Technologies S.A.U., the fourth largest ICT wholesaler in Spain.
Vinzeo operates many important distribution agreements both in the ICT 'volume' market (i.e. HP, Samsung, Acer, Asus, Toshiba, Lenovo) and in the 'value' one (mainly Hewlett-Packard Enterprise).
Since 2009, Vinzeo has been a key distributor of Apple products, including iPhones (since 2014) and Apple Watch (since 2015).
The headquarter is in Madrid, while branch offices are located in Barcelona and Bilbao.

V-Valley Iberian S.L.U.

V-Valley Iberian S.L.U., established on 28 October 2016, started operating from 1 December 2016, having bought the 'VAD-Value Added Distribution' business unit referring to the peninsula Iberian distribution of IT security software products, networking, as well as server application software from Itway Iberian S.L.U., on the previous day.

V-Valley Iberian's technological offer includes ICT Security solutions, Enterprise Software, virtualization and OpenSource / Linux solutions and training on a selection of products sold, as well as pre and after-sales technical services.
Customers are represented by Corporate Resellers, System Integrators, Value Added Resellers (VARs) and Tel.Cos..

Structure and target market trends

B2B distribution of IT and consumer electronics

The IT distribution chain

Generally speaking, IT and electronic products are distributed in two different ways: direct ('Tier 1') and indirect ('Tier 2').
The former enables suppliers to reach their technology end-users directly, while the latter makes use firstly of an intermediary or distributor and, secondly, of 'resellers'. Very briefly the subjects making up the distribution chain are:

- 'vendors': technology and/or IT products manufacturers who operate under their own brand;
- 'distributors': operators supplying logistics services, storage, credit and marketing. In their turn, distributors can be classified into:
  (i) wide-range distributors, identified by their wide range and high turnover volumes;

(ii) specialised distributors, the reference point for specific technology for products and services, such as intermediate systems, networking products, Internet and consultancy, training and assistance services;
- 'resellers': mixed operators in terms of size, profits and organisational structures, business models and ways of approaching the end-user.

'Resellers' are traditionally coded in terms of their customer base and type of services or answers offered together with the sales of information systems (consultancy, installation, infrastructure production, systems support, outsourcing, after-sales service, and training).

They are usually identified as per the following categories:

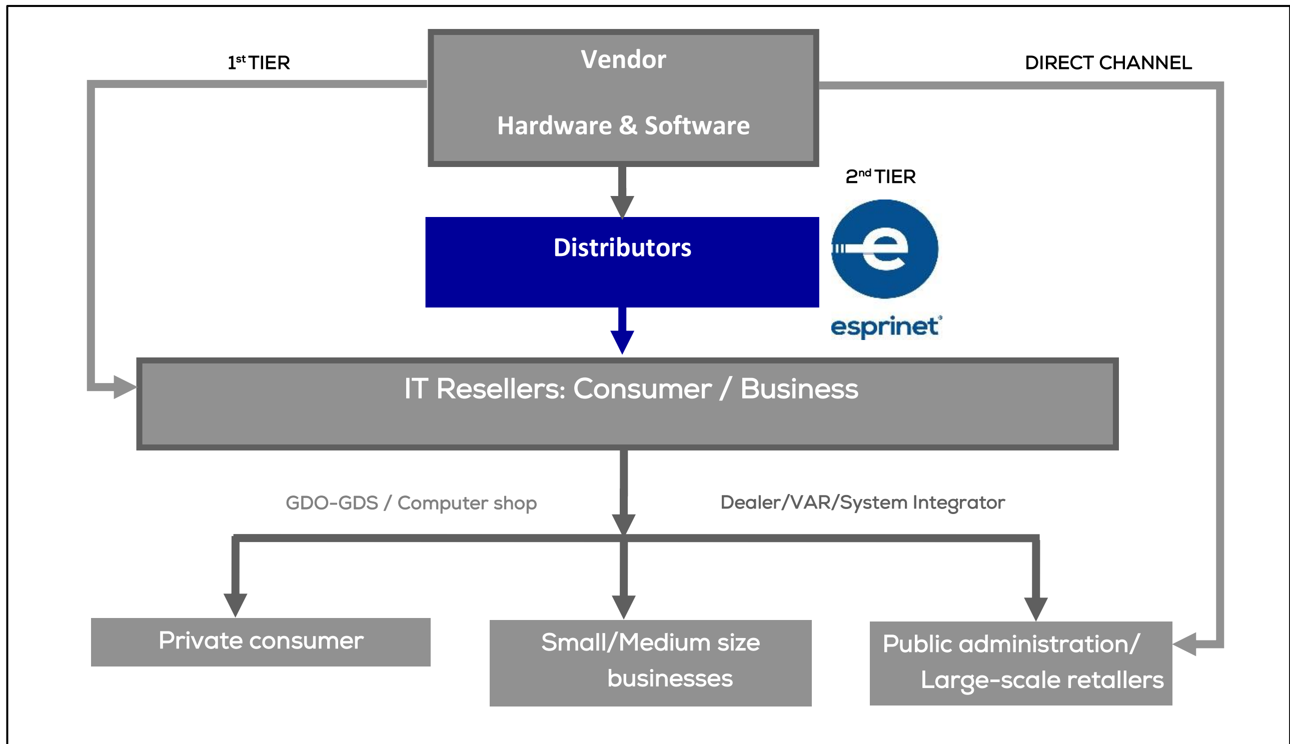
VAR ("Value Added Reseller")	GDO/GDS (Large-scale retail and specialist sectors)
Corporate Reseller	Sub-distribution
System Integrator	Computer shop
Dealers	On-line Shops
Office automation products and consumables specialist	

The individual sectors of the business system described above can be further defined in two different ways:

a) the so-called 'addressed' market, which is the total volume of IT product sales made by distributors or effectively passing through the so-called 'indirect channel' (that is, the sales flow that does not pass directly from the producer to the retailer or from the producer to the IT end-user);
b) the so-called 'addressable' market, which is the volume of IT product sales which can be made by distributors or effectively moved through the so-called 'indirect channel' (with the sole exclusion of hardware equipment such as mainframes or application software such as ERP etc., which by their very nature cannot be intercepted by distributors).

It follows that the size of the sector must therefore be considered by analysing:
- IT demand (end-user consumption);
- the size of the distribution sector (that is the actual value of the sales effected by distributors or the value of the sales that can be guided by distributors according to the intrinsic nature of the products themselves).

The chart below illustrates the typical IT products distribution chain:


1st TIER
Vendor
Hardware & Software
DIRECT CHANNEL
2nd TIER
Distributors
esprinet
IT Resellers: Consumer / Business
GDO-GDS / Computer shop
Dealer/VAR/System Integrator
Private consumer
Small/Medium size businesses
Public administration/ Large-scale retailers

Europe

The distribution industry generated revenues in 2018 for approx. 73.2 billion euro, up +6.7% with respect to 68.6 billion euro in 2017, as measured by the English company, Context (Jan 2019), with reference to a distributors panel representative of the general trend. Namely, the second half, up +8.2% compared with the previous year values, shows a growth rate higher than the one recorded at the end of the first half.

Germany (the first market in Europe in terms of size) accounts for the largest share in results, up +3.8%, while the UK distribution market (the second largest in Europe) increased by 8.7 percentage points compared with 2017. Italy and Spain are among higher growing countries, while France recorded +5.8%.

The following table summarises the distribution trend in the last two quarters and in the full 2018 year compared with the same periods of the previous year:

Country	Q3-18 vs Q3-17	Q4-18 vs Q4-17	2H 2018 vs 2H 2017	2018 YTD vs 2017 YTD
Total	**7.0%**	**9.2%**	**8.2%**	**6.7%**
Germany	3.5%	6.8%	5.4%	3.8%
UK & Ireland	6.4%	14.3%	10.6%	8.7%
Italy	**12.9%**	**14.4%**	**13.8%**	**10.8%**
France	5.6%	6.9%	6.3%	5.8%
Spain	**11.1%**	**11.1%**	**11.1%**	**9.4%**
Merged Countries	12.9%	9.4%	11.0%	7.8%
Poland	4.9%	4.5%	4.6%	2.3%
Switzerland	3.4%	0.7%	1.8%	6.9%
Sweden	11.0%	6.5%	8.4%	5.4%
Austria	5.2%	-2.2%	0.8%	2.0%
Belgium	12.0%	12.1%	12.0%	7.3%
Czech Republic	10.7%	14.3%	12.9%	10.2%
Denmark	4.2%	8.9%	6.9%	4.9%
Portugal	**13.0%**	**10.8%**	**11.7%**	**9.8%**
Norway	-2.0%	15.3%	7.7%	8.0%
Finland	-1.3%	8.5%	4.1%	3.1%
Baltics	9.7%	4.9%	7.0%	9.2%
Slovakia	25.5%	18.4%	21.1%	16.9%

Source: Context, January 2019

Italy

IT, electronics consumption and distribution industry

In 2018, the Italian Information & Communication Technology ('ICT') market, as measured by EITO (European IT Observatory, May 2018) data which monitor end-user purchases in European countries, recorded a -0.1% change to 19.45 billion euro from 19.49 billion euro.[2]
Among the main product categories, 'Portable PCs' (+5.9%, from 1.5 billion euro to 1.6 billion euro in 2018) and 'Software' (+4.7%, from 6.3 billion euro to 6.6 billion euro) were the best performers. 'Mobile Phones' (-4%, from 5.7 billion euro to 5.5 billion euro), 'Servers' (-8.1%) and 'Storage' (-9.6%) performed negatively.

In 2018, the Italian distribution market (source: Context, January 2019) showed a +10.8% growth compared with 2017. The analysis by semester reveals that the second half highly increased compared with the same period of the previous year (+13.8%), almost equally spread over the two quarters (+12.9% Q3 2018 vs Q3 2017 and +14.4% Q4 2018 vs Q4 2017).

[2] Excluding IT & Business Services and Carrier Services. Thus the following industries are covered: IT Equipment, Software and Telecommunication Equipment.

According to Context data, Esprinet Italy confirms its leadership in the Italian distribution market, increasing its market share +1 point since the beginning of the year thanks to the good performance of all business sectors with the only exception of 'printing' and 'datacenter' lines which remained stable.

Spain

IT, electronics consumption and distribution industry

In 2018, the Spanish Information & Communication Technology ('ICT') market, as measured by EITO (European IT Observatory, May 2018) data, which monitor end-user purchases in European countries, recorded a -1.4% change to 13.65 billion euro from 13.84 billion euro.
'Software' segment grew +3.9%. While 'IT Equipment', mainly including the product categories 'Portable PCs' (-2.4%), 'Desktop PCs' (-9.9%), 'Server' (-9.4%) and 'Storage' (-6.2%) performed negatively (-5.3%).

In 2018, the Spanish distribution market (source: Context, Jan 2019) showed a growth of +9.4% and Esprinet market share is in line with 2017 (-0.1%).

Group and Esprinet S.p.A. economic and financial results

Please note that the economic and financial results and those of the relative period of comparison have been drawn up according to IFRSs.

1. Income trend

A) Esprinet Group's financial highlights

In 2018, the Esprinet Group recorded positive performance in terms of sales growth (+11%) and in recurring operating profitability (+12%).
This fiscal year was however negatively impacted by non-recurring items related to the winding-up of the main supplier of the 'Sport Technology' line and by the negative gross profit recorded in November and December on these product lines (please refer to 'Significant events occurring in the period' - winding up of the supplier of the 'Sport Technology' line, related extraordinary charges and dispute').
This business area is currently under restructuring to ensure a return to a positive contribution to the Group results starting from the current fiscal year.

As at 31 December 2018, the Group net financial position includes 101.5 million euro referring to a five-year senior loan granted to Esprinet S.p.A. by a pool of banks in February 2017.
As at 31 December 2018 according to the Group results, 1 out of 4 covenants supporting the loan expiring in February 2022 is expected to be unmet.
Thus, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the interest rate risk - was booked under current financial liabilities (please refer to 'Significant events occurring in the period - Breach of financial covenants on Facility Agreements').

The Group's main earnings, financial and net assets position as at 31 December 2018, as well as the detail of non-recurring items at the same date, are as follows:

(euro/000)	2018	%	2017	%	Var.	Var. %	2018 Recurring	%	2017 Recurring	%	Var.	Var. %
Sales from contracts with customers	**3,571,190**	**100.00%**	**3,217,172**	**100.00%**	**354,018**	***11%***	**3,571,190**	**100.00%**	**3,217,172**	**100.00%**	**354,018**	***11%***
Cost of sales	(3,408,918)	-95.46%	(3,049,409)	-94.79%	(359,509)	*12%*	(3,400,501)	-95.22%	(3,049,409)	-94.79%	(351,092)	*12%*
Gross profit	**162,272**	**4.54%**	**167,763**	**5.21%**	**(5,491)**	***-3%***	**170,689**	**4.78%**	**167,763**	**5.21%**	**2,926**	***2%***
Sales and marketing costs	(52,792)	-1.48%	(53,800)	-1.67%	1,008	*-2%*	(52,792)	-1.48%	(53,800)	-1.67%	1,008	*-2%*
Overheads and administrative costs	(76,287)	-2.14%	(77,548)	-2.41%	1,261	*-2%*	(76,287)	-2.14%	(75,709)	-2.35%	(578)	*1%*
Impairment loss/reversal of financial assets	(9,473)	-0.27%	(2,068)	-0.06%	(7,405)	*>100%*	(650)	-0.02%	(2,068)	-0.06%	1,418	*-69%*
Operating income (EBIT)	**23,720**	**0.66%**	**34,347**	**1.07%**	**(10,627)**	***-31%***	**40,960**	**1.15%**	**36,186**	**1.12%**	**4,774**	***13%***
Finance costs - net	(4,541)	-0.13%	(749)	-0.02%	(3,792)	*>100%*	(4,541)	-0.13%	(749)	-0.02%	(3,792)	*>100%*
Other investments expenses / (incomes)	-	0.00%	36	0.00%	(36)	*-100%*	-	0.00%	36	0.00%	(36)	*-100%*
Profit before income taxes	**19,179**	**0.54%**	**33,634**	**1.05%**	**(14,455)**	***-43%***	**36,419**	**1.02%**	**35,473**	**1.10%**	**946**	***3%***
Income tax expenses	(5,021)	-0.14%	(7,355)	-0.23%	2,334	*-32%*	(9,422)	-0.26%	(7,833)	-0.24%	(1,589)	*20%*
Net income	**14,158**	**0.40%**	**26,279**	**0.82%**	**(12,121)**	***-46%***	**26,997**	**0.76%**	**27,640**	**0.86%**	**(643)**	***-2%***
Earnings per share - basic (euro)	0.27		0.51		(0.24)	*-47%*	0.52		0.53		(0.01)	*-2%*

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(8.417)**	**-**	**(8.417)**
Overheads and administrative costs	Employee termination incentives	-	(1.839)	1.839
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	(8.823)	-	(8.823)
Total SG&A	**Total SG&A**	**(8.823)**	**(1.839)**	**(6.984)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(17.240)**	**(1.839)**	**(15.401)**
Profit/(loss) before income taxes	**Profit/(loss) before income taxes**	**(17.240)**	**(1.839)**	**(15.401)**
Income tax expenses	Non -recurring events impact	4.401	478	3.923
Net income/(loss)	**Net income/(loss)**	**(12.839)**	**(1.361)**	**(11.478)**

Revenues from contracts with customers equal to 3,571.2 million euro showed an increase of +11% (354.0 million) compared with 3,217.2 million euro as of 31 December 2017.

Consolidated gross profit, equal to 162.3 million euro, showed a decrease of -3% (+2% if excluding non-recurring cost items) equal to -5.5 million euro compared with 2017 as a consequence of a worsening in the gross profit margin from 5.21% to 4.54% (4.78% if excluding non-recurring cost items) not completely offset by the sales growth. The non-recurring negative items, equal to 8.4 million euro are both from a steep and unexpected fall in end-user prices on some product families of 'Sport Technology' line which, also as consequence of the lack of price protection provided by the supplier, led to experience a severe impact on gross profit, as well as from estimate charges for the Group relating to return of products under warranties and to dispute on mutual contractual rights.

Operating income (EBIT) as at 31 December 2018, equal to 23.7 million euro, showed a reduction of -31% compared with 31 December 2017 (34.3 million euro), with an EBIT margin down to 0.66% from 1.07%, due to a reduction in the gross profit margin and to non-current negative items, equal to 17.2 million euro, which are attributable to impacts on gross margin for 8.4 million euro and to adjustments with respect to receivables from the supplier of the 'Sport Technology' line in voluntary liquidation for 8.8 million euro (advances on purchasing, repurchase of products under contractual warranty agreements, price repositioning).

Excluding the above-mentioned non-recurring costs, current EBIT showed an increase of +13% compared with the corresponding period of previous year, with an EBIT margin up to 1.15% in 2018 from 1.12% in 2017.

Consolidated profit before income taxes, equal to 19.2 million euro, showed a reduction of -43% compared with 31 December 2017 (+3% excluding non-recurring cost items); this change is more remarkable than the EBIT decrease mainly due to a negative change in foreign exchange management with, conversely, an improvement in net interest payable to banks.

Consolidated net income was equal to 14.2 million euro, showing a decrease of -46% (-2% excluding non-recurring costs) compared with 31 December 2017.

Basic earnings per ordinary share as at 31 December 2018, equal to 0.27 euro, showed a reduction of -47% (-2% if excluding non-recurring charges) compared with 31 December 2017 (0.51 euro).

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	118,502	116.34%	122,403	56.90%	(3,901)	*-3%*
Operating net working capital	10,443	10.25%	104,175	48.42%	(93,732)	*-90%*
Other current assets/liabilities	(12,667)	-12.44%	2,958	1.38%	(15,625)	*<-100%*
Other non-current assets/liabilities	(14,424)	-14.16%	(14,406)	-6.70%	(18)	*0%*
Total uses	**101,855**	**100.00%**	**215,130**	**100.00%**	**(113,276)**	***-53%***
Short-term financial liabilities	138,311	135.79%	155,960	72.50%	(17,649)	*-11%*
Current financial (assets)/liabilities for derivatives	610	0.60%	663	0.31%	(53)	*-8%*
Financial receivables from factoring companies	(242)	-0.24%	(1,534)	-0.71%	1,292	*-84%*
Current debts for investments in subsidiaries	1,082	1.06%	-	0.00%	1,082	*-100%*
Other current financial receivables	(10,881)	-10.68%	(510)	-0.24%	(10,371)	*>100%*
Cash and cash equivalents	(381,308)	-374.37%	(296,969)	-138.04%	(84,339)	*28%*
Net current financial debt	(252,428)	-247.83%	(142,390)	-66.19%	(110,038)	*77%*
Borrowings	12,804	12.57%	19,927	9.26%	(7,123)	*-36%*
Non - current debts for investments in subsidiaries	-	0.00%	1,311	0.61%	(1,311)	*-100%*
Non-current financial (assets)/liab. for derivatives	-	0.00%	(36)	-0.02%	36	*-100%*
Other non - current financial receivables	(1,420)	-1.39%	(1,870)	-0.87%	450	*-24%*
Net financial debt (A)	(241,044)	-236.65%	(123,058)	-57.20%	(117,986)	*96%*
Net equity (B)	342,898	336.65%	338,188	157.20%	4,710	*1%*
Total sources of funds (C=A+B)	**101,855**	**100.00%**	**215,130**	**100.00%**	**(113,276)**	***-53%***

Consolidated net working capital as at 31 December 2018 was equal to 10.4 million euro compared with 104.2 million euro as at 31 December 2017.

Net financial position as at 31 December 2018, is positive by 241.0 million euro, compared with a cash surplus equal to 123.1 million euro at 31 December 2017.
Increase of spot net cash surplus was due to the development of consolidated net working capital as at 31 December 2018, which in turn was influenced by seasonal technical events - often not related to the average level of working capital - and by the level of utilisation of both 'without – recourse' factoring programmes and of the receivables securitisation programmes.

This program is aimed at transferring risks and rewards to the buyer, thus receivables sold are eliminated from balance sheet according to IFRS 9.

Taking into account other technical forms of cash advances other than 'without-recourse' assignment, but showing the same effects – such as 'confirming' used in Spain –, the overall impact on financial debt at 31 December 2018 was approx. 597 million euro (approx. 424 million euro as at 31 December 2017).

As at 31 December 2018, the Group net financial position includes 101.5 million euro referring to a five-year senior loan granted to Esprinet S.p.A. by a pool of banks in February 2017.
As at 31 December 2018 according to the Group results, 1 out of 4 covenants supporting the loan expiring in February 2022 is expected to be unmet. Thus, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the interest rate risk - was booked under current financial liabilities.

Consolidated net equity as at 31 December 2018 equal to 342.9 million euro, showed an increase of 4.7 million euro compared with 338.2 million euro as at 31 December 2017.

B) Financial highlights by geographical area

B.1) Subgroup Italy

The main earnings, financial and net assets position of the Italian subgroup (Esprinet, V-Valley and Celly Group) as at 31 December 2018, as well as the detail of non-recurring items at the same date, are as follows:

(euro/000)	2018	%	2017	%	Var.	Var. %	2018 Recurring	%	2017 Recurring	%	Var.	Var. %
Sales to third parties	2.236.833		1.991.524		245.309	*12%*	2.236.833		1.991.524		245.309	*12%*
Intercompany sales	57.103		46.050		11.053	*24%*	57.103		46.050		11.053	*24%*
Sales from contracts with customers	**2.293.936**		**2.037.574**		**256.362**	***13%***	**2.293.936**		**2.037.574**		**256.362**	***13%***
Cost of sales	(2.181.941)	-95,12%	(1.916.908)	-94,08%	(265.033)	*14%*	(2.175.441)	-94,83%	(1.916.908)	-94,08%	(258.533)	*13%*
Gross profit	**111.995**	**4,88%**	**120.666**	**5,92%**	**(8.671)**	***-7%***	**118.495**	**5,17%**	**120.666**	**5,92%**	**(2.171)**	***-2%***
Other income	-	0,00%	-	0,00%	-	*-100%*	-	0,00%	-	0,00%	-	*-100%*
Sales and marketing costs	(41.229)	-1,80%	(42.871)	-2,10%	1.642	*-4%*	(41.229)	-1,80%	(42.871)	-2,10%	1.642	*-4%*
Overheads and administrative costs	(57.032)	-2,49%	(57.051)	-2,80%	19	*0%*	(57.032)	-2,49%	(56.431)	-2,77%	(601)	*1%*
Impairment loss/reversal of financial assets	(9.348)	-0,41%	(1.934)	-0,09%	(7.414)	*>100%*	(525)	-0,02%	(1.934)	-0,09%	1.409	*-73%*
Operating income (EBIT)	**4.386**	**0,19%**	**18.810**	**0,92%**	**(14.424)**	***-77%***	**19.709**	**0,86%**	**19.430**	**0,95%**	**279**	***1%***

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(6.500)**	**-**	**(6.500)**
Overheads and administrative costs	Employee termination incentives	-	(620)	620
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	(8.823)	-	(8.823)
Total SG&A	**Total SG&A**	**(8.823)**	**(620)**	**(8.203)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(15.323)**	**(620)**	**(14.703)**
Profit/(loss) before income taxes	**Profit/(loss) before income taxes**	**(15.323)**	**(620)**	**(14.703)**
Income tax expenses	Non -recurring events impact	3.931	173	3.758
Net income/(loss)	**Net income/(loss)**	**(11.392)**	**(447)**	**(10.945)**

Total revenues amounted to 2,293.9 million euro and presented an increase of +13% compared with 2,037.6 million euro achieved as at 31 December 2017.

Gross profit, amounting to 112.0 million euro as of 31 December 2018, disclosed a decrease of -7% (-2% compared with the previous period if the non-recurrent cost items relating to the 'Sport

Technology' line are excluded) compared with 120.7 million euro in 2017 and with an incidence on revenues which fell from 5.92% to 4.88% (5.17% net of the non-recurrent cost components).

Operating income (EBIT) as at 31 December 2018, equal to 4.4 million euro, showed a reduction of -77% compared with 31 December 2017 (-14.4 million euro), with an EBIT margin down to 0.19% from 0.92%, due to a reduction in the gross profit margin and to non-current negative items, equal to 15.3 million euro, which are attributable to impacts on gross margin for 6.5 million euro and to adjustments with respect to receivables from the supplier of the 'Sport Technology' line in voluntary liquidation for 8.8 million euro (advances on purchasing, repurchase of products under contractual warranty agreements, price repositioning).

Excluding the effects of the above-mentioned non-recurring costs, the current EBIT showed an increase of +1% compared with the same period last year, with a stable percentage incidence of revenues decreasing to 0.86% from 0.95%.

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	115,414	74.33%	117,075	64.89%	(1,661)	*-1%*
Operating net working capital	48,346	31.13%	55,494	30.76%	(7,148)	*-13%*
Other current assets/liabilities	830	0.53%	17,699	9.81%	(16,869)	*-95%*
Other non-current assets/liabilities	(9,310)	-6.00%	(9,857)	-5.46%	547	*-6%*
Total uses	**155,280**	**100.00%**	**180,411**	**100.00%**	**(25,131)**	***-14%***
Short-term financial liabilities	136,269	87.76%	150,364	83.35%	(14,095)	*-9%*
Current debts for investments in subsidiaries	1,082	0.70%	-	0.00%	1,082	*-100%*
Current financial (assets)/liabilities for derivatives	613	0.39%	644	0.36%	(31)	*-5%*
Financial receivables from factoring companies	(242)	-0.16%	(1,534)	-0.85%	1,292	*-84%*
Financial (assets)/liab. from/to Group companies	(104,500)	-67.30%	(112,500)	-62.36%	8,000	*-7%*
Other financial receivables	(10,880)	-7.01%	(510)	-0.28%	(10,370)	*>100%*
Cash and cash equivalents	(180,219)	-116.06%	(184,912)	-102.49%	4,693	*-3%*
Net current financial debt	(157,877)	-101.67%	(148,448)	-82.28%	(9,429)	*6%*
Borrowings	12,804	8.25%	18,163	10.07%	(5,359)	*-30%*
Non - current debts for investments in subsidiaries	-	0.00%	1,311	0.73%	(1,311)	*-100%*
Other financial receivables	(1,420)	-0.91%	(1,870)	-1.04%	450	*-24%*
Net Financial debt (A)	(146,493)	-94.34%	(130,844)	-72.53%	(15,649)	*12%*
Net equity (B)	301,773	194.34%	311,255	172.53%	(9,482)	*-3%*
Total sources of funds (C=A+B)	**155,280**	**100.00%**	**180,411**	**100.00%**	**(25,131)**	***-14%***

Net working capital as of 31 December 2018 amounted to 48.4 million euro compared to 55.5 million euro as of 31 December 2017.

The spot net financial position as at 31 December 2018 presented a positive value of 146.5 million euro, compared with a cash surplus equal to 130.8 million euro at 31 December 2017. The effect as of 31 December 2018 of the recourse to 'without-recourse' factoring and the securitisation of the receivables comes to 320 million euro (around 184 million euro as of 31 December 2017).

B.2) Subgroup Iberica

The main earnings, financial and asset results for the Iberian Subgroup (Esprinet Iberica, Esprinet Portugal, Vinzeo Technologies and V-Valley Iberian) as 31 December 2018, as well as the detail of non-recurring items at the same date, are hereby summarised:

(euro/000)	2018	%	2017	%	Var.	Var. %	2018 Recurring	%	2017 Recurring	%	Var.	Var. %
Sales to third parties	1,334,357		1,225,648		108,709	9%	1,334,357		1,225,648		108,709	9%
Intercompany sales	-		-		-	-100%	-		-		-	-100%
Sales from contracts with customers	**1,334,357**		**1,225,648**		108,709	**9%**	**1,334,357**		**1,225,648**		108,709	**9%**
Cost of sales	(1,283,897)	-96.22%	(1,178,439)	-96.15%	(105,458)	9%	(1,281,980)	-96.07%	(1,178,439)	-96.15%	(103,541)	9%
Gross profit	**50,460**	**3.78%**	**47,209**	**3.85%**	**3,251**	**7%**	**52,377**	**3.93%**	**47,209**	**3.85%**	**5,168**	**11%**
Sales and marketing costs	(11,563)	-0.87%	(10,872)	-0.89%	(691)	6%	(11,563)	-0.87%	(10,872)	-0.89%	(691)	6%
Overheads and administrative costs	(19,272)	-1.44%	(20,565)	-1.68%	1,293	-6%	(19,272)	-1.44%	(19,346)	-1.58%	74	0%
Impairment loss/reversal of financial assets	(125)	-0.01%	(134)	-0.01%	9	-7%	(125)	-0.01%	(134)	-0.01%	9	-7%
Operating income (EBIT)	**19,500**	**1.46%**	**15,638**	**1.28%**	**3,862**	**25%**	**21,417**	**1.61%**	**16,857**	**1.38%**	**4,560**	**27%**

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(1.917)**	**-**	**(1.917)**
Overheads and administrative costs	Employee termination incentives	-	(1.219)	1.219
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	-	-	-
Total SG&A	**Total SG&A**	**-**	**(1.219)**	**1.219**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(1.917)**	**(1.219)**	**(698)**
Profit/(loss) before income taxes	**Profit before income taxes**	**(1.917)**	**(1.219)**	**(698)**
Income tax expenses	Non -recurring events impact	470	305	165
Net income/(loss)	**Net income/(loss)**	**(1.447)**	**(914)**	**(533)**

Total sales amount to 1,334.4 million euro and presented growth of +9% compared with 1,225.6 million euro reported as at 31 December 2017.

Gross Margin as of 31 December 2018 amounted to 50.5 million euro, with an increase of +7% (increase of +11% net of the non-recurrent cost items) compared with 47.2 million euro reported in the same period of 2017 and with an incidence on revenues which fell from 3.85% to 3.78% (3.93% if the non-recurrent cost components are excluded).

Operating income (EBIT) as at 31 December 2018, equal to 19.5 million euro, showed an increase of +25% compared with 31 December 2017 (3.9 million euro) with an EBIT margin increased to 1.46% from 1.28%.

Excluding the above-mentioned non-recurring costs, the current EBIT showed an increase of +27% compared with the corresponding period of previous year, with an EBIT margin increased to 1.61% from 1.38%.

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	77,606	357.97%	80,051	72.87%	(2,445)	*-3%*
Operating net working capital	(37,317)	-172.13%	49,102	44.69%	(86,419)	*<-100%*
Other current assets/liabilities	(13,496)	-62.25%	(14,742)	-13.42%	1,246	*-8%*
Other non-current assets/liabilities	(5,114)	-23.59%	(4,549)	-4.14%	(565)	*12%*
Total uses	**21,679**	**100.00%**	**109,862**	**100.00%**	**(88,183)**	***-80%***
Short-term financial liabilities	2,042	9.42%	5,596	5.09%	(3,554)	*-64%*
Current financial (assets)/liabilities for derivatives	(3)	-0.01%	19	0.02%	(22)	*<-100%*
Financial (assets)/liab. from/to Group companies	104,500	482.02%	112,500	102.40%	(8,000)	*-7%*
Other financial receivables	(1)	0.00%	(0)	0.00%	(1)	*>100%*
Cash and cash equivalents	(201,089)	-927.56%	(112,057)	-102.00%	(89,032)	*79%*
Net current financial debt	(94,551)	-436.13%	6,058	5.51%	(100,609)	*<-100%*
Borrowings	-	0.00%	1,764	1.61%	(1,764)	*-100%*
Non-current financial (assets)/liab. for derivatives	-	0.00%	(36)	-0.03%	36	*-100%*
Net Financial debt (A)	(94,551)	-436.13%	7,786	7.09%	(102,337)	*<-100%*
Net equity (B)	116,230	536.13%	102,076	92.91%	14,154	*14%*
Total sources of funds (C=A+B)	**21,679**	**100.00%**	**109,862**	**100.00%**	**(88,183)**	***-80%***

Net working capital as of 31 December 2018 was -37.3 million euro compared to 49.1 million euro as of 31 December 2017.

The net financial position as at 31 December 2018 presented a positive value of 94.6 million euro, compared with a negative net financial position of -7.8 million euro at 31 December 2017. The impact of both 'without-recourse' sale and receivable financing programmes was approx. 277 million euro (approx. 240 million euro as at 31 December 2017).

C) Esprinet S.p.A. financial highlights

The Esprinet S.p.A. main earnings, financial and net assets position, as well as the detail of non-recurring items at the same date, are as follows:

(euro/000)	2018	%	2017	%	Var.	Var. %	2018 Recurring	%	2017 Recurring	%	Var.	Var. %
Sales from contracts with customers	**2,267,797**	100.00%	**1,917,559**	100.00%	**350,238**	*18%*	**2,267,797**	100.00%	**1,917,559**	100.00%	**350,238**	*18%*
Cost of sales	(2,166,521)	-95.53%	(1,819,846)	-94.90%	(346,675)	*19%*	(2,160,441)	-95.27%	(1,819,846)	-94.90%	(340,595)	*19%*
Gross profit	**101,276**	**4.47%**	**97,713**	**5.10%**	**3,563**	***4%***	**107,356**	**4.73%**	**97,713**	**5.10%**	**9,643**	***10%***
Sales and marketing costs	(36,419)	-1.61%	(30,181)	-1.57%	(6,238)	*21%*	(36,419)	-1.61%	(30,181)	-1.57%	(6,238)	*21%*
Overheads and administrative costs	(53,028)	-2.34%	(49,890)	-2.60%	(3,138)	*6%*	(53,028)	-2.34%	(49,655)	-2.59%	(3,373)	*7%*
Impairment loss/reversal of financial assets	(9,266)	-0.41%	(1,246)	-0.06%	(8,020)	*644%*	(443)	-0.02%	(1,246)	-0.06%	803	*-64%*
Operating income (EBIT)	**2,563**	**0.11%**	**16,396**	**0.86%**	**(13,833)**	***-84%***	**17,466**	**0.77%**	**16,631**	**0.87%**	**835**	***5%***
Finance costs - net	(3,457)	-0.15%	(1,880)	-0.10%	(1,577)	*84%*	(3,457)	-0.15%	(1,880)	-0.10%	(1,577)	*84%*
Profit before income taxes	**(894)**	**-0.04%**	**14,516**	**0.76%**	**(15,410)**	***-106%***	**14,009**	**0.62%**	**14,751**	**0.77%**	**(742)**	***-5%***
Income tax expenses	(136)	-0.01%	(3,906)	-0.20%	3,770	*-97%*	(3,950)	-0.17%	(3,971)	-0.21%	21	*-1%*
Net Result	**(1,030)**	**-0.05%**	**10,610**	**0.55%**	**(11,640)**	***-110%***	**10,059**	**0.44%**	**10,780**	**0.56%**	**(721)**	***-7%***

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(6.080)**	**-**	**(6.080)**
Overheads and administrative costs	Employee termination incentives	-	(235)	235
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	(8.823)	-	(8.823)
Total SG&A	**Total SG&A**	**(8.823)**	**(235)**	**(8.588)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(14.903)**	**(235)**	**(14.668)**
Profit/(loss) before income taxes	**Profit before income taxes**	**(14.903)**	**(235)**	**(14.668)**
Income tax expenses	Non -recurring events impact	3.814	65	3.749
Net income/(loss)	**Net income/(loss)**	**(11.089)**	**(170)**	**(10.919)**

Since the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l. into Esprinet S.p.A. occurred with effect from 1 January 2018, for the sake of a better comparability, find below the Esprinet S.p.A. 'pro-forma' values as at 31 December 2017, restated in order to show the merger effects from 1 January 2017;

(euro/000)	2018	%	2017 Pro-forma	%	Var.	Var. %	2018 Recurring	%	2017 Recurring Pro-forma	%	Var.	Var. %
Sales from contracts with customers	**2,267,797**	100.00%	**2,010,742**	100.00%	**257,055**	*13%*	**2,267,797**	100.00%	**2,010,742**	100.00%	**257,055**	*13%*
Cost of sales	(2,166,521)	-95.53%	(1,901,506)	-94.57%	(265,015)	*14%*	(2,160,441)	-95.27%	(1,901,506)	-94.57%	(258,935)	*14%*
Gross profit	**101,276**	**4.47%**	**109,236**	**5.43%**	**(7,960)**	***-7%***	**107,356**	**4.73%**	**109,236**	**5.43%**	**(1,880)**	***-2%***
Sales and marketing costs	(36,419)	-1.61%	(35,726)	-1.78%	(693)	*2%*	(36,419)	-1.61%	(35,726)	-1.78%	(693)	*2%*
Overheads and administrative costs	(53,028)	-2.34%	(53,333)	-2.65%	305	*-1%*	(53,028)	-2.34%	(52,742)	-2.62%	(286)	*1%*
Impairment loss/reversal of financial assets	(9,266)	-0.41%	(1,648)	-0.08%	(7,618)	*462%*	(443)	-0.02%	(1,648)	-0.08%	1,205	*-73%*
Operating income (EBIT)	**2,563**	**0.11%**	**18,529**	**0.92%**	**(15,966)**	***-86%***	**17,466**	**0.77%**	**19,120**	**0.95%**	**(1,654)**	***-9%***
Finance costs - net	(3,457)	-0.15%	(2,246)	-0.11%	(1,211)	*54%*	(3,457)	-0.15%	(2,246)	-0.11%	(1,211)	*54%*
Profit before income taxes	**(894)**	**-0.04%**	**16,283**	**0.81%**	**(17,177)**	***-105%***	**14,009**	**0.62%**	**16,874**	**0.84%**	**(2,865)**	***-17%***
Income tax expenses	(136)	-0.01%	(4,531)	-0.23%	4,395	*-97%*	(3,950)	-0.17%	(4,695)	-0.23%	745	*-16%*
Net Result	**(1,030)**	**-0.05%**	**11,752**	**0.58%**	**(12,782)**	***-109%***	**10,059**	**0.44%**	**12,179**	**0.61%**	**(2,120)**	***-17%***

Sales from contracts with customers equal to 2,267.8 million euro, showed an increase of +18% compared with 1,917.6 million euro as of 31 December 2017(+13% compared with 31 December 2017 pro-forma figures).
Gross profit, equal to 101.3 million euro, is negatively affected by non-recurring charges of 6.1 million euro (previous year: nil). Gross profit, net of non-recurring items, totalled 107.4 million euro, showing a reduction of 1.8 million euro compared with pro-forma result in 2017, due to a gross profit margin decreased from 5.43% to 4.73%. The non-recurring negative items are both from a steep and unexpected fall in end-user prices on some product families of 'Sport Technology' line which, also as consequence of the lack of price protection provided by the supplier, led to experience a severe impact on gross profit, as well as from estimate charges for the Company relating to return of products under warranties and to dispute on mutual contractual rights.

Operating income (EBIT) as at 31 December 2018, equal to 2.6 million euro, is significantly affected by non-recurring charges equal to 14.9 million euro (0.2 million euro in 2017). Excluding the above-mentioned non-recurring charges, which are attributable to impacts on gross margin for 6.1 million euro and to adjustments with respect to receivables from the supplier of the 'Sport Technology' line in voluntary liquidation for 8.8 million euro (advances on purchasing, repurchase of products under

contractual warranty agreements, price repositioning), current EBIT shows a decrease of -9% compared with the pro-forma figures of 2017. While decreasing to 0.77% from 0.95%, EBIT margin showed a significant efficiency enhancement as opposed to a decrease in gross margin (-18bps against -80 bps) as consequence of a lower operating costs weight (3.97% against 4.48% in 2017).

Profit before income taxes was equal to -0.9 million euro, compared with a positive result of 14.5 million euro occurred in 2017. Excluding non-recurring items and with scope unchanged, profit before income taxes, equal to 14.0 million euro (16.9 million euro in 2017 pro-forma current items), showed a reduction as a percentage on sales, more remarkable than the EBIT decrease mainly due to a negative change in foreign exchange management and to the posting in the previous fiscal year of financial income following positive outcome of a dispute.

Net loss amounted to 1.0 million euro compared with a net income of 10.6 million euro in 2017. Excluding figures from non-recurring items, the net result would have been positive by 10.1 million euro, down -17% compared with 2017 pro-forma figures, which is also net of non-recurring items.

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	119,848	77.28%	121,233	82.51%	(1,385)	*-1%*
Operating net working capital	(17,095)	-11.02%	(13,417)	-9.13%	(3,678)	*27%*
Other current assets/liabilities	60,358	38.92%	46,654	31.75%	13,704	*29%*
Other non-current assets/liabilities	(8,034)	-5.18%	(7,548)	-5.14%	(486)	*6%*
Total uses	**155,077**	**100.00%**	**146,922**	**100.00%**	**8,155**	***6%***
Short-term financial liabilities	132,744	85.60%	149,263	101.59%	(16,519)	*-11%*
Current financial (assets)/liabilities for derivatives	238	0.15%	644	0.44%	(406)	*-63%*
Financial receivables from factoring companies	(241)	-0.16%	(1,202)	-0.82%	961	*-80%*
Financial (assets)/liab. From/to Group companies	(104,500)	-67.39%	(157,500)	-107.20%	53,000	*-34%*
Customers financial receivables	(10,880)	-7.02%	(510)	-0.35%	(10,370)	*>100%*
Cash and cash equivalents	(173,681)	-112.00%	(165,368)	-112.55%	(8,313)	*5%*
Net current financial debt	(156,320)	-100.80%	(174,673)	-118.89%	18,353	*-11%*
Borrowings	12,804	8.26%	18,163	12.36%	(5,359)	*-30%*
Non-current financial (assets)/liab. for derivatives	-	0.00%	(377)	-0.26%	377	*-100%*
Customers financial receivables	(1,420)	-0.92%	(1,870)	-1.27%	450	*-24%*
Net Financial debt (A)	(144,936)	-93.46%	(158,757)	-108.06%	13,821	*-9%*
Net equity (B)	300,013	193.46%	305,679	208.06%	(5,666)	*-2%*
Total sources of funds (C=A+B)	**155,077**	**100.00%**	**146,922**	**100.00%**	**8,155**	***6%***

Operating net working capital as at 31 December 2018 was equal to -17.1 million euro compared with -13.4 million euro as at 31 December 2017.

Net financial position as at 31 December 2018 was positive by 144.9 million euro, compared with a cash surplus equal to 158.8 million euro at 31 December 2017. The impact of both 'without-recourse' sale of trade receivables and securitization with factoring companies as at 31 December 2018 was equal to 309 million euro (approx. 169 million euro as at 31 December 2017).
As at 31 December 2018 according to the Group results, 1 out of 4 covenants supporting the loan expiring in February 2022 is expected to be unmet. Thus, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the interest rate risk - was booked under current financial liabilities.

Net equity as at 31 December 2018 is equal to 300.0 million euro.

D) Separate income statement by legal entity

Find below the separate income statement showing the contribution of each legal entities as considered significant.[3]

(euro/000)	2018													
	Italy						Iberian Peninsula							
	E.Spa + V-Valley + Nilox GmbH	Mosaico	Celly*	EDSlan	Elim. and other	Total	Esprinet Iberian	Esprinet Portugal	V-Valley Iberian	Vinzeo	Elim. and other	Total	Elim. and other	Group
Sales to third parties	2,211,886	-	24,947	-	-	2,236,833	719,269	29,741	12,504	572,844	-	1,334,357	-	3,571,190
Intersegment sales	55,594	-	2,243	-	(734)	57,103	21,741	1	756	3,342	(25,841)	-	(57,103)	-
Sales from contracts with customers	**2,267,480**	**-**	**27,190**	**-**	**(734)**	**2,293,936**	**741,010**	**29,742**	**13,260**	**576,186**	**(25,841)**	**1,334,357**	**(57,103)**	**3,571,190**
Cost of sales	(2,166,935)	-	(15,770)	-	764	(2,181,941)	(715,186)	(29,178)	(12,083)	(553,192)	25,743	(1,283,897)	56,920	(3,408,918)
Gross profit	**100,545**	**-**	**11,420**	**-**	**30**	**111,995**	**25,824**	**564**	**1,177**	**22,994**	**(98)**	**50,460**	**(183)**	**162,272**
Gross Profit %	*4.43%*	*0.00%*	*42.00%*	*0.00%*	*-4.09%*	*4.88%*	*3.48%*	*1.90%*	*8.88%*	*3.99%*		*3.78%*		*4.54%*
Sales and marketing costs	(34,367)	-	(6,862)	-	-	(41,229)	(5,532)	(340)	(1,596)	(4,157)	62	(11,563)	-	(52,792)
Overheads and admin. costs	(53,912)	-	(3,120)	-	-	(57,032)	(12,618)	(752)	(226)	(5,713)	35	(19,272)	17	(76,287)
Impairment loss/reversal of financial assets	(9,265)	-	(83)	-	-	(9,348)	(80)	(1)	(3)	(41)	-	(125)	-	(9,473)
Operating income (Ebit)	**3,001**	**-**	**1,355**	**-**	**30**	**4,386**	**7,594**	**(529)**	**(648)**	**13,083**	**(1)**	**19,500**	**(166)**	**23,720**
EBIT %	*0.13%*	*0.00%*	*4.98%*	*0.00%*	*-4.09%*	*0.19%*	*1.02%*	*-1.78%*	*-4.89%*	*2.27%*		*1.46%*		*0.66%*
Finance costs - net														(4,541)
Share of profits of associates														-
Profit before income tax														**19,179**
Income tax expenses														(5,021)
Net income														**14,158**
- of which attributable to non-controlling interests														127
- of which attributable to Group														14,031

(euro/000)	2017													
	Italy						Iberian Peninsula							
	E.Spa + V-Valley	Mosaico	Celly*	EDSlan	Elim. and other	Total	Esprinet Iberica	Esprinet Portugal	V-Valley Iberian	Vinzeo + Tape	Elim. and other	Total	Elim. and other	Group
Sales to third parties	1,854,572	53,556	27,911	55,485	-	1,991,524	633,015	28,258	6,195	558,180	-	1,225,648	-	3,217,172
Intersegment sales	62,961	1,129	1,107	1,846	(20,993)	46,050	20,837	12	-	3,447	(24,296)	-	(46,050)	-
Sales from contracts with customers	**1,917,533**	**54,685**	**29,018**	**57,331**	**(20,993)**	**2,037,574**	**653,852**	**28,270**	**6,195**	**561,627**	**(24,296)**	**1,225,648**	**(46,050)**	**3,217,172**
Cost of sales	(1,820,245)	(49,689)	(17,218)	(50,745)	20,989	(1,916,908)	(627,090)	(27,452)	(5,614)	(542,504)	24,221	(1,178,439)	45,938	(3,049,409)
Gross profit	**97,288**	**4,996**	**11,800**	**6,586**	**(4)**	**120,666**	**26,762**	**818**	**581**	**19,123**	**(75)**	**47,209**	**(112)**	**167,763**
Gross Profit %	*5.07%*	*9.14%*	*40.66%*	*11.49%*	*0.02%*	*5.92%*	*4.09%*	*2.89%*	*9.38%*	*3.40%*		*3.85%*		*5.21%*
Sales and marketing costs	(28,781)	(1,417)	(8,544)	(4,180)	51	(42,871)	(6,171)	(333)	(855)	(3,599)	85	(10,872)	(57)	(53,800)
Overheads and admin. costs	(50,590)	(864)	(3,023)	(2,588)	14	(57,051)	(13,052)	(550)	(255)	(6,698)	(10)	(20,565)	68	(77,548)
Impairment loss/reversal of financial assets	(1,485)	-	(47)	(402)	-	(1,934)	(64)	7	-	(78)	-	(134)	-	(2,068)
Operating income (Ebit)	**16,432**	**2,715**	**186**	**(584)**	**61**	**18,810**	**7,475**	**(58)**	**(529)**	**8,748**	**-**	**15,638**	**(101)**	**34,347**
EBIT %	*0.86%*	*4.96%*	*0.64%*	*-1.02%*	*-0.29%*	*0.92%*	*1.14%*	*-0.21%*	*-8.54%*	*1.56%*		*1.28%*		*1.07%*
Finance costs - net														(749)
Share of profits of associates														36
Profit before income tax														**33,634**
Income tax expenses														(7,355)
Net income														**26,279**
- of which attributable to non-controlling interests														45
- of which attributable to Group														26,234

* Refers to the subgroup made up of Celly S.p.A., Celly Nordic OY and Celly Pacific Limited.

E) Reclassified income statement

Please find below the consolidated income statement showing the reclassification of charges attributable to the without-recourse revolving factoring in the period under the item finance costs (both factoring and securitisazion):

[3] V-Valley S.r.l., (since is a mere 'commission sales agent' of Esprinet S.p.A.) and Nilox Deutschland Gmbh (since not significant) are not shown separately.

(euro/000)	2018	%	2018 reclassified	%	Var.	Var. %
Sales from contracts with customers	**3,571,190**	**100.00%**	**3,571,190**	**100.00%**	**-**	***0%***
Cost of sales	(3,408,918)	-95.46%	(3,404,049)	-95.32%	(4,869)	*0%*
Gross Profit	**162,272**	**4.54%**	**167,141**	**4.68%**	**(4,869)**	***-3%***
Sales and marketing costs	(52,792)	-1.48%	(52,792)	-1.48%	-	*0%*
Overheads and administrative costs	(76,287)	-2.14%	(76,287)	-2.14%	-	*0%*
Impairment loss/reversal of financial assets	(9,473)	-0.27%	(9,473)	-0.27%	-	*0%*
Operating income (EBIT)	**23,720**	**0.66%**	**28,589**	**0.80%**	**(4,869)**	***-17%***
Finance costs - net	(4,541)	-0.13%	(9,410)	-0.26%	4,869	*-52%*
Profit before income taxes	**19,179**	**0.54%**	**19,179**	**0.54%**	**-**	***0%***
Income tax expenses	(5,021)	-0.14%	(5,021)	-0.14%	-	*0%*
Net income	**14,158**	**0.40%**	**14,158**	**0.40%**	**-**	***0%***

2. Operating net working capital

The following table details the operating net working capital indicators compared with those of the previous year:

(euro/000)	31/12/2018			31/12/2017		
	Group	Italy	Iberica	Group	Italy	Iberica
Trade receivables [a]	**383,865**	**263,479**	**120,386**	**313,073**	**219,973**	**93,100**
Trade receivables net of VAT [(1)]	315,459	215,966	99,493	257,248	180,306	76,942
Sales from contracts with customers [(2)]	3,571,190	2,293,935	1,277,255	3,217,172	1,991,524	1,225,648
[A] Days Sales Outstanding - DSO [(3)]	32	34	28	29	33	23
Inventory [b]	**494,444**	**311,280**	**183,164**	**481,551**	**326,165**	**155,386**
[B] Days Sales of Inventory - DSI [(4)]	53	52	54	58	62	50
Trade payables [c]	**867,866**	**526,413**	**341,453**	**690,449**	**490,644**	**199,805**
Trade payables net of VAT [(1)]	713,679	431,486	282,193	567,295	402,167	165,128
Cost of Sales	3,408,918	2,181,941	1,226,977	3,049,409	1,916,908	1,132,501
Total SG&A	138,552	107,609	30,943	133,416	101,856	31,560
[C] Days Payable Outstanding - DPO [(5)]	73	69	82	65	73	52
Operating net working capital [a+b-c]	**10,443**	**48,346**	**(37,903)**	**104,175**	**55,494**	**48,681**
Cash conversion Cycle [A+B-C]	**12**	**17**	**-**	**22**	**22**	**21**
Operating net working capital/Sales	**0.3%**	**2.1%**	**-3.0%**	**3.2%**	**2.8%**	**4.0%**

(1) Net of VAT calculated applying the ordinary 22% rate in the case of Subgroup Italy and 21% in the case of Subgroup Spain.
(2) Net of intercompany sales
(3) (Trade receivables net of VAT / Sales and services) * 365.
(4) (Inventory / Cost of sales) * 365.
(5) [Trade payables net of VAT / (Purchases + Cost of services and other Operating costs)] * 365.

The level of the Group operating net working capital as at 31 December showed an improvement compared with the previous year end (10.4 million euro versus 104.2 million euro at 31 December 2017).

Based on the net working capital level as at 31 December, application of the calculation method described in the notes to the table above, showed a decrease of 5 days in the duration of the Italian Subgroup cash conversion cycle and a corresponding worsening of the net working capital / sales ratio from 2.1% to 2.8%.
The Spanish Subgroup showed a significant improvement both in the working capital level and in the working capital / sales ratio, moving from an absorption of working capital of 4.0% to a positive financial impact of -3.0%. The improvement was mainly due to higher average DPO, slightly counterbalanced by the increase in both the average inventory turnover and the average DSO.

During 2018, the revolving program of 'without-recourse' sale of receivables continued as part of the processes concentrating on the management of operating net working capital both in Italy and in Spain, focusing on selected customer types, mainly in the large-scale distribution sector. Taking into account also technical forms of factoring other than 'no recourse assignment', but with similar effects – i.e. confirming in Spain – as well as securitisation, the overall impact on financial debt was approx. 597 million euro (424 million euro as at 31 December 2017). These transactions resulted in a reduction in spot DSO.

The following table illustrates the Esprinet S.p.A. working capital trend in the last two financial years and shows the comparison with the previous year pro-forma amounts from merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.;

(euro/000)	Esprinet S.p.A.		
	31/12/2018	31/12/2017	31/12/2017 pro-forma
Trade receivables [a]	**199,871**	**141,244**	**187,259**
Trade receivables net of VAT [(1)]	163,829	115,774	153,491
Sales from contracts with customers [(2)]	2,211,043	1,855,043	1,964,089
[A] Days Sales Outstanding - DSO [(3)]	27	23	29
Inventory [b]	**304,237**	**310,451**	**319,723**
[B] Days Sales of Inventory - DSI [(4)]	51	62	61
Trade payables [c]	**521,193**	**465,112**	**485,926**
Trade payables net of VAT [(1)]	427,207	381,239	398,300
Cost of Sales [(5)]	2,165,829	1,816,079	1,900,776
Total SG&A [(6)]	98,843	83,247	82,117
[C] Days Payables Outstanding - DPO [(7)]	69	73	73
Operating net working capital [a+b-c]	**(17,085)**	**(13,417)**	**21,056**
Cash conversion Cycle [A+B-C]	**9**	**12**	**17**
Operating net working capital / Sales	**-0.8%**	**-0.7%**	**1.1%**

(1) Net of VAT measured by applying the ordinary 22% rate.
(2) Net of intercompany sales amounting to 56.8 million euro (62.5 million euro in 2017) as per the table shown in the separate annual report.
(3) (Trade receivables net of VAT / Sales and services) * 365.
(4) (Inventory / Cost of sales) * 365.
(5) Net of intercompany costs amounting to 0.7 million euro (3.7 million euro in 2017) as shown in the table displayed in the separate financial statements.
(6) Net of intercompany costs and recharges for -0.1 million euro (-1.9 million euro in 2017) as per the table shown in the separate annual report.
(7) [Trade payables net of VAT / (Purchases + Cost of services and other Operating costs)] * 365.

As at 31 December 2018 the duration of the entire cash conversion cycle of Esprinet S.p.A. improved and the ratio between operating net working capital and sales was equal to -0.8% from -0.7% in 2017 (+1.1% with reference to 2017 pro-forma figures). Based on the method adopted as described in the table notes, such improvement mainly results from a reduction in inventory days, only slightly

counterbalanced by the worsening both in DSO ratio and in DPO ratio (the latter being almost completely offset if considering pro-forma figures).

During 2018, the Company's revolving program of 'without-recourse' sale of receivables continued as part of the processes concentrating on the management of operating net working capital, focusing on selected customer types, mainly in the large-scale distribution sector. Taking into account also technical forms of factoring other than 'no recourse assignment', but with similar effects – i.e. confirming in Spain – as well as securitisation, the overall impact on financial debt was approx. 309 million euro (169 million euro as at 31 December 2017).

3. Net Financial Position;

The tables below show the contributions of Italian Subgroup and Iberian Subgroup to the Group's net financial position (or 'net financial debt' or 'net financial indebtedness') as at 31 December 2018:

	31/12/2018			31/12/2017			Var. Group
	Italy	Iberica	Group	Italy	Iberica	Group	
Short-term financial liabilities	136,269	2,042	138,311	150,364	5,596	155,960	(17,649)
Customers financial receivables	(10,880)	(1)	(10,881)	(510)	(0)	(510)	(10,371)
Current financial (assets)/liabilities for derivatives	613	(3)	610	644	19	663	(53)
Financial receivables from factoring companies	(242)	-	(242)	(1,534)	-	(1,534)	1,292
Current Debts for investments in subsidiaries	1,082	-	1,082	-	-	-	1,082
Financial (assets)/liab. from/to Group companies	(104,500)	104,500	-	(112,500)	112,500	-	-
Cash and cash equivalents	(180,219)	(201,089)	(381,308)	(184,912)	(112,057)	(296,969)	(84,339)
Net current financial debt	**(157,877)**	**(94,551)**	**(252,428)**	**(148,448)**	**6,058**	**(142,390)**	**(110,038)**
Borrowings	12,804	-	12,804	18,163	1,764	19,927	(7,123)
Non-Current Debts for investments in subsidiaries	-	-	-	1,311	-	1,311	(1,311)
Non-current financial (assets)/liab. for derivatives	-	-	-	-	(36)	(36)	36
Customers financial receivables	(1,420)	-	(1,420)	(1,870)	-	(1,870)	450
Net financial debt	**(146,493)**	**(94,551)**	**(241,044)**	**(130,844)**	**7,786**	**(123,058)**	**(117,986)**

The Group's net financial situation at year-end showed a 241.0 million euro cash surplus, up +118.0 million euro compared with the 123.1 million euro surplus recorded at 31 December 2017.

The following table shows the trend in the relative weight of the individual companies making up Subgroup Italy:

(euro/000)	31/12/2018				31/12/2017					
	Esprinet	Celly*	V-Valley	Nilox Deutschland GmbH	Esprinet	Celly*	EDSlan	Mosaico	V-Valley	Nilox Deutschland GmbH
Short-term financial liabilities	132,744	2,141	1,383	-	149,262	13	659	300	130	-
Customers financial receivables	(10,880)	-	-	-	(510)	-	-	-	-	-
Current financial (assets)/liabilities for derivatives	238	-	-	-	644	-	-	-	-	-
Financial receivables from factoring companies	(242)	-	-	-	(1,202)	-	-	-	(332)	-
Financial (assets)/liab. from/to Group companies	(104,500)	-	-	-	(157,500)	5,000	15,000	23,892	-	-
Cash and cash equivalents	(173,681)	(820)	(5,508)	(210)	(165,368)	(1,471)	(3,197)	(10,746)	(4,038)	(92)
Net current financial debt	**(156,321)**	**1,321**	**(4,125)**	**(210)**	**(174,674)**	**3,542**	**12,462**	**13,446**	**(4,240)**	**(92)**
Borrowings	12,804	-	-	-	18,163	-	-	-	-	-
Non-current financial (assets)/liab. for derivatives	-	-	-	-	(377)	-	-	-	-	-
Customers financial receivables	(1,420)	-	-	-	(1,870)	-	-	-	-	-
Net financial debt	**(144,937)**	**1,321**	**(4,125)**	**(210)**	**(158,758)**	**3,542**	**12,462**	**13,446**	**(4,240)**	**(92)**

* Refers to the subgroup made up of Celly S.p.A., Celly Nordic OY and Celly Pacific Limited.

Its role as an IT production chain distributor means that the level of net financial indebtedness of the Esprinet Group is heavily influenced by the typical working capital requirement for the performance of its activities.

This level fluctuates dramatically, not only throughout the calendar year, but also during each month and each day, due not only to the seasonal nature of the business, but also to the concentration of payments received from customers and/or factors at the end and middle of each month, while the maturities of payments to suppliers are distributed more evenly over the month.

For this reason, the figure resulting at the end of the period, as at 31 December 2018, or at the end of each month or quarter, is not representative of the average net financial indebtedness customarily observable during the same period.

Compared with 31 December 2017, a decrease in the average debt levels to banks occurred, substantially thanks to a lower cost of indebtedness due to a less expensive mix of technical forms since the average level of bank usage is substantially stable.

4. Sales by product family and customer type

Group sales by Customer type and product family

Sales by Customer type

(euro/million)	2018	%	2017	%	Var.	% Var.
GDO/GDS	1,261.4	35.3%	1,028.5	32.0%	232.9	23%
Dealers	1,052.4	29.5%	862.0	26.8%	190.4	22%
VARs	681.6	19.1%	726.9	22.6%	(45.3)	-6%
Office/Consumables dealers	305.5	8.6%	235.9	7.3%	69.6	30%
On-line Shops	188.4	5.3%	257.8	8.0%	(69.4)	-27%
Sub-distribution	81.9	2.3%	106.1	3.3%	(24.2)	-23%
Group Sales from contracts with customers	**3,571.2**	**100%**	**3,217.2**	**100%**	**354.0**	***11%***

The sales analysis by customer type shows an improvement in the channels 'Office/consumables' (+30%) 'GDO/GDS' (+23%), and in small-medium business customers ('Dealers', +22%) as compared with 2017. On the contrary, 'Sub-distribution' (-23%) and 'On-line Shops' (-27%) and large business customers ('VAR-Value Added Reseller', -6%) highlight a decrease.

Sales by product family

(euro/million)	2018	%	2017	%	Var.	% Var.
TLC	1,004.7	28.1%	811.8	25.2%	192.9	*24%*
PCs - notebooks	600.0	16.8%	625.7	19.4%	(25.7)	*-4%*
PCs - tablets	433.9	12.1%	339.6	10.6%	94.3	*28%*
Consumer electronics	321.4	9.0%	261.5	8.1%	59.9	*23%*
PCs - desktops and monitors	245.4	6.9%	217.6	6.8%	27.8	*13%*
Consumables	210.9	5.9%	211.1	6.6%	(0.2)	*0%*
Software	172.7	4.8%	161.8	5.0%	10.9	*7%*
Printers & Multifunction devices	126.0	3.5%	117.1	3.6%	8.9	*8%*
Storage	123.2	3.4%	122.8	3.8%	0.4	*0%*
Networking	110.9	3.1%	94.5	2.9%	16.4	*17%*
Servers	97.8	2.7%	67.1	2.1%	30.7	*46%*
Services	7.9	0.2%	25.8	0.8%	(17.9)	*-69%*
Other	116.4	3.3%	160.8	5.0%	(44.4)	*-28%*
Group sales from contracts with customers	**3,571.2**	**100%**	**3,217.2**	**100%**	**354.0**	***11%***

The analysis by product highlights a widespread growth with the exception of 'PC-notebook' (-4%), 'Service' (-69%) and 'Others' (-28%) categories.

Sales of Esprinet S.p.A. by Customer type and product family

The following are the same breakdowns of the sales performance of Esprinet S.p.A. during the year:

Sales by Customer type

(euro/million)	2018	%	2017	%	Var.	% Var.
Dealers	693.4	30.6%	617.9	32.2%	75.5	12%
GDO/GDS	715.4	31.5%	506.1	26.4%	209.3	41%
VARs	376.7	16.6%	337.1	17.6%	39.6	12%
On-line Shops	166.1	7.3%	211.2	11.0%	(45.1)	-21%
Office/Consumables dealers	265.9	11.7%	196.1	10.2%	69.8	36%
Sub-distribution	50.3	2.2%	49.2	2.6%	1.1	2%
Sales from contracts with customers Esprinet S.p.A.	**2,267.8**	**100%**	**1,917.6**	**100%**	**350.2**	***18%***

The details of sales by customer type are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/million)	2018	%	2017 Pro-forma	%	Var.	% Var.
Dealers	693.4	30.6%	621.5	30.9%	71.9	12%
GDO/GDS	715.4	31.5%	505.9	25.2%	209.5	41%
VARs	376.7	16.6%	426.8	21.2%	(50.1)	-12%
On-line Shops	166.1	7.3%	211.2	10.5%	(45.1)	-21%
Office/Consumables dealers	265.9	11.7%	196.1	9.8%	69.8	36%
Sub-distribution	50.3	2.2%	49.2	2.4%	1.1	2%
Sales from contracts with customers Esprinet S.p.A.	**2,267.8**	**100%**	**2,010.7**	**100%**	**257.1**	***13%***

The sales analysis by customer type shows an improvement in the channels 'Office/consumables' (+36%) 'GDO/GDS' (+41%), in small-medium business customers ('Dealers', +12%), large business customers ('VAR-Value Added Reseller', +12%) and 'Sub-distribution' (+2%) as compared with 2017. On the contrary, 'On-line Shops' (-21%) highlights a decrease.

The change compared with 2017 pro-forma figures is in line, with the exception of 'Dealers' which refer to large business customers 'VAR-Value Added Reseller' showing a decrease of -12%.

Sales by product family

(euro/million)	2018	%	2017	%	Var.	% Var.
TLC	584.1	25.8%	453.8	23.7%	130.3	*29%*
PCs - notebooks	355.5	15.7%	316.0	16.5%	39.5	*13%*
Consumer electronics	263.5	11.6%	211.2	11.0%	52.3	*25%*
Consumables	198.3	8.7%	196.0	10.2%	2.3	*1%*
PCs - desktops and monitors	171.6	7.6%	142.0	7.4%	29.6	*21%*
Software	152.7	6.7%	109.7	5.7%	43.0	*39%*
Printers & Multifunction devices	105.1	4.6%	93.0	4.8%	12.1	*13%*
Storage	84.8	3.7%	81.8	4.3%	3.0	*4%*
PCs - tablets	81.4	3.6%	79.4	4.1%	2.0	*3%*
Networking	79.5	3.5%	46.0	2.4%	33.5	*73%*
Servers	69.7	3.1%	41.0	2.1%	28.7	*70%*
Services	6.7	0.3%	21.1	1.1%	(14.4)	*-68%*
Other	114.9	5.1%	126.6	6.6%	(11.7)	*-9%*
Sales from contracts with customers Esprinet S.p.A.	**2,267.8**	**100%**	**1,917.6**	**100%**	**350.2**	***18%***

The breakdown of sales by product family highlights an increase mainly in 'Networking' (+73%), 'Servers' (+70%), 'TLC' (+29%), 'Software' (+39%), 'PC-notebooks' (+13%), 'Printers & Multifunction' (+13%), 'Storage' (+4%), 'PC-Tablets' (+3%) and 'Consumables' (+1%) while the category 'Services' (-67%) decreased.

The details of sales by product type are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/million)	2018	%	2017 Pro-forma	%	Var.	% Var.
TLC	584.1	25.8%	466.2	23.2%	117.9	*25%*
PCs - notebooks	355.5	15.7%	316.0	15.7%	39.5	*13%*
Consumer electronics	263.5	11.6%	210.6	10.5%	52.9	*25%*
Consumables	198.3	8.7%	196.0	9.7%	2.3	*1%*
PCs - desktops and monitors	171.6	7.6%	141.9	7.1%	29.7	*21%*
Software	152.7	6.7%	149.1	7.4%	3.6	*2%*
Printers & Multifunction devices	105.1	4.6%	92.9	4.6%	12.2	*13%*
Storage	84.8	3.7%	92.8	4.6%	(8.0)	*-9%*
PCs - tablets	81.4	3.6%	79.4	3.9%	2.0	*3%*
Networking	79.5	3.5%	63.1	3.1%	16.4	*26%*
Servers	69.7	3.1%	40.8	2.0%	28.9	*71%*
Services	6.7	0.3%	21.4	1.1%	(14.7)	*-69%*
Other	114.9	5.1%	140.5	7.0%	(25.6)	*-18%*
Sales from contracts with customers Esprinet S.p.A.	**2,267.8**	**100%**	**2,010.7**	**100%**	**257.1**	***13%***

The change versus pro-forma 2017 data shows similar trends, although to a different extent, with the exception of 'Storage', which shows a decrease of -9% as opposed to +4% in the year.

Significant events occurring in the period

The significant events that occurred during the period are briefly described as follows:

Grant of waiver and renegotiation of covenant of the 5-year senior loan

On 30 April 2018, Esprinet S.p.A. reached an agreement with the pool of lending banks to get a waiver in relation to a breached covenant, checked against the consolidated financial statements as at 31 December 2017, supporting the five-year senior loan granted to Esprinet S.p.A. in February 2017.
Later, on 2 May 2018 an agreement was reached to renegotiate the structure of these covenants, that now provide for higher thresholds till 2021.

Esprinet S.p.A. Annual Shareholders Meeting

On 4 May 2018, Esprinet Shareholders' Meeting approved the separate financial statements for the fiscal year ended at 31 December 2017 and the distribution of a dividend of 0.135 euro per ordinary share, corresponding to a pay-out ratio of 27%.[4]
The dividend payment was scheduled from 16 May 2018, with issue of coupon no.13 on 14 May 2018 and record date on 15 May 2018.

Following the expiry of previous term of office, the Shareholder's Meeting appointed the new Board of Directors and the Board of Statutory Auditors which will remain in office until approval of the financial statements for the 2020 fiscal year.
The new Board is made up as follows: Maurizio Rota (Chairman), Alessandro Cattani, Valerio Casari, Marco Monti, Tommaso Stefanelli, Matteo Stefanelli, Mario Massari, Renata Maria Ricotti, Cristina Galbusera, Chiara Mauri, Emanuela Prandelli and Ariela Caglio.
The new Board of Statutory Auditors is made up as follows: Bettina Solimando (Chairman), Patrizia Paleologo Oriundi (standing statutory auditor), Franco Aldo Abbate (standing statutory auditor), Antonella Koenig (alternate statutory auditor) and Mario Conti (alternate statutory auditor).

[4] Based on Esprinet Group's consolidated net profit

The Annual Shareholders' Meeting has also:

- approved the first section of the Report on Remuneration under Art.123-ter, paragraph 6 of the Legislative Decree 58/1998;
- resolved to authorize the acquisition and disposal of own shares, within 18 months from the resolution date, up to 2,620,217 ordinary shares (5% of the Company's share capital), simultaneously revoking the former authorization resolved by the Shareholder's Meeting on 4 May 2017 with respect to the unused portion;
- approved a Long Term Incentive Plan, in relation to remuneration policies and in accordance with article 114-bis of legislative decree 58/1998, for the members of the Company's Board of Directors and other executives for the period 2018/2019/2020. The object of the plan is the free allocation of ordinary shares in the Company ('performance stock grant') to beneficiaries designated by the Board of Directors, up to a maximum of 1,150,000 Company's shares.
- authorized the Company to update the financial conditions of the statutory auditors engagement granted to EY S.p.A. within the measure of (i) 32,110 euro for the financial years 2017 and 2018 each, for recurring additional activities concerning the consolidated financial statements and of (ii) 22,500 euro only for the financial year 2017 for activities relating to the first-time adoption of the new accounting standard IFRS 15.

Granting of shares to beneficiaries pursuant to the 2015-2017 Long Term Incentive Plan

On 12 June 2018, following the presentation and approval of the Group consolidated financial statements as at 31 December 2017 at the AGM of 4 May 2018, and taking into account also the successful achievement of targets set for the fiscal years 2015-2017, the free stock grants of Esprinet. S.p.A. ordinary shares referring to the Long Term Incentive Plan approved by the AGM of 30 April 2015 became exercisable. Consequently, 535,134 rights were granted to the members of the Company's Board of Directors and Company executives, using shares already owned by Esprinet S.p.A..
20% of the shares granted to the beneficiaries is subject to a lock-up period of one year from the grant date.
As a consequence of this transaction, own shares on hand decreased to 111,755, equal to 0.21% of the share capital.

Share buy-back program

Pursuant to the Esprinet AGM resolution of 4 May 2018, the Company purchased a total of 1,038,245 ordinary shares of Esprinet S.p.A. (corresponding to 1.98% of total share capital) along the period between 14 June 2018 and 11 October 2018, with an average purchase price of euro 3.78 per share, net of fees.
Taking into account the above-mentioned purchases, Esprinet S.p.A. owned n. 1,150,000 own shares (equal to 2.19% of share capital) as at 31 December 2018.

New 2018-2020 Long term incentive plan: grant of free share rights

On 25 June 2018, pursuant to the AGM resolution of 4 May 2018 concerning the new Long Term Incentive Plan in favour of Board Members of Esprinet S.p.A. and Group executives, 1,150,000 rights (equal to the number of rights resolved by the AGM) were freely granted.
The exercise of the stock plan is conditional upon the achievement of some financial targets for the period 2018-20 and the beneficiary being still employed by the Group at the date of presentation of the 2020 Consolidated Financial Statement.

Closing and de-registering of the subsidiary Celly Swiss SAGL in liquidation

On 16 July 2018, the competent office of the commercial register of Canton Ticino announced the closing and de-registering of the company Celly Swiss SAGL, wholly controlled by Celly S.p.A. which had been in liquidation from 30 June 2018.

Renewal of an agreement for securitization of trade receivables for a maximum amount of 100.0 million euro

On 18 July 2018, Esprinet S.p.A. and its wholly owned subsidiary V-Valley S.r.l. renewed a securitization transaction involving the transfer of their trade receivables started in July 2015 as originators.
The transaction, which has been structured by UniCredit Bank AG as arranger, involves the assignment on a 'non recourse' revolving basis of trade receivables to a 'special purpose vehicle' under Law no. 130/1999 named Vatec S.r.l., over an additional period 3 years.
The total amount of the program was increased to 100.0 million euro from the original 80.0 million euro.
The purchase of trade receivables by Vatec S.r.l. is being funded through the issue of different classes of notes: class A notes (senior), subscribed by a conduit sponsored by UniCredit Group, class B notes (mezzanine) and class C notes (junior) subscribed by specialised investors.
This transaction complements the unsecured senior loan of 181.0 million euro maturing in February 2022, consisting of an amortising Term Loan facility for 116.0 million euro and a revolving facility for 65.0 million euro - whose covenant structure was reviewed in May by setting higher thresholds, thus allowing the Group to extend considerably the average duration of its financial indebtedness.

Merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l. into Esprinet S.p.A..

On 24 October 2018, to complete the process aimed at maximising synergies from the acquisition transactions carried out in 2016, through the subsidiaries EDSlan S.r.l. and Mosaico S.r.l., from distribution activities in the market segments of networking, cabling, VoIP and UCC-Unified Communication as regards EDSlan S.r.l., and ICT Security, Enterprise Software, Virtualisation and OpenSource/Linux solutions as regards Mosaico S.r.l., the deed of merger by incorporation of the subsidiaries EDSlan S.r.l. and Mosaico S.r.l. into Esprinet S.p.A. was signed (deed of merger approved on 14 May 2018).

This process began with the signing of two different business lease agreements by Esprinet S.p.A., on 26 January 2018 with EDSlan S.r.l. and on 26 March 2018 with Mosaico S.r.l., respectively, under which the parent company has replaced them in all legal relationships existing with customers and suppliers, except for receivables and payables outstanding at the signing date of these business lease agreements, that were held by the subsidiaries until the merger date.

Since this is a 'simplified' merger by incorporation of wholly-owned companies, the resolution was adopted by the Board of Directors, by means of a public deed, not by the Shareholders' Meeting.

The merger is effective from 1 November 2018 under a legal point of view, while accounting and tax effects were backdated to 1 January 2018.

Upon completion of the merger, Esprinet S.p.A. thus took over all the legal relationships of EDSlan S.r.l. and Mosaico S.r.l., taking on all relevant rights and obligations in place prior to the merger.

Merger by incorporation of Tape S.L.U. into V-Valley Iberian S.L.U.

On 30 November 2018, the deed of merger by incorporation of TAPE S.L.U into V-Valley Iberian S.L.U.. was signed, both entirely owned by Esprinet Iberica S.L.U., that relating to TAPE S.L.U. had acquired the property from the wholly owned subsidiary Vinzeo Technologies S.A.U. in April.

The merger is effective from that date under a legal point of view, while accounting and tax effects were backdated to 1 January 2018.

Upon completion of the merger, V-Valley Iberian S.L.U. thus took over all the legal relationships of TAPE S.L.U., taking on all relevant rights and obligations in place prior to the merger.

Winding up of the supplier of the 'Sport Technology' line, related extraordinary charges and dispute

On 19 December 2018, the historical supplier of the 'Sport Technology' product line initiated the process of voluntary winding-up of the business, about which Esprinet S.p.A. was informed only at the beginning of January 2019.
Such entity has been supplying product to Esprinet for the last 15 years and since 2008 was managing, on behalf of the Esprinet Group and under an exclusive agreement, the production (research & development of products, scouting, selection and quality control), the import and the after-sale support process (maintenance, repair, reverse logistics handling, etc.) of a number of 'Sport technology' products.
Esprinet has 12.5 million euro receivables with this supplier for down-payments mainly related to imports of products from China as well as for credit notes (repurchase of products under contractual warranty agreements, stock and price protections against changes in market prices, etc.).
Beside the winding up process, that led the management to estimate a possible loss in the receivables value of 8.8 million euro, during the fourth quarter the market experienced a steep and unexpected fall in end-user prices on some product families of 'Sport Technology' line which, combined with the lack of price protection provided by the supplier as well as with the lack of delivery of the products of the new collection, resulted in a negative impact on gross profit for 8.4 million euro.
In the light of the information known at the moment the total impact of the above-mentioned extraordinary items is approx. 17.2 million euro.
On 6 February 2019, the above-mentioned importer, acting through its Liquidator, and its shareholders, served a writ of summons to start a legal action against Esprinet S.p.A., for damage compensation amounting to 55 million euro, alleging an unlawful conduct in trade relationships between Esprinet and said importer that allegedly led the latter into distress.
On 19 February 2019, the majority shareholder of the supplier of the Sport Technology line, through its Liquidator (since that shareholder entered into voluntary liquidation itself) took legal action against Esprinet S.p.A. requesting that the guarantee it had granted to Esprinet on behalf of its subsidiary be declared void or at least invalid and unenforceable.
The Board of Directors of Esprinet S.p.A. resolved to file an appearance and defend by rejecting all claims and requesting compensation of legal expenses from the plaintiff.
The Company - supported by its legal advisories – reaffirms the full fairness and compliance to laws and articles of association of its conduct and trusts that the court will soon confirm it by establishing the lack of foundation and spuriousness of the legal action taken against Esprinet.

Breach of financial covenants on Facility Agreements

The Group financing structure includes among others a medium/long-term senior loan granted to Esprinet S.p.A. in February 2017 by a pool of banks, consisting of a 5-year amortised cash facility with an original amount of 145.0 million euro and a 5-year revolving cash facility for 65.0 million euro. The amortised cash line was drawn for 101.5 million euro at 31 December 2018, while the 'revolving' one was unused.

The above-mentioned 'unsecured' loan, expiring in February 2022, is supported by a set of 4 financial covenants that entitle the lenders to demand early repayment in case of failure.
As at 31 December 2018, even if the compliance of the above-mentioned covenants has to be checked against the consolidated and audited financial statements, according to Group quarterly results, the covenant consisting in the ratio of Extended net financial indebtedness to EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level).
Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities.

Developments in tax disputes

Esprinet S.p.A. has some tax disputes concerning indirect taxes claimed from the Company, with a total amount of 21.6 million euro, plus penalties and interest, with respect to transactions occurred between 2010 and 2013. Since some customers had filed declarations of intent but, subsequent to a tax audit, failed to fulfil the requirements needed to qualify as a frequent exporter, the tax authority is now claiming VAT from the Company on those sales transactions.
The main events occurred since 1 January 2018 till the date of this interim report are as follows:

On 10 January 2018 the Provincial Tax Commission issued an unfavourable first instance decision for the year 2011 in relation to a tax dispute where the Company paid tax advances amounting to 1.9 million euro. The appeal hearing was held on 12 February 2019 before the Provincial Tax Commission;

On 19 March 2018 the Regional Tax Commission issued a favourable appeal judgement for the year 2010. The amounts paid pending judgement are equal to 2.6 million, net of the portion for which the Company already received the refund;

On 18 May 2018, the hearing relating to the year 2012 was held before the Provincial Tax Commission, with a favourable judgement at first instance issued on 9 October 2018;

On 31 July 2018 the Company was served a notice relating to an assessment for the year 2013, against which an appeal was lodged, that was heard before the Provincial Tax Commission on 29 January 2019;

On 20 December 2018, the Company was served a further notice relating to an assessment again referring to 2013 tax year, against which the Company on 5 February 2019 filed a tax settlement proposal pursuant to art.6 paragraph 2 of the D.Lgs. 218/1997.

Some Italian subsidiaries of Esprinet S.p.A. have ongoing court and out-of-court disputes with Tax Authorities, relating to the amount of register tax to be paid on some extraordinary transactions effected in prior years.

The main events occurred from the 1 January 2018 till the date of this financial report are as follows:

On 12 January 2018, Celly S.p.A. paid additional 4 thousand euro for registration fees, claimed on the 2015 transfer deed of the business unit Rosso Garibaldi, in lieu of its counterparty that went bankrupt;

On 15 May 2018, Mosaico S.r.l. appealed against a correction and settlement notice of higher registration fees, equal to 48 thousand euro, relating to the 2016 acquisition agreement of a business unit from Itway S.p.A.. On 4 September 2018, the Tax Authority put forward a mediation proposal, accepted by the selling company Itway S.p.A., thus settling the dispute;

On 19 June 2018, the hearing relating to the correction and settlement notice of higher registration fees, equal to 182 thousand euro, relating to the 2016 acquisition agreement of a business unit from EDSlan S.p.A. (now I-Trading S.r.l.) was held in the Provincial Tax Commission. On 18 September 2018 the Commission issued a favourable judgement upholding the company's appeal.

On 25 May 2018, tax assessment notices relating to direct and indirect taxes against V-Valley S.r.l. for the tax period 2011 of 74 thousand euro (plus penalties and interest) were settled with legal conciliation.

On 20 July 2018 the Regional Tax Commission upheld the appeal filed by the Tax Authority against the first instance judgement issued in favour of Monclick S.r.l. with reference to tax year 2012 (when this company was still part of the Esprinet Group) in relation to direct tax claims amounting to 82 thousand euro, plus penalties and interest.

The Company is preparing an appeal before the Supreme Court.

With respect to the audits carried out by the Tax Authority for the year 2014, Celly S.p.A. settled the tax dispute by accepting the tax audit report.
On 14 December 2018, Celly S.p.A. was served two tax assessment notices relating to the same tax audit, one for the year 2015 (only for notification expenses) and one for 2016. Celly S.p.A. settled all disputes by paying overall 370 thousand euro, plus penalties and interest.

Subsequent events

Relevant events occurred after period end are briefly described below:

Expiry of Esprinet S.p.A. shareholders' agreement

The shareholders' agreement, in force between Messrs Francesco Monti, Paolo Stefanelli, Tommaso Stefanelli, Matteo Stefanelli, Maurizio Rota and Alessandro Cattani, signed on 23 February 2016 and lastly updated on 3 August 2018, in relation to no. 15,567,317 ordinary shares of Esprinet S.p.A. making up a total of 29.706% of the shares representing the entire share capital of the Company, ended on 22 February 2019, due to the expiry of the term of duration.

It is hereby noted that the Shareholder's Agreement provided: (i) a voting syndicate in relation to the election of the members of the corporate bodies of the Company; (ii) the obligation of a prior consultation in relation to the other resolutions of the shareholders' meetings; (iii) a blocking syndicate.

Esprinet to purchase 51% of 4Side's share capital, Italian distributor of Activision Blizzard products

On 19 March 2019 Esprinet S.p.A. signed a binding agreement for the acquisition of 51% share capital of 4Side S.r.l,. a company dealing with marketing and exclusive distribution in Italy for Activision Blizzard products aiming at positioning as a leader entity in a industry considered as strategic for the company business.

The deal has been valued as the sum of net equity portion relating to the 51% stake of the company at the transfer date plus a fixed goodwill of 0.4 million euro.

4Side S.r.l. is formed by former managers of Activision Blizzard Italy namely Paolo Chisari (General Manager), Maurizio Pedroni (Sales Director), Piero Terragni (Operation Director) and Stefano Mattioli (Finance Director).

Corporate Governance structure according to which minority shareholders will jointly manage the business together with Esprinet S.p.A. are defined in the shareholders agreements entered into with selling managers, from which Esprinet also obtained a call option on the remaining 49% stake of the company exercisable between 4 and 6 years from the date of closing together with a set of warranties as usual for a deal of this kind.

The notarial dead was signed on 20 March 2019.

Developments in legal and tax disputes

For a better presentation, developments in legal and tax disputes after period end are disclosed under the paragraph 'significant events occurring in the period' for each respective event.

Outlook

In Italy, the technology distribution market increased +10.8% in 2018 compared with 2017 (source: management elaboration on Context data).[5]
Every product categories grew double digit but PC (desktop and notebook), which grew +2%, printing (printers and consumables) which grew +3%, and the accessories which were up +1%. The trigger was the mobile phone segment again (+26% in 2018).

[5] The segmentation between 'professional/business' and 'consumer/retail' customers to which reference is made in this section, is that used by Context, and as such is not perfectly aligned with segmentation used internally by the Group.

In such an environment, Esprinet grew its market share in the Italian market +1 point since the beginning of the year thanks to the good performance of all business sectors with the only exception of 'printing' and 'datacenter' lines which grew in line with the market.
The growth of the Italian market was boosted mainly by the retailers' customer segment (+15% while business resellers grew by +8%).
Esprinet overperformed the market in both customer segments during 2018 and namely in the 'retail' segment where it grew its share by 2.3 points.

The Spanish market grew +9% in 2018 whereas the Esprinet Group share was flat against 2017.
During 2018 all the main product categories grew 'mid-single digit' with the exemptions of PC (-2%) and mobile phones (a brilliant +32%).
In 2018, the 'business' segment grew +5%.
The Esprinet share in this segment was basically down by -0.1 points.
Much more vital was the performance of the retailers' segment (+15%), while Esprinet, despite a significant growth, lost -0.7 points of share for the full year.

During the year, net of the extraordinary charges related to the voluntary winding-up of the main supplier of the 'Sport Technology' product line, the Esprinet Group experienced a reduction of the fixed operating costs as a result of the optimization processes put in place mainly during the second half of 2017.
The Group reduced the percentage of variable sales, marketing and logistic costs thanks to the optimization activities performed during 2018.
As per the gross profit, net of the extraordinary charges mentioned above, the margin was down by 0.43% in the full year.

As regards the current year, the first 3 months recorded a strong increase in sales despite a drop in mobile phones.
All business lines recorded significant growth, and the best performer was 'PC-Client' (notebooks and desktops) mostly with products for 'datacenter' or 'IT Value', where we are reaping the full benefit of investments made by the Group Esprinet in remixing its offer moving towards higher margin segments.
During the first part of the year some important actions were put in place to recover profitability with some product-customer combination.
The 'Sport Technology' line underwent a deep organisation restructuring which involved the replacement of all senior management team.
In the next weeks new procurement contracts with alternative suppliers will be activated so as to ensure an orderly recovery of the business.
Despite a very good trend in the distribution market, the macroeconomic framework appears problematic, especially the domestic market.
During the year, Esprinet will be specially focused on improving the return on capital invested by a selective optimisation of working capital.

Human Resources

Principles

Human resources are considered of primary importance in pursuing Group objectives. The Esprinet Group's HR management and development model mainly aims to motivate and enhance all employees by improving their skills, according to the business development strategy.
Although within a context where the rationalization of costs is paramount, these objectives are achieved, mainly, with the following instruments:

- training targeted and adequate to management needs;
- selection of the best resources coming from the main national schools and universities and constant attention to internal mobility;

- a compensation system based on principles of selectivity and meritocracy linked to the achievement of individual objectives.

Employment

Compared with 31 December 2017 the number of employees of Esprinet S.p.A. at period end increased by 60 (from 682 to 742), due to the lease of business of EDSlan S.r.l. and Mosaico S.r.l. and their subsequent merger (effective from 1/11/2018) into Esprinet S.p.A..
No significant changes occurred in the number of employees at Celly (Celly S.p.A., Celly Nordic OY and Celly Pacific Limited).

As at 31/12/2018, the average number of employees of Esprinet S.p.A. increased by 31 compared with the previous year, from 680 units to 711 units, again as a consequence of the above-mentioned extraordinary transactions; while, as regards the Italian Subgroup, the average number of employees overall decreased by 23 (from 826 to 803), due to the synergies arising form the company integration process.

With reference to Esprinet Iberica, an increase of 37 in the labour force can be noticed compared with the previous year, of which +34 at Esprinet Iberica S.L.U.,+7 at V-Valley Iberian S.L.U., -3 at Vinzeo Technologies S.A.U and -1 at TAPE S.L.U..
No changes in the staff of Esprinet Portugal Lda occurred compared with 31 December 2017.

The staff growth is mainly due to the increase in the logistic area, mainly in the warehouse (+33 compared with 31 December 2017), because of the need to manage higher volumes arising from an increase in 2018 revenues from the Iberian companies, up +9% compared with 2017, with a peak (+14%) in the last quarter of the year.
The staff increase in V-Valley Iberian (+7) is due to the creation of the new Enterprise Security Division focused on Cybersecurity business, which is part of the Group's development strategy in this high-margin business, that allowed a significant growth of the business managed by the company compared with 2017.

The average number of employees of all Iberian companies as at 31 December 2018 decreases by 9 units against 31 December 2017; this in mainly due to the staff reduction occurred in 2017 (-55 units), due to a restructuring process which resulted in rationalisation and reduction of operating costs, enhancing the Group competitiveness in the face of increasing competitive pressure.

The trend of the Group employees in the fiscal year under review is represented as follows:

	Executives	Clerks and middle management	Workers	Total	Average [1]
			31/12/2018		
Esprinet S.p.A.	21	720	1	**742**	**711**
V-Valley S.r.l.	-	-	-	**-**	**-**
Celly [2]	1	48	-	**49**	**50**
Nilox Deutschland Gmbh	-	1	-	**1**	**1**
Edslan S.r.l. [3]	-	-	-	**-**	**26**
Mosaico S.r.l. [3]	-	-	-	**-**	**15**
Subgroup Italy	**22**	**769**	**1**	**792**	**803**
Esprinet Iberica S.L.U.	-	227	85	**312**	**294**
Esprinet Portugal L.d.A.	-	8	-	**8**	**8**
Vinzeo Technologies S.A.U.	-	132	-	**132**	**134**
Tape S.L.U. [4]	-	-	-	**-**	**1**
V-Valley Iberian S.L.U.	-	19	-	**19**	**16**
Subgroup Iberica	**-**	**386**	**85**	**471**	**453**
Esprinet Group	**22**	**1,155**	**86**	**1,263**	**1,256**
			31/12/2017		
Esprinet S.p.A.	17	664	1	**682**	**680**
V-Valley S.r.l.	-	-	-	**-**	**-**
Celly [2]	1	49	-	**50**	**51**
Nilox Deutschland Gmbh	-	-	-	**-**	**-**
Edslan S.r.l.	2	49	-	**51**	**65**
Mosaico S.r.l.	1	29	-	**30**	**30**
Subgroup Italy	**21**	**791**	**1**	**813**	**826**
Esprinet Iberica S.L.U.	-	226	52	**278**	**295**
Esprinet Portugal L.d.A.	-	8	-	**8**	**8**
Vinzeo Technologies S.A.U.	-	135	-	**135**	**144**
Tape S.L.U.	-	1	-	**1**	**1**
V-Valley Iberian S.L.U.	-	12	-	**12**	**14**
Subgroup Iberica	**-**	**382**	**52**	**434**	**462**
Esprinet Group	**21**	**1,173**	**53**	**1,247**	**1,288**

[1] Average of the balance at 31/12/2017 and at 31/12/2018.
[2] Refers to the subgroup made up of Celly S.p.A., Celly Nordic OY and Celly Pacific Limited.
[3] Companies merged into Esprinet S.p.A. as at 31/12/2018
[4] Company merged into V-Valley Iberian S.L.U. as at 31/12/2018.

The following table shows a substantial balance between increases and decreases in the Italian Subgroup companies, considering that the overall staff increase at Esprinet S.p.A. consists of 78 employees moving from EDSlan S.r.l. (51 units) and Mosaico S.r.l. (27 units) and that there were 16 open vacancies as at 31/12/2018.

As regards Esprinet Iberica S.L.U. and V-Valley Iberian S.L.U., a net increase in headcount against prior year is prevailing for the reasons already mentioned in the comments to the previous table. With respect to the other subsidiaries, a substantial stability in staff can be noticed.

	Headcount at 31/12/2017	Increase	Decrease	Headcount at 31/12/2018
Esprinet S.p.A.	682	172	112	742
V-Valley S.r.l.	-	-	-	-
Celly [1]	50	13	14	49
Nilox Deutschland Gmbh	-	1	-	1
Edslan S.r.l.	51	2	53	-
Mosaico S.r.l.	30	-	30	-
Subgroup Italy	**813**	**188**	**209**	**792**
Esprinet Iberica S.L.U.	278	77	43	312
Esprinet Portugal L.d.A.	8	-	-	8
Vinzeo Technologies S.A.U.	135	23	26	132
Tape S.L.U.	1		1	-
V-Valley Iberian S.L.U.	12	12	5	19
Subgroup Iberica	**434**	**112**	**75**	**471**
Group	**1,247**	**300**	**284**	**1,263**

[1] Refers to the subgroup made up of Celly S.p.A., Celly Nordic OY and Celly Pacific Limited.

With respect to gender distribution, the table below highlights a constant predominance of women employees in the Group: 54.8% as at 31 December 2018.

In line with last year, the percentage of women is almost unchanged in the Italian Subgroup at approx 51.7% (409 out of 792).

With reference to the Iberian Peninsula (Spain and Portugal) women still significantly outnumber men (283 out of 471, equal to 60%), with a slight decrease in percentage terms compared with 31/12/2017 (60.8%).

At year end graduates were approx. 36% on the total in the Group, while the percentage of high-school leavers was approx. 54%.

	31/12/2018											
	Italy						Iberian Peninsula (Spain and Portugal)					
	Esprinet S.p.A.	V-Valley S.r.l.	Celly [1]	Edslan S.r.l.	Nilox Gmbh	Mosaico S.r.l.	Esprinet Iberica S.L.U.	Esprinet Portugal L.d.A.	Vinzeo Technologies S.A.U.	V-Valley Iberian S.L.U.	Group	%
Men	355	-	27	-	1	-	117	4	53	14	571	*45,2%*
Women	387	-	22	-	-	-	195	4	79	5	692	*54,8%*
Total	742	-	49	-	1	-	312	8	132	19	1.263	*100%*
Graduation	237	-	27	-	1	-	108	6	62	13	454	*35,9%*
High School Cert.	461	-	21	-	-	-	152	2	38	6	680	*53,8%*
Secondary School Cert	44	-	1	-	-	-	52		32	-	129	*10,2%*
Total	742	-	49	-	1	-	312	8	132	19	1.263	*100%*

[1] Refers to the subgroup made up of Celly S.p.A. and Celly Nordic OY. and Celly Pacific Limited.

Training

During 2018, the Group (Esprinet S.p.A., Celly S.p.A., EDSlan S.r.l., Mosaico S.r.l., Esprinet Iberica S.L.U and Esprinet Portugal L.d.A.) provided 19,423 training hours, with a slight decrease compared with the previous year (21,131). Excluding directors and interns, the Esprinet Group provided 18,621 training hours in 2018 (18,430 hours in 2017).

In particular, at Esprinet S.p.A., Celly S.p.A., EDSlan S.r.l. and Mosaico S.r.l. in Italy total training hours were 13,807.5, slightly up compared with last year (13,267 hours). Of these, 1,696 hours referred to privacy, health and safety at work and to the Legislative Decree 231.

Language training (English and Spanish language) plays an important role in the Group with weekly sessions and workshops relating to business English topics. In 2018, 3,328 hours were provided, slightly above compared with 2017 (3,271 training hours). In detail, more than 2,000 classroom hours of English courses were provided, involving more than 163 attendees, up compared with last year (450 classroom hours and 129 attendees).

During 2018, training organisation continued, with courses customised for new recruits, employees with more than one year experience and team managers. Courses are structured based on training catalogue which is updated each year according to corporate requirements.

Internal training, provided mainly for 'starters', employees and stagiaires who have worked for the company for less than one year, accounts for 2,097 hours, with 693 classroom attendees and more than 30 internal specialists involved as teachers. Since 2018, Performance Management has been part of the training path addressed to 'starters', in order to share the features of the valuation process with new recruits from the very beginning of the employment relationship.

Training for 'runner' employees having more than one year of professional experience, and for 'trainers', i.e. team leaders, involved 826 participants totalling 6,686 classroom hours, including training on the Office suite (with an investment of 880 hours, substantially unchanged compared with last year).

During 2018, new courses with both internal speakers and external trainers were tested, in order to evaluate potential additions to the training catalogue and to meet ever-changing training needs, in particular:

- ‘Energy to You and Your Sales’ path, i.e. an empowerment project addressed to Sales aimed at improving customer relations.
- Close attention was also given in 2018 to the Smart working project, which was extended to new corporate structures and confirmed at the end of the pilot phase, started in 2017. Precisely in the light of both the extension of the project and of the positive feedback received, training hours relating to 'home based' work were 247. Moreover, on the wave of this project, investment related to training on trust issues continued with a 'Trust' course of more than 365 classroom hours.
- The classroom course on the CRM tool involved 228 employees for overall 684 hours and represented an important new element in order to support to the corporate structures involved.

With reference to Iberian peninsula, 5,615.5 training hours were delivered in 2018.

The training hours portion of Esprinet Iberian (5,071.5 hours) is organised through an annual training plan split into various areas of competence, and in particular languages training and prevention of risk at work make up the majority of courses: trainings referring to risk prevention and to health and safety at work (2,231.5 hours in 2018) as well as to language (1,854.5 hours) are equal to 81% of the total training hours delivered.

The language training is continuously growing compared with the previous year, with an increase of more than +7% of hours in 2018 vs 2017 (English courses in particular).

Training on prevention and health and safety at work, up +3% vs last year, represents one of the training pillars in Spain following the decision to invest in the creation of a 'healthy Company' (Azienda

Salutare). Thus, training is organised aimed at increasing employees welfare through courses of Mindfulness, labs of healthy diet, courses of postural correction, etc.

Other training, as that referred to products, increased significantly compared with 2017, year when training hours were rationalised aimed at selecting those with higher training contents and better valuations in terms of added value from attendees, in fact in 2017 hours had sharply decreased to 356 from 1,014 hours in 2016, due to a selection and rationalisation based on their added value.

As in previous years, a significant part of the training was carried out thanks to funded training, so called Fundación Tripartita. Concretely, in 2018 68% of the training costs were financed through this tool.

Recruitment

In 2018, the Italian recruiting activities continued to be intensive, with more than 100 searches for all the structures of the Italian companies of the Group. With regard to sales areas, onboarding of new resources continued with a preference for expert and higher-seniority roles over junior profiles.

Employer Branding and partnership reinforcement with territorial Universities continued in 2018, with meetings and case stories from Esprinet employees and students. Besides well-established relationships with Bocconi University and Cattolica University, a new co-operation with Bicocca University and Università degli Studi of Bergamo was started as well as with the masters courses from 'Sole 24 Ore' and from 'Talent Garden'. With the latter Esprinet was sponsor of the 'Digital Marketing' master, including one attendee as intern in the company.

Four field projects focusing on important business matters for the each structure involved (HR, Marketing Dept. and Channel Marketing Dept.) were launched.

Also in 2018, Esprinet hosted 16 students attending third and fourth year at local High-schools within the 'alternanza scuola-lavoro' (dual education) project. The students could deal with Esprinet's world and work with the Company's employees for two weeks.

In 2018, 18 new graduates started as interns in Esprinet and Celly. Excluding eight internships that were still on-going at 31 December 2018 and three trainees that resigned during the internship, 87.5% of the remaining stagiaires were employed with a one-year contract.

The search for experienced roles was carried out through several recruiting channels, both internal and external. Eight employees - up vs 2017 - moved to new professional positions inside the Company, thanks to the Job Posting tool which fosters internal mobility and facilitates professional and inter-functional growth. 'Link up!', the internal referral system that provides for a financial reward for the referrer when the right profile is suggested, confirmed its effectiveness. The collaboration with search and recruiting companies specialised in senior roles and profiles with specific technical know-how, continued also in 2018.

In 2018, besides standard recruiting channels, the Company invested also in two important projects relating to the set up of career pages on our institutional website and on ATS to collect candidates that will go live during 2019.

As regards Spain, recruiting activities were very intense also in 2018 as relates to the onboarding of professionals in the logistic area, as a consequence of a sharp increase in Group's business volumes and the high turnover resulting from an increase in the demand for this kind of profiles and a general improvement of the Spanish labour market.

On the other hand, search and recruiting continued to find professionals with previous work experience and specific skills in highly specialised business areas, such as Value both in V-Valley Iberian S.L.U. and Vinzeo Technologies S.A.U., or to open new business lines, as well as to replace temporarily absent workers.

The recruiting of young graduates to on-board as trainees is ongoing, in order to ensure the Company has a pipeline of talented people to cover any vacancies.

The recruitment of young graduates continues to be managed through the maintenance and development of existing agreements with the main Universities and Business Schools and other training bodies, both national and local (Universidad San Jorge, Kühnel, Esic, Complutense de Madrid, etc.).

Organisation

In January 2018, the smart working pilot project became final, thanks to the excellent results of the six-month pilot phase in 2017, which represented a deep organisational change in both Esprinet S.p.A. and Celly S.p.A.: Smart Working, which was extended to new departments during the year, enables employees to work out of office for a maximum of a day per week. The company gives the opportunity to access the Smart Working to eligible staff by role, whose performance was positively rated, making available the technological tools necessary for remote work. In 2018, 450 employees joined the initiative, accounting for 95% of the eligible people by role and performance.

In 2018, extraordinary transactions relating to the lease of business of EDSlan S.r.l. and Mosaico S.r.l. and their subsequent merger into Esprinet were managed with respect to labour law issues.

In 2018, with reference to Esprinet Iberica, the several organisational changes and restructuring implemented during 2017 were consolidated, aiming at rationalising the production structure, decreasing operating costs and improving the process efficiency and service levels; in addition further initiatives were developed, which fit into the Group strategic path toward exploiting high-margin business areas.

In this regard, we note in particular:

- the creation of the new E-BUSINESS CLUB area in Esprinet Iberica, aiming at implementing a new cross-departmental project dedicated to B2B business and to the development of business relationships with Dealers in the Small Medium Business area.
- The business reorganisation in the 'value' area by creating the new divisions 'Enterprise Security' in V-Valley Iberian and 'Cabling & Energy Efficiency' in Esprinet Iberica.
- the reorganisation of Vinzeo Technologies, that led to adapt its structure to the macro-areas in which it operates, with the aim of improving its agility and, thus, its competitiveness.

Development and 'compensation'

The performance assessment process was an important moment for the group, where managers had the opportunity to discuss and share the assessments of their employees for the year 2017 with the Human Resources department.

In the first half of 2018, 33 calibration meetings were organised in Italy. The project involved 664 employees of Esprinet S.p.A. and Celly S.p.A.

As in previous years, the performance assessment process was also the best opportunity for each manager to request training courses, which were then communicated to the Human Resources Department to define the relative training plan.

For the whole Group, with the approval of the 2017 Financial Statements, the long-term compensation plan for the 2015-2017 period came to an end, following the grant of shares to beneficiaries in June 2018.

A new incentive plan for the 2018-2020 period for directors, executives with strategic responsibilities, as well as for other Group key managers (Italy and Spain) is currently ongoing.

Hiring of people with disabilities

At Esprinet S.p.A., after the extraordinary transactions relating to the lease of business of EDSlan S.r.l. and Mosaico S.r.l., a new agreement with the Province of Monza and Brianza for the hiring of 3 disabled people was defined.
For the Province of Milan, a person was hired in excess of the legal obligation to compensate for the lack of a person in the Province of Rome.
Conversely, there were no vacancies at Celly S.p.A.

In compliance with Law No. 68/69 regarding the hiring of disabled people, Esprinet S.p.A. continued to avail itself of the partial exemption by paying a fee to the Regional Fund for the Employment of the Disabled.

As far as Esprinet Iberica is concerned, also in 2018, the company complied with the employment objectives set out in the legislation on the compulsory placement of disabled personnel and, for the first time, alternative institutions were also used in the event of failure to hire disabled personnel, establishing collaboration contracts with two entities dedicated to the hiring of disabled people, Stylepack S.L. and Ilunion S.L..
These companies have been entrusted with the management of certain activities in the Supply Chain area, which they develop through the contribution of workers with disabilities.
The extension of the use of this alternative to Vinzeo Technologies to cover its share of the number of disabled personnel hired is currently being considered.

Health, safety and environment

General principles and actions undertaken

The respect for the environment and the protection of health and safety at work has always been at the basis of Esprinet Group operations. It is the Group's precise intention to further maintain, consolidate and improve the leadership position won in its own sector, by continuing to propose innovation in processes and in service to its customers and by simultaneously paying constant attention to safety, to individuals' and collective health by respecting the law and the surrounding environment.

In order to achieve these objectives, the Group has established, documented, implemented and maintained an Integrated Environment, Health and Safety Management System in the workplace.
Esprinet S.p.A. and the subsidiary Esprinet Iberica S.L.U. have Quality Certification (ISO 9001), Environmental Certification (ISO 14001) and Safety in Workplace Certification (OHSAS 18001) whereas Celly S.p.A. has Quality Certification.
During 2017 all the above companies had their Certifications renewed by BSI, a leading international certification body.

The following is a list of the tools considered essential for:

- the pursuit of continuous improvement;
- the reduction of accidents and illnesses in the workplace;
- the minimisation of environmental impact caused by the Group's activities.

Training and involvement

The Group is aware of the role of primary importance played by staff and it is therefore strongly committed to promoting the active involvement, responsibility and professional growth of them.

The constant activity of information and training is fundamental, in order to sensitise the personnel on environmental and safety topics, and on the importance of the contribution of each individual

regarding the prevention and improvement of the general conditions of the safety at work and of the environmental efficiency of the company.

Identification and evaluation of risks in the workplace and the environmental impact of operations

The Esprinet Group defines the criteria and method for the continual evaluation of the main environmental aspects, of the risk of misfortune and danger, and of the identification of the corresponding impact. The latter are periodically verified compared to the forecasted objectives, which are defined, monitored, and updated for their continuous improvement.

Compliance with laws and other regulations

Compliance with laws and regulations issued to protect workers' health and safety and for the respect of the environment are values inseparable from the Group's strategic action.

Concluding conduct

The correct management, maintenance and regular checking of plants and equipment is one of the ways that the Group runs 'health, safety and environmental' policies together with checks on any possible use and/or disposal of chemical preparations or compounds whether dangerous or otherwise. This is also outsourced to qualified suppliers accurately selected for their technical/professional expertise and for their products and services which significantly eliminate or reduce the environmental, health or safety risks. These are just some of the methods used by the Group to implement its ' environment, health and safety' policies.

The Group is also engaged in minimising the consumption of natural resources (electricity, gas, water) and of waste production, encouraging recycling where possible.

Effective communication

The Group recognises the importance of the role of 'communication' for all interested parties (personnel, suppliers, contractors and sub-contractors) as the basic element for managing responsibility correctly within the health, safety and environmental protection context.

Audit

Both internal and external audits are an effective tool. They form the basis of company culture and are what determine the performance checks and supervision, including that regarding health, safety and environment.

Membership of waste disposal consortia

Esprinet S.p.A. and Celly S.p.A. are members of the Remedia consortium. Both the companies delegate to the abovementioned consortium the operational aspects relating to the 'end of life' products management defined by the regulation regarding the disposal of electric and electronics waste, cells and batteries.
Esprinet Iberica, the Spanish subsidiary, is a member of the Ecotic, Ecopilas and Ecoembes consortia, Vinzeo S.A.U. is a member of Ecoplias and Ecoasimelecand consortia, while Esprinet Portugal is a member of Erp, Ecophilas and Ponto Verde consortia.
Until its closure on 31 December 2018, Italian companies were members of SISTRI (the waste traceability checking system), founded in 2009 by the Ministry for the Environment and Protection of Land and Sea for computerizing the whole special waste production chain at national level.

Disclosure as per Legislative Decree 32/2007 and its interpretation

In the case of the document approved on 14 January 2009 by the National Council of Accountants and Accounting Experts (Cndcec), aimed at supporting the first application of Legislative Decree 32/2007 concerning information regarding the environment and staff, the following has to be noted.

'Compulsory' disclosure

As regards staff, during the year, no deaths, or serious or very serious accidents occurred and no professional illnesses were reported by employees or former employees, and no Group company was found finally guilty in any 'mobbing' trials.
In the case of the environment, during the year no damages to the environment, or fines or definitive penalties were charged to the company for environmental crimes or damages, nor any emission of greenhouse gases was reported.

'Voluntary' disclosure

In the case of staff, the section 'Human Resources' and the 'General principles and action undertaken' of this chapter provide a complete picture of the policies pursued.

The 'pure' IT products distribution activities (hardware, software and services) and consumer electronic products, undertaken at the three main sites at Cambiago and Cavenago in Italy (approx. 80,000 sqm), and at Zaragoza and Madrid in Spain (approx. 49,000 sqm), do not create any special problems for the environment. Nevertheless the Group constantly monitors the use of energy at its various premises and has adopted strict disposal procedures for any type of waste.

Main risks and uncertainties facing the Group and Esprinet S.p.A.

Risks classification

Esprinet Group and Esprinet S.p.A. activities are exposed to risk factors able to influence their economic and financial situation.

Esprinet S.p.A. and the Esprinet Group identify, assess and manage risks in compliance with internationally recognised models and techniques.

Since 2009 the Group adopted an operative and organisational framework able to manage risks and monitor its adequacy in time (the so-called 'ERM-Framework'). It hinges on the methodological model for the creation of an effective 'risk management' system able to involve the actors in the internal audit system at various levels, who are charged with different key roles according to the various control activities.

The identification, assessment, management and monitoring system of the company's main risks is based on a process which involves the performance of the following tasks, at least annually:

- risk scoring and risk assessment of the main company risks;
- identification of 'risk management' priorities;
- identification of a 'risk strategy' and its transfer into action plans orientated to strengthening, improving and monitoring the checking facilities of the risks identified.

The ultimate purpose of the system described is to maintain the risk level within the acceptability threshold defined by the administrative body and supply reasonable support to the furtherance of company objectives.

During 2018 the operational action plan, including an audit plan and a plan of measures aiming at improvements in the case of priority risks, was effectively carried out.
The risk classification is based as follows:
- strategic risks;
- operational risks;
- compliance risks;
- financial risks.

The annual revision of the company's main risks has substantially confirmed the existing map of the risks.
The following is a brief description of the main risks, these last assessed without taking into consideration the response actions put into force or planned by the Group to bring the seriousness of the risk within acceptable levels.

Strategic Risks

Inadequate response to unfavourable macro-economic scenarios

The Group's economic and financial situation is influenced by various factors which make up the macro-economic contexts of the markets where the Group operates.
These include, but not only, GDP performance, consumer and business confidence levels, the inflation rate, interest rate trends, the cost of raw materials prime and unemployment rates.

In 2018, the Italian and Spanish technology distribution markets rose +10.8% and +9% respectively compared with 2017, and the Esprinet Group maintained the 2017 market share (Context data).
The first months of 2019 showed a growth trend supported by some important actions put in place to recover profitability on various product-customer combinations.

However, it is not certain that the market will perform in line with analysts' expectations and, if these expectations are not realized, the financial assets, economic, and financial situation could be adversely affected.

Inadequate response to customers' and suppliers' demands

Due to its intermediary role within the IT production chain, the Esprinet Group's success largely depends on its ability to address, interpret and meet customers' and suppliers' demands.
This ability translates into a value proposition both at the source and later on in the sales process which differentiates itself from the competition through its adequate and historically superior profitability conditions compared with both its direct and indirect competitors.
Should the Esprinet Group be unable to maintain and renew this value proposition, that is, to develop more innovative offers and competitive services than those of its main competitors, the Group's market share could fall significantly, with a negative impact on its economic and financial position.

Competition

The nature of the Group's trade brokering activities means that it operates in highly competitive sectors, both in Italy and in the Iberian Peninsula.
The Group therefore has to operate in a highly competitive context and to compete in the various geographical markets against both strongly rooted local operators and multinational companies significantly larger than the Group and with considerably greater resources.
Competition in the IT distribution and electronic consumables sector, the Group's main activity, is measured in terms of prices, availability, quality and variety of products, associated logistics services and pre- and after-sale assistance.

The degree of competition is also heightened by the fact that the Group acts as a broker between the large world-wide suppliers of technology and resellers of IT/electronic consumables, which

include operators with high contractual power, including the major retail chains, often with the potential to open supply chains directly with producers.
The Group also competes with multinational groups of extremely high financial standing, both in Italy and in the Iberian Peninsula.
Should the Esprinet Group be unable to deal effectively with the external situation in question there could be a negative impact on the Group's outlook and operations, as well as on its economic results and financial position.

Moreover, the Group is also exposed to competition from alternative distribution models, whether current or potential, such as those based on direct sales to the user by the producer, even though in the past all the limits of these alternative distribution models have been revealed.
If the 'de-intermediation' situation, already affecting the Group in the markets where it operates, accelerates in the coming years, even though not caused by any empirical or economically rational facts, the Esprinet Group could suffer negative repercussions in terms of its economic and financial position.

Price changes

The technological sector is typified by a deflationary price trend linked to high product obsolescence and strong market competition, besides mainly economic factors linked to changes in the value of the USA dollar and the Chinese currency, which are the two main functional currencies for IT products.

The Group is therefore exposed to the risk of falls in IT and electronic product unit prices, if the gross profit margin formed by the difference between the sales prices to retailers and purchasing costs applied by suppliers falls in absolute value when prices applied to the end consumer are lowered. This occurs since it is difficult to pass the higher costs caused by the lowering of prices on to customers in a sector as highly competitive as the distribution sector.

Despite the fact that this risk is lessened by the Group's capacity to limit overheads/fixed costs levels and productivity standards at various levels, thus reducing process costs chiefly linked to physical drivers (e.g. number of transactions, number of products moved in warehouses or forwarded by courier), and despite the fact that the percentile value of the gross sales margin is to some extent independent of reductions in the single prices of products, it is not possible to provide assurances regarding the Group's ability to deal with the technological sector's deflation rates

Business combinations

As an integral part of its strategy for growth, the Group periodically acquires assets (divisions of a company and/or company shareholdings) which are highly compatible in strategic terms with its own area of business.

Such operations, as any other future operation of the same type, run the risk of not being able to activate expected synergies either fully or in part, that is the risk that the explicit and/or implicit costs of integration might outweigh the benefits of the acquisition.
Integration problems are increased by the fact that the companies acquired have to operate in countries and markets other than those where the Group has always operated and which involve specific business and regulatory issues different from those met with so far by the Group.
Such problems arise from the need to align them to standards and policies mainly regarding internal auditing, reporting, information management and data protection procedures, besides to the implementation of suitable coordination and organisational mechanisms between the companies acquired and the rest of the Group.

Therefore it is impossible to give any guarantees about the Group's future success in concluding further acquisitions, neither to maintain the competitive positioning of purchasing target and neither to favourably repeat the proper business model and proposal system.

Operating risks

Dependency on IT systems

The Esprinet Group is strongly dependent on its IT systems in the performance of its activities.
In particular, the viability of its business depends to some extent on the capacity of the IT systems to store and process enormous volumes of data and guarantee elevated standards of performance (speed, quality, reliability and security) that are stable over time.
The critical nature of the IT systems is also heightened by the fact that the Group, because of its business model, relies on Internet for a consistent part of its business, both as an instrument for the transmission of information to its clients, and order-processing and marketing intelligence. Other critical factors are the connections in EDI mode to the IT systems of many vendors, as well as the remote connection to the cash & carry network active in the country.
The Group has invested remarkable resources in the prevention and mitigation of risks linked to its dependency on IT systems and in the improvement of the IT security level (such as the continual maintenance of the hardware installed and the updating of the relative software, the stipulation of insurance policies against damages caused indirectly by possible system crashes, the housing of the data centre in safe environments, the construction of anti-intrusion and anti-virus defences by carrying out penetration tests aimed at verifying the robustness of the abovementioned defences, the continual backup of memory-resident data, the provision of business continuity and disaster recovery plans and the execution of 'shutdown and restart tests on redundant systems').

Despite this, the possibility that the Group might have to suspend or interrupt its sales activities due to systems malfunctioning or actual black-outs cannot be totally excluded.
It is similarly impossible to guarantee that the IT systems of companies and/or businesses acquired will satisfy the Group's minimum reliability and safety requirements at the time of the acquisition.

Medium/long-term interruptions of logistics chain

The Group's sales activities strongly depend on the correct functioning and efficiency of the logistics chain, thanks to which the products are able to reach their reference markets.
These logistics chains have reached high levels of complexity and the journey of the goods from the factories where the IT and electronic products sold are produced to the end customers could be subject to interruptions due to natural, political and operational events such as natural disasters, changes in trade relations between governments, trade restrictions and embargoes or operators' financial soundness in the various transport and storage stages.

Any unfavourable events in these areas are likely to cause long-term interruptions, which could have a significantly negative impact on the Group's prospects and financial position.

Dependency on suppliers and risk of non-observance of extra-contractual agreements

Overall, the Group has direct contacts with about 200 leading vendors of technology, including IT, electronic consumables and micro-electronic components vendors. The Group has always focused on the distribution of branded goods, earnings from the sale of own-brand products (accessories, consumables, Nilox and Celly micro-computer components) being negligible.
In most cases, trading contacts with the vendors are governed by contracts and/or agreements generally renewed every year.
Despite the high number of vendors in its portfolio, the Esprinet Group shows a certain degree of risk concentration in that the incidence of the first 10 suppliers accounted for over 63% of the total amount (77% in 2017).

A consequence of this situation is that the Group is exposed to the risk of the non-renewal of current distribution contracts and/or inability to replace these contracts effectively.

The Group is also exposed to the risk of significant changes in the terms and conditions of contracts drawn up with vendors, particularly regarding amounts regarding premiums for the attainment of targets, or the very level and nature of these targets, the sums for co-marketing and development, the policies for protection of the economic value of the stock and commercial returns, payment terms and associated discounts.
These variations, if negative, are likely to have a negative impact on the assets and on the Group's economic and financial results.

Traditionally, however, the Group has been able to negotiate contractual conditions with its counterparts providing a long historical series of positive economic results. The degree of partnership attained with the majority of its suppliers also laid the foundations for significantly consolidated collaborations with the most important suppliers over the years, something also due to the use and maintenance of direct communication channels.

Dependency on suppliers of critical services

The Group's logistics model is based upon the direct warehousing handling and collections and the outsourcing of haulage and delivery services. These activities are of critical importance to the value chain for IT and electronic consumables distributors.
In the case of the first of the activities mentioned, the Group makes use of two porters' co-operatives in Italy. Transport activities are contracted out, both in Italy and in the Iberian Peninsula, to independent outside shippers.
The interruption of contractual relations with the above-mentioned suppliers of services, or a significant reduction in the level of quality and efficiency of the services provided, could have a significant negative impact on the Group's economic and financial results.
These suppliers and the relative industry are continually monitored in order to mitigate any related risk.

Low profit margins

The result of the high level of competition to which the Group is submitted is a low profit margin (gross trading margin and net operating result) in relation to earnings.
These low margins tend to amplify the effects of unexpected variations in sales levels and operating costs on profitability
that can be also negatively impacted from any incorrect decisions concerning the products 'pricing' and the management of discount policies.
It is impossible to guarantee that the Group will also be able to manage its 'pricing' policies with the same care and prudence in the future, in difficult economic situations.
Product margins and customers and the search for the best mix in suppliers and clientele are continually monitored, however, in order to mitigate any possible related risk.

Reduction in value of inventory

The Group is subject to the risk of a reduction in the value of unsold stock as a result of lowered list prices on the part of vendors and economic or technological obsolescence.
it is usual within the sector for the vendors to set up forms of total and/or partial protection, contractual or otherwise, of the financial value of stock in the above-mentioned cases for the benefit of the distributors with direct supply contacts.
Nevertheless, cases of non-fulfilment on the part of the vendors or the failure to activate non-contractual protection can occur.
Further, these protective clauses also come into force solely under certain conditions and are therefore totally controlled and by purchase planning ability in function of market potentiality.
It is not possible to give guarantees regarding the Group's future ability to manage stock levels so that even limited risks of stock devaluation are avoided, or failure to activate the contractual protection provided in the case of the majority of the product suppliers.

The main risk mitigation methods depend on the constant ability to minimise stock levels also due to the support of expert inventory management and demand planning systems based on availability indicators and consequently customer satisfaction, together with the constant monitoring of existing contractual agreements, in terms of the consolidated practice of the sector which traditionally believes that suppliers are also likely to protect the value of stock.

Dependency on key managers

The activity and development of the Esprinet Group is characterised by a significant dependence on the contribution of some key management staff, particularly that of the Chief Executive Officers, other executive Directors, and of the 'front line' management and/or heads of functions acting in the two geographical markets where the Group operates.
The Group's success therefore depends to a large extent on the professional and personal ability of such key figures.
The loss of the services of some of the managers without any suitable replacement, together with the inability to attract and keep new qualified resources, could therefore have negative effects on the Group's prospects, operations and financial results.
The main methods used by the Group to deal with the risk in question comprise professional development and employee retention policies. The latter are part of a compensation system which includes the use of long-term incentive plans as well as continual training activities.

Physical destruction of company assets and products assigned for sale

Premises and products stored in warehouses are subject to risks linked to events such as earthquakes, floods, fire, theft and destruction. These events could cause a significant fall in the value of the damaged assets and an interruption in the Group's operational ability, even for extended periods of time.
In the impossibility of excluding such events occurring and the damage caused by the same, and while bearing in mind the management and mitigation policies for these risk categories in terms of physical safety and fire prevention basically effected by transferring the risks to insurance companies, no guarantees regarding the negative impacts that could affect the Group's the financial position can be given.

Fraud perpetrated by employees

Bearing in mind the high number of transactions effected, the intensive use of IT systems both for operations and for interfacing with customers and suppliers, besides the high unit value of some transactions, significant economic damage could be generated by disloyal employees' conduct.
The Esprinet Group is committed to reducing the likelihood of such fraudulent conduct occurring by means of duty segregation techniques, IT systems access management, the introduction of procedures and checks and the circulation of the code of ethics.
However, it is not possible to give any guarantees about unfavourable impacts on the Group's financial position which could derive from fraudulent activities of the kind described.

Reliability of the administrative-accounting system

Strategic and operational decisions, the planning and reporting system, as well as the process of external communication of data and economic and financial information is based on the reliability of the administrative-accounting information generated and processed within the Group. The correctness of this information also depends on the existence of organisational procedures, rules and organisation, on employees' professional expertise and on the effectiveness and efficiency of IT systems.
The Group is committed to maintaining a high level of control over all the procedures that generate, process and circulate economic and financial information. These procedures and the underlying IT

systems are subject to regular audits and checks by various actors of the Internal Audit System and are constantly updated even when solutions to 'Non Conformity' situations have been applied.

Compliance risks

The Esprinet Group is exposed to the risk of violating numerous laws, rules and regulations, including tax laws, which govern its operations.

Legal and tax disputes

As of the drafting date of these financial statements some legal and tax disputes involving some of the companies within the Group are still pending. These could potentially influence the economic and financial results.
Although the sums allocated into the relative risk provisions are deemed sufficient to cover any liabilities arising from pending disputes, it cannot be excluded that in case of a negative outcome worse than expected, some negative effects may reflect on the Group's economic, asset and financial results.

Legal disputes

The type of legal disputes to which the Group is exposed can be divided essentially into two main groups: disputes of a commercial nature (having as the object the nature and/or quantity of goods supplied, the interpretation of contractual clauses and/or the supporting documentation) and other of various kinds.
The risks associated with the first type of dispute are the object of accurate monthly analyses together with the Group's legal advisors and the consequent financial impacts are reflected in the Bad debt provision.
The 'other disputes' refer to various types of claims made against companies within the Group due to supposed infringements of laws or contracts.
The risk analyses are undertaken periodically together with the external professionals appointed for the task and the consequent economic impacts are reflected in the Provision for risks and charges.

Tax disputes

It cannot be excluded that the Group may have to pay liabilities as a result of tax disputes of various kinds. In such case the Group could be called on to pay extraordinary liabilities with consequent economic and financial effects.
The risk analyses are undertaken periodically together with the external professionals appointed for the task and the consequent economic impacts are reflected in the Provision for risks and charges.
For risks and the main developments of disputes in course please see the item 'Non-current provisions and other liabilities'.

Financial risks

Esprinet Group's activities are exposed to a series of financial risks able to influence its financial assets, profits and cash flows through their impact on existing financial operations.

These risks may be summarised as follows:

a) credit risk;
b) liquidity risk;
c) market risk (foreign exchange risk, interest rate risk and other price risks).

The overall responsibility for the creation and supervision of a financial risk management system for the Group is, within the Internal Control System, up to the Board of Directors, to which the various organisational units responsible for actually managing the single types of risk report.

These units, substantially belonging to the Finance and Treasury departments, within the guidelines traced out by the Board in the case of each specific risk, define the instruments and techniques necessary for the relevant cover and/or transfer to third parties (insurance) and assess risks that are neither covered nor insured.
The Group has consolidated practices, operational procedures and risk management policies, which are continually adapted to changing environmental and market conditions, which are able to identify and analyse the risks to which the Group is exposed, to define appropriate controls and constantly monitor the same limits.
Further information regarding risks and financial instruments pursuant to IFRS 7 and 13 can be found under 'Disclosure on risks and financial instruments' in the 'Notes to the consolidated financial statements'.
The degree of the Group's exposure to the various categories of financial risk identified is detailed in next paragraphs.

Credit risk

Credit risk is the risk that the Group might suffer a financial loss through the effects of the non-fulfilment of an obligation to pay by a third party.
Esprinet Group's exposure to credit risk depends on the class of financial instruments, even if it is essentially linked to the option of deferred payments granted to clients in relation to sales of products and services in the markets where the Group operates.
Management strategies dealing with this risk are as follows:

- in the case of cash and cash equivalents and financial derivatives assets, the choice of leading national and international banks;
- in the case of trade receivables, the transfer of the risk, within the limits of the credit negotiated and with the aim of reaching an optimum balance of costs and benefits, to leading insurance and/or factoring companies as well as applying special checking procedures regarding the assignment and periodical review of lines of credits to customer, besides requiring collateral in the case of customers whose ratings are insufficient to guarantee operations.

Group policies include a strict hierarchically organised authorisation mechanism to deal with trade receivables, involving the Credit Committee and on up until the Board of Directors, in cases where the limits of the line of credit granted independently by the Group exceed the corresponding credit facilities granted by the insurance company.
Customer credit risk is monitored by grouping the same according to sales channels, the aging of the credit, the existence or otherwise of any previous financial difficulties or disputes and any ongoing legal or receivership proceedings.
Customers classified as 'high risk' are inserted in a strictly-checked list and any future orders are filled solely against advance payment.
The Group usually accrues estimated impairment of trade receivables quantified on the basis of analyses and write-downs of each single position to a bad-debt provision, after taking into account the benefits provided by the insurance.

In the case of credit risk concentration, the following table shows the incidence of the top 10 clients on consolidated sales with reference to Esprinet S.p.A. and to the Group respectively:

Entity	% top 10 customers
Esprinet S.p.A.	37%
Group	36%

The incidence of the top 10 customers on the Esprinet Group's sales is equal to approx. 36% (35% in 2017).

Liquidity risk

Liquidity risk is the risk the Group may encounter difficulty in meeting obligations associated with its financial instruments.
The policy is therefore one of maximum prudence to avoid, at the occurrence of unexpected events, to have to sustain excessive charges or even see one's reputation compromised in the market.
Liquidity risk management hinges on cash-flow planning and also on the maintenance of consistent amounts of unused lines of credit in Italy and in Spain of a mainly self-liquidating nature, aided by a conservative financial policy favouring stable financing sources including that for financing working capital. As at 31 December 2018, the Group had unused credit lines of 384 million euro (424 million euro at 31 December 2017), or approx. 76% (approx. 73% as at 31 December 2017) of the total of the existing credit lines.
The availability of unused credit lines did not cause any specific charges. For further information please refer to the paragraph 8.6 'Lines of credit' under section 8 'Other significant information' in the 'Notes to the consolidated financial statement'.
The Group's financial needs are largely covered by a five-year Senior Loan with a residual duration of 38 months. This Loan is one of the pillars of the liquidity risk management and is subject to the strict observance of some covenants the non-compliance with which gives the issuing pool of banks the right to demand the immediate reimbursement of the same loan.
While the existence of a covenant structure allows the Group to dispose of a stable funding structure not subject to any cancellation and/or unilateral downsizing as per international contractual practice, on one hand, on the other it introduces elements of instability linked to the possible violation of one or more of the threshold financial parameters, failure to observe which exposes the Group to the risk of the advance reimbursement of the borrowed sums.
According to management calculations, as at 31 December 2018, one covenant was breached. Accordingly, the outstanding principal was entirely classified under 'current liabilities' pursuant to IFRSs.

Market risk: the currency risk

Currency risk is the risk of fluctuations in the value of a financial instrument as a result of variations in foreign exchange rates. In this regard, it should be noted that only a residual part of the products purchased by the Esprinet Group are expressed in currencies other than euro.
In 2018, these purchases were mainly in US dollars and amounted to 3.0% of the Esprinet Group's total purchases (3.1% in 2017).
The possibility that parity of exchange - and the euro/USA dollar in particular– may be modified in the period running between the time of invoicing in foreign currency and the time of payment, determines the Group's exposure to foreign exchange risk. Given that the Group has no other financial assets and liabilities or loans in foreign currency, its exposure to this type of risk is limited.
Given the potentially modest impact involved, the policy adopted so far has consisted in the restraint of such risk type, without the activation of any specific form of cover, especially through the use of hedging instruments.

Market risk: the interest rate risk

Interest rate risk comprises the risk of fluctuations in the fair value and/or in the future cash flows of a financial instrument as a result of variations in market interest rates.
All of the loans obtained by the Esprinet Group provide for index-linked interest rates based on referential rates, and in particular on the 'Europe Interbank Offered Rate' or Euribor.
The Group, as a result of analysis on the amount and composition of the Group indebtedness, can decide to totally or partially hedge itself against the interest rate risk on the loans.
The aim of the hedging activity regarding interest rate risk is to fix the funding cost of the middle-term floating-rate loans (hedged items).

In the last year, this result was achieved by entering into Interest Rate Swap (IRS) contracts (hedging instruments), signed with the same banks lending the medium/long-term loan, which fully hedged the Group against its exposure to fluctuations in the interest rate on the loan by enabling receipt of a floating rate in return for payment of a fixed rate. These hedging transactions qualify for cash flow hedge accounting and are so recognised in the consolidated financial statements.

Market risk: the other price risks

Other price risks include the risk of fluctuations in the fair value of marketable securities due to variations in the market price arising both from specific factors related to the individual security or its issuer and from factors able to influence the total securities traded in the market place.
The Esprinet Group does not own any securities negotiable in active markets and consequently is not exposed to this type of risk in any way.

Other significant information

1. Research and development activities

The research and development of Edp and Web activities are related to the definition and planning of new processes and services referred to the IT platform used by the Group, which is at customers and suppliers disposal for information communication as well as for the management of sales and purchase orders. These costs were entirely recorded in the income statement, mainly among the costs of the respective departments.

2. Number and value of own shares

At the closing date of this financial report, Esprinet S.p.A. held 1,150,000 own shares, representing 2.19% of the share capital.
These consist of 111,755 residual own shares purchased in 2015 (fulfilling the Shareholders' Meeting resolution dated 30 April 2015) at a unit price of 7.79 euro net of fees, fully held at the prior year-end date.

The remaining 1,038,245 ordinary shares were bought pursuant to the AGM resolution dated 4 May 2018 in the period between 14 June and 11 October 2018, at an average unit price of 3.78 euro, net of fees.

3. Relationships with related parties

The related parties of the Esprinet Group have been defined as per IAS 24.

Group operations with related parties were effected in compliance with current laws and according to mutual economic advantage.
Any products sold to individuals were sold under the same conditions as those usually applied to employees.

During the year relationships with related parties consisted essentially in the sales of products and services at market conditions, including the leasing of real estate, between Group's entities and associates or companies where the key management personnel of Esprinet S.p.A. - shareholders or directors or key manager - play important roles.
Further details of these operations, the total value of which is not material compared with the total volume of the Group's activities, can be found under 'Relationships with related parties' in the 'Notes to the consolidated financial statements'.
Relationships with key managers result from the recognition of the payments for services rendered by the same, the quantification of which can be found under 'Emoluments to board members and key managers' in the 'Notes to the consolidated financial statements'.

In the case of Consob Regulation No. 17221 of .17221/12/03 and successive amendments and supplements, please note that Esprinet S.p.A. approved and implemented the management procedure regarding operations with related parties, further details of which may be found in the 'Esprinet S.p.A Corporate Governance Report'.
This procedure is similarly available at www.esprinet.com, under 'Investor Relations'.

4. Business combinations

During the year, to complete the process aimed at maximising synergies from the acquisition transactions carried out in 2016 both in Italy and Spain, two mergers by incorporation of companies already owned at the end of previous year were carried out.
In Italy, on 24 October 2018 the subsidiaries EDSlan S.r.l. and Mosaico S.r.l., which operate as distributors in the market segments of networking, cabling, VoIP and UCC-Unified Communication as regards EDSlan S.r.l., and ICT Security, Enterprise Software, Virtualisation and OpenSource/Linux solutions as regards Mosaico S.r.l., were merged by incorporation into the parent company, Esprinet S.p.A., that owned 100% of their shares.
In Spain, the company Tape S.L.U., distributor of IT products and related services, was merged by incorporation into V-Valley Iberian S.L.U., both wholly owned by Esprinet Iberica S.L.U. (in turn wholly owned by Esprinet S.p.A.).

Since the companies were already owned and entirely controlled at previous year end, the above-mentioned transactions (for further information please refer to the Significant events occurred in the period) did not have any effects on the consolidated financial statements; for accounting and tax purposes, the merger is effective retroactively from 1st January 2018.
Conversely, the Italian merger resulted in some impacts on the separate financial statements of Esprinet S.p.A.; to this extent the merged assets and liabilities, the value of the investments in these two subsidiaries owned by the Esprinet S.p.A. and, thus, the merger surplus and the net cash flows arising from the transaction are shown below.

(euro/000)	EDSlan	Mosaico	Total
Fixed, intangible and financial assets	345	42	387
Goodwill	-	5,804	5,804
Deferred income tax assets	293	172	465
Receivables and other non - current assets	10	-	10
Inventory	8,688	584	9,272
Trade receivables	21,591	24,424	46,015
Other current assets	1,710	1,372	3,082
Cash and cash equivalents	3,197	10,746	13,943
Deferred income tax liabilities	(63)	(178)	(241)
Retirement benefit obligations	(284)	(453)	(737)
Other non current liabilities	(31)	(4)	(35)
Trade payables	(8,316)	(12,498)	(20,814)
Short-term financial liabilities	(15,659)	(25,300)	(40,959)
Other current liabilities	(2,446)	(2,278)	(4,724)
Net assets fair value	**9,035**	**2,433**	**11,468**
Investments	(6,540)	(100)	(6,640)
Merger surplus	**2,495**	**2,333**	**4,828**
Cash and cash equivalents	3,197	10,746	13,943
Borrowings	(15,659)	(25,300)	(40,959)
Cash paid	**(12,462)**	**(14,554)**	**(27,016)**

In this annual report, for the sake of a better comparability, where deemed expedient to better clarify the facts underlying accounting balance changes, the Esprinet S.p.A. 'pro-forma' values at 31 December 2017 were disclosed, which reflect the effects of mergers as of 1 January 2017.
However, the Esprinet S.p.A.'s statement of financial position and the pro-forma separate income statement as at 31 December 2017 are fully disclosed in the Esprinet S.p.A. Financial Statements.

5. Relationships with subsidiaries subject to management and coordination activities

Esprinet S.p.A. manages and co-ordinates activities of the subsidiaries resident in Italy.
This activity consists in setting general and operational strategic policies for the Group, drafting general policies regarding human and financial resources management, defining and adapting:
- the corporate governance and internal control model;
- the Group Organisational Model pursuant to Legislative Decree 231/01;
- the System Security Planning Paper (SSPP) pursuant to Legislative Decree 196/03;
- the Code of Ethics;
- administrative-accounting procedures regarding financial reports.

Group co-ordination especially involves the centralised management of administrative, corporate and cash services which, in addition to enabling the subsidiary companies to achieve economies of scale, also enable them to focus their internal resources on managing the core business.
Starting from fiscal year 2010 Esprinet S.p.A. and its subsidiary V-Valley S.r.l. have opted for the tax regime as established in the 'National consolidated tax regime', as per Article 117 and followings of Presidential Decree 917/86 (TUIR - Italian Income Tax Code), which enables Corporate Income Tax (IRES) to be determined on the tax base resulting from the algebraic sum of the positive and negative tax bases of the single companies.
This option was renewed in 2016 for the 3-years period 2016-2018.
Starting from fiscal year 2015 Esprinet S.p.A. and its subsidiary Celly S.p.A. have opted for the National consolidated tax regime, with effects for the 2015-2017 period. This option was renewed in 2018 for the 3-years period 2018-2020.

6. Shares of the parent company Esprinet S.p.A held by board members, statutory auditors and key managers

Name	Office	No. Of shares at 31/12/17 or at appointment date	No. of shares purchased	No. of shares sold	Decrease for office termination	No. Of shares at 31/12/18 or at termination date
Maurizio Rota [2]	Chairman	2.625.458	115.920	-	-	2.741.378
Alessandro Cattani	Chief Executive Officer	561.607	115.920	-	-	677.527
Valerio Casari	Director	-	106.261	(50.261)	-	56.000
Marco Monti [3]	Director	-	-	-	-	-
Matteo Stefanelli	Director	834.507	-	-	-	834.507
Tommaso Stefanelli	Director	885.000	-	-	-	885.000
Mario Massari	Director	-	-	-	-	-
Renata Maria Ricotti	Director	-	-	-	-	-
Chiara Mauri	Director	-	-	-	-	-
Cristina Galbusera	Director	-	-	-	-	-
Emanuela Prandelli	Director	-	-	-	-	-
Ariela Caglio	Director	-	-	-	-	-
Francesco Monti [1]	Chairman	8.232.070	-	-	(8.232.070)	-
Total Board of Directors		**13.138.642**	**338.101**	**(50.261)**	**(8.232.070)**	**5.194.412**
Bettina Solimando	Chairman	-	-	-	-	-
Patrizia Paleologo Oriundi	Standing Statutory Auditor	-	-	-	-	-
Franco Aldo Abbate	Standing Statutory Auditor					
Giorgio Razzoli	Chairman	-	-	-	-	-
Total Board of Statutory Auditor		-	-	-	-	-

(1) Holder of full ownership of 2.058.019 shares and right of usufruct on 6.174.051 shares
(2) Holder of full ownership of. 2.625.458 shares and right of usufruct on 115.920 shares
(3)Holder of bare ownership of 2.058.017 shares

In compliance with CONSOB Resolution 11971 dated 14 May 1999, the previous table provides details of share dealing effected during the year by Esprinet S.p.A. Directors, Statutory Auditors and key managers, reminding that the company organisation structure does not include a General Manager.

7. Atypical and/or unusual operations

No atypical and/or unusual events or operations according to the definition as per Consob Communication No. DEM 6064293 of 28 July 2006 occurred during the period.

8. Additional information required by Bank of Italy and Consob

Pursuant to the document 2 of 6 February 2009 and the successive specifications of 3 March 2010, requiring the drafters of financial reports to supply adequate disclosure on some themes, the relevant sections in which the requirements applicable to the Group are met are shown below:

1. disclosure about entity's going concern, 'Notes to the consolidated financial statements' - paragraph 'Accounting principles and valuation criteria';
2. disclosure concerning financial risks, '*Directors' Report on Operations*' - paragraph '*Main risks and uncertainties facing the Group and Esprinet S.p.A.*' - and '*Notes to the consolidated financial statements*' - section '*Disclosure on risks and financial instruments*';

3. Disclosures regarding impairment tests of assets (so called impairment test), '*Notes to the consolidated financial statements*' - paragraph '*Notes to the balance sheet items*' item '*Goodwill*';
4. disclosure about uncertainties when using estimates, '*Notes to the consolidated financial statements*' - paragraph '*Main accounting definitions and estimates*';
5. disclosure on financial liabilities type clauses, '*Notes to the consolidated financial statements*' - paragraph '*Loans and loan covenants*';
6. disclosure concerning 'fair value hierarchy', '*Notes to the consolidated financial statements*' - paragraph '*Financial instruments pursuant to IFRS 9: classes of risk and fair value*'.

The information required by Consob communication No. DEM/11012984 of 24 February 2011 'Request for information pursuant to Art. 114, paragraph 5, of Legislative Decree No. 58 of 24 February 1998, regarding compensation for advance termination of employment' can be found in the 'Corporate Governance Report'.

Disclosure required by Consob communication No. 3907 of 19 January 2015 can be found in the relevant sections of the 'Notes to the consolidated financial statements'.

9. Share incentive plans

Within the scope of share incentive policies aimed at strengthening the loyalty of executives deemed essential for the purpose of achieving the Group operating targets, on 4 May 2018 Esprinet Shareholders' Meeting approved a new compensation Plan ('Long Term Incentive Plan') for the benefit of the members of the Board of Directors and executives, as proposed by the Remuneration Committee. Such plan will apply for the 3-year period 2018-20 with the purpose of granting a maximum of 1,150,000 rights of free stock grants of Esprinet. S.p.A. ordinary shares. On 25 June 2018, pursuant to the above-mentioned AGM resolution, 1,150,000 rights (equal to the number of rights resolved by the AGM) were freely granted. The exercise of the stock plan is conditional upon the achievement of some financial targets for the period 2018-2020 and the beneficiary being still employed by the Group at the date of presentation of the 2020 Consolidated Financial Statement.

On 12 June 2018, following the presentation of the Group consolidated financial statements as at 31 December 2017 at the AGM of 4 May 2018, and taking into account also the successful achievement of targets set for the fiscal years 2017-2015, the free stock grants of Esprinet. S.p.A. ordinary shares referring to the Long Term Incentive Plan approved by the AGM of 2015 April 30 became exercisable. Consequently, 535,134 rights were granted to the members of the Company's Board of Directors and Company executives, using shares already owned by Esprinet S.p.A..

Further information can be found in the 'Notes to the consolidated financial statement' – paragraph 'Group Personnel costs'.

10. Equity and result reconciliation between Group and parent company

In compliance with Consob communication no. DEM/6064293 of 28 July 2006 the reconciliation between Group equity and result of the period together with the relative data of the parent company, Esprinet S.p.A., is illustrated in the table below:

(euro/000)	Net Income/(loss)		Equity	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Esprinet S.p.A. separate financial statements	**(1,030)**	**10,610**	**300,013**	**305,678**
Consolidation adjustments:				
Net equity and result for the year of consolidated companies, net of minority interests	15,055	12,845	124,700	120,957
Esprinet S.p.A. 's investments in consolidated subsidiaries carryng amount	-	-	(86,086)	(92,585)
Goodwill from Esprinet Iberica S.L.U. business combination	-	-	1,039	1,039
Goodwill from Celly S.p.A. business combination	-	-	4,153	4,153
Deletion of non-realised (profit)/loss on inventory, net of fiscal effect	(98)	(31)	(432)	(334)
Option on Celly shares	231	2,855	(1,356)	(1,587)
Other movements	-	-	867	867
Consolidated net equity	**14,158**	**26,279**	**342,898**	**338,188**

11. Consolidated disclosure of non-financial information (DNF)

The company, pursuant to article 5, paragraph 3 (b) of the legislative decree 254/2016, prepared the consolidated disclosure of non-financial information, which represents a separate statement. The 2018 consolidated disclosure of non-financial information, drawn up according to GRI standards, is available on the Group's website.

12. Other information

The System Security Planning Paper (SSPP) - as initially foreseen by Legislative Decree 196/2003, integrated by the Legislative Decree n.5/2012 (decree on simplification) - continues to be drawn up and applied by the companies of the Group localized in the Italian Country.

Proposal of approval of the Financial Statement and allocation of the net results for 2018

To our Shareholders,
after presenting the separate financial statements of Esprinet S.p.A. and the Group consolidated financial statements as at 31 December 2018, together with the Directors' report on operations, we hereby submit to you our proposal for the appropriation of the net results for the year by Esprinet S.p.A..

In seeking your approval of our operations, by assenting to our draft Financial Statements, as well as to our Report on operations and the Notes to the financial statements, we propose to cover the Company's net loss of 1,030,313.35 euro as follows;

- entirely by using the Extraordinary Reserve

Note that the company needs not set aside amounts to the legal reserve having reached 20% of the Share Capital.
The Board of Directors will propose to the Annual Shareholders' Meeting the distribution of a dividend of 0.135 euro gross of any tax withholdings for each outstanding ordinary share, thus excluding any own shares held by the Company in its portfolio at the coupon payment date, by using the Extraordinary Reserve.

For the purpose of taxing beneficiaries, note that the company has residual retained earnings generated up to the financial year ended 31 December 2007, thus pursuant to the legal presumption set forth by Ministry Decree of 2 April 2008 (i.e. from a tax point of view the dividend distributed is deemed to consist primarily of profits made by the company up to the financial year ended 31 December 2007) and pursuant to the legal presumption of 26 May 2017, the whole amount of dividends distributed is deemed to consist of profits made by the Company up to financial year ended 31 December 2007.
Moreover, The Board of Directors propose that the dividend payment will be scheduled from 15 May 2019 (coupon payment no. 14 on 13 May 2019 and record date on 14 May 2019).
To our Shareholders.

Vimercate, 1 April 2019

Of behalf of the Board of Directors
The Chairman
Maurizio Rota

2018 Consolidated Financial Statements of the Esprinet Group

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Consolidated statement of financial position

The table below shows the consolidated statement of financial position drawn up according to IFRS principles, together with the information required pursuant to Consob Resolution No. 15519 of 27 July 2006:

(euro/000)	Notes	31/12/2018	related parties*	31/12/2017	related parties*
ASSETS					
Non-current assets					
Property, plant and equipment	1	13,327		14,634	
Goodwill	2	90,595		90,595	
Intangible assets	3	724		1,070	
Investments in associates	5	-		-	
Deferred income tax assets	6	11,884		11,262	
Derivative financial assets	8	-		36	
Receivables and other non-current assets	9	3,392	1,554	6,712	1,553
		119,922	1,554	124,309	1,553
Current assets					
Inventory	10	494,444		481,551	
Trade receivables	11	383,865	-	313,073	11
Income tax assets	12	3,421		3,116	
Other assets	13	29,610	1,310	27,778	10
Derivative financial assets	14	3		-	
Cash and cash equivalents	17	381,308		296,969	
		1,292,651	1,310	1,122,487	21
Disposal groups assets	48	-		-	
Total assets		1,412,573	2,864	1,246,796	1,574
EQUITY					
Share capital	19	7,861		7,861	
Reserves	20	319,831		303,046	
Group net income	21	14,031		26,235	
Group net equity		341,723		337,142	
Non-controlling interests		1,175		1,046	
Total equity		342,898		338,188	
LIABILITIES					
Non-current liabilities					
Borrowings	22	12,804		19,927	
Deferred income tax liabilities	24	8,138		7,088	
Retirement benefit obligations	25	4,397		4,814	
Debts for investments in subsidiaries	49	-		1,311	
Provisions and other liabilities	26	1,889		2,504	
		27,228		35,644	
Current liabilities					
Trade payables	27	867,866	-	690,449	-
Short-term financial liabilities	28	138,311		155,960	
Income tax liabilities	29	103		693	
Derivative financial liabilities	30	613		663	
Debts for investments in subsidiaries	51	1,082		-	
Provisions and other liabilities	32	34,472	1,567	25,199	1,510
		1,042,447	1,567	872,964	1,510
Disposal groups liabilities	34	-		-	
Total liabilities		1,069,675	1,567	908,608	1,510
Total equity and liabilities		1,412,573	1,567	1,246,796	1,510

* For further details regarding related parties please see the section 'Relationships with related parties' in the 'Notes to the consolidated financial statements'.

Consolidated income statement

The Group's separate income statement is set out below. It is drawn up according to IFRS requirements and expenses are classified by 'function'. It also includes the information required pursuant to Consob Resolution No. 15519 of 27 July 2006:

(euro/000)	Notes	2018	non - recurring	related parties*	2017	non - recurring	related parties*
Sales from contracts with customers	33	3,571,190	-	11	3,217,172	-	16
Cost of sales		(3,408,918)	(8,417)	-	(3,049,409)	-	-
Gross profit	35	162,272	(8,417)		167,763	-	
Sales and marketing costs	37	(52,792)	-	-	(53,800)	-	-
Overheads and administrative costs	38	(76,287)	-	(4,889)	(77,548)	(1,839)	(4,882)
Impairment loss/reversal of financial assets	39	(9,473)	(8,823)		(2,068)	-	
Operating income (EBIT)		23,720	(17,240)		34,347	(1,839)	
Finance costs - net	42	(4,541)	-	4	(749)	-	2
Other investments expenses / (incomes)	43	-	-		36	-	
Profit before income taxes		19,179	(17,240)		33,634	(1,839)	
Income tax expenses	45	(5,021)	4,401	-	(7,355)	478	-
Profit from continuing operations		14,158	(12,839)		26,279	(1,361)	
Income/(loss) from disposal groups	47	-			-		
Net income		14,158	(12,839)		26,279	(1,361)	
- of which attributable to non-controlling interests		127			45		
- of which attributable to Group		14,031	(12,839)		26,234	(1,361)	
Earnings per share - basic (euro)	46	0.27			0.51		
Earnings per share - diluted (euro)	46	0.27			0.50		

* Emoluments to key managers excluded.

Consolidated statement of comprehensive income

(euro/000)	2018	2017
Net income	14,158	26,279
Other comprehensive income:		
- Changes in 'cash flow hedge' equity reserve	75	(194)
- Taxes on changes in 'cash flow hedge' equity reserve	(23)	68
- Changes in translation adjustment reserve	1	(1)
Other comprehensive income not to be reclassified in the separate income statement		
- Changes in 'TFR' equity reserve	185	45
- Taxes on changes in 'TFR' equity reserve	(51)	(10)
Other comprehensive income	187	(92)
Total comprehensive income	14,345	26,187
- of which attributable to Group	14,217	26,141
- of which attributable to non-controlling interests	128	46

Consolidated statement of changes in equity

(euro/000)	Share capital	Reserves	Own shares	Profit for the period	Total net equity	Minority interest	Group net equity
Balance at 31 December 2016	**7,861**	**288,372**	**(5,145)**	**26,870**	**317,958**	**999**	**316,959**
Total comprehensive income/(loss)	**-**	**(92)**	**-**	**26,280**	**26,188**	**46**	**26,142**
Allocation of last year net income/(loss)	-	19,883	-	(19,883)	-	-	-
Dividend payment	-	-	-	(6,987)	**(6,987)**	-	**(6,987)**
Transactions with owners	**-**	**19,883**	**-**	**(26,870)**	**(6,987)**	**-**	**(6,987)**
Currently active Share plans	-	1,026	-	-	**1,026**	-	**1,026**
Other variations	-	4	-	-	**4**	1	**3**
Balance at 31 December 2017	**7,861**	**309,193**	**(5,145)**	**26,280**	**338,189**	**1,046**	**337,143**
Balance at 31 December 2017	**7,861**	**309,193**	**(5,145)**	**26,280**	**338,189**	**1,046**	**337,143**
Total comprehensive income/(loss)	**-**	**187**	**-**	**14,158**	**14,345**	**128**	**14,217**
Allocation of last year net income/(loss)	-	19,293	-	(19,293)	**-**	-	**-**
Dividend payment	-	-	-	(6,987)	**(6,987)**	-	**(6,987)**
Purchases of own shares	-	-	(3,929)	-	**(3,929)**	-	**(3,929)**
Transactions with owners	**-**	**19,293**	**(3,929)**	**(26,280)**	**(10,916)**	**-**	**(10,916)**
Grant of share under share plans	-	(3,814)	4,274	-	**460**	-	**460**
Equity plans in progress	-	645	-	-	**645**	-	**645**
FTA accounting standards IFRS	-	133	-	-	**133**	-	**133**
Other variations	-	42	-	-	42	1	**41**
Balance at 31 December 2018	**7,861**	**325,679**	**(4,800)**	**14,158**	**342,898**	**1,175**	**341,723**

Consolidated statement of cash flows[6]

(euro/000)	2018	2017
Cash flow provided by (used in) operating activities (D=A+B+C)	**127,577**	**25,994**
Cash flow generated from operations (A)	**37,438**	**39,225**
Operating income (EBIT)	23,720	34,347
Depreciation, amortisation and other fixed assets write-downs	4,691	4,754
Net changes in provisions for risks and charges	8,208	(516)
Net changes in retirement benefit obligations	(285)	(386)
Stock option/grant costs	1,104	1,026
Cash flow provided by (used in) changes in working capital (B)	**98,347**	**(7,922)**
Inventory	(12,893)	(152,665)
Trade receivables	(70,792)	75,599
Other current assets	(2,135)	2,328
Trade payables	177,429	75,074
Other current liabilities	6,738	(8,258)
Other cash flow provided by (used in) operating activities (C)	**(8,208)**	**(5,309)**
Interests paid, net	(2,338)	(2,272)
Foreign exchange (losses)/gains	(974)	393
Net results from associated companies	-	75
Income taxes paid	(4,896)	(3,505)
Cash flow provided by (used in) investing activities (E)	**(2,027)**	**(2,263)**
Net investments in property, plant and equipment	(2,797)	(3,425)
Net investments in intangible assets	(241)	(280)
Changes in other non current assets and liabilities	4,939	848
Itway business combination	-	594
Own shares acquisition	(3,928)	-
Cash flow provided by (used in) financing activities (F)	**(41,211)**	**(12,695)**
Medium/long term borrowing	-	165,000
Repayment/renegotiation of medium/long-term borrowings	(38,912)	(112,162)
Net change in financial liabilities	12,738	(59,224)
Net change in financial assets and derivative instruments	(8,660)	5,562
Deferred price Itway acquisition	-	(4,718)
Dividend payments	(6,987)	(6,987)
Increase/(decrease) in 'cash flow edge' equity reserve	52	(214)
Changes in third parties net equity	129	48
Other movements	429	-
Net increase/(decrease) in cash and cash equivalents (G=D+E+F)	**84,339**	**11,036**
Cash and cash equivalents at year-beginning	**296,969**	**285,933**
Net increase/(decrease) in cash and cash equivalents	**84,339**	**11,036**
Cash and cash equivalents at year-end	**381,308**	**296,969**

[6] Effects of relationships with related parties are omitted as non significant.

Notes to the consolidated financial statements

1. General information

Esprinet S.p.A. (hereafter 'Esprinet' or the 'parent company') and its subsidiaries (the 'Esprinet Group' or the 'Group') operate on the Italian, Spanish and Portuguese markets in the 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics.

In Italy and in Iberian peninsula, the Group operates solely in the 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics.

Esprinet S.p.A. has its registered and administrative offices in Italy at Vimercate (Monza e Brianza). Ordinary shares in Esprinet S.p.A. (ticker: PRT.MI) have been listed in the STAR segment of the MTA market of Borsa Italiana S.p.A., the Italian Stock Exchange since July 27, 2001.

2. Accounting principles and valuation criteria

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

2.1 Accounting principles

The consolidated financial statements of the Esprinet Group as at 31 December 2018 have been drawn up in compliance with IFRS requirements issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as measures issued in accordance with art. 9 of the legislative decree 38/2005.
The acronym IFRS stands for the International Financial Reporting Standards (IFRS), which include the recent evolution of the International Accounting Standards (IAS) and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

The financial statements have been drawn up using the historical cost, except for the assessment of some financial instruments, where the fair value criteria are applied, and also the going concern presumption.

2.2 Presentation of financial statements

The presentation formats of the financial position and income and cash-flow statements have the following characteristics:

- statement of financial position: current and non-current assets and current and non-current liabilities are reported separately;
- statement of comprehensive income: income statement and statement of comprehensive income are reported in two different statements;
- separate income statement: costs have been analysed by function;
- statement of cash flows: drawn up as per the indirect method set out in IAS 7.

The choices made in terms of the presentation of the statement of accounts derive from the conviction that these contribute to an improvement in the quality of the information provided.
Figures in this document are expressed in thousands of euro, unless otherwise indicated. Furthermore, in some cases the tables might have some inaccuracies due to the rounding-up to thousands.

2.3 Consolidation criteria and methods

The consolidated financial statements derive from the accounts of the parent company Esprinet S.p.A. and its direct and/or indirect subsidiaries or associated companies, as approved by their respective Boards of Directors.[7]
Wherever necessary, the accounts of subsidiaries were suitably adjusted to ensure consistency with the accounting standards used by the parent company.

The table below lists companies included in the consolidation scope as at 31 December 2018, all consolidated on a line-by-line basis.

Company name	Head Office	Share capital (euro) *	Group Interest	Shareholder	Interest held
Holding company:					
Esprinet S.p.A.	Vimercate (MB)	7,860,651			
Subsidiaries directly controlled:					
Celly S.p.A.	Vimercate (MB)	1,250,000	80.00%	Esprinet S.p.A.	80.00%
Esprinet Iberica S.L.U.	Saragozza (Spain)	55,203,010	100.00%	Esprinet S.p.A.	100.00%
Nilox Deutschland GmbH	Düsseldorf (Germany)	100,000	100.00%	Esprinet S.p.A.	100.00%
V-Valley S.r.l.	Vimercate (MB)	20,000	100.00%	Esprinet S.p.A.	100.00%
Subsidiaries indirectly controlled:					
Celly Nordic OY	Helsinki (Finland)	2,500	80.00%	Celly S.p.A.	100.00%
Celly Pacific LTD	Honk Kong (China)	935	80.00%	Celly S.p.A.	100.00%
Esprinet Portugal Lda	Porto (Portugal)	400,000	100.00%	Esprinet Iberica S.L.U.	95.00%
				Esprinet S.p.A.	5.00%
Vinzeo Technologies S.A.U.	Madrid (Spain)	30,704,180	100.00%	Esprinet Iberica S.L.U.	100.00%
V-Valley Iberian S.L.U.	Saragozza (Spain)	50,000	100.00%	Esprinet Iberica S.L.U.	100.00%

(*) Share capital values, with reference to the companies publishing financial statements in a currency other than euro, are displayed at historical value.

The most significant consolidation criteria adopted when preparing the Group's consolidated financial statements are presented below.

Subsidiaries

Subsidiaries are entities where the Group is exposed, or has rights, to variable returns and has the capacity of influencing them, pursuant to IFRS 10, paragraph 6. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
Any effects of transactions between Group companies on the Group's assets and profits, unrealized gains and losses and dividends included, are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the transferred asset.
Changes in a parent's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).

Business combinations

The acquisition method is used to account for the acquisition of subsidiaries by the Group and is explained as follow.
The cost of an acquisition is the aggregate of the acquisition-date fair value of the consideration transferred and of the amount of any non-controlling interest (or 'NCI') in the acquiree. A non-

[7] With the exception of Celly Nordic OY and Celly Pacific LTD since they do not have this Body.

controlling interest can be measured at fair value or at the NCI's proportionate share of net assets of the acquiree (option available on a transaction by transaction basis). Any costs directly attributable to the combination are expensed and classified in administrative costs.
In the case of business combination achieved in stages, on the date that control is obtained the fair values of the acquired entity's assets and liabilities, including goodwill, are measured; any resulting adjustments to previously recognized assets and liabilities are recognized in profit or loss.
Contingent consideration is measured at the acquisition date fair value.
Goodwill is measured as the difference between the cost of an acquisition and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.
If the difference above is negative, the resulting gain is recognized as a bargain purchase in profit or loss.

The 'purchase method' was used to account acquisition of subsidiaries by the Group until 2009 included. Costs directly attributable to the acquisition were included in the cost of the acquisition. Minority interests consisted of the share of the net assets of the acquired entity. Business combinations achieved in stages were treated separately at the date of each transaction, with no impact on the previous goodwill may be accounted

Non-controlling interests

The Group applies a policy of treating transactions with non-controlling shareholders as transactions with parties outside the Group itself.
The share of equity attributable to outside shareholders of subsidiary companies included in the consolidated accounts is carried separately under the equity item 'Non-controlling interests', precisely created for this purpose. The share of net income attributable to non-controlling shareholders is reported separately in the consolidated separate income statement under the item 'Non-controlling interests'.
Losses are attributed to non-controlling shareholders even if they make negative the non-controlling interests balance.

Associated companies

Group investments in associates are assessed using the equity method.
Associates are companies over which the Group has significant influence, even though they are not subsidiaries or part of a joint-venture.
Financial statements of associates are used by the Group for the application of the net equity method of accounting.
The closing of accounts of associates and of the Group take place at the same date and by using the same accounting principles.
Group investments in associates are recorded in the statement of financial position at the cost increased or decreased by the post-acquisition changes in the Group's share of its associates' net profit and eventually decreased by any possible loss of value. The possible Goodwill relating to an associate is included in the carrying amount of the investment and its amortization or impairment are not permitted.
The separate income statement reflects the Group's share of its associates' net profit/loss except the quotas of profits and losses resulting from transactions between the Group and the associate which are eliminated.
If an associate adjusts a movement directly taking it to equity, the Group also adjusts its share subsequently and reports it, where applicable, in the statement of changes in equity.
After application of the equity method the Group determines whether it is necessary to recognize any additional impairment loss with respect to its investment in the associate. At each reporting date the Group determines whether objective reasons exist to support any impairment loss with respect to its investment in the associate. In the case the impairment loss occurred, the Group measures it by comparing the recoverable amount and the carrying amount of the investment, and recognize this loss in the separate income statement under 'share of profits/losses of associates'.

Intercompany dividends

Dividends distributed among Group companies are eliminated from the consolidated income statement.

2.4 Changes to the Group's consolidation area

Compared with 31 December 2017, on 16 July 2018 the company Celly Swiss SAGL, wholly controlled by Celly S.p.A. and already in liquidation in 2017, left the scope of consolidation.

Furthermore, the companies EDSlan S.r.l. and Mosaico S.r.l. were merged via incorporation in Esprinet S.p.A. with legal effects as from 1 November 2018 and accounting and tax effects backdated to 1 January 2018. Likewise within the Subgroup Spain, the company Tape S.L.U (initially wholly-controlled by Vinzeo Technologies S.A.U. and acquired in April 2018 by Esprinet Iberica S.L.U.) was merged via incorporation in V-Valley Iberian S.L.U. on 30 November 2018 with accounting an tax effects backdated to 1 January 2018.

For further information please refer to the paragraph 'Significant events occurring in the period'.

2.5 Amendments of accounting standards

No reclassification or changes in the critical accounting estimates regarding previous periods, pursuant to IAS 8, were made in this Annual report. However, following the first adoption from 1 January 2018 of the new international standards IFRS 9 and IFRS 15, it was necessary to calculate and record the effects of these new provisions at that date.

In particular, the main change introduced by IFRS 9 which affects the Group concerns the accounting recognition as from 1 January 2018, in the separate income statement, of net financial income due to the different amortisation of upfront fees for 0.2 million euro. These are residual fees, as at the date of 28 February 2017, on the loan taken out in July 2014 by the parent company Esprinet S.p.A. and replaced by the same on 28 February 2017 with the loan currently outstanding for an original total of 210.0 million euro.
This change brought about a decrease of 0.4 million euro in the financial liabilities and a 0.2 million euro decrease in prepayments.

The introduction of IFRS 15 accounting standard brought about a different representation of the gross margin, depending on whether revenues are resulting from contracts with customers under which the company plays the role of 'principal' or 'agent' for the purpose of the accounting standard. The gross profit representation for 'principals' leads to a separate presentation of sales and cost of sales, while for 'agents' it only requires the presentation of the gross profit realised under sales.
The Esprinet Group, following both an analysis of the signed contracts and the identification of contractual obligations as per the new approach according to the accounting standard, identified the distribution of hardware and software, the distribution of own-brand products and the rendering of services as activities where it acts as a 'principal'. Conversely, the distribution of cloud software and the brokerage of services were detected as business lines to be disclosed as 'agent' (bearing in mind that acting as an 'agent' does not entail an agency contract as commonly interpreted in the jurisdictions of the Countries where the Group is active, but merely for accounting purposes).
The change consequent to the introduction of IFRS 15, if already applied in 2017, would have led to a reduction in the revenues and the cost of sales for 13.6 million euro as at 31 December 2017, without any impact therefore on the gross profit which would have remained unchanged, as shown in the following table:

(euro/000)	2017										
	proforma				published				.		
	Italy	Spain	Elim.	Group	Italy	Spain	Elim.	Group	Italy	Spain	Group
Sales from contracts with customers	2,024,104	1,225,517	(46,050)	3,203,571	2,037,574	1,225,648	(46,050)	3,217,172	(13,470)	(131)	(13,601)
Cost of sales	(1,903,438)	(1,178,308)	45,938	(3,035,808)	(1,916,908)	(1,178,439)	45,938	(3,049,409)	13,470	131	13,601
Gross Profit	**120,666**	**47,209**	**(112)**	**167,763**	**120,666**	**47,209**	**(112)**	**167,763**	**-**	**-**	**-**

The changes referring to the two new above-mentioned accounting standards are almost entirely attributable to the parent company, Esprinet S.p.A..

2.6 Summary of significant valuation criteria and accounting policies

Non-current assets

Intangible assets and goodwill

Intangible assets are assets that have no identifiable physical nature, that are controlled by the company and that are able to generate future income.
They include goodwill, when it is acquired for a consideration.

Intangible assets with a defined useful life are systematically amortized over their useful life, taken as the estimate of the period that the assets shall be used by the Group. In particular the item 'Industrial and other patent rights' is amortized within three years.
Goodwill and other intangible assets with indefinite useful lives are not amortized on a straight-line basis, but are subject to an annual impairment test. The Impairment test is described below in the section entitled 'Impairment of assets'. The increased carrying amount of an intangible asset with defined or indefinite useful life attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised for the asset in prior years. This reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.
Revaluation of goodwill is not permitted, even in application of specific laws, as it is not reinstated when the reasons for a write-down no longer apply.

Property, plant and equipment

Property, plant and equipment are shown in the financial statements at purchase or production cost, or at their conveyance value, including any directly attributable incidental costs and costs deemed necessary to make them operable.

Ordinary maintenance and repair costs are charged to the income statement for the year in which they are incurred. Extraordinary maintenance costs leading to a significant and tangible increase in the productivity or useful life of an asset are added to the value of the asset concerned and amortised over a period representing its remaining useful life.
Costs for leasehold improvements are entered under their relevant tangible assets category.
Individual components of a facility that have different useful lives are recognized separately, so that each component may be depreciated at a rate consistent with its useful life.

Fixed assets are systematically depreciated every year, in line with depreciation schedules drawn up to reflect the remaining usefulness of the assets concerned. The value reported in the statement of financial position is shown net of accumulated depreciation according to the remaining possible use of the asset.

The depreciation rates applied for each asset category are detailed as follows:

	Economic - technical rate
Security systems	25%
Generic plants	from 3% to 20%
Other specific plants	15%
Conditioning plants	from 3% to 14,3%
Telephone systems and equipment	from 10% to 20%
Communication and telesignal plants	25%
Industrial and commercial equipment	from 7,1% to 15%
Electronic office machines	from 20% to 25%
Furniture and fittings	from 10% to 25%
Other assets	from 10% to 19%

If there are indications of a decline in value, assets are subjected to an impairment test. The Impairment test is described below in the section entitled 'Impairment of non-financial assets'. When the reasons for a write-down no longer apply, the asset's cost may be reinstated. The increased carrying amount attributable to the reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years.

This reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

Leasing transactions

Assets acquired through financial leases are registered under property, plant and equipment, and are entered at the lower of the market value and the value obtained by time-discounting the rents and redemption price determined at the time the contract is signed. The relevant liability is entered under 'Financial liabilities'.

The leases, in which the lessor substantially maintains the risks and benefits associated with the ownership of assets, are itemised as operating leasing. The earnings (costs) emerging from operating leasing are entered straight-line in the income statement during the life of the leasing contract.

Impairment of non-financial assets

IAS 36 requires the testing of property, plant and equipment and intangible assets for impairment when there are indications that impairment has occurred. In the case of goodwill and other assets with indefinite lives this test must be conducted at least annually.

In the case of goodwill, the Group carries out the impairment tests foreseen by IAS 36 in respect of all cash generating units to which goodwill has been allocated.
The recoverability of a carrying amount is tested by comparing it against an asset's fair value, less cost to sell, when there is an active market, or its value in use, whichever is greater. Value in use is the present value of future cash flows expected to be derived from an asset or a Cash Generation Unit (CGU) and from its disposal at the end of its useful life. CGUs have been identified within the Group's organizational and business structure as homogeneous groups of assets that generate cash inflows independently through the continued use of the assets included in each group.

Deferred income tax assets

Deferred income tax assets are recorded at face value. They are entered in the books when their recovery is deemed probable. See also the comment under item 'Income taxes'.

Financial assets

Receivables and financial fixed assets that will be held until their maturity are stated at the cost represented by the fair value of the initial payment given in exchange, increased by the costs of the transaction (e.g. commissions, consultancy fees, etc.).
The initial statement value is subsequently modified to take into account any capital repayments, write-downs and amortization of the difference between the reimbursement value and the initial statement value. The amortization is carried out based on the effective internal rate which is the rate that renders the current value of expected cash flows and the initial statement value identical at the moment of the initial statement (so-called amortized cost method).

Financial assets destined for negotiation and financial assets available for sale are stated at fair value with the effect accounted in the income statement item 'Finance income/(cost)' and the Shareholders' Equity item 'Other reserves' respectively.
When the purchase or sale of a financial asset foresees the payment for the transaction and the delivery of the asset within a set number of days, established by the market authorities or by convention (e.g. purchase of shares on regulated markets), the transaction is stated at the payment date.

Financial assets that are sold are eliminated from the assets when the right to receive cash flow is transferred together the risks and benefits associated with the ownership of that asset.
At each reporting date the Group assess whether there is any indication that a financial asset or a group of financial assets may be impaired.

Current assets

Inventory

Stock is taken at the lower of acquisition cost and realisable value, as obtained from market trends, whilst taking into account the features peculiar to the target sector of the Group concerned, which sells mainly IT products and consumer electronics that rapidly become obsolete.
The configuration of cost adopted when valuating stock is based on the FIFO method of accounting.
Purchase cost considers additional expenses as well as any discounts and allowances granted by vendors, in accordance with the sector's standard business practice, in relation to predetermined sales targets being achieved and marketing activities being adequately developed in order to promote the brands being distributed and to develop the sales channels utilised. Cost includes 'price protections' on inventories granted by suppliers on the purchasing prices.
Obsolete and surplus stock and stock characterised by slow turnover is written down to reflect the chances of selling it.

Trade and other receivables

Trade and other receivables are initially stated at 'fair value'.
After first appraisal, receivables are stated at the amortised cost based on the real IRR (Internal Rate of Return), that is, the rate that renders the current value of expected cash flows and the initial statement value identical at the moment of the initial appraisal (so-called amortised cost method).
The amount obtained using the amortised cost method, is then reduced to the realisable amount in the case of loss occurring.
Write-downs are determined by considering the solvency of individual creditors, the insurance coverage and the level of credit risk, based on the available information and accumulated historical experience.
Receivables assigned without recourse can be de-recognized only when they meet the de-recognition requirements of IFRS 9.

Income tax assets

Current taxation assets are stated at fair value; they include all those assets that are taxable by the Tax Authorities or that can be financially compensated in the short term. See also the comment under item 'Income taxes'.

Other current assets

Other current assets are stated at the lesser of the cost and the net realisable value.

Cash and cash equivalents

Cash in hand includes all liquid funds and deposits in bank accounts that are immediately available, as well as other liquidity with a duration of less than three months.
The liquid funds in euro are stated at their face value, while liquid funds in other currencies are stated at the current exchange rate at the end of the year.

Non-current assets held for sale

A non-current asset held for sale (or assets of a disposal group) is an asset whose carrying amount will be recovered principally through a sale transaction rather than through its continuing use. As consequence a non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell, and depreciation on such asset ceases.
It is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal group) and its sale is highly probable.

Equity

Own shares

Own shares are stated at cost and deducted from equity. In the case of any subsequent sale, the difference between the cost of own shares and the selling price is recognized in equity.

Current and non-current liabilities

Financial liabilities

Financial liabilities are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.
Financial liabilities are initially stated at fair value, to which any eventual costs related to the transaction are added. Afterwards, financial liabilities are stated at the amortized cost using the actual interest rate for the discount calculation.
Financial liabilities are removed from the income statement once the obligation specified in the contract has been fulfilled, cancelled or expired. The difference between the book value of the financial liability which is paid off or transferred to another party and the sum paid is reported in the income statement.
The fair value of a financial asset or liability quoted in an active market is defined, at each reporting date, in terms of the quoted market price or of the dealers' price ('bid price' for asset held or liability to be issued, 'asking price' for an asset to be acquired or a liability held), without any deduction for transaction costs. If the market for a financial instrument is not active the fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions for risks and charges

Provisions are made when there is the probable existence of an obligation, be it actual, legal or implicit, due to past events and the amount of the obligation can be reliably estimated. The provisions are stated at the value that represents the best estimate of the amount that the company would reasonable paid for settling the obligation or transferring it to third parties at year end. Where there is a significant financial effect over time and the payment date of the obligations can be reasonably estimated, the provisions are actualised; the increase in the provisions linked to the passing of time is stated in the separate income statement in the item 'Finance costs'.

Staff post-employment benefits

Staff post-employment benefits are defined on the basis of plans which even though not yet official are called either 'fixed contribution' or 'defined benefit' plans, depending on their characteristics.
In the 'fixed contribution' plans the obligation of the company, limited to the payment of contributions to the State or entity or a distinct legal authority (fund), is calculated on the basis of the contributions owed. Until the 2007 Financial Law and relative enforcing decrees came into force, the uncertainty regarding payment times meant that staff severance indemnity (TFR) was likened to a defined benefit plan.
Following the reform, the allocation of accruing staff severance indemnity quotas to the pension fund or to INPS, the Italian Social Security body, caused the transformation of the plan into a fixed contribution plan, where the company's obligation is exclusively the payment of the contributions either to the fund or to INPS.
Liabilities relating to past staff severance indemnity still represent a defined benefits plan calculated by independent actuaries using an actuarial-type method.
Since 2013 actuarial profits and losses, deriving from changes to actuarial hypotheses, are reported in an appropriate equity reserve figure as required by the IAS19R.
Pursuant to IAS 19, the above-mentioned reform has made it necessary to recalculate the value of the past staff severance indemnity provision due to the exclusion of the actuarial hypotheses linked to salary increases and the revision of financial-type hypotheses. This effect (curtailment) has been reported in the 2007 separate income statement in reduction of personnel costs.

Payables, other debts, other liabilities

Payables, other debts and other liabilities are initially reported at their fair value increased by any costs linked to the transaction.
They are later reported in the income statement at their face value, since no time-discounting or separate entry of interest payable is deemed necessary given the foreseen payment times.

Provisions for presumed debt are liabilities paid for goods or services which have been received or supplied but not yet paid and include amounts due to staff or other subjects.
The degree of uncertainty regarding the timing or amount of the allocations for 'Other debt/liability' is rather less than that of the provisions.

For further details regarding trade payables please see 'Definitions' below.

Income statement

Revenues and expenses

Revenues from sales and services are stated at the moment of transfer of the typical risks and advantages of property or at the time the service is performed.
Revenues are recognised at the time of shipment when the risk of loss is transferred to the buyer at that time.
Revenues are stated net of returns, discount, allowances and bonuses, as well as directly related taxation.

Costs are recognised when related to goods and services sold or used in the period or proportionally when their useful future life cannot be determined.

The purchase cost of products is reported net of any discounts granted by vendors for 'protection' provided in respect of price-list reductions and product replacements. Credits arising from any such allowances are recorded by using the accrual method of accounting, based on information from the vendors concerned.
Discounts granted for immediate cash payments of invoices payable upon presentation are used to reduce the cost of the products purchased, since – as is standard practice in the sector in which the Group operates – the commercial component is considered predominant.

Dividends

Dividend payable is stated at the date of approval of the decision by the Assembly.

Earnings per share

Basic

Basic earnings per share are calculated by dividing the Group's year-end profit by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the company and held as own shares.

Diluted

The diluted profit per share is calculated by dividing the Group's year-end profit by the weighted average of ordinary shares in circulation during the accounting period, excluding any own shares. For the purposes of the calculation of the diluted profit per share, the weighted average of the shares in circulation is modified by assuming the exercising by all owners of rights that potentially having diluting effects, while the net result of the Group is adjusted to take into account any effects, net of taxes, of the exercising of said rights. The result per diluted share is not calculated in the case of losses, in that any diluting effect would determine an improvement in the result per share.

Stock grants

Labour costs include stock options and/or stock grants awarded to managers in as much as they represent actual remuneration accruing at the closing date of the financial statements.
The cost is calculated in reference to the fair value of the assignment awarded to the employee.
The portion belonging to the period is calculated pro rata temporis over the vesting period.

The fair value of assigned stock grants is measured by the 'Black-Scholes' and is stated in the form of a counterparty in the 'Reserves'.

Income taxes

Current income taxes are calculated with an estimate of taxable income for each Group company; the forecast payable is stated in the item 'Current income tax liabilities' but, if surplus accounts have been paid, the receivable is stated in the item 'Current income tax assets'. Tax payables and receivables for current taxation are stated at the value that it is expected to pay to or to recover from the Tax Authorities when applying the rates and current tax law or laws which have been substantially approved at the end of the period.

Deferred and advance income taxes are calculated using the 'liability method' on the temporary differences between the values of assets and liabilities stated on the statement of financial position and the corresponding values recognised for tax purposes. The statement of assets for advanced taxation is made when their recovery is probable.

Deferred and advance taxation are not stated if they are linked to the initial statement of an asset or liability in a different transaction by a business combination and that does not have an impact on the results and taxable income.

Assets for advanced taxation and liabilities for deferred taxation are stated in the fixed assets and liabilities and are off-set for each single company if they are taxes that can be off-set. If the balance of this off-set is positive, it is stated in the item 'Deferred income tax assets'; if it is negative, it is stated in the item 'Deferred income tax liabilities'.

Foreign currency translation, transactions and balances

Functional and presentation currency

Items included in this financial statement are measured using the currency of the primary economic environment in which the entity operates (the functional currency).
The consolidated financial statements are presented in euro, which is the Group's functional and presentation currency.

Currency transactions and translation criteria

Foreign currency transactions are entered under functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currency are converted into euro by applying the current exchange rate at the end of the period and the effect is stated in the separate income statement. Non-monetary assets and liabilities in foreign currency valued at cost are stated at the initial exchange rate; when they are valued at fair value or their recoverable or sale value, the current exchange rate is used on the date that the evaluation is made.

Exchange rate	Punctual at 31.12.2018	Average period
Hong Kong Dollar (HKD)	8.97	9.26
Franco Svizzero (CHF)	1.13	1.16
US Dollar (USD)	1.15	1.18

Financial derivatives

Derivatives are financial assets and liabilities that are stated at their fair value.
Derivatives are classified as hedging instruments when the relationship between the derivative and the underlying instrument is documented and the effectiveness of the hedge is both high and regularly verified.

When a derivative covers the risk of variation of cash flow of the underlying instrument (cash flow hedge; e.g. to cover the variability of cash flow of assets/liabilities due to changes in interest rates), the variation in the fair value of the derivative is initially stated in the shareholders' equity (and, consequently, in the statement of comprehensive income) and afterwards in the separate income statement in line with the economic effects produced by the covered transaction.
If the hedging instrument expires or is sold, terminated or exercised (replacement excluded), or if the entity revokes the designation of the hedging relationship, the cumulative gain or loss on the hedging instrument recognised directly in equity from the period when the hedge was effective shall remain separately recognised in equity until the forecast transaction occurs.

Variations of fair value derivatives that do not fulfil the requirements necessary to be defined as hedging instruments are stated in the separate income statement.

Other information

Please note that the information required by Consob regarding significant operations and balances with related parties has been entered separately in the statement of accounts solely when significant and can also be found under 'Other significant information'.

2.7 Critical accounting estimates and definitions

2.7.1 Introduction

The IT and electronic consumables distribution sector presents some significant specific features, as it is to some extent independent of geographic constraints, especially as regards commercial relations with suppliers of products or vendors.
This is particularly evident in the conditions and formation of the so-called back-end profit margin, which results from the difference between the purchase price of the products and the sales price to the final consumer or reseller according to the terms of each supplier (with respect of the distributor's main function which naturally remains that of brokering the flow of products between supplier/producer and reseller/retailer).
Purchase conditions typically provide for a basic discount on end-users'/resellers' price lists and a series of additional conditions that vary from vendor to vendor in terms of function and terminology but which can normally be summarised in the following categories:

- bonuses/rebates for attaining targets ('sell-in', 'sell-out', number of clients, logistic efficiency, etc.);
- development funds, co-marketing and other incentives;
- cash discounts (also called 'prompt payment discounts').

The Group further benefits from current agreements with almost all the vendors in the form of specific contractual protections concerning the value of unsold stock, the aim of which is to neutralise the financial risk associated with variations in list prices of products ordered ('price protection') or already present in the distributor's warehouses ('stock protection'), within certain limits.
In the first case, the protection is generally recognised through the invoicing of products ordered and not yet sent at the new price; in the second case, the vendor usually accords a credit equal to the reduction in price of the products.

As for the cash discounts, these are generally recognised following respect of the contractually fixed payment terms and provide an incentive to pay punctually.
These conditions allow for deferred payments in all cases with respect to the issue of the relative invoice or sending of the merchandise.

In line with what happens for the financial discounts offered to some selected groups of customers, which are accounted for as reduced earnings, the cash discounts are accounted for in the form of reduced purchase costs.

It is not possible within the sector to establish mid-norm payment terms policies regarding payment to suppliers as there is a considerable variety of conditions according to supplier. More in particular, payment terms range from a minimum of 7 to a maximum of 120 days, and only occasionally a cash payment is required. In some cases, the payment terms set out in the invoice are the object of further agreed deferrals, for each shipment or on the basis of clearly-defined commercial programmes set up by the suppliers.
In the cases in which the above-mentioned deferrals carry an additional charge, the interest rate applied is not explicit, except in rare cases. Further, it often happens that implicit deferral terms – sometimes applied through a reduction in the contractually agreed cash discounts – have no connection with the current financial market rates, thus revealing how the commercial item takes precedence over the strictly financial item compensating for the delay between the date the debt arises and its effective payment.
This element is also suborned by the relatively brief duration, on average, of the deferral period, even when extended, which never, except in rare cases, exceeds 90 days.

2.7.2 Critical Definitions

For the purposes of the drafting of the present statement of accounts, and as a further qualification of the definitions contained in the IFRS, some conventional definitions regarding the nature of the liability entries have been adopted.

Financial liabilities

'Financial debt' is the term used to describe obligations to pay given amounts on a given date arising from the obtaining of financial liquidity as a loan.
These include the type of transaction set out below, prevalently of a financial character and explicitly remunerated, and, in terms of the identity of the creditor, typically represented by a financial body or institution.

As examples, and regardless of the item's current or non-current character, the following liabilities are considered financial debt:

- payables to banks;
- payables to leasing companies (financial leasing operations);
- payables to factoring companies (without recourse advances).

Not included in the category of financial debt are those liabilities which, although not deferred payment for the purchase of goods or services, nevertheless do not strictly constitute loans.
By contrast, costs deriving from the above-mentioned loans, including interest on current account overdrafts, on short and medium/long-term loans, the amortisation of initial loan operation costs, costs associated with financial leasing and exchange-rate differences, are entered in the books among the financial costs.

Trade payables

The category 'payables to suppliers' includes liabilities arising from the deferred purchase of goods or services.
Liabilities representing the deferred payment of goods or services are therefore entered under payables to suppliers at their face value, since no updating and separate itemisation in the income statement in terms of explicit or separate interest due is deemed necessary for considering the expected payment times.

2.7.3 Critical accounting estimates and assumptions

The preparation of the financial statements and the related notes has required the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent assets and liabilities.
Estimates and assumptions have been made based on historical experience and other factors, including expectations of future events, the manifestation of which are deemed reasonable.

Estimates and assumptions are revised on a regular basis, and the impact of such revision is immediately recognised in the income statement in the period of the change, if the change affects that period only, or in the period of the change and future periods if the change affects both.

The assumptions regarding future performance are characterized by uncertainties. This means that different results - obviously neither estimable nor foreseeable, today – which might even cause significant adjustments to the book values of the relative items, cannot be excluded for the next financial year.

The financial statement items mainly affected by these situations of uncertainty are certain sales revenues, some sales reversals, the provisions for risks and charges, the allowances for doubtful accounts, depreciations and amortisation, employee benefits, income taxes and goodwill.

The critical valuation processes and the estimates and assumptions deemed likely to produce significant effects on the financial situation of the Group, should the future events set out not take place in whole or in part, are summarised below.

Goodwill

For purposes of verifying loss of goodwill value entered in the books, the 'value in use' of the Cash Generating Units ('CGUs') to which a goodwill value has been attributed has been calculated.
The CGUs have been identified within the Group's organisational and business structure as homogeneous groups of assets that generate cash inflows independently, through the continued use of the assets included in each group.
The use value has been calculated by the discounting back of expected cash-flows for each CGU as well as of the value expected from its disposal at the end of its useful life.
To this end, the so-called Discounted Cash Flow Model (DCF) has been used, which requires that future financial flows be discounted at a rate adjusted to the specific risks of each single CGU.
The evaluation of the recoverable amount for each Cash Generating Unit ('CGU'), in terms of value in use, is based on assumptions – sometimes complex - that by their nature involve the Directors' judgement, in particular with reference to future cash-flows forecasts, relating both to the period of the Group's strategic plan for 2018-2023E and beyond the plan horizon.

'Fair value' of derivatives

For purposes of the present statement of accounts it has been necessary to measure the fair value of the IRS - Interest Rate Swap contracts signed in April 2017 in order to hedge the risk of changes in future cash flows of the hedged loans technically defined as 'amortising - forward start'.

Their conditions fully comply with IFRS 9 regarding 'hedge accounting' (formal designation and documentation of the hedging relationship; hedge expected to be highly effective and reliably measured; forecast transaction highly probable and affecting profit or loss) and as a consequence, the derivative contracts were subject to the 'cash flow hedge' accounting rules. At inception date the portion of the gain or loss on the hedging instrument (that has been determined to be an effective hedge) has been recognised directly in equity. Subsequent changes in fair value of the expected future cash flows on the hedge item from inception of the hedge (due to changes in the interest rate curve) have been similarly recognised directly in equity (always within limits of being an effective hedge) and, consequently, shown in the statement of comprehensive income.

Stock grant

For the purposes of the present statement of accounts, it has been necessary to include in the books the economic/asset effects associated with the stock grant plans in favour of some managers of Esprinet S.p.A., the operation of which is better illustrated in the paragraphs 'Share incentive plans' and 'Share capital'.
The cost of these plans has been specifically determined with reference to the fair value of the rights assigned to the single beneficiaries at assignment date.
Bearing in mind the unusual and manifold operating conditions – in part governed by the consolidated financial results of the Group and in part by the permanence of the beneficiary in the Group until the vesting date of the plans – this fair value has been measured using the 'Black-Scholes' method, taking expected volatility, presumed dividend yield and the risk-free interest rate into account.

Revenue recognition

For purposes of recognising earnings on sales and services, insufficient information regarding haulers' actual consignment dates, means that dates are usually estimated by the Group on the basis of historical experience of average delivery times which differ according to the geographical location of the destination.
For revenue recognition purposes for services, the actual moment the service is rendered is considered.

Revenues adjustments and credit notes to be issued toward customers

The Group usually estimates amounts to be recognised to customers as discounts for targets achievement, in order to promote the sales development also through temporary promotions, for different kind of incentives.
The Group has developed a series of procedures and checks to minimise potential errors in evaluations and estimates of the credit notes to be issued.
However, in the light of the significant judgements and estimates made, the large number and variety of customers dealings and the complexity of calculation, the possibility of differences between the estimated amounts and those actually received cannot be excluded.

Costs adjustments and credit notes due from vendors

Bearing in mind the unusual practices of the sector regarding the way purchase and sale conditions are defined and, ultimately, the way the trading margin is formed and stated, estimates are usually effected by the Group, especially where the occurrence of events might provoke significant financial effects.
Estimates of the sums of credit notes due from vendors to suppliers as rebates for the achieving of targets and incentives of various kinds, reimbursements for joint marketing activities, contractual stock protection, etc. at the drafting date of this document are referred to in particular.

The Group has developed a series of procedures and checks to minimise possible errors in evaluations and estimates of the credit notes due.
However, in the light of the significant judgements and estimates made, the large number and variety of vendors dealings and the complexity of calculation, the possibility of differences between the estimated amounts and those actually received cannot be excluded.

Depreciation and amortisation of assets

Tangible and intangible assets with a defined useful life are systematically depreciated throughout their useful life.
Useful life is defined as the period in which the activities will be used by the Company.
This is estimated on the basis of experience with similar assets, market conditions and other events likely to exercise any influence on the useful life including, just as an example, significant technological changes.
As a result, the actual economic life may differ from the estimated useful life.
The validity of the expected useful life in terms of its asset category is regularly checked by the Group. This revision may result in variations to the periods of depreciation and amortization quotas in future accounting periods.

Bad debt provision

For purposes of calculating the presumed degree of encashment of receivables, the Group makes forecasts concerning the degree of solvency of the other parties, on the basis of available information and historical experience.
The actual realizable value of receivables may differ from that estimated because of uncertainties regarding the conditions underlying the appraisal of solvency made.

Any extension and/or deterioration of the present economic and financial crisis may cause a further worsening in the financial conditions of the Group's debtors as opposed to that already taken into consideration when estimating the provision entered in the statement of financial position.

Stock obsolescence provision

The Group usually effects forecasts regarding the realisable value of obsolete, surplus or slow-moving stocks.
This estimate is mainly based on historical experience and takes into consideration the peculiarities of the respective stock sectors.
The value of encashment of the stocks may differ from that estimated because of the uncertainty affecting the conditions underlying the estimates made.

The present economic and financial crisis may cause a further worsening in market conditions compared with that taken into consideration when estimating the provision entered in the financial statements.

Provision for risks and charges

The Group makes provision for risks and charges on the basis of assumptions referred essentially to sums that might reasonably be paid to meet obligations for payment relating to past events.
This estimate is the result of a complex process involving legal and tax consultants as well as subjective judgement on the part of the Group's management. The sums actually paid to extinguish or transfer the obligations for payment to third parties may also differ significantly from those estimated for purposes of provision.

Benefits to employees

Liabilities arising from benefits to employees subsequent to the employment noted in the statement of accounts are calculated by the application of actuarial methods as per IAS 19.
These methods have required the identification of several employment possibilities and estimates of a demographic (probability of death, disability, leaving the labour market, etc.) and financial nature (technical rate of discounting back, inflation rate, rate of increase in remuneration, rate of increase of severance indemnity).

The validity of the estimates made depends essentially on the stability of the regulations used as a reference point, the progress of market interest rates, the progress of the remuneration dynamics and eliminations, and also on the frequency of access to advances on the part of employees.

Income tax expenses

Current income taxes are calculated on the basis of the estimate of liable earnings, by applying the current fiscal rates pertaining on the date of the drafting of the statement of accounts.

Deferred and advance taxes are determined by the temporary differences arising between the values of the assets and liabilities reported and the corresponding values recognised for tax purposes, using those tax rates considered possible upon encashment of the asset or extinguishment of the liability. Deferred tax assets are registered when the associated recovery is deemed probable; this probability depends upon the effective existence of taxable results in the future enabling deductible temporary differences to be used.
The future taxable results have been estimated by taking into consideration the budget results and the plans consistent with those used to effect impairment tests. The fact that deferred tax assets refer to temporary tax differences/losses, a significant amount of which may be recovered over a very long time-span, compatible therefore with a situation where overcoming the crisis and economic recovery might extend beyond the time-frame implicit in the aforementioned plans, has also been taken into account.

2.8 Recently issued accounting standards

New or revised accounting standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements as at 31 December 2018 are consistent with those used in the consolidated financial statements as at 31 December 2017, except for the accounting standards and amendments described below and obligatorily applied with effect from 1 January 2018 after being endorsed by the competent authorities.

The principal changes are as follows:

IFRS 9 – Financial Instruments - IFRS 9 (issued in July 2014) brings together the three phases of the project on accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, the standard must be applied retrospectively, however comparative disclosures are not required. As for hedge accounting, as a rule the standard will apply prospectively, with limited exceptions.
In 2018, the Group upon adopting IFRS 9 posted positive net adjustments equal to 0.2 million euro as at 1 January 2018, almost entirely due to the interruption of the remaining upfront fees, relating to loans replaced by the parent company Esprinet S.p.A. in 2017.

IFRS 15 'Revenues from contracts with customers': the standard, issued in May 2014, introduces a new five-step model that applies to all contracts with customers. IFRS 15 provides for revenues to be accounted for at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard replaces all current IFRS requirements relating to revenue recognition. The standard will be effective for annual periods beginning on or after 1 January 2018, using either a full retrospective approach or a modified retrospective approach. In 2018, the Group made the following adjustments upon adopting IFRS 15: revenues and cost of sales were reduced by 22.1 million euro as a mere effect of a different presentation of the gross margin, which is then unchanged, as a result of some transactions as agent and not as principal. This change is almost entirely attributable to the parent company, Esprinet S.p.A.. On first application, the Group adopted the modified retrospective approach re-calculating only the values at the beginning of the period, thus producing overall net adjustments equal to 13.6 million euro as at 31 December 2017.

IFRS 2 - Amendments to classification and measurement of share-based payment transactions - The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. These amendments, effective for annual periods beginning on or after 1 January 2018, had no significant impacts on the Consolidated Financial Statements of the Group as at 31 December 2018.

Annual Improvements to the IFRS, 2014-2016 Cycle - These amendments were published on 8 December 2016 and refer mainly to the Deletion of short-term exemptions for first adopters in IFRS1 – First Time Adoption of International Financial Reporting Standards, IAS 28 – Investments in Associates and Joint Ventures, IFRS 12 – Disclosure of Interests in Other Entities. These standards partially supplement the pre-existing standards. These amendments, effective for annual periods beginning on or after 1 January 2018, had no significant impacts on the Consolidated Financial Statements of the Group as at 31 December 2018.

IFRIC interpretation 22 'Foreign Currency Transactions and Advance Consideration' - published on 8 December 2016 - The interpretation's objective is to provide guidelines for transactions carried out in foreign currency where non-monetary advances are recorded, before the relative activity, cost or revenue is recorded. This document provides indications on how an entity should determine the date of a transaction and, consequently, the spot rate to be used when foreign currency transactions take place in which the payment is executed or received in advance. IFRic 22 is applicable from 1 January 2018. In the light of its type of activities, these amendments did not have any impacts on the Group's figures.

Amendment to IAS 40 - Transfers of Investment Property (published on 8 December 2016) - These changes provide clarification on the transfers of property to or from investment property. In particular, an entity must reclassify property from investment properties only when there is evidence that there has been a change in the property's use. This change must derive from a specific event that has occurred and must not be limited to a change in the intentions of an entity's management. Such amendments are applicable from January 1, 2018 but early application is permitted. In the light of its type of activities, these amendments did not have any impacts on the Group's figures.

The new standards and interpretations, already issued but not yet in force and/or not yet adopted as at the date of this report. The Group intends to adopt these standards once they become effective.

Standards issued and endorsed but not yet in force and/or endorsed but not applied early.

IFRS 16 Leases - IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee may choose to apply the standard using either a full retrospective or a modified retrospective approach. The latter option was chosen by the Group. The standard's transition provisions permit certain reliefs. The application of this standard from 31 December 2018 would have led the Group to recognise a 'right of use' of the assets and a corresponding financial liability equal to approx. 80 million euro. At the same date, in the Separate Financial Statements of Esprinet S.p.A., the application of this standard would have led to book a *'right of use'* of the assets and of a corresponding financial liability equal to approx. 60 million euro.

Amendments to IFRS 9: Prepayment Features with Negative Compensation - published on 26 March 2018. Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is

held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. An entity shall apply those amendments retrospectively for fiscal year beginning on or after 1 January 2019. Early adoption is permitted. These amendments are not expected to have significant impacts on the Group.

IFRIC interpretation 23 'uncertainty over Income Tax' - published on 8 December 2016 - This interpretation addresses the matter of uncertainties regarding the tax treatment to be adopted for income tax. This interpretation specifies that uncertainties in determining tax liabilities or assets should only be reflected in the financial statements when it is likely that the entity will pay or receive the amount in question. In addition, the document does not contain any new disclosure requirement, but emphasises that the entity must establish whether it is necessary to provide information regarding the considerations made by management concerning the uncertainty in the accounting for taxes, in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early adoption is permitted. These amendments are not expected to have significant impacts on the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures - published on 11 February 2019. The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied. An entity shall apply those amendments retrospectively for fiscal year beginning on or after 1 January 2019. Early adoption is permitted. These amendments are not expected to have significant impacts on the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement - published on 14 March 2019. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset). An entity shall apply those amendments for fiscal year beginning on 1 January 2019. These amendments are not expected to have significant impacts on the Group.

Annual Improvements 2015-2017 Cycle - These improvements were published on 15 March 2019 and substantially refer to IAS 12 Income Taxes, which clarifies accounting treatment of tax consequences of dividends pursuant to IFRS 9, to IAS 23 Borrowing Costs relating to the method for defining borrowing costs eligible for capitalisation, to IFRS 3 Business Combinations and to IFRS 11 Joint Arrangements. An entity shall apply those amendments for annual periods beginning on 1 January 2019. Earlier application is permitted. These amendments are not expected to have significant impacts on the Group.

3. Segment information

3.1 Introduction

An operating segment is a component of the Group:

a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group);
b) whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
c) for which financial information is separately available.

The Esprinet Group is organised in the geographical business areas of Italy and the Iberian Peninsula (operating segments) where it performs the business-to-business (B2B) distribution of Information Technology (IT) and consumer electronics.

The B2B IT and consumer electronics distribution is aimed at professional dealers, including large-scale distributors/retailers, and regards traditional IT products (desktop PCs, PC notebooks, printers, photocopiers, servers, standard software), consumables (cartridges, tapes, toners, magnetic supports), networking products (modems, routers, switches), tablets, smartphones and related accessories and state-of-the-art digital and entertainment products such as photographic cameras, video cameras, videogames, LCD TVs, handhelds and MP3 readers.

A 'geographical segment' is involved in investments and transactions aimed at providing products or services within a particular economic environment that is subject to risks and returns that are different from those achievable in other geographical segments.

A 'business segment' is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Although the organisation by geographical segments is the main way of managing and analysing the Group's results, the next tables also provide a fuller picture of the operating results and asset balances of the business segments where the Group operates in Italy.

3.2 Separate income statement by operating segments

The separate income statement, statement of financial position and other significant information regarding each of the Esprinet Group's operating segments are as follows:

Separate income statement and other significant information by operating segments

(euro/000)	2018			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. It & CE B2B		
Sales to third parties	2,236,833	1,334,357	-	3,571,190
Intersegment sales	57,103	-	(57,103)	-
Sales from contracts with customers	**2,293,936**	**1,334,357**	**(57,103)**	**3,571,190**
Cost of sales	(2,181,941)	(1,283,897)	56,920	(3,408,918)
Gross profit	**111,995**	**50,460**	**(183)**	**162,272**
Gross Profit %	*4.88%*	*3.78%*		*4.54%*
Sales and marketing costs	(41,229)	(11,563)	-	(52,792)
Overheads and admin. costs	(57,032)	(19,272)	17	(76,287)
Impairment loss/reversal of financial assets	(9,348)	(125)	-	(9,473)
Operating income (Ebit)	**4,386**	**19,500**	**(166)**	**23,720**
EBIT %	*0.19%*	*1.46%*		*0.66%*
Finance costs - net				(4,541)
Share of profits of associates				-
Profit before income tax				**19,179**
Income tax expenses				(5,021)
Net income				**14,158**
- of which attributable to non-controlling interests				127
- of which attributable to Group				14,031
Depreciation and amortisation	**3,343**	**821**	527	**4,691**
Other non-cash items	**12,418**	**108**	-	**12,526**
Investments	**2,749**	**317**	-	**3,066**
Total assets	**1,012,174**	**585,994**	(185,595)	**1,412,573**

(euro/000)	2017			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. IT & CE B2B		
Sales to third parties	1,991,524	1,225,648	-	3,217,172
Intersegment sales	46,050	-	(46,050)	-
Sales from contracts with customers	**2,037,574**	**1,225,648**	**(46,050)**	**3,217,172**
Cost of sales	(1,916,908)	(1,178,439)	45,938	(3,049,409)
Gross profit	**120,666**	**47,209**	**(112)**	**167,763**
Gross profit %	*5.92%*	*3.85%*		*5.21%*
Other income	-	-	-	-
Sales and marketing costs	(42,871)	(10,872)	(57)	(53,800)
Overheads and admin. costs	(57,051)	(20,565)	68	(77,548)
Impairment loss/reversal of financial assets	(1,934)	(134)	-	(2,068)
Operating income (Ebit)	**18,810**	**15,638**	**(101)**	**34,347**
EBIT %	*0.92%*	*1.28%*		*1.07%*
Finance costs - net				(749)
Share of profits of associates				36
Profit before income tax				**33,634**
Income tax expenses				(7,355)
Net income				**26,279**
- of which attributable to non-controlling interests				45
- of which attributable to Group				26,234
Depreciation and amortisation	**3,578**	**731**	445	**4,754**
Other non-cash items	**3,536**	**219**	-	**3,755**
Investments	**2,476**	**1,367**	-	**3,843**
Total assets	**996,079**	**444,422**	(193,705)	**1,246,796**

Statement of financial position by operating segments

(euro/000)	31/12/2018			
	Italy	Iberian Pen.		
	Distr. IT & CE B2B	Distr. IT & CE B2B	Elim. and other	Group
ASSETS				
Non-current assets				
Property, plant and equipment	10,127	3,200	-	13,327
Goodwill	21,450	68,106	1,039	90,595
Intangible assets	656	68	-	724
Investments in associates	-	-	-	-
Investments in others	75,731	-	(75,731)	-
Deferred income tax assets	5,776	5,934	174	11,884
Receivables and other non-current assets	3,094	298	-	3,392
	116,834	**77,606**	**(74,518)**	**119,922**
Current assets				
Inventory	311,280	183,750	(586)	494,444
Trade receivables	263,479	120,386	-	383,865
Income tax assets	3,085	336	-	3,421
Other assets	137,277	2,824	(110,491)	29,610
Derivative financial assets	-	3	-	3
Cash and cash equivalents	180,219	201,089	-	381,308
	895,340	**508,388**	**(111,077)**	**1,292,651**
Disposal groups assets	-	-	-	-
Total assets	**1,012,174**	**585,994**	**(185,595)**	**1,412,573**
EQUITY				
Share capital	7,861	54,693	(54,693)	7,861
Reserves	292,847	47,208	(20,224)	319,831
Group net income	(164)	14,336	(141)	14,031
Group net equity	**300,544**	**116,237**	**(75,058)**	**341,723**
Non-controlling interests	1,229	(7)	(47)	1,175
Total equity	**301,773**	**116,230**	**(75,105)**	**342,898**
LIABILITIES				
Non-current liabilities				
Borrowings	12,804	-	-	12,804
Deferred income tax liabilities	3,053	5,085	-	8,138
Retirement benefit obligations	4,397	-	-	4,397
Provisions and other liabilities	1,860	29	-	1,889
	22,114	**5,114**	**-**	**27,228**
Current liabilities				
Trade payables	526,413	341,453	-	867,866
Short-term financial liabilities	136,269	106,542	(104,500)	138,311
Income tax liabilities	100	3	-	103
Derivative financial liabilities	613	-	-	613
Debts for investments in subsidiaries	1,082	-	-	1,082
Provisions and other liabilities	23,810	16,652	(5,990)	34,472
	688,287	**464,650**	**(110,490)**	**1,042,447**
Disposal groups liabilities	-	-	-	-
Total liabilities	**710,401**	**469,764**	**(110,490)**	**1,069,675**
Total equity and liabilities	**1,012,174**	**585,994**	**(185,595)**	**1,412,573**

(euro/000)	31/12/2017			
	Italy	Iberian Pen.		
	Distr. IT & CE B2B	Distr. IT & CE B2B	Elim. and other	Group
ASSETS				
Non-current assets				
Property, plant and equipment	10,908	3,726	-	14,634
Goodwill	21,450	68,106	1,039	90,595
Intangible assets	1,020	50	-	1,070
Investments in others	75,891	-	(75,891)	-
Deferred income tax assets	3,257	7,876	129	11,262
Derivative financial assets	-	36	-	36
Receivables and other non-current assets	6,419	293	-	6,712
	118,945	**80,087**	**(74,723)**	**124,309**
Current assets				
Inventory	326,165	155,807	(421)	481,551
Trade receivables	219,973	93,100	-	313,073
Income tax assets	3,116	-	-	3,116
Other assets	142,968	3,371	(118,561)	27,778
Cash and cash equivalents	184,912	112,057	-	296,969
	877,134	**364,335**	**(118,982)**	**1,122,487**
Disposal groups assets	-	-	-	-
Total assets	**996,079**	**444,422**	**(193,705)**	**1,246,796**
EQUITY				
Share capital	7,861	54,693	(54,693)	7,861
Reserves	287,458	35,907	(20,319)	303,046
Group net income	14,839	11,460	(64)	26,235
Group net equity	**310,158**	**102,060**	**(75,076)**	**337,142**
Non-controlling interests	1,097	16	(67)	1,046
Total equity	**311,255**	**102,076**	**(75,143)**	**338,188**
LIABILITIES				
Non-current liabilities				
Borrowings	18,163	1,764	-	19,927
Deferred income tax liabilities	2,940	4,148	-	7,088
Retirement benefit obligations	4,814	-	-	4,814
Debts for investments in subsidiaries	1,311	-	-	1,311
Provisions and other liabilities	2,103	401	-	2,504
	29,331	**6,313**	**-**	**35,644**
Current liabilities				
Trade payables	490,644	199,805	-	690,449
Short-term financial liabilities	150,364	118,096	(112,500)	155,960
Income tax liabilities	544	149	-	693
Derivative financial liabilities	644	19	-	663
Provisions and other liabilities	13,297	17,964	(6,062)	25,199
	655,493	**336,033**	**(118,562)**	**872,964**
Disposal groups liabilities	-	-	-	-
Total liabilities	**684,824**	**342,346**	**(118,562)**	**908,608**
Total equity and liabilities	**996,079**	**444,422**	**(193,705)**	**1,246,796**

3.3 Other information

The Group's operating segments can be identified by the geographical markets where the Group operates: Italy and Iberian Peninsula.

'Iberian peninsula' segment is represented by Esprinet Iberica S.L.U., Esprinet Portugal Lda, V-Valley Iberian S.L.U. and Vinzeo Technologies S.A.U. With reference to 'Italy' the main B2B IT and consumer electronics distribution segment is presented, which relates to holding company Esprinet S.p.A. and to subsidiaries V-Valley S.r.l., Nilox Deutschland Gmbh and Celly S.p.A., the latter together with its foreign subsidiaries.

Intra-segment operations, including those between the minor Italian segments, are identified in terms of the counter-party and the accounting rules are the same as those used in the case of transactions with third-parties which can be found under 'Main valuation criteria and accounting'.

Details of the Group's revenues from external customers by product family and geographical area, with quotas effected in the country where the parent company is headquartered highlighted, can be found under the section 'Revenues' in the 'Notes to income statement items'. Geographical area breakdown depends in particular on the customers' country of residence.

The Group is not dependent on any major customers despite one of them being considered a single entity under IFRS 8.34 that accounts for more than 10% of the revenues, even though it consists of more than one legal entities.

4. Disclosure on risks and financial instruments

4.1 Definition of risks

The international accounting principle IFRS 7 requires entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the entity's financial position and performances;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the reporting date, and how the entity managed those risks.

The principles in this IFRS complement and/or supersede the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 'Financial instruments: Presentation' and IFRS 9 'Financial instruments: Recognition and Measurement'. Disclosures as per IFRS 7 and IFRS 13 are therefore reported in this section. Accounting principles regarding financial instruments used in preparing the consolidated financial statements can be found in the section 'Accounting principles and valuation criteria' whereas the definition of financial risks, the degree of the Group's exposure to the various identified categories of risk, such as:

a) credit risk;
b) liquidity risk;
c) market risk (currency risk, interest rate risk, other price risk);

and the relevant risk management policies have been analysed in depth under 'Main risks and uncertainties facing the Group and Esprinet S.p.A.' in the 'Director's Report on Operations'.

4.2 Financial instruments pursuant to IFRS 9: classes of risk and 'fair value'

The following table illustrates the relationship between the financial instrument items in the statement of financial position and the financial assets and liabilities categories in accordance with accounting standard IFRS 9:

Assets	**31/12/2018**				**31/12/2017**			
(euro/000)	**Carrying amount**	**Financial assets at FVTPL (1)**	**Loans and receiv.**	**Not IFRS 9**	**Carrying amount**	**Financial assets at FVTPL (1)**	**Loans and receiv.**	**Not IFRS 9**
Derivative financial assets	-				36	36		
Customer financial receivables	*1,420*		*1,420*		*1,870*		*1,870*	
Guarantee deposits	*1,972*		*-*	*1,972*	*4,842*		*2,844*	*1,998*
Rec.and other non-curr. Assets	3,392		1,420	1,972	6,712		4,714	1,998
Non-current assets	**3,392**	**-**	**1,420**	**1,972**	**6,748**	**36**	**4,714**	**1,998**
Trade receivables	383,865		383,865		313,073		313,073	
Receivables from factors	*242*		*242*		*1,534*		*1,534*	
Customer financial receivables	*10,881*		*10,881*		*510*		*510*	
Other tax receivables	*7,192*			*7,192*	*16,009*			*16,009*
Receivables from suppliers	*5,752*		*2,834*	*2,918*	*5,276*			*5,276*
Receivables from insurances	*673*		*673*		*284*		*284*	
Receivables from employees	*2*		*2*		*1*		*1*	
Receivables from others	*76*		*76*		*186*		*186*	
Pre-payments	*4,792*			*4,792*	*3,978*			*3,978*
Rec.and other Assets	29,610		14,708	14,902	27,778		2,515	25,263
Derivative financial assets	3		3		-	-		
Cash and cash equivalents	381,308		381,308		296,969		296,969	
Current assets	**794,786**	**-**	**779,884**	**14,902**	**637,820**	**-**	**612,557**	**25,263**

Liabilities	**31/12/2018**				**31/12/2017**			
(euro/000)	**Carrying amount**	**Financial liabilities at FVTPL (1)**	**Financial liabilities amortized cost**	**Not IFRS 9**	**Carrying amount**	**Financial liabilities at FVTPL (1)**	**Financial liabilities amortized cost**	**Not IFRS 9**
Borrowings	12,804		12,804		19,927		19,927	
Debts for investments in subsidiar.	-				1,311	1,311		
Provisions of pensions	*1,678*			*1,678*	*1,915*			*1,915*
Other provisions	*106*			*106*	*589*			*589*
Cash incentive liabilities	*105*		*105*		*-*			
Provis. And other non-curr. Liab.	1,889		105	1,784	2,504		-	2,504
Non-current liabilities	**14,693**	**-**	**12,909**	**1,784**	**23,742**	**1,311**	**19,927**	**2,504**
Trade payables	867,866		867,866		690,449		690,449	
Short-term financial liabilities	138,311		138,311		155,960		155,960	
Derivative financial liabilities	613	613			663	663		
Debts for investments in subsidiar,	1,082	1,082			-			
Associates liabilities	*3,886*		*3,886*		*3,320*		*3,320*	
Social security liabilities	*15,881*			*15,881*	*10,703*			*10,703*
Other liabilities	*14,430*		*14,430*		*10,750*		*10,750*	
Payables to others	*267*		*267*		*393*		*393*	
Deferred income	*8*			*8*	*33*			*33*
Provisions and other liabilities	34,472	-	18,583	15,889	25,199	-	14,463	10,736
Current liabilities	**1,042,344**	**1,695**	**1,024,760**	**15,889**	**872,271**	**663**	**860,872**	**10,736**

[1] 'FVTPL': Fair Value Through Profit and Loss.

For further details about the contents of individual balance sheet items please see the analyses provided in the specific sections in the section 'Notes to the statement of financial position items'. As can be seen in the previous table, the statement of financial position classifications provide an almost immediate distinction between classes of financial instruments, as per their different valuation methods and exposure to financial risk:

- financial instruments measured at amortised cost:
  - cash and cash equivalents and financial receivables (current and non-current);
  - receivables from insurance companies;
  - trade receivables;

- receivables from employees;
- receivables from associated companies;
- receivables from suppliers;
- receivables from others;
- trade payables;
- financial liabilities;
- debts for investments in subsidiaries - other debts (current and non-current).

• financial instruments measured at 'fair value' since initial recognition:
  - derivative financial assets;
  - derivative financial liabilities;
  - debts for investments in subsidiaries.

Cash and cash equivalents are almost entirely immediately available bank deposits. These, together with financial receivables from banks consisting of bank deposits restricted for more than three months, receivables from factoring companies which are usual counterparties for the Group operations, derivative financial assets (even though the latter are measured at fair value and not at amortised cost) and guarantee deposits with the counterparty under securitisation transactions, have a very low financial risk rating, substantially limited to credit risk.
This last circumstance is linked to the high standing of counter-parties, which are banks, financial services and factoring companies with high ratings and often also to credits as a result of loans and/or advance payments.
Receivables in the form of reimbursements already recognised by international insurance companies, and consequently with consolidated relationships with the Group, are of the same type and risk level.
Customers financial receivables are of the same type but with an even lower risk level, considering as they are composed by receivables from the Italian Public Administration.

Trade receivables are subject to credit risk. They are the result of a structured process that starts with customer selection and admission to a credit line and then monitoring the same credit facilities. The risk is mitigated by recourse to traditional insurance contracts with leading international insurance companies, without-recourse factoring schemes and, for the remainder, by specific guarantees (bank guarantees typically).
It should be noted that no significant financial effects have ever arisen from insolvency problems.
Receivables from suppliers, where the business partnership ended or was particularly jeopardised, are subject to the same credit risk as receivables from customers, however, they do not benefit from the same risk mitigation measures.
This receivable category arose during this fiscal year due to the interruption of the activities and to the opening of a voluntary winding-up procedure by the long-standing supplier of the 'Sport Technology' line, leading to a significant impairment of the collectability of debts.

Receivables from others are subject to a sensibly lower credit risk compared to trade receivables due to the existence of contractual guarantees
Receivables from employees are made up of advances and have a lower credit risk than trade receivables, given the closer relationship between the parties and considering the continuity of the employment.
Receivables from associated companies are subject to the same risk level, due to the significant influence exerted by Esprinet S.p.A. as a consequence of the operative and management relationships established with the parent company.
Trade payables, other debts and debts for investments in subsidiaries measured at amortised cost, are subject to the risk that the Group will be unable to respect the payment commitments undertaken in a timely manner (liquidity risk).

Financial liabilities and derivative financial liabilities (even though the latter are measured at fair value and not at amortised cost) are exposed at the same but higher risky kind of risk than trade payables, due to the superior negotiating power of banks and the implicitly less flexible nature of covenants and obligations of the 'negative pledge', 'pari passu' or similar type in the case of medium/long-term loans.

Debts for investments in subsidiaries measured at 'fair value' are exposed to the same but intermediate liquidity risk than the two aforementioned classes of financial instruments (trade payables and financial liabilities) because of obligations stated in the acquisition agreement and because of the type of counterparts. The latter are minorities who are also directors of the subsidiary to which the option for buying the remaining stake of share capital refers.
The fair value measurement of financial assets and liabilities reported in the statement of financial statements as provided for by IFRS 9 and governed by IFRS 7 and IFRS 13, grouped by classes of risk, and the methods and the assumptions applied in determining them, are as follows:

Assets	**31/12/2018**						**31/12/2017**					
		Fair value						**Fair value**				
(euro/000)	**Carrying amount**	Trade receiv	Financial receiv	Receiv. From others	Receiv. From insurers	Receiv. From employe	**Carrying amount**	Trade receiv	Financial receiv	Receiv. From others	Receiv. From insurers	Receiv. From employe
Derivate Financial Assets	-						36			36		
Customer financial receivables	*1,420*		*1,518*				*1,870*		*2,028*			
Guarantee deposits	-						*2,844*		*2,852*			
Other non current assets	1,420		1,518				4,714		4,880			
Non - current assets	**1,420**	**-**	**1,518**	**-**	**-**	**-**	**4,750**	**-**	**4,880**	**36**	**-**	**-**
Trade receivables	383,865	383,865					313,073	313,073				
Receiv. From factors	*242*		*242*				*1,534*		*1,534*			
Customer financial receivables	*10,881*		*10,881*				*510*		*510*			
Receiv. From suppliers	*2,834*		*2,834*				-					
Receiv. From insurances	*673*				*673*		*284*				*284*	
Receiv. From employees	*2*					*2*	*1*					*1*
Receiv. From others	*76*			*76*			*186*			*186*		
Other receivables	14,708		13,957	76	673	2	2,515		2,044	186	284	1
Derivate Financial Assets	3			3			-			-		
Cash and cash equival.	381,308		381,308				296,969		296,969			
Current assets	**779,884**	**383,865**	**395,265**	**79**	**673**	**2**	**612,557**	**313,073**	**299,013**	**186**	**284**	**1**

Liabilities	**31/12/2018**					**31/12/2017**				
		Fair value					**Fair value**			
(euro/000)	**Carrying amount**	Trade payables	Financial payables	FVTPL derivat	Other payables	**Carrying amount**	Trade payables	Financial payables	FVTPL derivat	Other payables
Borrowings	12,804		12,740			19,927		19,743		
Debts for investments in subsidiar.	-					1,311		1,306		
Cash incentive liab.	*105*				*105*	-				
Provisions and other liab	105				105	-				-
Non-current liabilities	**12,909**	**-**	**12,740**	**-**	**105**	**21,238**	**-**	**21,049**	**-**	**-**
Trade payables	867,866	867,866				690,449	690,449			
Short-term financial liab.	138,311		138,949			155,960		156,506		
Financial Derivatives	613			613		663			663	
Debts for investments in subsidiar.	1,082		1,082			-				
Social security liabilities	*3,886*				*3,886*	*3,320*				*3,320*
Payables to others	*14,430*				*14,430*	*10,750*				*10,750*
Accroued exp. (insurance)	*267*				*267*	*393*				*393*
Provisions and other liab.	18,583				18,583	14,463				14,463
Current liabilities	**1,026,455**	**867,866**	**140,031**	**613**	**18,583**	**861,535**	**690,449**	**156,506**	**663**	**14,463**

The corresponding hierarchy level for each of the abovementioned fair value list is described below as required by IFRS 13:

Assets	**31/12/2018**			**31/12/2017**		
(euro/000)	**Carrying amount**	**Fair value**	**Fair value hierarchy**	**Carrying amount**	**Fair value**	**Fair value hierarchy**
Derrivate Financial Assets	-	-	*level 2*	36	36	*level 2*
Customer financial receivables	*1,420*	*1,518*	*level 2*	*1,870*	*2,028*	*level 2*
Guarantee deposits	-	-		*2,844*	*2,852*	*level 2*
Other non current assets	1,420	1,518		4,714	4,880	
Non - current assets	**1,420**	**1,518**		**4,750**	**4,916**	
Trade receivables	383,865	383,865	*level 2*	313,073	313,073	*level 2*
Receiv. From factors	*242*	*242*	*level 2*	*1,534*	*1,534*	*level 2*
Customer financial receivables	*10,881*	*10,881*	*level 2*	*510*	*510*	*level 2*
Receiv. From Suppliers	*2,834*	*2,834*	*level 2*	-	-	
Receiv. From insurances	*673*	*673*	*level 2*	*284*	*284*	*level 2*
Receiv. From employees	*2*	*2*	*level 2*	*1*	*1*	*level 2*
Receiv. From others	*76*	*76*	*level 2*	*186*	*186*	*level 2*
Other current assets	14,708	14,708		2,515	2,515	
Derrivate Financial Assets	3	3	*level 2*	-	-	
Cash and cash equival.	381,308	381,308		296,969	296,969	
Current assets	**779,884**	**779,884**		**612,557**	**612,557**	

Liabilities	**31/12/2018**			**31/12/2017**		
(euro/000)	**Carrying amount**	**Fair value**	**Fair value hierarchy**	**Carrying amount**	**Fair value**	**Fair value hierarchy**
Borrowings	12,804	12,740	*level 2*	19,927	19,743	*level 2*
Debts for investments in subs	-	-		1,311	1,306	*level 3*
Cash incentive liab.	*105*	*105*	*level 2*	-	-	*level 2*
Provisions and other liab.	105	105		-	-	
Non-current liabilities	**12,909**	**12,845**		**21,238**	**21,049**	
Trade payables	867,866	867,866	*level 2*	690,449	690,449	*level 2*
Short-term financial liab.	138,311	138,949	*level 2*	155,960	156,506	*level 2*
Financial derivatives	613	613	*level 2*	663	663	*level 2*
Debts for investments in subs	1,082	1,082	*level 3*	-	-	*level 3*
Social security liabilities	*3,886*	*3,886*	*level 2*	*3,320*	*3,320*	*level 2*
Payables to others	*14,430*	*14,430*	*level 2*	*10,750*	*10,750*	*level 2*
Accroued exp. (insurance)	*267*	*267*	*level 2*	*393*	*393*	*level 2*
Provisions and other liab	18,583	18,583		14,463	14,463	
Current liabilities	**1,026,455**	**1,027,093**		**861,535**	**862,081**	

Given their short-term maturity, the gross carrying value of current assets (excluding derivatives if any), trade payables, short-term financial liabilities and other payables (excluding liabilities for monetary incentives), is deemed a reasonable approximation of their 'fair value' (classified in level 2 in the so called 'fair value hierarchy').

The 'fair value' of non-current assets and borrowings was estimated by discounting expected cash flows from principal and interest, according to the terms and the due dates of each agreement,and using the market interest curve at the balance sheet date, as adjusted for the effects of DVA (Debit Value Adjustment) and the CVA (Credit Value Adjustment).

The 'fair value' of 'Interest Rate Swap' (IRS) derivatives was estimated by discounting expected cash flows, according to the terms and the due dates of each derivative agreement and its underlying,

and using the market interest curve at the balance sheet date, as adjusted for the effects of DVA (Debit Value Adjustment) and the CVA (Credit Value Adjustment).

The interest rates used were obtained from the 'Forward' and the 'Spot' Curve Euro at 31 December, as published by financial providers, plus any spread provided for by the agreement (such spread was not taken into account in applying the market interest curve for discounting cash flows). Since all inputs entered in the valuation model were based on observable market data instruments are classified at hierarchy level 2.
The soundness of the measurement made, with reference to IRS - Interest Rate Swap, was confirmed by the comparison with the value provided by the issuer banks.

Current debt for acquisition of investments in subsidiaries shows the valuation of the price in case of the exercise of the option, based on the contractually-agreed formula. This option for the acquisition of residual 20% in Celly's share capital is exercisable for two years from 12 May 2019.
The fair value so measured corresponds to a level 3 in the fair value hierarchy being based also on management estimates about future financial performance of the subsidiary. The underlying main assumptions based on which that value was calculated are consistent with those used in the 'DCF Model' for the CGU 2 Celly; for details reference is made to the paragraph 'B) Basic assumption / critical variables' under 'Goodwill' in the Notes to the Consolidated Financial Statements. Further details can be found under 'Debts for investments in subsidiaries (current)' in the Notes to the Financial Statements.

As shown in the preceding tables, no reclassifications among hierarchic levels were made. Please refer to the paragraph 'Derivatives analysis' for information relating to existing derivative instruments.

Disclosures regarding net gains or net losses, interest income and interest expenses, fee income and expenses arising from financial instruments have been already given in the table dedicated to finance costs under '42) Finance costs'.

Moreover, please consider that the impairments of financial assets, which were estimated after a precise valuation of each individual debtor's solvency, are shown in the new specific item of the separate income statements 'Impairment loss/reversal of financial assets' as required by the Accounting Standards (till 31 December 2017 they were under the overheads and administrative costs). These impairments amount to 9.6 million euro in 2018 (1.7 million euro in 2017) due to the non-recurring event linked to the valuation of receivables claimed from the long-standing supplier of the 'Sport Technology' line that had started a voluntary liquidation process at period end (for further information please refer to 'Significant events occurring in the period' under the 'Directors' Report on Operations').

4.3 Additional information about financial assets

As during the previous year, no reclassification of a financial asset as one measured at cost or amortised cost, rather than at fair value, and vice versa, was made (the initial recognition of a financial instrument at fair value and the subsequent measurement at cost or amortised cost for some specified financial assets not detecting at this end).

As highlighted in the section 'Trade and other receivables' in the paragraph 'Summary of significant valuation criteria and accounting policies', in the case of impairment by credit losses, the value of receivables is adjusted.
This operation is effected by specially allocating a bad debt provision that directly reduces the carrying amount of the devaluated financial asset.

In the year closed 31 December 2018, as opposed to the previous year, the above-mentioned write-off affected both trade receivables and receivables claimed from the long-standing supplier of the 'Sport Technology' line in liquidation, since it was not deemed necessary for other financial assets.
The following table illustrates the change in the bad debt provision relating to trade receivables:

(euro/000)	Starting provision	Additions	Uses	Final provision
2018 financial year	7,099	823	(2,702)	5,220
2017 financial year	7,177	1,675	(1,753)	7,099

The Group usually transfers financial assets. These operations involve giving factoring companies trade receivables, for both discounting-back and without-recourse factoring schemes, as well as presenting promissory notes (known by their Italian acronym as RIBA) to banks as credit operations on realisation under usual reserves.
During 2018, the securitisation plan structured by UniCredit Bank AG started in July 2015 and renewed in July 2018 was continued, under which trade receivables are assigned without recourse on a revolving basis to a 'special purpose vehicle' under Law no. 130/1999.
In the case of transfers of receivables for without-recourse factoring and advances under usual reserves, this operation not qualifying for derecognition, the Group continues to recognise all of these assets, the carrying amount of which continues to appear in the statement of financial position, under 'trade receivables' with an offsetting entry under the current financial liabilities as 'other financing payables' and 'payables to banks'.
As at 31 December 2018 the receivables sold with-recourse against which advances were obtained subject to collection amounted to 3.2 million euro (1.5 million euro at 31 December 2017); while 'with recourse' advances of trade bills amount to 0.2 million euro (1.6 million euro at 31 December 2017).

The financial assets' gross book value is the Group's maximum exposure to credit risk.

The following tables show an analysis of the status of trade receivables and the ageing of those not overdue and not impaired by credit losses:

(euro/000)	31/12/2018	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	389,085	7,439	68,781	312,865
Bad debt provision	(5,220)	(5,220)	-	-
Net trade receivables	**383,865**	**2,219**	**68,781**	**312,865**

(euro/000)	31/12/2017	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	320,172	13,156	64,828	242,188
Bad debt provision	(7,099)	(7,099)	-	-
Net trade receivables	**313,073**	**6,057**	**64,828**	**242,188**

(euro/000)	Total	Past due over 90 days	Past due 60 - 90 days	Past due 30 - 60 days	Past due under 30 days
Receiv. past due not impaired at 31/12/2018	68,781	2,189	3,737	8,168	54,687
Receiv. past due not impaired at 31/12/2017	64,828	1,794	4,324	1,331	57,379

Due to its historical experience and to its policy of not accepting orders from insolvent customers unless paid in advance, the Group does not believe that premises for allocating provisions for doubtful receivables for amounts not yet overdue exist.

There are no financial assets which would otherwise be past due or impaired whose terms have been re-negotiated, except for some re-entry plans agreed with customers for not-material amounts.

The following instruments are usually used by the Group to limit its credit risk (the percentages refer to trade receivables at 31 December 2017):

- traditional credit insurance (covering approx. 90% of the face value of the insured receivables provided they are within the limit of the credit line given by the insurance company) covering approx. 62% of the total amount of trade receivables;
- without-recourse factoring with leading factoring companies covering approx. 9% of the receivables (the amount refers to receivables existing at the closing date of the financial year but subject to revolving credit at the times and with the methods of the schemes);
- real guarantees (bank guarantees and asset mortgagees) in the case of approx. 2% of total gross amount of trade receivables;

No financial or non-financial assets were obtained by the Group during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees). Nor did the Group hold collateral (of financial or non-financial assets) it was permitted to sell or re-pledge in the absence of default by the owner of the collateral.

No other financial assets regulated by IFRS 7 and IFRS 13 have been impaired in the current or in the previous year, except for the restatement of receivables claimed from the long-standing supplier of the 'Sport Technology' line in liquidation, since it was not deemed necessary for other financial assets. Please find below the change in the related bad debt provision and two tables showing the status and the ageing of overdue receivables:

(euro/000)	Starting provision	Additions	Uses	Final provision
2018 financial year	-	8,823	-	8,823
2017 financial year	-	-	-	-

	31/12/2018				31/12/2017			
(euro/000)	Carrying amount	Receiv. Impaired	Receiv. past due not impaired	Receiv. not past due not impaired	Carrying amount	Receiv. Impaired	Receiv. past due not impaired	Receiv. not past due not impaired
Derivate Financial Assets					36			36
Customer financial receiv	*1,420*			*1,420*	*1,870*			*1,870*
Guarantee deposits	-				2,844			2,844
Other non-current assets	1,420			1,420	4,714			4,714
Non-current assets	**1,420**	**-**	**-**	**1,420**	**4,750**	**-**	**-**	**4,750**
Receivables from factors	*242*		*13*	*229*	*1,534*		*13*	*1,521*
Customer financial receiv	*10,881*			*10,881*	*510*			*510*
Receivables from suppliers	*11,657*	*11,657*			*-*			
Receivables from insurances	*673*		*573*	*100*	*284*		*284*	
Receivables from employees	*2*			*2*	*1*			*1*
Receivables from others	*76*		*75*	*1*	*186*		*109*	*77*
Other current assets	23,531	11,657	661	11,213	2,515		406	2,109
Derivate Financial Assets	3			3	-			-
Cash and cash equivalents	381,308		381,308		296,969		296,969	
Gross Current assets	**404,842**	**11,657**	**381,969**	**11,216**	**299,484**	**-**	**297,375**	**2,109**
Bad debts provision	(8,823)	(8,823)			-	-		
Net Current assets	**396,019**	**2,834**	**381,969**	**11,216**	**299,484**	**-**	**297,375**	**2,109**

(euro/000)	Total	Past due over 90 days	Past due 60 - 90 days	Past due 30 - 60 days	Past due under 30 days
Receivables from factoring companies	13	-	-	-	13
Receivables from insurance companies	573	208	195	134	36
Receivables from others	75	75	-	-	-
Receiv. past due not impaired at 31/12/2018	**661**	**283**	**195**	**134**	**49**
Receivables from factoring companies	13	-	-	-	13
Receivables from insurance companies	284	89	37	118	40
Receivables from others	109	109	-	-	-
Receiv. past due not impaired at 31/12/2017	**406**	**198**	**37**	**118**	**53**

Receivables from factoring companies relate wholly to 'without-recourse' factoring operations, where the ownership and connected risks of the sold receivables have therefore been wholly transferred to factoring companies.
The past due quota relates to sums due at the closing date of the year which were paid during the first days of the following year for technical reasons. The not yet due quota regards amounts collectable by contract only at the original due date of the receivable existing between the sold customers and the Group companies. It should be noted, however, that these receivables had also almost completely been paid by the time this report was drawn up as the deadlines were met.

4.4 Additional information about financial liabilities

Amounts detailed in the following maturity analysis are the contractual undiscounted cash flows, including interests to be paid and excluding the effects of netting agreements:

(euro/000)	Carrying amount 31/12/2018	Future cash flows	in 6 months	6-12 months	1-2 years	2-5 years	after 5 years
Borrowings	12,804	13,445	144	89	5,699	7,513	-
Cash incentive liabilities	*105*	*105*	-	-	*84*	*21*	-
Provisions and other non-corr. Liabilities	105	105	-	-	84	21	-
Non-current liabilities	**12,909**	**13,550**	**144**	**89**	**5,783**	**7,534**	**-**
Trade payables	867,866	967,583	874,440	6,573	12,470	32,021	42,079
Short-term financial liabilities	138,311	142,124	138,730	3,394	-	-	-
Derivative financial liabilities	613	620	620	-	-	-	-
Debts for investments in subsidiaries	1,082	1,082	1,082	-	-	-	-
Social security liabilities	*3,886*	*3,886*	*3,886*	-	-	-	-
Payables to others	*14,430*	*14,430*	*14,430*	-	-	-	-
Accrued expenses (insurance)	*267*	*267*	*267*	-	-	-	-
Provisions and other liabilities	18,583	18,583	18,583	-	-	-	-
Current liabilites	**1,026,455**	**1,129,992**	**1,033,455**	**9,967**	**12,470**	**32,021**	**42,079**

(euro/000)	Carrying amount 31/12/2017	Future cash flows	in 6 months	6-12 months	1-2 years	2-5 years	after 5 years
Borrowings	19,927	21,092	214	138	7,490	13,250	-
Derivative financial liabilities	-	-	-	-	-	-	-
Debts for investments in subsidiaries	1,311	1,311	-	-	1,311	-	-
Cash incentive liabilities	-	-	-	-	-	-	-
Provisions and other non-corr. liabilities	-	-	-	-	-	-	-
Non-current liabilities	**21,238**	**22,403**	**214**	**138**	**8,801**	**13,250**	**-**
Trade payables	690,449	763,008	696,448	5,999	12,329	29,189	19,043
Short-term financial liabilities	155,960	162,265	156,902	5,363	-	-	-
Derivative financial liabilities	663	667	660	7	-	-	-
Social security liabilities	*3,320*	*3,320*	*3,320*	-	-	-	-
Payables to others	*10,750*	*10,750*	*10,750*	-	-	-	-
Accrued expenses (insurance)	*393*	*393*	*393*	-	-	-	-
Provisions and other liabilities	14,463	14,463	14,463	-	-	-	-
Current liabilites	**861,535**	**940,403**	**868,473**	**11,369**	**12,329**	**29,189**	**19,043**

The above tables can be understood more easily if the following are considered:

- when a counter-party has a choice of when an amount is paid, the liability has been included on the basis of the earliest date on which the Group can be required to pay;
- the amounts shown relate to contractual undiscounted cash flows gross of interests to be paid;
- the amount of floating rate loans payable has been estimated by reference to the conditions existing at the reporting date (i.e. the interest rate curve at the end of the year).

The Group companies maintain medium-short term loan contracts, that contain standard acceleration clauses in case certain financial covenants are not met when checked against data from the consolidated and audited financial statements.

As at 31 December 2018, according to the management estimates (to be checked against the consolidated and audited financial statements), a covenant referring to two loans with total residual 101.5 million euro in principal entered into by Esprinet S.p.A., consisting in the ratio of net financial indebtedness to EBITDA, is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities and the relevant contractual cash flows were assumed to take place within 6 month after the financial statements date; with respect to the above, the Group already entered into negotiations with the pool of lending banks. In addition, it should be highlighted that on 28 February 2019 the Group repaid 14.5 million euro in principal as per the amortisation plan of the amortising facility, thus reducing the liability to 87.0 million euro.
Apart from above and from the breach as at 31 December 2017 and 31 December 2016 of some covenants under the financing agreements, without any consequences though, the Group has never been in a default situation in relation to principal, interest, amortisation schedule or repayment terms of the loans.

For further information please refer to the next paragraph 'Loans and loan covenants'.

The Group also has other minor loans (more details can be found in the paragraph 'Loans and loan covenants'), as well as a loan due in January 2022, with a remaining value as notional of 1.9 million euro and registered as 1.8 million euro by effect of the amortising costs accounting method, achieved

in December 2013 under the contractual terms of payment from the Public Administration for the supply of personal computers to the same by the Parent Company.
The issuing bank was granted by the Group an irrevocable collection derogation for multi-year contribution's collection due from the Public Administration and equal, in both the amounting and due dates, to the reimbursement loan plan that, for the above mentioned reason, do not contains dealings for a possible shirk benefitting from the reimbursement terms.

Up to now the Group has not issued any instruments containing both a liability and an equity component.

4.5 Hedge accounting

Introduction

The Esprinet Group enters into derivative contracts in order to hedge certain loan agreements against fluctuating interest rates by means of a cash flow hedging strategy.
The aim of these transactions hedging against interest rate risk is to fix the funding cost of medium/long-term floating-rate loans by entering into derivative contracts enabling receipt of a floating rate in return for payment of a fixed rate.
Hedging operations are therefore reported in the financial statements according to the instructions of the IFRS 9 accounting principle regarding 'hedge accounting' and in order to verify the hedge effectiveness, the Group periodically carries out effectiveness tests.

Derivative instruments as at balance sheet date

As at the balance sheet date the Group has eight IRS (Interest Rate Swap) contracts in place with different notional amounts and fixed interest rates (hedging instruments), signed by Esprinet S.p.A.

The six IRS contracts entered into have different notional amounts but identical conditions (hedging instruments) and were entered into on 7 April 2017 with six of the eight lending banks that, on 28 February 2017, granted the medium-term floating-rate loan with an original notional amount of 145.0 million euro (then reduced to 101.5 million euro as at 31 December 2018 due to the repayments pursuant to the amortisation plan), called the Term Loan Facility.
Each of the financing counterparties entered into a derivative contract in proportion to their respective share of the loan, which the derivative is intended to hedge through receipt of a floating interest rate in return for payment of a fixed interest rate, which are identical for each counterparty.
This hedge is effective from the second instalment, i.e. 31 August 2017, covering a notional amount of 105.6 million euro (82.2 million euro as at 31 December 2018).

The main features of the six contracts signed by Esprinet S.p.A. are summarized below:

Trade date	7 April 2017
Effective date	31 August 2017
Termination date	28 February 2022
Notional amount	Total 105.6 million euro (subject to a sinking plan), 82.2 million euro as at 31 December 2018
Fixed rate	0.21%, act/360
Fixed and floating rates payment dates	Every 28 February and 31 August starting from 28 February 2018 up to 28 February 2022, subject to adjustment in accordance with the modified business day convention
Fixed rate payer	Esprinet S.p.A.
Floating rate	Euribor 6M, act/360, fixed two days before the interest calculation period
Floating rate payer	Intesa Sanpaolo S.p.A., Unicredit S.p.A., Banca Nazionale del Lavoro S.p.A., Caixabank S.A., Unione di Banche Italiane S.p.A., Banco BPM S.p.A., each for its own contract

Instruments terminated during the year

During 2018, Esprinet settled the two IRSs entered into in 2015 by the subsidiary Vinzeo Technologies S.A.U. with the lending bank that granted the two medium-term floating-rate loans of 65.0 million euro, both settled during this fiscal year as per their original repayment schedules.
These IRSs were intended for hedging the Term Loan Facility by way of receipt of a floating rate in return for payment of a fixed rate. IRSs were settled at an amount substantially equal to their fair value at the termination date.
The main features of the two contracts settled by Vinzeo Technologies S.A.U. are summarized below:

Trade date	9 July and 15 October 2015
Termination date	20 July and 20 November 2018
Notional amount	Total 7.0 million euro (subject to a sinking plan); 3.5 million euro as at 31 December 2017
Fixed rate	0.433% and 0.467%, act/360
Fixed rate payer	Vinzeo Technologies S.A.U.
Floating rate	Euribor 6M, act/360, fixed two days before the interest calculation period
Floating rate payer	Banco Santander S.A.

Information regarding derivative contracts existing during the year

As at 31 December 2018, according to the management estimates, a covenant referring to the Term Loan Facility with total residual 101.5 million euro in principal, entered into by Esprinet S.p.A., which financial flows were hedged by the above-mentioned six derivatives contracts, is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing, in the covenant consisting in the ratio of net financial indebtedness to EBITDA, the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Consequently, pursuant to the IFRS accounting standards, the liability representing the fair values of derivatives was entirely booked under current financial liabilities together with the amount of the hedged loan.

With respect to each of the IRSs in place in this fiscal year, including those settled, the conditions set by the IFRS 9 as regards 'hedge accounting' have been fully complied with since the signing or acquisition date: formal designation and documentation of the hedging relationship, hedge expected to be highly effective and reliably measured, insignificant effect of the credit risk of both counterparties in relation to the derivative value, constant hedge ratio over time.
Thus, all IRSs were treated under the cash flow hedge accounting, which provides for recognition in the equity reserve of the respective fair value at the signing date (only for the effective portion) and thereafter changes in fair value due to movements of the interest rate curve, within the limits of the effective portion, and consequent recording in the comprehensive income statement.
In the previous fiscal year, with respect to the eight IRSs terminated by Esprinet S.p.A., hedge accounting provisions were met till 27 February 2017, i.e. the date immediately before the hedged loan was settled, the latter being however replaced - in interest rate risk terms - by a new loan entered into against this settlement. Thus, till that date, changes in IRSs fair value were recognised in the equity reserve, while later changes were booked under 'finance costs - net' directly in the income statement till the derivative termination date, as the hedging relationship no longer applied.
As at 27 February 2017, 320 thousand euro relating to the changes in fair value of these settled derivatives were recorded under the 'cash flow hedge' reserve in equity; this reserve is gradually reversed to the income statement following the maturities of the settled loan, because the relevant interest rate risk still exists, even if shifted to the new loan. In particular, this rate risk - relating to the interest flows after 27 February 2017 - was hedged by the previous IRSs till that date (and will be reversed to income statement over time according to the periods originally covered) and is now hedged by the outstanding IRSs from the inception date.

The tables below illustrate the following information regarding derivative contracts with reference to the cash flow hedge accounting technique:

- the notional amount at 31 December 2018 and 2017 shared into portions maturing within or beyond a 12-months period;
- the amount recognised in the statement of financial position as at 31 December 2018 and 2017 representing the 'fair value' of the contracts if hedging is 'highly 'effective';
- the ineffective portion recognised or reversed in the income statement under 'Finance costs' from inception with reference to the instalments still outstanding at the same date;
- the change in fair value from the inception date to the financial statement closing date.

	Financial year	Notional amount		Fair Value [1]	Income statement [2]	Taxes on FV contracts [3]	Retained earnigs [4]
		Within 1 year	Beyond 1 year				
Interest rate risk management							
- Esprinet IRS 2017 cash flow hedge on derivatives	2018	82,167	-	613	135	(115)	(363)
- Esprinet IRS 2014 cash flow hedge on derivatives	2018	-	-	-	-	-	(16)
- Vinzeo cash flow hedge on derivatives	2018	-		-	-	-	-
	2018	**82,167**	**-**	**613**	**135**	**(115)**	**(379)**
- Esprinet IRS 2017 cash flow hedge on derivatives	2017	105,643	-	644	174	(113)	(357)
- Esprinet IRS 2014 cash flow hedge on derivatives	2017	-	-	-	-	-	(96)
- Vinzeo cash flow hedge on derivatives	2017	3,500	-	19	36	(5)	22
	2017	**109,143**	**-**	**663**	**210**	**(118)**	**(431)**

(1) Amount of the (assets)/liabilities recorded in the statement of financial position resulting from derivatives measured at fair value using cash flow hedge accounting technique.
(2) Ineffective portion of the gain or loss on the hedging instrument as per IFRS 9 or the effective portion reversed in the income statement on an accrual basis.
(3) Deferred income taxes related to the fair value of the derivative contracts using the cash flow hedge accounting technique.
(4) Cumulative change in fair value from inception to the statement of financial position date recognised in equity using the cash flow hedge accounting technique.

The events that caused the changes in the amount of the 'cash flow hedge' equity reserve during the first half are so detailed:

(euro/'000)	2018					
	Change in fair value of derivatives	Transfer to P&L [1]	Taxes effect on P&L	Ineffective portion of (gain)/loss to	Taxes on fair value of derivatives	Change in equity reserve
- Esprinet IRS 2017 cash flow hedge on derivates	(444)	437	(105)	-	106	(6)
- Esprinet IRS 2014 cash flow hedge on derivates	-	105	(25)	-	-	80
- Vinzeo cash flow hedge on derivates	-	(29)	7	-	-	(22)
Total	**(444)**	**513**	**(123)**	**-**	**106**	**52**

(1) Accounted as increase/(decrease) in 'Financial charges'.

(euro/'000)	2017					
	Change in fair value of derivatives	Transfer to P&L [1]	Taxes effect on P&L	Ineffective portion of (gain)/loss to	Taxes on fair value of derivatives	Change in equity reserve
- Esprinet IRS 2017 cash flow hedge on derivates	(644)	174	(42)	-	155	(357)
- Esprinet IRS 2014 cash flow hedge on derivates	(16)	204	(49)	-	4	143
- Vinzeo cash flow hedge on derivates	(2)	119	(30)	-	1	88
Total	**(662)**	**497**	**(121)**	**-**	**160**	**(126)**

(1) Accounted as increase/(decrease) in 'Financial charges'.

The following are the periods when the cash flows relating to the hedged items are expected to occur and when they are expected to affect the Income Statement:

(euro/000)			Total	0-6 months	6-12 months	1-2 years	2-5 years	After 5 years
Loans:	31/12/2018	Cash flow	2,736	2,736	-	-	-	-
		Impact on P&L	2,307	2,307	-	-	-	-
	31/12/2017	Cash flow	4,767	4,753	14	-	-	-
		Impact on P&L	4,206	4,202	4	-	-	-

Finally, the derivative instrument changes referring to the fair value variations recorded in the Income Statement are reported below:

(euro/000)	Year	FV 31/12/p.y.[1]	Rates past due	Variation FV rates not past due	FV 31/12/c.y.[2]
Esprinet derivatives	2018	n.a.	n.a.	n.a.	n.a.
Vinzeo derivatives	2018	n.a.	n.a.	n.a.	n.a.
Total		**-**	**-**	**-**	**-**
Esprinet derivatives	2017	320	-313	-7	-
Vinzeo derivatives	2017	n.a.	n.a.	n.a.	n.a.
Total		**320**	**(313)**	**(7)**	**-**

[(1)] previous year, that for the 2017 fiscal year refers to 28 February 2017, when the hedging relationship no longer applied due to repayment of the underlying loan
[(2)] Current year

4.6 Non-hedging derivatives

Within the business combination of Vinzeo Technologies S.A.U., two Interest Rate Cap contracts were acquired which provide for that the company receives the spread in relation to the agreed cap from the banking counterparty if 3-month Euribor exceed set maximum threshold.
These instruments are intended to cover all short-term facilities against fluctuating interest rates by means of cash flow hedging strategy.
Since the derivatives are long-term (both maturing in July 2020), and intended to cover against fluctuating interest rates with respect to debts with various terms that are undetermined and depending on their usage, they do not satisfy conditions for hedge accounting. Thus all fair value changes, together with any cash inflows from the counterparties, are booked directly in the income statement.
The derivative instrument changes relating to the fair value variations recorded in the income statement are reported below:

(euro/000)	Year	FV 31/12/p.y [1]	Income	Variation FV	FV 31/12/c.y. [1, 2]
Interest Rate Cap	2018	(36)	-	33	(3)
Interest Rate Cap	2017	(38)	-	2	(36)

[(1)] (assets)/liabilities.
[(2)] Current year.

4.7 Sensitivity analyses

Since the Group is exposed to a limited currency risk it has decided not to effect sensitivity analyses regarding this type of risk (for more details see section 'Main risks and uncertainties facing the Group and Esprinet S.p.A.' in the 'Directors' Report on Operations').

A sensitivity analysis regarding the interest rate risk was performed in order to show how profit or loss and equity would have been affected by changes in the interest rate curve that were reasonably possible during the period. For these purposes, the 2018 market interest rate trend was taken into account together with the Group's estimates on rates in the immediate future and a forward shifting of spot/forward interest rate curves +/-100 basis points was simulated.

The following tables show the results of the simulation (net of tax effects); each item includes both the current and non current portion:

Scenario 1: +100 basis points

	31/12/2018		31/12/2017	
(euro/000)	Net equity	Profit/(loss)	Net equity	Profit/(loss)
Cash and cash equivalents	696	696	744	744
Debts for investments in subsidiaries	3	3	13	13
Financial liabilities [1]	(1,305)	(1,305)	(942)	(942)
Derivative financial liabilities	1,015	-	1,292	-
Total	**409**	**(606)**	**1,107**	**(185)**

[1] Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

Scenario 2: -100 basis points

	31/12/2018		31/12/2017	
(euro/000)	Net equity	Profit/(loss)	Net equity	Profit/(loss)
Cash and cash equivalents	(26)	(26)	(62)	(62)
Debts for investments in subsidiaries	(3)	(3)	(14)	(14)
Financial liabilities [1]	190	190	405	405
Derivative financial liabilities	(1,040)	-	(1,325)	-
Total	**(879)**	**161**	**(996)**	**329**

[1] Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

5. Notes to statement of financial position items

Non-current assets

1) Property, plant and equipment

Property, plant and equipment amount to 13.3 million euro as at 31 December 2018 (versus the 14.6 million euro as at 31 December 2017). Changes occurring during the year are as follows:

(euro/000)	Plant and machinery	Ind. & Comm. Equipment & other assets	Assets under construction & advances	Total
Historical cost	15,060	30,675	109	**45,844**
Accumulated depreciation	(10,527)	(20,683)	-	**(31,210)**
Balance at 31/12/2017	**4,533**	**9,992**	**109**	**14,634**
Historical cost increase	424	1,378	1,018	**2,820**
Historical cost decrease	(35)	(318)	-	**(353)**
Historical cost reclassification	89	19	(108)	**-**
Increase in accumulated depreciation	(1,237)	(2,867)	-	**(4,104)**
Decrease in accumulated depreciation	32	298	-	**330**
Total changes	**(727)**	**(1,490)**	**910**	**(1,307)**
Historical cost	15,538	31,754	1,019	48,311
Accumulated depreciation	(11,732)	(23,252)	-	(34,984)
Balance at 31/12/2018	**3,806**	**8,502**	**1,019**	**13,327**

As of 31 December 2018, investments were mainly made by the Parent Company Esprinet S.p.A. and essentially concerned security, surveillance and air-conditioning systems, as well as equipment for the Cavenago logistics hub (part of these have not yet been commissioned as of the period-end date) and electronic machines and furniture of furnishings.
The investments made in Spain relate to the security and surveillance systems installed in the Zaragoza logistics hub and office machinery and equipment.
There are no other temporarily unused tangible fixed assets intended for sale.

The depreciation rates applied to each asset category are unchanged from the fiscal year closed at 31 December 2017.

The following is the breakdown of the item 'Industrial and commercial equipment and other assets':

(euro/000)	31/12/2018	31/12/2017	Var.
Vehicles	-	7	(7)
Electronic machines	3,739	4,408	(669)
Furniture and fittings	1,903	2,330	(427)
Industrial and commercial equipment	1,704	1,749	(45)
Other assets	1,156	1,498	(342)
Total	**8,502**	**9,992**	**(1,490)**

2) Goodwill

(euro/000)	31/12/2018	31/12/2017	Var.
Goodwill	90,595	90,595	-

All goodwill items identify the excess of the price paid for obtaining the control of another business over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Disclosures regarding impairment tests of assets: goodwill

Scope of application

IAS 36 requires the testing of property, plant and equipment and intangible assets with indefinite useful life for impairment whenever there are indications that such an impairment may have occurred.
In the case of goodwill and other intangible assets with an indefinite useful life, this test, so-called 'impairment test', must be carried out at least annually and whenever 'triggering events' occur, i.e. extraordinary negative events implying the asset may be impaired.

Goodwill does not generate cash flows independently of other assets or group of assets so, in compliance with IFRS, it is not an 'individual asset' and may not be tested for impairment separately from the group of assets it relates to.
Thus, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's 'CGU - Cash-Generating Units', or groups of CGUs that must not to be larger than an operating segment determined in accordance with IFRS 8.

Cash Generating Unit: identification and goodwill allocation

The next table summarises the values of the single goodwill items in terms of the business combinations from which they arose and a summary by company:

(euro/000)	Entity	Goodwill original values
Memory Set S.a.u. e UMD S.a.u.	Esprinet Iberica	58,561
Esprinet Iberica S.l.u.[(1)]	Esprinet Iberica	1,040
Assotrade S.p.A.	Esprinet S.p.A.	5,500
Pisani S.p.A.	Esprinet S.p.A.	3,878
Esprilog S.r.l.	Esprinet S.p.A.	2,115
80% Celly S.p.A.	Celly S.p.A.	4,153
Vinzeo S.a.u.	Esprinet Iberica	5,097
V-Valley Iberian S.l.u.	Esprinet Iberica	4,447
Mosaico S.r.l.	Esprinet S.p.A.	5,804
Total by business combination		**90,595**
Esprinet Iberica S.L.U.		69,145
Esprinet S.p.A.		17,297
Celly S.p.A.		4,153
Total by entity		**90,595**

(1) Transaction costs sustained for the UMD and Memory Set business combinations.

Allocation of goodwill to each CGUs, identified as homogeneous groups of assets that generate cash inflows independently through the continued use of the assets included in each group, was made by charging the above mentioned goodwill to the relevant CGUs, that is, to the elementary units which received the businesses purchased in strictly operational terms.

The following table summarises the goodwill allocations to the 3 CGUs, highlighting the relationships between the operating segments and the legal entities which form the Group, as well as the changes occurred in the year:

(euro/000)	31/12/2018	31/12/2017	Var.		
Esprinet S.p.A.	17,297	17,297	-	CGU 1	B2B distribution of Information Technology and Consumer Electronics (Italy)
Celly S.p.A.	4,153	4,153	-	CGU 2	Distribuzione B2C ditribution of phone accessoires (Italy)
Esprinet Iberica S.l.u.	69,145	69,145	-	CGU 3	B2B distribution of Information Technology and Consumer Electronics (Iberian peninsula)
Total	**90,595**	**90,595**	**-**		

This allocation reflects the organizational and business structure of the Group, who operates in the core business of IT business-to-business distribution (i.e. exclusively for business customers made up of resellers, who in turn refer to end-users, both private and company) almost entirely in two geographical markets, Italy and Iberian Peninsula. These markets are managed by two substantially independent organisational and operating structures and, on the other hand, a 'corporate' structure where coordination and strategy are centralized for almost all activities that contribute to the reseller 'value chain' (sales, purchasing, product marketing, logistics).
Compared to the operating segments identified for the purposes of Segment Information as required by IFRS, the subsidiary Celly S.p.A., being able to generate independent cash flows, was identified as a separate CGU operating in the segment of production and distribution of accessories for mobile phones.

The impairment test valuation process and the results on 31 December 2018 goodwill items as previously explained are below described.

A) Valuation system

The valuation framework and the methodological structure adopted are summarised below:

The extreme rarefaction of the comparable market transactions and, for the few concluded deals, the low quantity of usable published information, make difficult the identification of implicit multiples applicable for the calculation purposes of a reasonably reliable 'fair value'.
Recoverability of goodwill is tested by comparing the carrying amount of each single CGU to which the goodwill has been allocated, with the recoverable amount of the unit in the meaning of 'value in use'.
The latter is the present value, at the date of the test, of the future cash flows (inflows and outflows) expected to be derived from the continuing use of assets which are part of the tested CGU.
The 'value in use' was estimated using the Discounted Cash Flow (DCF) model, which requires an appropriate discount rate to estimate the discounting back of future cash flows.
An 'asset side' approach was used which presupposes discounting unlevered cash flows generated by operations.
These cash flows were calculated net of 'figurative income taxes' measured by applying an estimated tax rate to the operating income (EBIT).
In the case of the Spanish CGU 3, the estimated effective and nominal tax rates match (in 2016 equal to 25%). In the case of the Italian CGU 1 and CGU 2, the effective tax rates calculated as per Italian tax law and deriving from the calculation of the IRES (24%) and IRAP (3.9%) tax rates on their different tax bases were applied, taking into account the different structure of the tax bases and, in particular, the non-deductibility of some relevant costs.

Disclosures required by the international accounting principles regarding the main methods chosen when calculating the recoverable amount are as follows.

Basis for estimates of future cash flows

As required by the IAS 36 accounting principle, paragraph 50, estimated cash flows exclude financial charges, as per the 'asset side' approach already described.
Projections based on forecasts cover a 5-year period, from 2019 to 2023.
The discount rate includes the effect of price increases attributable to general inflation so future cash flows are estimated in nominal terms.

Projection method

Future cash flows have been estimated for each CGU in its current condition which means not including estimates of future cash inflows that are expected to arise from the business combination, or from improving or enhancing its performance, or from extraordinary operations representing a discontinuity compared with this status.
The definition of forecasted plans and of the resulting cash flows took into account each CUG's peculiarity, therefore basing the whole on the so called 'unique scenario'. The latter was identified as the 'normal' cash flow, or rather, taken as the one with the highest degree of probability of occurrence (so called 'probabilistic approach').
The operating sustainability of the plans in terms of the 'entrepreneurial model' used, and of the business size, and therefore also the plans financial sustainability, was assessed by taking into account the value drivers of each CGUs as well as the Group financial capability.
The latter has been considered as appropriate, also taking into account both the low investments level necessary for each CGU activities substantially limited to maintenance levels, and the liquidity risk management strategy. This risk is essentially managed by the preservation of a substantial number of non-used credit lines, mainly of self-liquidating nature, as well as by a conservative financial strategy focused on stable financial sources – i.e. middle term borrowings supported by financial covenants with which the Group is constantly provided – also for working capital purposes.
The forecast plans derive from the Group 2018-23E financial projections approved by the Board of Directors' Meeting on 1 April 2019 and more generally were prepared from the budget of 2019,

considered as a 'pivotal' year. These plans were drawn up thanks to forecasting techniques that apply a different treatment to fixed and variable costs, and that estimate the development of revenues and gross product margin trend, by 'benchmarking' the trends in the sector and in the end market in its entirety, as evaluated by reliable external sources, as well as by assuming different trends according to the current and prospective competitive position, for each respective CGU.

Flows discounted or weighted for probability

Future cash flows have been estimated for each CGU following the 'traditional approach'. This hinges on the so called 'unique scenario' defined as the 'normal' flow profile in which accounting applications of present value have used a single set of estimated cash flows and a single discount rate, both assumed as those with the highest degree of probability of occurrence (so said 'probabilistic approach').

Terminal value

The terminal value recorded at the end of the forecast period was calculated using the 'Perpetuity Method' (unlimited capitalisation model of the plan last year's cash flow).
The approach used presumes that at the end of the 5th year on, cash flow will grow at a constant rate of 'g' and therefore the terminal value is calculated as perpetual income by means of the capitalisation of the plan's last flow at a rate corresponding to the discounting back rate used (WACC) adjusted by a growth factor presumed stable.
This factor is expected to be 1.71% for Italy and 1.895% for Iberica respectively, in line with the International Monetary Fund's expectations about inflation rate in Italy and Spain in 2023.

Discount rate

The discount rate used must be that of the return required by the suppliers of both risk and debt capital and takes into account risks specific to the activities relating to each single CGU.
As a consequence, a Weighted Average Cost of Capital ('WACC') notion has been used, whose cost of the risk capital has been measured using a Capital Asset Pricing Model ('CAPM') approach.

In particular, in order to calculate the cost of the risk capital (Ke), the average unlevered Beta was measured on a sample of comparable companies with international operations listed in official markets and later it was re-levered in terms of a 'target' financial structure for each CGU, in hypothesis similar to the average financial structure of the different panels analysed.
So doing the independence of the discount rate from the actual financial structure has been obtained.
The panel of comparable entities is made up of the followings:

CGU1/2/3 (Distr B2B IT&CE in Italy/Spain)
Action S.A.
ALSO Holding AG
Arrow Electronics, Inc.
Avnet, Inc.
Esprinet S.p.A.
SYNNEX Corporation
AB S.A.
Tech Data Corporation
Digital China Holdings Limited
ABC Data S.A.
Redington (India) Limited
Datatec Limited

The values attributed to the main components of each discount rate per single CGU are as follows:

the risk-free rate used is the 10-year BTP 'benchmark' (1 year average) rate of return in 2018, equal to 2.61% for CGUs 1 and 2, and the 10-year Bonos 'benchmark' (1 year average) rate of return in 2018, equal to 1.44% for CGU 3;

the Equity risk premium is 5.5% (source: analysts' average);
the marginal cost of borrowed capital (Kd) was approximated by adding to the free-risk rate the median credit spread of peer groups (Source: Damodaran Jan 2019) based on their credit rating issued by S&P; the above mentioned rate is considered representative of the cost applied both to Esprinet and to each CGU in cases of the issue of debt instruments on the market.

Please note that, in compliance with IAS 36 (A20) provisions that require a discount rate used to be a pre-tax rate, the post-tax version CAPM-calculated WACC was adjusted into the pre-tax equivalent defined as pre-tax WACC which leads to the same result when discounting back pre-tax cash flows.

B) Basic assumption / critical variables

The following table describes the main basic assumptions used to calculate the recoverable value for each CGU with reference to the technical methods underlying the 'DCF Model':

	Italy IT&CE "B2B" CGU 1 Esprinet	**Italy IT&CE "B2B" CGU 2 Celly**	**Spain IT&CE "B2B" CGU 3 Esprinet Iberica**
Future cash flow expected:			
Forecast horizon	5 years	5 years	5 years
"g" (long-term growth rate)	1.71%	1.71%	1.90%
Discount rates:			
Equity Risk Premium	5.5%	5.5%	5.5%
ß "*unlevered*" di industry	0.65	0.65	0.65
Target financial structure (D/D+E)	26.1%	26.1%	26.1%
Target financial structure (E/D+E)	73.9%	73.9%	73.9%
WACC *post-tax*	8.13%	8.13%	7.25%
WACC *pre-tax*	10.60%	10.78%	8.99%

With reference to the key assumptions used in the cash flow forecast and for the 'value in use calculation' we point out that the CGU values are particularly sensitive to the following parameters:

- Basic assumption / critical variables;
- gross product margin / fixed costs contribution margin;
- operating leverage;
- cash flow discounted rate;
- growth rate 'g' applied to the cash flow of the last defined year utilized for the Terminal Value calculation.

C) External indicators of loss of values and 'impairment test'

The management, in order to review the impairment indicators, takes into account, amongst other factors, (i) market rate development or other rates of cost of capital return (ii) the ratio between the book value of net assets of the CGUs and the relevant market capitalisation (or, even better, the sum of the fair values of CGUs that make up the Group and its market capitalisation).

With reference to the first point, during the year no changes in the market rates were observed that were likely to significantly affect the discount rate used in calculating the value in use or materially decrease the recoverable amount of assets.
With reference to the market value, as at 31 December 2018, the Esprinet S.p.A. market capitalisation (Borsa Italiana: PRT) was equal to 194.1 million euro compared with the consolidated equity value equal to 342.9 million euro. The average capitalisation in 2018 was equal to 231.9 million euro.

Despite some technical arguments supporting any difference between the two values due to the fact that stock market capitalisation reflects the market value of minority interests whereas the recoverable amount refers to the value of net assets for the controlling entity - which is a different 'valuation unit' – and that in any case stock value and value in use do represent different configurations of value (or, in another words, they underlie a different 'standard of value'), if we take into account the stock liquidity, even accepting in principle the gap between the two values, the final decision taken was to confirm the outcome of the financial method.-

D) Value adjustments and 'sensitivity analysis

The impairment test did not highlight the need for a write-down in the value of the goodwill entry as at 31 December 2018.

In addition, the management believes there are no reasons to foresee key assumption changes able to generate an impairment of the CGUs below the carrying amount.
In that regard, for information purposes, pursuant to IAS 36, different sensitivity analysis of the test results were performed taking into account simultaneously the variation of the following basic assumptions:

- the long term growth rate 'g' in order to obtain the cash flows beyond plan horizon;
- the cash flow discounted rate;
- the forecast EBITDA for the plan horizon.

The variation range compared to the 'unique' scenario taken into account are as follows:

- 'g' decreased by -50% and equal to zero;
- WACC higher than +2% and +1%;
- EBITDA lower than -10% and -20%.

With reference to CG1 and CGU3, in none of the scenarios arising from the different combinations of key assumptions as shown before, including the worst scenario resulting from a g equal to 0%, a WACC increased by +2% and an EBITDA decreased by -20%, any CGU impairment would occur.

With reference to CGU2, an increase of WACC to 9.13% (+1%) along with a -10% decrease in EBITDA compared with the base scenario would lead to a write-off equal to 0.6 million euro of the CGU.

3) Intangible assets

Intangible assets amount to 0.7 million euro as at 31 December 2018 (versus 1.1 million euro as at 31 December 2017). The following table highlights the changes occurred during the year:

(euro/000)	Cost and expansion	Industrial and other patent rights	Licences, concessions, brand names and similar rights	Assets under construction and advances	Other intagible assets	Total
Historical cost	3	11,224	30	6	4	**11,267**
Accumulated depreciation	(3)	(10,170)	(21)	-	(4)	**(10,198)**
Balance at 31/12/2017	**-**	**1,054**	**10**	**6**	**-**	**1,070**
Historical cost increase	-	137	4	105	-	**246**
Historical cost decrease	-	(114)	-	-	-	**(114)**
Historical cost reclassification	-	6	-	(6)	-	**-**
Increase in accumulated depreciation	-	(585)	(2)	-	-	**(587)**
Decrease in accumulated depreciation	-	109	-	-	-	**109**
Total changes	**-**	**(447)**	**2**	**99**	**-**	**(346)**
Historical cost	3	11,253	34	105	4	**11,399**
Accumulated depreciation	(3)	(10,646)	(23)	-	(4)	**(10,785)**
Balance at 31/12/2018	**-**	**607**	**12**	**105**	**-**	**724**

The investments in 'Industrial patents and use of intellectual property rights' essentially include the costs incurred for the long-term renewal and upgrade of the IT operating system (software); the increase is attributable to the Parent Company Esprinet S.p.A..

The depreciation rates applied to each asset category are unchanged from the fiscal year closed at 31 December 2017.

This item is amortised in three years.

6) Deferred income tax assets

(euro/000)	31/12/2018	31/12/2017	Var.
Deferred income tax assets	11,884	11,262	622

The balance of this item is represented by prepaid tax assets due to tax losses carried forward and by taxed provisions and other temporary differences between carrying amounts and other values recognised for tax purposes which the Group expects to recover in future operating years when taxable earnings will be accounted.
On this respect, the recoverability is supported by the estimated net income based on the forecast plans derived from the Group 2018-23E financial projections approved by the Board of Directors on 1 April 2019.

The following table shows the composition of the abovementioned item:

(euro/000)	31/12/2018			31/12/2017		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Deferred income tax:						
Tax losses carried forward	19,983	25%-21%	4,942	23,325	25%-21%	5,797
Derivates instruments	76	25.00%	19	126	25.00%	32
Derivates instruments	447	24.00%	107	597	24.00%	143
Exceeding amortisation	159	3.90%	6	173	3.90%	7
Exceeding amortisation	300	24.00%	72	415	24.00%	100
Bad debt provision	12,611	24.00%	3,027	5,408	24.00%	1,298
Bad debt provision	59	25.00%	15	85	25.00%	21
Inventory obsolescence provision	6,142	3.90%	240	3,562	3.90%	139
Inventory obsolescence provision	6,142	24.00%	1,474	3,562	24.00%	855
Inventory obsolescence provision	683	27.90%	191	546	27.90%	152
Director's fees not paid	1,115	24%-25%	276	1,184	24%-25%	295
Agent suppl. indemnity provision	634	3.90%	25	719	3.90%	28
Agent suppl. indemnity provision	634	24.00%	152	719	24.00%	172
Double dividend tax	1,733	25.00%	433	6,236	25.00%	1,559
Other expenses fiscally deducted in previous years	-	25.00%	-	179	25.00%	45
Provision sales returns	1,180	27.90%	329	-	27.90%	-
Provision sales returns	502	25.00%	126	-	25.00%	-
Provision sales returns	64	22.50%	14	-	22.50%	-
Other	1,702	24%-25%-27,9%	436	2,401	24%-25%-27,9%	619
Deferred income tax assets			**11,884**			**11,262**

The item 'Other' refers mainly to the deferred income tax assets arising from the temporary differences on the exchange losses valuation, on the risk provisions, on the actuarial valuation of the staff severance indemnity (TFR), as well as on the write-off of intangible assets capitalized under IAS 38.

The time-related allocation of this item is as follows:

(euro/000)		Within 1 year	1-5 year	After 5 year	Total
Deferred income tax assets	31/12/2018	4,773	3,948	3,163	11,884
	31/12/2017	3,217	6,714	1,331	11,262

8) Derivative financial liabilities (non-current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivate Financial Assets	-	36	(36)
Derivate Financial Assets	**-**	**36**	**(36)**

The amount as at 31 December 2017 referred to the 'fair value' of 2 'IRS-Interest Rate Swap' contracts entered into by the subsidiary Vinzeo Technologies S.A.U. in July 2015 and expiring in July 2020, reclassified as at 31 December 2018 under 'derivative financial assets' (current).

9) Receivables and other non-current assets

(euro/000)	31/12/2018	31/12/2017	Var.
Guarantee deposits receivables	1,972	4,842	(2,870)
Trade receivables	1,420	1,870	(450)
Receivables and other non-current assets	**3,392**	**6,712**	**(3,320)**

The item 'guarantee deposits receivables' includes substantially guarantee deposits relating to utilities and lease agreements ongoing. The reduction compared with the previous year is substantially due to the reclassification in the current year of guarantee deposits with the purchaser under the securitisation transaction into guarantee deposits booked under 'Other assets'.

The trade receivables refer to the portion of credit toward the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF) which expiring date is after one year and arose from a delivery of goods from Esprinet S.p.A. toward the GdF in 2011.
These receivables consist of an yearly payments plan until January 2022 against which Esprinet S.p.A. obtained a loan from Intesa Sanpaolo in 2013 with instalments paid directly by the customer. Since the counterparties of the two transactions are different, it was deemed necessary to keep the receivables from the customer and the payables to the financial entity booked separately until full repayment of the loan.
The change compared with 31 December 2017 is due to the allocation to current receivables of the portion expiring within the next fiscal year.

Current assets

10) Inventory

(euro/000)	31/12/2018	31/12/2017	Var.
Finished products and goods	503,102	488,233	14,869
Provision for obsolescence	(8,658)	(6,682)	(1,976)
Inventory	**494,444**	**481,551**	**12,893**

Inventory totalled 494.4 million euro, up +12.9 million euro compared with existing stock at 31 December 2017, while inventory turnover improved by 5 days. For further information on this item trend and generally the Working Capital please refer to the developments in the paragraph 'Operating net working capital' in the Directors' Report on Operations.

The 8.7 million euro allocated to Provision for obsolescence is intended to address the risks associated with the presumed lower realisable value of obsolete and slow-moving stock.

The movement in the provision during the period was as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Provision for obsolescence: year beginning	**6,682**	**7,855**	**(1,173)**
Uses	(3,634)	(3,464)	(170)
Accruals	5,610	2,291	3,319
Provision for obsolescence: period-end	**8,658**	**6,682**	**1,976**

11) Trade receivables

(euro/000)	31/12/2018	31/12/2017	Var.
Trade receivables - gross	389,085	320,172	68,913
Bad debt provision	(5,220)	(7,099)	1,879
Trade receivables - net	**383,865**	**313,073**	**70,792**

Trade receivables arise from normal sales transactions engaged in by the Group in the context of ordinary marketing activities. These transactions are entered into almost entirely with customers resident in the two countries where the Group is present, are almost fully in euro and are short-term.

Net trade receivables are adjusted by credit notes to be issued to customers for an amount equal to 68.3 million euro at the end of 2018 and 59.6 million euro at the end of 2017.

The increase in gross receivables is related to both higher turnover and a slight increase in DSO ratio, the latter nevertheless mitigated by a higher use of technical forms of receivables finance compared with 2017 (i.e. equal to approx. 597 million euro at the end of 2018 compared with 424 million euro in 2017). For further information on this item trend and generally the Working Capital please refer to the developments in the paragraph 'Operating net working capital' in the Directors' Report on Operations.

Adjustments to the presumed net realisable value of receivables collected is effected through bad debt provision which incidence on receivables-gross is substantially stable (further information can be found under 'Disclosure on risks and financial instruments'). The movement in this provision during the period was as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Bad debt provision: year-beginning	**7,099**	**7,177**	**(78)**
Uses	(2,702)	(1,753)	(949)
Accruals	823	1,675	(852)
Subtotal	**(1,879)**	**(78)**	**(1,801)**
Bad debt provision: period-end	**5,220**	**7,099**	**(1,879)**

The Trade receivables balance includes 7.7 million euro (4.2 million euro in 2017) of receivables transferred to factoring firms under 'with-recourse' factoring agreements.

12) Income tax assets (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Income tax assets	3,421	3,116	305

Income tax assets mainly result from the higher tax advances paid compared with the current taxes accrued in 2018. In addition, 1.2 million euro relates to the refund claim of IRES tax paid as a result of the non-deduction of the IRAP tax on personnel costs in fiscal years 2004-2007 and 2008-2011 at Esprinet S.p.A..

13) Other assets

(euro/000)	31/12/2018	31/12/2017	Var.
Receivables from associates companies (A)	-	-	-
Witholding tax assets	-	53	(53)
VAT receivables	2,539	10,938	(8,399)
Other tax assets	4,653	5,018	(365)
Other receivables from Tax authorities (B)	**7,192**	**16,009**	**(8,817)**
Receivables from factoring companies	242	1,534	(1,292)
Other financial receivables	10,881	510	10,371
Receivables from insurance companies	673	284	389
Receivables from suppliers	5,752	5,276	476
Receivables from employees	2	1	1
Receivables from others	76	186	(110)
Other receivables (C)	**17,626**	**7,791**	**9,835**
Prepayments (D)	**4,792**	**3,978**	**814**
Other assets (E= A+B+C+D)	**29,610**	**27,778**	**1,832**

'VAT receivables' refer to VAT receivables accrued by the subsidiaries V-Valley S.r.l., Celly S.p.A. and Esprinet Iberica S.l.u. as well as sums claimed for refund by the parent company Esprinet S.p.A. from tax authorities and not available as tax relief. The significant decrease compared with 31 December 2017 is due to sales exceeding purchases from suppliers with reference to the parent company Esprinet S.p.A., which has tax payables at 31 December 2018 in contrast to tax receivables last year.

The 'Income tax assets' figure refers almost entirely to the parent company financial receivables from the Tax authorities, due to a partial payment of a tax notice referring to indirect taxes on a provisional basis. The above led to a tax dispute detailed in the section 'Development of the disputes involving Esprinet S.p.A. and the Group' under the notes to item '26) Provisions and other liabilities'.

Receivables from factoring companies, referring to the parent company for 0.2 million euro, relate to the residual amount still unpaid of the trade receivables sold 'without recourse' at the end of December 2018. At the time this report was drafted, the receivables due had been almost entirely paid.
The decrease compared with the previous year-end balance, is mainly due to the temporary differences in the collection of transferred receivables, compared with 31 December 2017.

Financial receivables from customers refer for 10.4 million euro to the guarantee deposit with the purchaser under the securitisation transaction conducted by the Group aimed at ensuring coverage of potential dilutions under this exercise or in the months following the transaction closing. This

deposit, that till 31 December 2017 was equal to 2.8 million euro and booked under non-current assets, increased significantly during the current year due to contractual changes made for the renewal of the securitisation agreement; for further information please refer to 'Significant events occurring in the period' in the 'Directors' Report on Operations'. The remaining portion of the amount, equal to 0.5 million euro, refer to the short portion of receivables collectable within the subsequent year that arose from a delivery of goods in 2011 to the customer 'Guardia di finanza - GdF'. For further information please refer also to the section entitled 'Receivables and other non-current assets'.

Receivables from insurance companies include the insurance compensation – after deductibles – recognized by the insurance companies for claims of various kinds not yet paid, but which are reasonably expected to be collected within the next fiscal year.

As at 31 December 2018, receivables from suppliers include 2.8 million euro due to the net receivable from the supplier of the 'Sport Technology' line that at the period end stopped its operations and entered into a voluntary liquidation process (for further information please refer to 'Significant events occurring in the period' under the Directors' Report on Operations').
The gross amount owed by the above-mentioned supplier (already net of 1.0 million euro for disputes relating to the nature and/or the amount of the mutual contractual rights) is equal to 11.6 million euro and was written down by 8.8 million euro in the light of its estimated collectibility; the following table illustrates the change in the bad debt provision:

(euro/000)	Starting provision	Additions	Uses	Final provision
2018 financial year	-	8,823	-	8,823
2017 financial year	-	-	-	-

With reference to the residual portion, receivables from suppliers refer to credit notes received exceeding the amount owed at the end of December for a mismatch between the timing of their quantification and the payment of suppliers. This item also includes receivables from suppliers for advance payments requested by suppliers before purchase orders are executed, as well as receivables from hauliers for advance VAT payments and customs duties pertaining to imports.

Prepayments are costs whose accrual date is deferred compared with that of the cash movement (mainly maintenance fees, insurance premiums, payables for leasing contracts, undrawn credit facility fees).

14) Derivative financial liabilities (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivate financial assets	3	-	3
Derivate financial assets	**3**	**-**	**3**

The amount as at 31 December 2018 refers to the 'fair value' of 2 'IRS-Interest Rate Swap' contracts entered into by the subsidiary Vinzeo Technologies S.A.U. in July 2015 and expiring in July 2020. These contracts aim at hedging the risk that the increase in the interest rates applied to a set of short-term credit lines granted by lending banks exceeds a certain threshold.

This 'hedge' does not satisfy the requirements for 'hedge accounting', thus changes in fair value, together with any cash inflows from the counterparties, are booked directly in the income statement, as previously mentioned under the section 'Non-hedging derivatives' in the paragraph 'Disclosure on risks and financial instruments'.

17) Cash and cash equivalents

(euro/000)	31/12/2018	31/12/2017	Var.
Bank and postal deposit	380,759	296,945	83,814
Cash	19	20	(1)
Cheques	530	4	526
Total cash and cash equivalents	**381,308**	**296,969**	**84,339**

Cash and cash equivalents are almost entirely made up of bank balances, all immediately available. The level of liquidity (originating in the normal short-term financial cycle of collections/payments) fluctuates during each month, due for the most part to the concentration of payments received from customers at the end and middle of each month, while the maturities of payments to suppliers are distributed more evenly over the month. For further details relating to the cash flows development please refer to the Statement of cash flows and to the following section 'Cash flow analysis'.

Equity

(euro/000)	31/12/2018	31/12/2017	Var.
Share Capital (A)	**7,861**	**7,861**	**-**
Reserves and profit carried over (B)	324,631	308,191	16,440
Own shares (C)	(4,800)	(5,145)	345
Total reserves (D=B+C)	**319,831**	**303,046**	**16,785**
Net income for the year (E)	**14,031**	**26,235**	**(12,204)**
Net equity (F=A+D+E)	**341,723**	**337,142**	**4,581**
Non-controlling interests (G)	1,175	1,046	129
Total equity (H=F+G)	**342,898**	**338,188**	**4,710**

Items composing the shareholders' equity are explained in the following notes:

19) Share capital

The Esprinet S.p.A. Share capital, fully subscribed and paid-in as at 31 December 2018, is 7,860,651 euro and comprises 52,404,340 shares with a face value of 0.15 euro each.

The main information items used in reporting the value of the rights for the free assignment of the shares can be found in the 'Directors' Report on Operations'.
The value of these rights was reported in the separate income statement under costs relating to salaried staff and under those relating to Directors, with a balancing item reported in the statement of financial position under the item 'Reserves'.

20) Reserves

Reserves and profit carried over

The 'Reserve and profit carried over' balance increased by 16.4 million euro, mainly due to the allocation of profits from previous years equal to 26.2 million euro net of 7.0 million euro relating to a dividend distribution (0.135 euro per ordinary share).

Own shares on hand

The amount refers to the total purchase price of No. 1,150,000 Esprinet S.p.A. shares owned by the Company as at 31 December 2018.

The decrease compared with 646,889 shares as at 31 December 2017 is due to the allotment of 535,134 shares to beneficiaries of the Long Term Incentive Plan approved by the AGM of Esprinet S.p.A. on 30 April 2015 and to the purchase of further 1,038,245 shares occurred between 14 June and 11 October 2018 at an average unit price of 3.78 euro, net of fees, in fulfilment of the resolution of the AGM of 4 May 2018.

21) Net income

The year's Group profits amount to 14.0 million euro, decreased compared with the previous year's 26.2 million euro.

Non-current liabilities

22) Borrowings

(euro/000)	31/12/2018	31/12/2017	Var.
Borrowings	12,804	19,927	(7,123)

The borrowings value refers to the valuation at the amortized cost of the portion of the medium-long term loans granted by the Group companies falling due beyond next year.

The value as at 31 December 2018 includes minor loans signed by the Company in March 2017 (11.4 million euro), as well as the portion not yet due of the loan granted by the Parent Company, from a delivery of goods to the customer 'Revenue Guard Corps' (so called Guardia di Finanza - GdF), which led to the booking of an identical long-term receivable from GdF (1.4 million euro), as described under paragraph 9 'Receivables and other non-current assets'.

The change compared with previous year is due to the reclassification of the portion falling due within 12 months to short-term liabilities, in accordance with the amortisation plan.

Further details relating to the outstanding loans can be found in the following paragraph 'Loans and loan covenants'.

24) Deferred income tax liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Deferred income tax liabilities	8,138	7,088	1,050

The balance of this item depends on higher taxes that the Group has to pay in the coming operating years due to temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding values recognised for tax purposes.

These differences mainly arise from the de-recognition of the tax amortisation of goodwill.

(euro/000)	31/12/2018			31/12/2017		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Deferred income tax liabilities						
Goodwills' amortisation	9,460	24.00%	2,270	9,027	24.00%	2,167
Goodwills' amortisation	9,460	3.90%	369	9,027	3.90%	352
Goodwills' amortisation	19,916	25.00%	4,979	16,182	25.00%	4,046
TFR' variation	159	24.00%	38	159	24.00%	38
Foreign exchange estimate	276	24.00%	66	560	24.00%	134
Change in inventory	-	27.50%	-	-	27.50%	-
Change in inventory	733	24.00%	176	890	24.00%	214
Change in inventory	733	3.90%	29	890	3.90%	35
Change in inventory	425	25.00%	106	391	25.00%	98
Other	-	24.00%	-	22	25.00%	6
Other	437	24.00%	105	-	25.00%	-
Total deferred i ncome tax liabilities			**8,138**			**7,088**

The time-related allocation of deferred income tax liabilities is as follows:

(euro/000)		Within 1 year	1-5 years	Over 5 years	Total
Deferred income tax liabilities	31/12/2018	521	-	7,617	8,138
	31/12/2017	690	-	6,398	7,088

25) Retirement benefit obligations

'Retirement benefit obligations' reflects the 'TFR' provision and other benefits accruing to salaried staff at the close of the period, assessed in accordance with actuarial criteria, pursuant to IAS 19.

The provisions totally belong to Italian companies, since a similar system does not exist in Spain..

Please note that from 1 January 2007 important modifications governing the Staff Severance Fund, among which the possibility for the worker to choose the destination of the accruing Staff Severance Fund, were introduced.
In particular, the new Staff Severance Fund flows can be channelled by the worker into a selected pension fund or kept in the company (in this case the Staff Severance Fund contributions will be paid into a treasury fund instituted at the INPS).

Changes occurred during the year are shown in the tables below:

(euro/000)	31/12/2018	31/12/2017	Var.
Balance at year-beginning	**4,814**	**5,185**	**(371)**
Service cost	140	168	(28)
Interest cost	57	64	(7)
Actuarial (gain)/loss	(185)	(49)	(136)
Pensions paid	(429)	(554)	125
Changes	**(417)**	**(371)**	**(46)**
Balance at year-end	**4,397**	**4,814**	**(417)**

Values recognised in the separate income statement are as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Amounts booked under personnel costs	140	168	(28)
Amounts booked under financial costs	57	64	(7)
Total	**197**	**232**	**(35)**

The change in the 'actuarial gains or losses' compared with last year is mainly related to the experience adjustments that reflect the deviation of forward-looking assumptions used in the 31 December 2017 valuation and the actual development of the provision as at 31 December 2018 (members, payments occurred, benefit revaluation). The discount rate reflects the market returns, at the financial statement date of a panel of primary company bonds with a maturity date connected with the employee average residual permanence in the Group's companies. (more than 10 years).[8]

The 'Projected Unit Credit Method' used to assess the staff severance indemnity ('TFR') as per the IAS 19 accounting standard is based on demographic assumptions and on the following economic-financial assumptions:

a) Demographic assumptions

- probability of death: the values for the Italian population reported by ISTAT (Italian Central Statistics Institute) in reference to 2002, indicated separately according to gender;
- probability of disability: the results adopted in the INPS (Italian National Social Security Institute) model for projections up to 2010, indicated separately according to gender. These probabilities were calculated starting from the pension distribution by age and gender existing on 1 January 1987 with effect from 1984, 1985, 1986 referring to the credit segment personnel.
- period of retirement: attainment of first requirement for pension eligibility valid for the General Compulsory Insurance Scheme in the case of a generic worker;
- probability of terminating employment for reasons other than death: 6% annual frequency has been considered based on available statistics;
- probability of anticipating: an annual rate of 3% has been assumed.

[8] Please note that, the iBoxx Eurozone Corporates AA10+ index was used as parameter for the above mention calculation.

b) Economic-financial assumptions

	31/12/2018	31/12/2017
Cost of living increase	1.50%	1.50%
Discouting rate [2]	1.57%	1.30%
Remuneration increase	3,00% [1]	3,00% [1]
Staff severance indemnity (TFR) - annual rate increase	2.63%	2.63%

[1] The assumption relating to a remuneration increase refers solely to Celly S.p.A..
[2] IBoxx Eurozone Corporates AA10+ index has been used for the calculation.

Sensitivity analyses

Pursuant to IAS 19R, a sensitivity analysis of changes in main actuarial hypothesis used in the calculation model is required.
As basic scenario the one above described was assumed and from that the most significant hypotheses (i.e. annual average discount rate, average cost of living increase and turn-over rate) were increased and decreased by half, a quarter and two percentage points respectively. The outputs so obtained are summarized as follows:

(euro)		Sensi tivity analysis
		Esprinet Group
Past Service Liability		
Annual discount rate	*+0,50%*	4,209,368
	-0.50%	4,598,791
Annual inflation rate	*+0,25%*	4,450,205
	-0.25%	4,344,650
Annual turnover rate	*+2,00%*	4,405,645
	-2.00%	4,405,449

As required by IAS 19 Revised, the estimated expected payments (in nominal value) for the next years are as follows:

(Euro)	Future Cash Flow
Year	*Esprinet Group*
0 - 1	411,284
1 - 2	360,272
2 - 3	322,485
3 - 4	255,398
4 - 5	271,111
5 - 6	277,297
6 - 7	269,032
7 - 8	282,453
8 - 9	329,829
9 - 10	277,240
Over 10	3,884,091

49) Debts for investments in subsidiaries (non-current)

(euro/000)	31/12/2018	31/12/2017	Var.
Debts for investments in subsidiaries	-	1,311	(1,311)

The balance at the end of the previous year referred to the discounted fair value of the forecast conditional consideration relating to the acquisition of the residual 20% of Celly S.p.A. as a consequence of the mutual put/call options on the same shares between Esprinet S.p.A. and Celly S.p.A., now entirely reclassified under current liabilities because, with the passing of time, as at the reporting date they are now potentially exercisable in the following 12 months.

26) Non-current provisions and other liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Long-term liabilities for cash incentives	105	-	105
Provisions for pensions and similar obligations	1,678	1,915	(237)
Other provisions	106	589	(483)
Non-current provisions and other liabilities	**1,889**	**2,504**	**(615)**

The item Long-term liabilities for cash incentives refers to the cash incentives maturing by the beneficiaries of the ‘Long-term Incentive Plan’ and its payment is subject to achievement of Group profit targets for the 2018-2020 period and subject to the beneficiary being still employed by the Group at the date the 2020 Consolidated Financial Statements will be presented.

The item 'Provisions for pensions and similar obligations' includes the supplementary customer indemnity provision payable to agents based on current regulations governing the subject. The changes in the period were as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Provisions for pensions: year-beginning	**1.915**	**2.325**	**(410)**
Uses	(318)	(542)	224
Accruals	81	132	(51)
Total variation	**(237)**	**(410)**	**173**
Provisions for pensions: period-end	**1.678**	**1.915**	**(237)**

The amount entered under other provisions, is intended to cover risks relating to current legal and tax-related disputes. Changes occurred in the period are as below:

(euro/000)	31/12/2018	31/12/2017	Var.
Other provisions: year-beginning	**589**	**480**	**109**
Uses	(584)	(133)	(451)
Accruals	101	242	(141)
Subtotal	**(483)**	**109**	**(592)**
Other provisions: period-end	**106**	**589**	**(483)**

Disputes involving Esprinet S.p.A. and the Group and their developments.

Below are displayed the main disputes involving the Group and developments occurred in 2018 (and thereafter, until the date this financial report was drafted), for which the Group has conducted the pertinent risk assessments, with the support of its legal and/or tax consultants, and, where deemed appropriate, recognized the ensuing allocations to the provision for risks.
The main legal disputes, as to which there are no grounds to provide for since the risk was deemed unlikely, are shown below:

Esprinet S.p.A. Supplier of 'Sport Technology' line and its shareholders

As described in more detail in the Directors' Report on Operations under 'Significant events occurring in the period', in December 2018, the long-standing supplier of the 'Sport Technology' product line initiated the process of voluntary winding-up of the business, which Esprinet S.p.A. was informed about only at the beginning of January 2019.
Such entity has been supplying product to Esprinet for the last 15 years and since 2008 was managing, on behalf of the Esprinet Group and under an exclusive agreement, the production, the import and the after-sale support process of a number of 'Sport technology' products.
As at 31 December 2018, Esprinet was owed Euro 12.5 million in receivables by said supplier for amounts originating from advances paid for supplies of goods entrusted to factories mainly located in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.); the already-mentioned winding up process led the management to estimate a potential loss in the receivables value of 8.8 million euro as well as to bear other significant charges linked to the supplier's business interruption.
On 6 February 2019, the above-mentioned importer, acting through its Liquidator, and its shareholders, started a legal action against Esprinet S.p.A., for damage compensation amounting to 55 million euro, alleging an unlawful conduct in trade relationships with the importer that allegedly led the latter into distress.
On 19 February 2019, the majority shareholder of the supplier of the Sport Technology line, through its Liquidator (since that shareholder entered into voluntary liquidation itself) took legal action against Esprinet S.p.A. requesting that the guarantee it had granted to Esprinet on behalf of its subsidiary be declared void or at least invalid and unenforceable.
The Board of Directors of Esprinet S.p.A. - also following advisors' opinion - resolved to file an appearance and defend by rejecting all claims, trusting that the court will confirm the lack of foundation and spuriousness of the legal action taken by the counter-party.

The following list summarises the development of main legal disputes, as to which there are no grounds to provide for since their respective risk was deemed unlikely.

Esprinet S.p.A. direct taxes for the year 2002

In the tax dispute for the 2002 tax period relating to VAT, IRPEG and IRAP, amounting to 6.0 million euro plus penalties and interest, it should be noted that, after Esprinet S.p.A. had obtained favourable judgements in both the first and second instance against the assessment notice issued in late 2007, on 3 August 2016 a Supreme Court judgement was filed that partially accepted the appeal made by the Italian Revenue Office. The Supreme Court referred the case to another section of the

Regional Tax Commission which will have to determine which part of the assessment will be upheld in relation to the disputed notice.
The Company reactivated the proceeding with the Regional Tax Commission on 10 November 2016.
Currently the case has been assigned but the hearing has not been fixed yet.

Actebis Computer S.p.A. (now Esprinet S.p.A.) - Indirect taxes for the year 2005

In the tax disputes involving Actebis Computer S.p.A. relating to periods prior to the acquisition of the company (subsequently merged into Esprinet S.p.A.), as also disclosed in the financial statements for the previous year, all outstanding litigation has been resolved, with the exception of that pertaining to the year 2005, for which Esprinet, at the recommendation of the seller of Actebis and after the failure of a tax settlement proposal, paid the reduced penalties and lodged an appeal with the Provincial Tax Commission. This appeal was rejected on 8 October 2012. Esprinet S.p.A., at the recommendation of the seller's advisor, lodged an appeal which was registered with the Regional Tax Commission on 20 May 2013.
On 23 September 2014, the appeal was rejected and the seller's advisor lodged an appeal against the ruling with the Court of Appeal.
In the meantime, Esprinet paid the sums inscribed on the tax roll as per the Regional Tax Commission decision, after receiving the corresponding funds from the seller.

Esprinet S.p.A. indirect taxes for the year 2010

On 29 December 2015, the Company was served a notice amounting to 2.8 million euro, plus penalties and interest, relating to an assessment claiming VAT on taxable transactions entered into with a customer company whose purchases benefited from tax exemption by virtue of a declaration issued by the same company, which eventually did not qualify as a frequent exporter.
On 26 February 2016 an appeal was filed with the Provincial Tax Commission together with a self-defence petition and on 18 April 2016, in accordance with administrative procedure, the company made an advance payment equal to 1.2 million euro, posted under 'Other tax assets'.
On 20 June 2016 the matter was discussed and on 26 August 2016, the Provincial Tax Commission issued its judgement, rejecting the Company's appeal.
On 10 October another advance equal to 3.3 million euro was paid, again posted under 'Other tax assets'.
On 14 February 2017 the Company filed an appeal against the Provincial Tax Commission ruling.
The hearing was held on 13 November 2017 and on 4 December 2017 the Regional Tax Commission filed a request of documents from the Company; the hearing was then held on 19 March 2018.
On 23 March 2018, the 'Regional Tax Commission' issued a judgement that upheld the Company's appeal.
The amounts paid by the Company pending judgement were reimbursed for 1.9 million euro.

Esprinet S.p.A. indirect taxes for the year 2011

On 30 November 2016, the Company was served a notice relating to an assessment claiming VAT of 1.0 million euro, plus penalties and interests. The tax authority claims that some transactions are taxable in respect of which a customer had previously filed a declaration of intent, but later failed to fulfil the requirements needed to qualify as a frequent exporter.
The notice of assessment follows tax checks carried out by the Direzione Regionale delle Entrate (Regional Revenue Office) - Large Taxpayer Office through questionnaires sent on 3 October 2016.
On 23 January 2017 the Company filed an appeal against the assessment notice and, pursuant to the administrative procedure, made an advance payment equal to 0.4 million euro, booked under 'Other tax assets'.
The hearing on the merit of the appeal was fixed on 24 November 2017.
On 10 January 2018 a judgement was issued that rejected the first instance claim.
On 23 February 2018 another advance equal to 1.5 million euro was paid, also posted under 'Other tax assets'.

The Company appealed on 16 July 2018 and the hearing was held before the Regional Tax Commission on 12 February 2019.

Esprinet S.p.A. indirect taxes for the year 2012

On 2 October 2017 the Company was served a notice of assessment claiming VAT on taxable transactions entered with three customers for 3.1 million euro, along with penalties and interest.
The tax assessment refers to business relations with the three companies that, subsequent to a tax audit, failed to fulfil the requirements needed to qualify as frequent exporters. The notice of assessment served to the Company follows tax audit carried out by the Direzione Regionale della Lombardia (Regional Revenue Office) - Large Taxpayer Office through the questionnaire No. Q00144/2017 notified on 3 August 2017.
The Company appealed against the notice of assessment on 30 November 2017.
On 19 December 2017, the President of the Commission, recognising not only the potential merits of Esprinet's request ('fumus') and the potential damage to it ('periculum'), but also the lack of urgency of the challenged measure, temporarily suspended the challenged act until the collegial judgement on the assessment by the competent court. The hearing was held on 23 February 2018 and the Provincial Tax Commission upheld the application for suspension.
On 18 May 2018 the hearing was held where the Provincial Tax Commission requested the appellant to file some documents by 30 June 2018 and scheduled the next hearing on 21 September 2018.
On 9 October 2018 a judgement was issued that upheld the Company's claim.

Esprinet S.p.A. indirect taxes for the year 2013

On 31 July 2018 the Company was served a notice of assessment claiming VAT on taxable transactions entered with a customer for 66 thousand euro, along with penalties and interest.
The tax assessment refers to business relations with the customer company that, subsequent to a tax audit, failed to fulfil the requirements needed to qualify as frequent exporters.
On 29 October 2018 the Company lodged an appeal.
The hearing was held on 29 January 2019 and on 13 February 2019 the Provincial Tax Commission filed a judgement rejecting the claim.
The Company will challenge against the judgement.

Esprinet S.p.A. indirect taxes for the year 2013

On 20 December 2018 the company was served a notice relating to an assessment claiming VAT for 2013 of 14.5 million euro, plus penalties and interest, due to alleged non-application of VAT to transactions with frequent exporters.
On 5 February 2019, the Company filed a tax settlement proposal pursuant to art.6 paragraph 2 of the D.Lgs. 218/1997.

Monclick S.r.l.. direct taxes for the year 2012

On 7 September 2015 the Italian Revenue Office closed a tax audit relating to tax period 2012 (a year in which the company was still part of the Esprinet Group) serving a tax notice. From the tax audit report some breaches arose resulting in a disallowance of costs equal to 82 thousand euro, plus penalties and interest.
On 2 November the Company filed its comments. On 20 July 2016 the Italian Revenue Office notified tax assessment notices related to IRAP and direct taxation. On 29 September the Company filed a tax settlement proposal, leading to a cross-examination with the Office.
On 25 November 2016 the Office rejected the settlement proposal, and as a consequence the Company lodged a partial appeal on 16 January 2017.
On 26 June 2017 the matter was discussed and on 10 July 2017 a judgement was issued that upheld the appeal.

In July, the company obtained cancellation of the amounts inscribed on the tax roll following the Provincial Tax Commission decision.
On 17 October 2017 the Italian Revenue Office lodged an appeal against the first instance judgement and the company entered an appearance filing its counter-arguments.
On 3 July 2018, the hearing was held and on 20 July 2018 the 'Regional Tax Commission' issued a judgement that upheld the Italian Revenue Office's appeal.
The Company is preparing an appeal before the Supreme Court.

V-Valley S.r.l. direct taxes for the year 2011

On 27 June 2014 an overall tax inspection was started against the Company with respect to direct taxes, IRAP and VAT for tax year 2011, followed by a tax audit report on 25 July 2014. On 6 October 2016 the Italian Revenue Office issued a notice of assessment resulting in a disallowance of costs equal to 74 thousand euro, plus penalties and interest.
On 29 November 2016 the Company filed a tax settlement proposal, and on 17 January 2017 the first meeting with the Office was held. Since the discussion with the Office did not resolve the dispute, the Company filed an appeal on 3 March 2017.
The hearing, initially fixed on 4 December 2017, was rescheduled to 28 May 2018.
The tax assessment notices were settled with legal conciliation signed on 25 May 2018.

Edslan S.r.l. registration fees for the year 2016

On 4 July 2017 the company was served a correction and settlement notice relating to the reassessment of the business unit acquired on 8 June 2016 from EDSlan S.p.A. (now I-Trading S.r.l.). The higher registration fee claimed amounts to 182 thousand euro, plus penalties and interest.
On 21 September 2017, the company filed a tax settlement proposal and on 11 October the first meeting was held at Tax Office, with a negative outcome.
On 29 December 2017, the company lodged an appeal that was filed with the Provincial Tax Commission on 24 January 2018.
The hearing was held on 19 June 2018 and a judgement was issued that upheld the appeal condemning the Tax Authority to pay legal costs.

Celly S.p.A. direct and indirect taxes for the year 2014

On 11 December 2017 the tax audit referring to Ires, Irap and VAT for 2014, closed with the notice of a tax audit report.
From the tax audit report some substantial breaches arose following which a higher tax base for IRES (918 thousand euro), IRAP (1.04 million euro) and VAT (174 thousand euro) was assessed.
On 9 February, the company filed its comments on the tax audit report and other defensive documents were filed in June.
At the end of the tax audit, on 9 February 2018, the Company received a questionnaire requesting information with regard to business relations with black list countries to which the company answered on 9 May 2018.
The company settled the tax dispute for tax year 2014 accepting the tax audit report by paying overall 283 thousand euro including penalties and interests.

On 14 December 2018, the company was served two tax assessment notices relating to the same tax audit, one for the year 2015 (only for notification expenses) and one for 2016 equal to 88 thousand euro.
For both years the dispute was settled by fulling accepting the tax assessed.

Celly S.p.A. registration fees for the year 2016

On 4 September 2017, the Company was served a correction and settlement notice from 'Direzione Provinciale II - Torino' which related to the registration fees due with reference to the transfer deed

of a business unit from Celly S.p.A. (selling party) to the company Rosso Garibaldi S.p.A.. Since, pursuant to law, the Company, as seller, was jointly committed to the payment of the higher registration fees claimed by the Tax Office and the purchaser filed for bankruptcy in December, on 12 January 2018, the higher registration fee and interest totalling 4 thousand euro were paid by Celly S.p.A..

Mosaico S.r.l. registration fees for the year 2016

On 16 June 2017, the Revenue Office - 'Direzione provinciale II of Milano' invited the Company to appear in order to initiate adversarial proceedings and find any settlement for the assessment relating to the acquisition agreement (filed on 13 December 2016) of a business unit from Itway S.p.A..

During the meeting with the Tax Office, the Company pointed out that the price was not final since price adjustments were expected by the first months of 2018.

On 26 January 2018, a summary agreement was signed on price of the sold company, pending the Revenue Office judgement on the now final disposal price.

On 23 March 2018 the company was served a correction and settlement notice relating to the reassessment of the business unit acquired which results in higher registration fees for 48 thousand euro. The company, supported by ITWAY S.p.A. advisors, filed appeal against the notice on 15 May 2018.

On 4 September 2018, an adversarial hearing was held after which the Tax Authority put forward a mediation proposal, accepted by the selling company, thus settling the dispute with a payment of 20 thousand euro.

Comprel S.r.l. direct and indirect taxes for the year 2006

On 16 September 2011, Comprel S.r.l. was served a notice of assessment relating to Irap and VAT for 2006 and a further assessment relating to Ires for 2006 (the latter also notified to Esprinet S.p.A. being the consolidating company, under the new assessment proceeding, as per Article 40-bis of D.P.R. No. 600/1973) with a total disallowance of costs 99 thousand euro, plus penalties and interest.
With respect to these Tax assessments, Comprel filed a settlement proposal whose negative outcome led it to lodge an appeal with the Provincial Tax Commission, that issued its judgement No. 106/26/13 on 9 May 2013 which rejected Comprel's joint appeals.
On 9 July 2013, an appeal was lodged against this judgement.
On 9 July 2014 the judgement No. 3801/2014 was issued that upheld the company's appeal in relation to points 4, 6, 7 and 11.
On 14 January 2015 an appeal was lodged by the General Attorney with the Supreme Court challenging the judgement n. 3801/2014 rendered by the Regional Tax Commission of Milan on 9 July 2014. The company filed a cross-appeal on 20 February 2015.

Current liabilities

27) Trade payables

(euro/000)	31/12/2018	31/12/2017	Var.
Trade payables - gross	1,011,802	805,688	206,114
Credit notes to be received	(143,936)	(115,239)	(28,697)
Trade payables	**867,866**	**690,449**	**177,417**

The 'Receivables – credit notes' mainly refer to the rebates related to commercial targets reached, to various incentives, to reimbursement of joint marketing activities with suppliers and to stocks contractual protections.

The net balance of trade payables increased due to higher business volumes, also benefiting from longer deferment of payments (+8 days) toward vendors. For further information on this item trend and more generally on the Working Capital please refer to paragraph 'Operating net working capital' in the 'Directors' Report on Operations'.

28) Short-term financial liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Bank loans and overdrafts	112,495	142,009	(29,514)
Other financing payables	25,816	13,951	11,865
Short - term financial liabilities	**138,311**	**155,960**	**(17,649)**

Bank loans and overdraft refer almost entirely (107.7 million euro as at 31 December 2018 and 139.4 million euro as at 31 December 2017) to the valuation at the amortized cost of the portion of the medium-long term loans granted to the Group companies falling due within next year.

These loans include a medium/long-term senior loan granted to Esprinet S.p.A. in February 2017 by a pool of banks, consisting of a 5-year amortised facility in the original amount of 145.0 million euro (101.5 million euro drawn as at 31 December 2018 and 130.5 million as at 31 December 2017) and a 5-year revolving facility for 65.0 million euro (undrawn both the fiscal years).
The above-mentioned loan was unsecured thus, as is common practice in similar transactions, is supported by a set of 4 financial covenants that entitle the lenders to demand early repayment in case of failure.
As at 31 December 2018 and at previous year end, the entire outstanding amount of the amortised facility was booked under current financial liabilities since 1 out of the 4 above-mentioned covenants is expected to be unmet. For further details please refer to the paragraph 'Loans and loan covenants'.

The amount also includes the portion falling due within next year of other minor loans taken by Esprinet S.p.A. in March 2017 (4.9 million euro and 3.6 million euro in principal, as at 31 December 2018 and 31 December 2017 respectively).

This adds to the portion falling due within the year (0.4 million euro in both the fiscal years) of the loan taken by the parent company relating to a delivery of goods to the customer 'Guardia di finanza - GdF'.

Payables to other lenders are mainly advances obtained from factoring companies deriving from the usual with-recourse assignment of receivables by the Group, and from payments received in the name and on behalf of clients under the without-recourse factoring agreement. The debt increase is due to higher volumes of receivables factored.

29) Income tax liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Income tax liabilities	103	693	(590)

Income tax liabilities, equal to 0.1 million euro, are mainly due to the higher amount of Celly S.p.A. (77 thousand euro) and V-Valley S.r.l. (23 thousand euro) in current income taxes referred to 2018 tax year compared to the advances paid.

30) Derivative financial liabilities (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivative financial liabilities	613	663	(50)

This item refers to the fair value of six IRS contracts entered into by Esprinet S.p.A. in April 2017 with six of the eight banks that on 28 February 2017 granted the medium-term floating-rate loan of 145.0 million euro (reduced to 101.5 million euro in capital as at 31 December 2018 as a result of payments made under the amortisation plan). The portion of the loans referring to the above-mentioned six banks is equal to 82.2 million euro and is entirely hedged from the interest rate volatility risk by a derivative contract entered into by each bank with regard to its own portion of the loan hedged. These derivative contracts have the same conditions as the contracts signed by the other banks.

The 'fair value' of the above-mentioned agreements, at 31 December 2018 and at 31 December 2017 was classified under short-term liabilities as a consequence of the breach of one of the four covenants covering the hedged loan, as better described under 'loans and loan covenants'.

At previous year-end date this item was residually made up of the fair value of 2 IRS contracts entered into by Vinzeo Technologies S.A.U., equally aimed at hedging the risk of interest rate fluctuation on corresponding medium-long term floating rate loans, then settled during the year as per their natural scheduled expiry following the termination of the loans hedged.

For further details regarding the various transactions please refer to the section 'Loans and loan covenants' below and the section 'Hedge accounting' under ‘Disclosure on risks and financial instruments’.

51) Debts for investments in subsidiaries (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Debts for investments in subsidiaries	1,082	-	1,082

The debts for investments in subsidiaries refer to the valuation, as per the formula contractually agreed, of the forecast conditional consideration relating to the acquisition of the residual 20% of Celly S.p.A., reclassified from the non-current liabilities as a consequence of the approaching of the beginning of the period (between the 5th and the 7th year after the acquisition date of the Celly Group on 12 May 2014) when the put/call option may be exercised by both parties.
The value of the above-mentioned debt was estimated based on the expectations about the future financial performance of the subsidiary.

32) Provisions and other liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Social security liabilities (A)	**3,886**	**3,320**	**566**
Associates companies liabilities (B)	**-**	**-**	**-**
VAT payables	14,240	8,960	5,280
Withholding tax liabilities	321	319	2
Other tax liabilities	1,320	1,424	(104)
Other payables to Tax authorities (C)	**15,881**	**10,703**	**5,178**
Payables to personnel	6,764	4,824	1,940
Payables to customers	6,602	5,004	1,598
Payables to others	1,064	922	142
Total other creditors (D)	**14,430**	**10,750**	**3,680**
Accrued expenses and deferred income (E)	**275**	**426**	**(151)**
Provisions and other liabilities (F=A+B+C+D+E)	**34,472**	**25,199**	**9,273**

Social security liabilities mainly refer to payables to Welfare Institutions linked to wages and salaries paid in December and to social contributions accrued on deferred monthly payables, monetary incentives included.

VAT liabilities, referring to the amount matured during the month of December. The significant increase compared with the previous year is mainly due to sales exceeding purchases from suppliers with reference to the parent company Esprinet S.p.A., which has tax payables at 31 December 2018 in contrast to tax receivables last year.

Other tax liabilities are mainly taxes withheld on wages and salaries paid to employees during the month of December.

Payables to personnel refer to December salaries as well as to deferred monthly payables (holidays not taken, year-end bonus, monetary incentives included) accruing at the end of 2018.

Payables to customers mainly refer to credit notes not yet paid relating to current trading relationships.

Payables to others mainly include payables amounting to 0.5 million euro to Directors relating to emoluments accrued during this year (0.4 million euro in 2017), as well as payables of 0.4 million euro to the Group's network of agents relating to fees due and unpaid.

Accrued expenses and deferred income are income and/or expenses whose accrual date is deferred/anticipated compared with the cash collection/expenditure.

6. Guarantees, commitments and potential risks

Commitments and potential risks

The commitments and risks potentially facing the Group are as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Third-party assets on consignment to the Group	40,333	43,898	(3,565)
Bank guarantees issued in favour of other companies	8,280	13,856	(5,576)
Total guarantees issued	**48,613**	**57,753**	**(9,140)**

Third-party assets on consignment to the Group

This amount mainly refers to the value of goods owned by third parties deposited at the Esprinet S.p.A. (36.5 million euro) and at the Esprinet Iberica (3.8 million euro) warehouses.

Bank guarantees issued in favour of other companies

The amount mainly refers to bank guarantees issued for deposits in relation to property lease agreements entered into in Italy, and bank suretyships issued to the Public Administration in order to participate in tenders for services or supplies.

7. Notes to income statement items

33) Sales

The following are some breakdowns of sales performance of the Group during the year. Further analyses of sales are provided in the 'Directors' report on operations'.

Sales by products and services.

(euro/million)	2018	%	2017	%		% Var.
Product sales	2,230.2	62.4%	1,972.1	61.3%	258.1	13%
Services sales	6.6	0.2%	19.4	0.6%	(12.8)	-66%
Sales - Subgroup Italy	**2,236.8**	**62.6%**	**1,991.5**	**61.9%**	**245.3**	**12%**
Product sales	1,333.1	37.3%	1,224.0	38.0%	109.1	9%
Services sales	1.3	0.0%	1.7	0.1%	(0.4)	-24%
Sales - Subgroup Spain	**1,334.4**	**37.4%**	**1,225.7**	**38.1%**	**108.7**	**9%**
Sales from contracts with customers	**3,571.2**	**100.0%**	**3,217.2**	**100.0%**	**354.0**	**11%**

Sales by geographical segment

(euro/million)	2018	%	2017	%	Var.	% Var.
Italy	2,214.7	62.0%	1,973.3	61.3%	241.4	12%
Spain	1,300.2	36.4%	1,193.0	37.1%	107.2	9%
Other EU countries	47.7	1.3%	45.2	1.4%	2.5	6%
Extra EU countries	8.6	0.2%	5.7	0.2%	2.9	51%
Group Sales from contracts with clients	**3,571.2**	**100.0%**	**3,217.2**	**100.0%**	**354.0**	**11%**

Revenues generated in other EU countries mainly refer to sales made by the Spanish affiliated company to customers resident in Portugal (30.2 million euro).

The revenues generated outside the EU mainly refer to sales realised vis-à-vis the customers resident in the Republic of San Marino, the State of Andorra, in Switzerland and Turkey.

Sales as 'Principal' or 'Agent'

In accordance as from 1 January 2018 with the new IFRS 15 accounting standard, the Esprinet Group has identified the distribution of the hardware and software products, the distribution of the own-brand products, the presentation of services not intermediated such as the activities in which is covers a role such as to require the representation of the revenues as 'principal'. Conversely, the distribution of cloud software and the brokerage of services were detected as business lines to be disclosed as 'agent'.
The table below displays the above-mentioned distinction, showing how revenues would have been recorded If the accounting standard had been adopted in 2017 with respect to the comparative periods, for the purpose of a reconciliation with previously published amounts.

(euro/million)	2018	%	2017	%	Var.	% Var.
Revenues from contracts with customers as 'principal'	3,568.7	*99.9%*	3,201.9	*99.9%*	366.8	*11%*
Revenues from contracts with customers as 'agent'	2.5	*0.1%*	1.7	*0.1%*	0.8	*47%*
Revenues from contracts with customers	**3,571.2**	**100.0%**	**3,203.6**	**100.0%**	**367.6**	***11%***
Revenues - Change as 'agent' in 2017			13.6		(13.6)	
Group revenues from contracts with customers	**3,571.2**		**3,217.2**		**354.0**	***11%***

At the year-end date, the Group already had customers orders for a total amount of 200.1 million euro (200.9 million euro as at 31 December 2017), of which 196.9 million euro (198.6 million euro) relating to customers shown as 'principals'.

35) Gross profit

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	3,571,190	100.00%	3,217,172	100.00%	354,018	*11%*
Cost of sales	3,408,918	95.46%	3,049,409	94.79%	359,509	*12%*
Gross profit	**162,272**	**4.54%**	**167,763**	**5.21%**	**(5,491)**	***-3%***
- of which non recurring	8,417	0.24%	-	0.00%	8,417	*100%*
Gross profit "recurrent"	**170,689**	**4.78%**	**167,763**	**5.21%**	**2,926**	***2%***

The consolidated gross profit, equal to 162.2 million euro, showed a decrease of -3% (increase of +2% if excluding non-recurring cost items) equal to -5.5 million euro compared with the same period in 2017 as a consequence of a worsening in the percentage margin from 5.21% to 4.54% (4.78% if excluding non-recurring cost items) not completely offset by the rise in revenues.
The non-recurring negative items, equal to 8.4 million euro are both from a steep and unexpected fall in end-user prices on some product families of the 'Nilox Sport' line which, also as a consequence of the lack of price protection provided by the supplier, led to a significant negative impact on gross margins, as well as from estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights.

The sales margin has been reduced by the difference between the amount of receivables transferred 'without-recourse' to factoring companies within the usual revolving programmes and the amounts collected. In 2018 this effect amounts to 4.9 million euro (5.4 million euro in 2017).

37-38-39) Operating costs

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**3,571,190**		**3,217,172**		354,018	***11%***
Sales and marketing costs	52,792	1.48%	53,800	1.67%	(1,008)	*-2%*
Overheads and administrative costs	76,287	2.14%	77,548	2.41%	(1,261)	*-2%*
Impairment loss/reversal of financial assets	9,473	0.27%	2,068	0.06%	7,405	*>100%*
Operating costs	**138,552**	**3.88%**	**133,416**	**4.15%**	**5,136**	***4%***
- of which non recurring	8,823	0.25%	1,839	0.06%	6,984	*>100%*
'Recurring' operating costs	**129,729**	**3.63%**	**131,577**	**4.09%**	**(1,848)**	***-1%***

In 2018 the amount of the operating costs, totalling 138.5 million euro, discloses an increase of 5.1 million euro compared with the same period in 2017 (drop of -1.8 million euro net of the non-recurrent items) with an incidence on revenues down to 3.88% from 4.15% in 2017. Net of the non-recurring items, relating in 2018 to the value of the receivables due from customers and in 2017 to charges for termination of employment consequent to the reorganisation activities, the operating costs disclosed a containment of -1.8 million euro (-1%) with an incidence on revenues down to 3.63% from 4.09%.

The following table shows a detailed breakdown of consolidated operating costs and their performance:

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Sales & marketing personnel costs	43,372	*1.21%*	43,155	*1.34%*	217	*1%*
Other sales & marketing costs	9,420	*0.26%*	10,645	*0.33%*	(1,225)	*-12%*
Sales & marketing costs	**52,792**	***1.48%***	**53,800**	***1.67%***	**(1,008)**	***-2%***
Administr., IT, HR and general service personnel costs	26,171	*0.73%*	26,608	*0.83%*	(437)	*-2%*
Directors' compensation	4,288	*0.12%*	4,423	*0.14%*	(135)	*-3%*
Consulting services	5,613	*0.16%*	5,189	*0.16%*	424	*8%*
Logistics services	18,754	*0.53%*	18,815	*0.58%*	(61)	*0%*
Amortisation, depreciation and provisions	3,771	*0.11%*	4,088	*0.13%*	(317)	*-8%*
Other overheads and administrative costs	17,690	*0.50%*	18,425	*0.57%*	(735)	*-4%*
Overheads and administrative costs	**76,287**	***2.14%***	**77,548**	***2.41%***	**(1,261)**	***-2%***
Impairment loss/reversal of financial assets	9,473	*0.27%*	2,068	*0.06%*	7,405	*358%*
Totale SG&A	**138,552**	***3.88%***	**133,416**	***4.15%***	**5,136**	***4%***

Sales and marketing costs mainly include the following:

- costs relating to personnel working in the marketing, sales and Web functions, corresponding social security contributions and accessory charges;
- agents and other commercial freelance charges;
- management cost for the Cash and Carry shops.

Overheads and administrative costs include:

- costs relating to management and administrative personnel, including the EDP area, human resources, general services and logistic costs;
- fees paid to corporate bodies and the related charges, travel, board and lodging expenses as well as remuneration of stock option plans;
- business consultancy, EDP consultancy to develop software and assistance with IT systems and payments to other consultants and free-lance personnel (for auditing services, real estate, tax, legal and various other consultancy services);

- postal, telephone and telecommunications costs;
- depreciation of property, plant and equipment, amortisation of intangible fixed assets (excluding assets relating to logistic equipment and plants allocated by function to sales costs) as well as provisions for risks;
- overheads and administrative costs, including leasing of premises, utilities, bank charges and fees, insurance, data connection and telephone costs.

The item 'Impairment loss/reversal of financial assets' refers mainly to non-recurring write-down accounted for during the year referring for 8.8 million euro to the estimated reduction of the overall value of the receivables which Esprinet S.p.A. is owed by the importer supplier of the 'Sport Technology' products line for amounts originating from advances paid for supplies of goods entrusted to factories in China as well as for credit notes (recall of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

Reclassification by nature of some categories of costs

For the purposes of providing more information, some categories of operating costs allocated by 'function' have been reclassified by 'nature'.

Personnel cost

(euro/000)	2018	%	2017	%	Var.	*% Var.*
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Wages and salaries	43,841	1.23%	42,292	1.31%	1,549	*4%*
Social contributions	12,777	0.36%	12,550	0.39%	227	*2%*
Pension obligations	2,355	0.07%	2,293	0.07%	62	*3%*
Other personnel costs	961	0.03%	998	0.03%	(37)	*-4%*
Employee termination incentives	835	0.02%	1,999	0.06%	(1,164)	*-58%*
Share incentive plans	357	0.01%	371	0.01%	(14)	*-4%*
Total labour costs (1)	**61,126**	**1.71%**	**60,503**	**1.88%**	**623**	***1%***

(1) Cost of temporary workers excluded.

In 2018, labour costs amounted to 61.1 million euro, up by +1% compared with the previous year, and with a stable average headcount as shown in the table which summarises the Group's number of employees, together with a breakdown by qualification as detailed under the section 'Human resources' in the 'Directors' report on operation'.

Share incentive plans

On 4 May 2018 the 'Long Term Incentive Plan' approved by the AGM of 30 April 2015 came to maturity.
Ordinary shares underlying the above-mentioned incentive plan were delivered on 12 June 2018.

On 25 June 2018, free Esprinet stock grants were allotted under the Long Term Incentive Plan approved by the Esprinet AGM of 4 May 2018.
The Company currently owns only 111,755 of the ordinary shares underlying the above-mentioned Plan. Therefore it will need to acquire the remaining amount relating to the 1,150,000 rights granted.

Both plans were and will be booked at 'fair value' according to the 'Black-Scholes' method, taking into account the dividend yield (as per the latest dividend distribution to shareholders) and the level of the risk-free interest rate at grant date.

The main information items used in reporting the value of both the stock grant plans are summarized as follows:

	Plan 2015-2017	Plan 2018-2020
Allocation date	30/06/15	25/06/18
Vesting date	30/04/18	30/04/21
Expiry date	30/06/18	30/06/21
Total number of stock grant	1,150,000	1,150,000
Total number of stock grant allocated	646,889	1,150,000
Total number of stock grant allowed	535,134 (1)	1,150,000
Unit fair value (euro)	6.84	3.20
Total fair value (euro)	3,660,317	3,680,000
Risk free interest rate (BTP 3 years)	0.7% (2)	1.1% (3)
Duration (years)	3	3
Spot price (4)	7.20	3.58
"Dividend yield"	1.7%	3.8%

(1) Decrease due to employment termination of some beneficiaries and to the estimated partial achievement of performance targets.
(2) Source: Bloomberg, 29 June 2015
(3) Source: Bloomberg, 22 June 2018
(4) Official price of Esprinet S.p.A. shares at grant date.

Costs in the current income statement relating to the above-mentioned plans with a contra entry in the 'Reserve' item in the statement of financial position, totalled 323 thousand euro with reference to employees (371 thousand euro in 2017) and 703 thousand euro with reference to directors (655 thousand euro in 2017).

Amortisation, depreciation, write-downs and accruals for risks

(euro/000)	2018	%	2017	%		% Var.
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Depreciation of tangible assets	4,104	0.11%	4,075	0.13%	29	*1%*
Amortisation of intangible assets	587	0.02%	679	0.02%	(93)	*-14%*
Amort . & depreciation	**4,691**	**0.13%**	**4,754**	**0.15%**	**(63)**	***-1%***
Write-downs of fixed assets	-	0.00%	-	0.00%	-	0%
Amort. & depr., write-downs (A)	**4,691**	**0.13%**	**4,754**	**0.15%**	**(63)**	***-1%***
Accruals for risks and charges (B)	182	0.01%	374	0.01%	(192)	*-51%*
Amort. & depr., write-downs, accruals for risks (C=A+B)	**4,873**	**0.14%**	**5,128**	**0.16%**	**(255)**	***-5%***

(euro/000)	2018	2017	Var.
Depreciation of tangible assets increasing the accumulated deprec.	4,104	4,075	29
Other recharges	-	-	-
Depreciation of tangible assets	**4,104**	**4,075**	**29**
Amortisation of intangible assets increasing the accumulated deprec.	587	679	(92)
Other recharges	-	-	-
Amortisation of intangible assets	**587**	**679**	**(92)**

Both depreciations and amortisations of assets contains the adjustments showed in the second table, useful in marching the values to the corresponding tables of asset movements.

Costs relating to operating leasing and future payments pertaining to leasing rentals and operating leasing are detailed in the tables below:

(euro/000)	2018	%	2017	%	Var.	*% Var.*
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Lease of buildings	9,584	0.27%	10,795	0.34%	(1,211)	*-11%*
Lease of cars	1,582	0.04%	2,029	0.06%	(447)	*-22%*
Lease of equipment	440	0.01%	649	0.02%	(209)	*-32%*
Lease of data connection lines	2,045	0.06%	210	0.01%	1,835	*874%*
Cost Housing CED	186	0.01%	190	0.01%	(4)	*-2%*
Leasing operating costs	**13,837**	**0.39%**	**13,873**	**0.43%**	**(36)**	***0%***

(euro/000)	2019	2020	2021	2022	2023	Oltre	Total
Lease of buildings	10,804	10,626	10,175	9,957	9,451	42,079	93,093
Lease of cars	1,373	884	432	132	22	-	2,842
Lease of equipment	486	487	442	420	283	-	2,119
Lease of data connection lines	298	286	286	149	-	-	1,019
Costi Housing CED	186	186	186	87	-	-	645
Leasing operating costs	**13,147**	**12,470**	**11,521**	**10,744**	**9,756**	**42,079**	**99,718**

42) Finance costs – net

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Interest expenses on borrowings	2,706	0.08%	3,392	0.11%	(686)	*-20%*
Interest expenses to banks	381	0.01%	322	0.01%	59	*18%*
Other interest expenses	52	0.00%	16	0.00%	36	*>100%*
Upfront fees amortisation	730	0.02%	669	0.02%	61	*9%*
Financial charges for actualization	-	0.00%	1	0.00%	(1)	*-100%*
IAS 19 expenses/losses	57	0.00%	63	0.00%	(6)	*-10%*
Charges on payables for business combinations	-	0.00%	34	0.00%	(34)	*-100%*
Charges from fair value changes	113	0.00%	167	0.01%	(54)	*-32%*
Total financial expenses (A)	**4,039**	**0.11%**	**4,664**	**0.14%**	**(625)**	***-13%***
Interest income from banks	(34)	0.00%	(82)	0.00%	48	*-58%*
Interest income from others	(195)	-0.01%	(692)	-0.02%	497	*-72%*
Income from payables for business combinations	(229)	-0.01%	(2,631)	-0.08%	2,402	*-91%*
Income from fair value changes	(2)	0.00%	20	0.00%	(22)	*<-100%*
Total financial income(B)	**(460)**	**-0.01%**	**(3,385)**	**-0.11%**	**2,925**	***-86%***
Net financial exp. (C=A+B)	**3,579**	**0.10%**	**1,279**	**0.04%**	**2,300**	***>100%***
Foreign exchange gains	(1,061)	-0.03%	(1,775)	-0.06%	714	*-40%*
Foreign exchange losses	2,023	0.06%	1,245	0.04%	778	*62%*
Net foreign exch. (profit)/losses (D)	**962**	**0.03%**	**(530)**	**-0.02%**	**1,492**	***<-100%***
Net financial (income)/costs (E=C+D)	**4,541**	**0.13%**	**749**	**0.02%**	**3,792**	***>100%***

The overall balance between finance income and expense, which is negative for 4.5 million euro, compares with a negative balance of 0.7 million euro in the previous year (-3.8 million euro).
These trend is essentially due (i) to the deterioration in the result of the foreign exchange management caused by the unfavourable trend of the Euro/US dollar exchange rate (-1.5 million euro during the year) and (ii) to the recognition in the last quarter of the previous year of income for a total of 3.1 million euro (vs 0.2 million euro in the current year) due to the downwards review of the estimated purchase value for the residual 20% of the share capital of Celly S.p.A. and the recognition of 0.5 million euro in interest income due to the favourable outcome of a dispute with a credit insurance company.
By contrast, the net bank interest was down by 0.6 million euro due - with average utilisation of bank facilities substantially unchanged - to a reduction in the cost of the debt essentially linked to a mix of less onerous technical forms.

45) Income tax expenses

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**3,571,190**		**3,217,172**		**354,018**	***11%***
Current income taxes	6,756	0.19%	6,797	0.21%	(41)	***-1%***
Deferred income taxes	(1,735)	-0.05%	558	0.02%	(2,293)	***-411%***
Taxes	**5,021**	**0.14%**	**7,355**	**0.23%**	**(2,334)**	***-32%***

The following table illustrates the reconciliation between the theoretical and the effective tax rate:

(euro/000)	31/12/2018			31/12/2017		
	Group	Subgroup Italy	Subgroup Iberica	Group	Subgroup Italy	Subgroup Iberica
Profit before income taxes [A]	**19,180**	**904**	**18,276**	**33,634**	**19,319**	**14,315**
Operating profit (EBIT)	**23,720**	**4,385**	**19,335**	**34,347**	**18,810**	**15,537**
(+) bad debt provision	9,410	9,410	-	1,276	1,276	-
(+) provision for risks and charges	153	153	-	218	218	-
Taxable am out for IRAP [B]	**33,283**	**13,948**	**19,335**	**35,841**	**20,304**	**15,537**
Theoretical taxation IRES Subgroup Italy (= A*24%)*	376	376	-	4,637	4,637	-
Theoretical taxation IRAP Subgroup Italy (= B*3,9%)*	570	570	-	792	792	-
Theoretical taxation on Subgroup Spain's income [A*25,0%-21,0%]	4,710	-	4,710	3,580	-	3,580
Totale imposte teoriche [C]	**5,656**	**946**	**4,710**	**9,009**	**5,429**	**3,580**
Total theoretical taxation [C/A]	***29.5%***	***>100%***	***25.8%***	***26.8%***	***28.1%***	***25.0%***
(-) Tax relief - ACE (aiuto alla crescita economica) (*)	(405)	(405)	-	(407)	(407)	-
Other permanent differenced	(231)	396	(627)	(1,247)	(599)	(648)
Total effective taxation [D]	**5,021**	**937**	**4,083**	**7,355**	**4,423**	**2,932**
Effective tax rate [D/A]	***26.2%***	***>100%***	***22.3%***	***21.9%***	***22.9%***	***20.5%***

* The Ires/Irap theoretical taxes are calculated excluding Nilox Deutschland GmbH, a German-law company.

46) Net income and earnings per share

(euro/000)	2018	2017	Var.	% Var.
Net income	**14,158**	**26,279**	**(12,121)**	***-46%***
Weighed average no. of shares in circulation: basic	51,605,661	51,757,451		
Weighed average no. of shares in circulation: diluted	52,017,353	52,208,479		
Earnings per share in euro: basic	**0.27**	**0.51**	**(0.24)**	***-47%***
Earnings per share in euro: diluted	**0.27**	**0.50**	**(0.23)**	***-46%***

No own shares held in portfolio were used to calculate the 'basic' earnings per share.

The potential shares involved in the stock grant plan approved on 4 May 2018 by the Esprinet S.p.A. AGM were included in the calculation of the 'diluted' profit per share. The plan provides for the allotment of 1,150,000 free shares.

8. Other significant information

8.1 Emoluments paid to the board members, statutory auditors and key managers

(euro/000)	Office	Term of office	Emoluments of office	Bonuses and other benefits	Non monetary benefits [8]	Other emoluments	Total
Board of directors							
Maurizio Rota [2]	Deputy Chairman and CEO	01-01/04-05-18	155	-	1	-	156
Maurizio Rota	Chairman	2018/21 [1]	297	90	3	-	390
Alessandro Cattani [2]	Chief Executive Officer	2018/21 [1]	452	90	4	-	546
Valerio Casari [2]	Director	2018/21 [1]	344	72	4	-	420
Marco Monti [3]	Director	2018/21 [1]	30	-	-	18	48
Matteo Stefanelli [4]	Director	2018/21 [1]	30	-	-	41	71
Tommaso Stefanelli [5]	Director	2018/21 [1]	30	-	-	41	71
Mario Massari [6]	Director	2018/21 [1]	30	-	-	47	77
Chiara Mauri [6]	Director	2018/21 [1]	30	-	-	24	54
Cristina Galbusera [6]	Director	2018/21 [1]	30	-	-	36	66
Emanuela Prandelli	Director	2018/21 [1]	30	-	-	-	30
Ariela Caglio	Director	2018/21 [1]	30	-	-	-	30
Renata Maria Ricotti [7]	Director	04.05.18/21 [1]	20	-	-	12	32
Francesco Monti [2]	Chairman	2018/21 [1]	155	-	1	-	156
			1,663	**252**	**13**	**219**	**2,147**
Board of Statutory Auditors							
Bettina Solimando	Chairman	04.05.18/21 [1]	30	-	-	-	30
Bettina Solimando	Standing Statutory Auditor	01-01-18/04-05-18	13	-	-	-	13
Patrizia Paleologo Oriundi	Standing Statutory Auditor	2018/21 [1]	40	-	-	-	40
Franco Aldo Abbate	Standing Statutory Auditor	04.05.18/21 [1]	27				27
Giorgio Razzoli	Chairman	01-01-18/04-05-18	15	-	-	-	15
			125	**-**	**-**	**-**	**125**
(I) Payments in company preparing financial statements			**1,788**	**252**	**13**	**219**	**2,272**
(II) Payments from subsidiaries and affiliates			**-**	**-**	**-**	**-**	**-**
(III) Total			**1,788**	**252**	**13**	**219**	**2,272**

[1] At the date of approval of the financial statements for the year ending 31 December 2020.
[2] Including compensation for non-competition agreement of 19 thousand euro
[3] Marco Monti – compensation for participation in the Strategy Committee
[4] Matteo Stefanelli – compensation for participation in the Strategy Committee of 18 thousand euro and in the Competitiveness and Sustainability Committee of 23 thousand euro.
[5] Tommaso Stefanelli – compensation for participation in the Strategy Committee of 23 thousand euro and in the Competitiveness and Sustainability Committee of 18 thousand euro.
[6] Compensation for the participation in the Control and Risk Committee and in the Remuneration and Nomination Committee. The compensation refers to the overall remuneration for the participation in both Committees.
[7] Compensation for the participation in the Control and Risk Committee.
[8] Company car fringe benefit.

The tables below detail non-equity variable compensation for members of the Board and other key management personnel (in thousands of euro):

Beneficiari	Bonus of the year			Bonus from previous year		
	Due for payment/ Paid	Deferred	Period	No longer eligible for payment	Payable/ Paid	Still deferred
Maurizio Rota	60	30	2018	-	-	-
Alessandro Cattani	60	30	2018	-	-	-
Valerio Casari [1]	48	24	2018	-	-	-
Total	168	84		-	-	-

[1] Director.

In the above reported tables, information is provided regarding the emoluments of directors, statutory auditors of Esprinet S.p.A. and 'Key Managers', payable to them in respect of the positions held by them in the latter company and in other Group companies during the year.
As defined by accounting standard IAS 24 and quoted by Consob Resolution 17221 of 12 March 2010, 'key managers are those persons having authority and responsibility for planning, directing and controlling the activities of the entity preparing the financial statements, including any director (whether executive or otherwise) of that entity'.

The aforementioned compensation includes all paid or payable emolument items (gross of tax and social contribution withholdings), benefits in kind and compensation received as directors or statutory auditors for Group companies.

The table below illustrates the Incentive Plan based on financial instruments other than stock options, for members of the Board of Directors and other key managers.

Beneficiares	Options held at 1° January 2018		Options held in 2018	Options assigned (taken up) in 2018	Options assigned in 2018	Options held at 31 december 2018		
	Quantity	Average strike price	Quantity	Quantity	Quantity	Quantity	Average strike price	Average due date
Maurizio Rota	131,578	free	(115,920)	15,658	-	-		from 30/06/2015 to 11/06/2018
Alessandro Cattani	131,578	free	(115,920)	15,658	-	-		
Valerio Casari [1]	120,614	free	(106,261)	14,353	-	-		
Maurizio Rota	-		-	-	264,343	264,343	free	from 25/06/2018 to 30/04/2021
Alessandro Cattani	-		-	-	264,343	264,343	free	
Valerio Casari [1]	-		-	-	242,314	242,314	free	

[1] Director.

8.2 Relationships with related entities

The tables below summarise the balances of the statement of financial position and of the separate income statement deriving from transactions with related parties (as defined by IAS 24) except for relationships with directors and key management personnel as these are shown in the previous section.
Transactions between the Esprinet S.p.A. parent company and the subsidiaries included in the consolidation scope have been de-recognized in the consolidated financial statements and therefore do not appear in this section.

Relationships with 'other related parties'

The following table details operations occurred between Group companies and:
- companies where Esprinet S.p.A. directors and shareholders play important roles;
- key managers and their close family.
Sales relate to consumer electronics products sold under normal market conditions.

Services received mainly refer to leasing agreements entered into under market conditions in previous years with real estate companies Immobiliare Selene S.r.l. in the case of the Cambiago (MI) logistics site and M.B. Immobiliare S.r.l. in the case of Cavenago (MB) logistics site.
The total value of the aforementioned transactions is not material compared with the total volume of the Group's activities.

(euro/000)		2018				2017			
	Type	Sales	Cost	Receiv.	Payab.	Sales	Cost	Receiv.	Payab.
Sales									
Infoklix S.p.A.	Sales of goods	-	-	-	-	-	-	2	-
Key managers e familiari	Sales of goods	11	-	-	-	16	-	9	-
Subtotal		**11**	**-**	**-**	**-**	**16**	**-**	**11**	**-**
Overheads and administrative costs									
Immobiliare Selene S.r.l.	Lease - premises	-	1,477	350	427	-	1,467	2	449
M.B. Immobiliare S.r.l.	Lease - premises	-	3,405	925	1,130	-	3,380	8	1,038
Immobiliare Selene S.r.l.	Overheads	-	-	9	4	-	7	-	4
M.B. Immobiliare S.r.l.	Overheads	-	(2)	26	6	-	17	-	6
M.B. Immobiliare S.r.l.	Overheads	-	2	-	-	-	9	-	9
M.B. Immobiliare S.r.l.	Overheads	-	7	-	-	-	2	-	-
Immobiliare Selene S.r.l.	Guarantee deposits	-	-	717	-	-	-	717	4
M.B. Immobiliare S.r.l.	Guarantee deposits	-	-	833	-	-	-	833	-
Subtotal		**-**	**4,889**	**2,860**	**1,567**	**-**	**4,882**	**1,560**	**1,510**
Finance costs - net									
Immobiliare Selene S.r.l.	Interests on guar. Deposits	2	-	2	-	1	-	2	-
M.B. Immobiliare S.r.l.	Interests on guar. Deposits	2	-	2	-	1	-	1	-
Subtotal		**4**	**-**	**4**	**-**	**2**	**-**	**3**	**-**
Total		**15**	**4,889**	**2,864**	**1,567**	**18**	**4,882**	**1,574**	**1,510**

As shown in the previous table, however, the total value of the aforementioned transactions is not material compared with the total volume of the Group's activities.

8.3 Cash flow analysis

As highlighted in the table below, due to the cash flow development illustrated in the consolidated statement of cash flows, as at 31 December 2018 the Esprinet Group posted a 241.0 million euro cash surplus, versus a 123.1 million euro cash surplus as at 31 December 2017.

(euro/000)	2018	2017
Net financial debt at start of the year	**(123,058)**	**(105,424)**
Cash flow provided by (used in) operating activities	127,577	25,994
Cash flow provided by (used in) investing activities	(2,027)	(2,263)
Cash flow provided by (used in) changes in net equity	(6,377)	(7,153)
Total cash flow	**119,173**	**16,578**
Unpaid interests	(1,187)	1,056
Net financial position at end of year	**(241,044)**	**(123,058)**
Short-term financial liabilities	138,311	155,960
Customers financial receivables	(10,881)	(510)
Current financial (assets)/liabilities for derivatives	610	663
Financial receivables from factoring companies	(242)	(1,534)
Current Debts for investments in subsidiaries	1,082	-
Cash and cash equivalents	(381,308)	(296,969)
Net current financial debt	**(252,428)**	**(142,390)**
Borrowings	12,804	19,927
Non current Debts for investments in subsidiaries	-	1,311
Non-current financial (assets)/liab. for derivatives	-	(36)
Customers financial receivables	(1,420)	(1,870)
Net financial debt at start of the year	**(241,044)**	**(123,058)**

8.4 Net financial indebtedness and financial liabilities analysis

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, net financial indebtedness (or 'net financial position') is substantially calculated in compliance with the criteria specified in the CESR or Committee of European Securities Regulators recommendation of 10 February 2005: 'CESR's recommendations for the consistent implementation of the European Commission's Regulation' and referred to by Consob itself.

With reference to the same table, it should be underlined that net financial indebtedness, measured according to the CESR criteria, coincides with the notion of 'net financial debt'.

(euro/000)	31/12/2018	31/12/2017
A. Bank deposits and cash on hand	380,778	296,965
B. Cheques	530	4
C. Trading securities	-	-
D. Liquidity (A+B+C)	381,308	296,969
Financial assets for derivatives	*3*	-
Customer financial receivables	*10,881*	*510*
Financial receivables from factoring companies	*242*	*1,534*
E. Current financial receivables	11,126	2,044
F. Current bank debt	4,749	2,644
G. Current portion of non current debt	107,746	139,365
H. Other current financial debt and financial liability for derivatives	26,429	14,614
I. Current financial debt (F+G+H)	138,924	156,623
J. Net current financial indebtedness (I-E-D)	**(253,510)**	**(142,390)**
K. Non-current bank loans	12,804	19,927
L. Other financial receivables	(1,420)	(1,870)
M. Other financial debt & non-current financial liabilities for derivatives	1,082	1,275
N. Non-current financial indebtedness (K+L+M)	**12,466**	**19,332**
O. Net financial indebtedness (J+N)	**(241,044)**	**(123,058)**
Breakdown of net financial indebtedness:		
Short-term financial liabilities	138,311	155,960
Current debts for investments in subsidiaries	1,082	-
Current financial (assets)/liabilities for derivatives	610	663
Other financial receivables	(10,881)	(510)
Financial receivables from factoring companies	(242)	(1,534)
Cash and cash equivalents	(381,308)	(296,969)
Net current financial debt	**(252,428)**	**(142,390)**
Non-current financial (assets)/liabilities for derivatives	-	(36)
Customers financial receivables	(1,420)	(1,870)
Non - current debts for investments in subsidiaries	-	1,311
Borrowings	12,804	19,927
Net financial debt	**(241,044)**	**(123,058)**

The Group's net financial position, positive in the amount of 241.0 million euro, corresponds to a net balance of gross financial debts of 151.1 million euro, financial receivables equal to 12.5 million euro, debts for investments in subsidiaries equal to 1.1 million euro, cash and cash equivalents equal to 381.3 million euro and financial liabilities for derivatives of 0.6 million euro.

Cash and cash equivalents mainly consist of free and unrestricted bank deposits of a transitional nature as they are formed temporarily at the end of the month as a result of the Group's distinctive financial cycle.
A feature of this cycle is the high concentration of funds received from customers and factoring companies – the latter in the form of net income from the without-recourse assignment of trade receivables – normally received at the end of each calendar month, while payments to suppliers, also tending to be concentrated at the end of the period, are usually spread more equally throughout the month. For this reason, the spot figure at the end of a period does not represent the net financial borrowings or the average treasury resources for the same period.

The without-recourse transfer of account receivables revolving programme focusing on the large-

scale distribution sector in particular, continued during 2018 both in Italy and in Spain as part of the processes aimed at the structural optimisation of the management of working capital. In addition to this, the securitisation programme also continued during the period, launched in Italy in July 2015 and renewed in July 2018, for additional trade receivables. This programme is aimed at transferring risks and rewards to the buyer: the receivables sold are therefore de-recognized in the statement of financial position according to IFRS 9. The overall effect on the levels of financial debt as at 31 December 2018 is approx. 597 million euro (approx. 424 million euro as at 31 December 2017).

The Group's financial structure includes, among other aspects, a medium/long-term senior loan granted to Esprinet S.p.A. in February 2017 by a pool of banks, consisting of a 5-year amortising cash facility with an original amount of Euro 145.0 million and a 5-year revolving cash facility for Euro 65.0 million.
As at 31 December 2018, the amortised facility was outstanding for 101.5 million euro, while the revolving facility was undrawn.

The above-mentioned unsecured loan, maturing in 2022, is supported by 4 financial covenants which if not observed envisages the forfeiture of the benefit of the term and the possibility for the disbursing bodies to exercise the right to request early repayment.
As at 31 December 2018, even if the compliance of the above-mentioned covenants has to be checked against the consolidated and audited financial statements, the covenant consisting in the ratio of net financial indebtedness to EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level).
Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities.

Details of the current portion of medium-/long-term financial debt and the portion falling due beyond the following year for each lender, regarding 'Subgroup Italy' and 'Subgroup Iberica', are illustrated below. It should be noted that the amounts may differ from the book value of the loan principal since they represent the amortised cost calculated on the basis of the real interest rate.

(euro/000)	31/12/2018			31/12/2017			Var.		
	Curr.	Non curr.	Tot.	Curr.	Non curr.	Tot.	Curr.	Non curr.	Tot.
Pool loan 2017(ag: Banca IMI)	100,614	-	100,614	129,469	-	129,469	(28,855)	-	(28,855)
Carige	2,475	5,082	7,557	2,437	7,548	9,985	38	(2,466)	(2,428)
BCC Carate	2,466	6,304	8,770	1,220	8,770	9,990	1,246	(2,466)	(1,220)
Intesa Sanpaolo (GdF loan)	427	1,418	1,845	406	1,845	2,251	21	(427)	(406)
Intesa Sanpaolo	-	-	-	256	-	256	(256)	-	(256)
BPM	-	-	-	85	-	85	(85)	-	(85)
Unicredit	-	-	-	256	-	256	(256)	-	(256)
Total Subgroup Italy	**105,982**	**12,804**	**118,786**	**134,129**	**18,163**	**152,292**	**(28,147)**	**(5,359)**	**(33,506)**
Banco Santander	-	-	-	3,500	-	3,500	(3,500)	-	(3,500)
Banco Sabadell	1,764	-	1,764	1,736	1,764	3,500	28	(1,764)	(1,736)
Total Subgroup Iberica	**1,764**	**-**	**1,764**	**5,236**	**1,764**	**7,000**	**(3,472)**	**(1,764)**	**(5,236)**
Totale Group	**107,746**	**12,804**	**120,550**	**139,365**	**19,927**	**159,292**	**(31,619)**	**(7,123)**	**(38,742)**

8.5 Loans and loan covenants

The book value of principals of the loans granted to the Group is as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Unsecured pool loan to Esprinet S.p.A. repayable in 1 six-monthly instalments by February 2022	101,500	130,500	(29,000)
Pool loan 'GdF' (agent: Intesa Sanpaolo) to Esprinet S.p.A. repayable in 9 yearly instalments by January 2022	1,870	2,292	(422)
Unsecured loan (agent: Carige) to Esprinet S.p.A. repayable in 1 six-monthly instalments by December 2021	7,563	10,000	(2,437)
Unsecured loan (agent: BCC Carate) to Esprinet S.p.A. repayable in 1 six-monthly instalments by March 2022	8,777	10,000	(1,223)
Unsecured pool loan (agent: BPM) to EDSlan S.r.l repayable in quarterly instalments by March 2018	-	85	(85)
Unsecured pool loan (agent: Unicredit) to EDSlan S.r.l repayable in monthly instalments by December 2018	-	256	(256)
Unsecured pool loan (agent: Intesa) to EDSlan S.r.l repayable in monthly instalments by December 2018	-	256	(256)
Unsecured pool loan (agent: Banco Santander) to Vinzeo S.A.U. repayable in six-monthly instalments by July 2018	-	2,500	(2,500)
Unsecured pool loan (agent: Banco Santander) to Vinzeo S.A.U. repayable in six-monthly instalments by November 2018	-	1,000	(1,000)
Unsecured pool loan (agent: Banco Sabadell) to Vinzeo S.A.U. repayable in six-monthly instalments by July 2018	-	3,500	(3,500)
Total book value of	**119,710**	**160,389**	**(40,679)**

The weighted average rate used during 2018 on the above loans was approx. 1.67% (approx. 1.7% in 2017) or approx. 1.9% (the same as the previous year) taking into account the different forms of hedging the risk exposure to interest variability.

The loan agreement with a book value of loan principal amounting to 101.5 million euro is a Term Loan Facility entered into by Esprinet S.p.A. with a pool of banks, received in February 2017 and maturing within February 2022. Such loan is subject to the compliance of 4 covenants, any breach of which allows the issuing institutes to demand immediate reimbursement. These covenants, which are subject to 6-monthly checks against the audited consolidated financial statements are listed as follows:

i) ratio of ‘extended net financial indebtedness’ to EBITDA;
ii) ratio of EBITDA to net financial charges;
iii) absolute amount of ‘extended net financial indebtedness’;
iv) amount of ‘gross net financial indebtedness’;

where ‘extended net financial indebtedness’ is the net financial indebtedness as measured in the previous section entitled 'Net financial indebtedness' gross of financial receivables and of the impact of prepayments received from factoring companies as part of without recourse sales of receivables programmes or securitisations.

A Revolving Facility, entered into on the same date and having the same maturity as the Term Loan Facility and the maximum principal equal to 65 million euro, undrawn as at the date of these financial statements, is also subject to the same covenants. The purpose of the Revolving Facility and the Term Loan Facility is to re-finance the existing outstanding indebtedness and to further consolidate financial structure by lengthening the average maturity of the financial debt.

As at 31 December 2018, even if the compliance of the above-mentioned covenants has to be checked against the consolidated and audited financial statements, the covenant consisting in the

ratio of net financial indebtedness to EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities; with respect to the above, the Group already entered into negotiations with the pool of lending banks. In addition, it should be highlighted that on 28 February 2019 the Group repaid 14.5 million euro in principal as per the amortisation plan of the amortising facility, thus reducing the liability to 87.0 million euro.

Loan agreements also contain the usual 'negative pledge', 'pari passu' and similar clauses none of which had been breached at the time this report was drafted.

8.6 Lines of credit

Apart from the uses described in the previous paragraphs, the Esprinet Group had a total 1,436 million euro (1,407 million ready money) at its disposal in bank credit lines as at 31 December 2018, broken down as follows:

(euro/000)	Group	Subgroup Italy	Subgroup Iberica
Credit unblocking / import financing / credit lines	288,540	197,640	90,900
Medium/long-term borrowings	119,604	117,840	1,764
Endorsement credit	26,658	26,658	-
Factoring (trasferor) [(1)]	932,455	559,700	372,755
Bank overdrafts	1,817	1,557	260
Credit cards	809	700	109
Derivatives / forward currency transactions	616	616	
Line revolving	65,000	65,000	-
Total	**1,435,499**	**969,711**	**465,788**

(1) Includes both with-recourse and without-recourse maximums.

The financial situation as at 31 December 2018, excluding the maximums granted by the banks for a without-recourse factoring scheme with a revolving credit facility and endorsement loans, shows that a total 24% (27% in the previous year) of credit lines was used, as can be seen in the table below:

(euro/000)	Uses %	Uses Gross	Credit lines
Credit unblocking / import financing / credit lines	0%	-	288,540
Medium/long-term borrowings	100%	119,604	119,604
Line revolving	0%	-	65,000
Bank overdrafts	14%	260	1,817
Factoring (trasferor) - with recourse	10%	3,172	31,300
Other	8%	63	809
Total Group	**24%**	**123,099**	**507,070**

Maintaining short-term credit lines with contained usage rates and high flexibility of usage is the main liquidity risk management method used by the Group.

8.7 Seasonal nature of business

The table below highlights the impact of sales per solar quarter in the years 2018 and 2017:

	2018			2017		
	Group	Italy	Iberica	Group	Italy	Iberica
Sales Q1	21.9%	23.3%	19.4%	23.2%	24.9%	20.5%
Sales Q2	21.2%	21.7%	20.4%	21.5%	22.0%	20.8%
Sales H1	**43.1%**	**45.1%**	**39.8%**	**44.7%**	**46.8%**	**41.3%**
Sales Q3	21.6%	21.3%	22.1%	21.5%	20.9%	22.5%
Sales Q4	35.3%	33.6%	38.1%	33.9%	32.3%	36.2%
Sales H2	**56.9%**	**54.9%**	**60.2%**	**55.3%**	**53.2%**	**58.7%**
Sales for the year	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The IT and electronic markets both in Italy and in Spain are traditionally characterised by seasonal sales which involve an increase in demand in the fourth quarter of the calendar year, essentially in terms of purchases concentrated in the pre-Christmas and the so-called 'back-to-school' seasons to consumers and by the spending dynamics of budgets dedicated to IT investments which are statistically concentrated around the months of November and December.

The seasonal nature of IT and electronics sales has an influence both on the business volumes of the distribution industry and on the sales volumes of the Esprinet Group.
The winter trend provides a contrast to the drop in demand in the summer months, in August, in particular. As a result of the increasing reluctance to suspend work during the summer months, this last trend also appears to be re-dimensioning, particularly in the business sector.

In addition to the above, operating results are also seasonal, but even more so than those of sales since the absolute profit margin levels track the seasonal nature of sales, while overheads tend to be more regular during the year.
The seasonal nature of sales described above also has an influence on the portion of borrowings that is closely linked to working capital needs, which peak in the last part of each calendar year.

The level of net borrowings fluctuates dramatically not only throughout the calendar year but also during each month, due for the most part to the concentration of payments received from customers at the end and middle of each month, while the maturities of payments to suppliers are distributed more evenly over the month.
For this reason, the figure resulting at the end of the period, or at the end of each month, is not particularly representative of the average net financial indebtedness customarily observable during the same period.

The circumstances described above give rise to higher financial and commercial risk levels for the Group compared with businesses which are less subject to seasonal fluctuations.

8.8 Non-recurring significant events and operations

The following were identified during 2018 as non-recurring items:

- the significant and unusual recognition of a negative gross margin, 8.4 million euro, on some product classes of the 'Sport Technology' range consequent to two phenomena: (i) an unexpected rapid drop in the price to the public which occurred in the fourth quarter of 2018 together with the cessation of the protection mechanisms guaranteed by the importer supplier following placement in liquidation of the same (reduction in the prices which also led to a significant adjustment to the estimated realisable value of the warehouse inventories) and (ii) the disputes arising with the same importer supplier relating to the nature and/or amount of the reciprocal

contractual rights;

- the estimated reduction of 8.8 million euro in the overall value of the receivables which Esprinet S.p.A. is owed by the same supplier for amounts originating from advances paid for supplies of goods entrusted to factories mostly in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

During 2017 the following were identified as non-recurrent items: the costs incurred within the sphere of the activities for reorganisation and rationalisation of the resources which had involved a total of 89 employees for an overall value of the indemnities acknowledged amounting to 1.8 million euro.

The following table shows the impact of the above events and transactions on the income statement (including the related tax effects):

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(8,417)**	**-**	**(8,417)**
Overheads and administrative costs	Employee termination incentives	-	(1,839)	1,839
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	(8,823)	-	(8,823)
Total SG&A	**Total SG&A**	**(8,823)**	**(1,839)**	**(6,984)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(17,240)**	**(1,839)**	**(15,401)**
Profit before income taxes	**Profit before income taxes**	**(17,240)**	**(1,839)**	**(15,401)**
Income tax expenses	Non -recurring events impact	4,401	478	3,923
Net income/(loss)	**Net income/(loss)**	**(12,839)**	**(1,361)**	**(11,478)**

8.9 Main disputes pending

Developments in existing legal and tax-related disputes can be found in a similar section under the comment to the statement of financial position item 'Non-current provisions and other liabilities' in the 'Notes to the consolidated financial statements'.
Similarly, the 'Directors' Report on Operations' also contains the Group's policies regarding the management of legal and tax-related disputes under 'Main risks and uncertainties facing the Group and Esprinet S.p.A.'.

8.10 Derivatives analysis

Disclosures regarding operations relating to derivative instruments can be found under the chapter 'Disclosures on risks and financial instruments'.

8.11 Compensation for Group auditing services

The following table drafted pursuant to Article 149-duodecies of the Consob Issuing Regulation, shows the emoluments posted during the 2018 financial year on the accrual basis of accounting for auditing services and others performed by the same auditing company and/or bodies belonging to its network:

Description	Provider of serivice	Fees (euro/000)	
		2018	2017
Auditing services:			
Examination of the annual accounts of one single company, accompanied by professional opinion	EY [1]	374.0	337.1
Examination of the annual consolidated accounts of a group of companies accompanied by professional opinion	EY [1]	52.0	48.2
Quarterly examination of accounts of one single company or group of companies during the year	EY [1]	55.4	55.3
Subtotal		**481.4**	**440.6**
Other services:			
Services other then auditing	EY	39.4	67.8
Subtotal		**39.4**	**67.8**
Total		**520.8**	**508.3**

[1] EY S.p.A. – Milan.

9. Publication of the Draft Annual Report

The draft annual report and its publication were approved by the Esprinet Board of Directors during the meeting of 1 April 2019, which also authorised the Chairman to make any necessary or appropriate changes or additions to the structure of the document, in order to complete or improve it in any of its parts.

Vimercate, 1 April 2019

Of behalf of the Board of Directors
The Chairman
Maurizio Rota

esprinet®

Esprinet S.p.A. Separate Financial Statements 2018

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[1] Esprinet S.p.A. separate financial statements, as defined by international accounting principles IFRSs

Statement of financial position

The table below shows the Esprinet S.p.A. statement of financial position drawn up according to IFRS requirements[9]

(euro)	Note	31/12/2018	31/12/2017
ASSETS			
Non-current assets			
Property, plant and equipment	1	10,039,117	10,449,543
Goodwill	2	16,429,107	10,625,555
Intangible assets	3	649,480	912,598
Investments in others	5	86,085,930	92,585,011
Deferred income tax assets	6	4,970,191	2,134,283
Derivative financial assets	8	-	377,346
Receivables and other non-current assets	9	3,094,384	6,396,224
		121,268,209	**123,480,560**
Current assets			
Inventory	10	304,236,797	310,451,383
Trade receivables	11	199,870,976	141,243,930
Income tax assets	12	2,944,270	2,891,203
Other assets	13	195,363,057	215,360,875
Derivative financial assets	14	375,420	-
Cash and cash equivalents	17	173,680,800	165,367,643
		876,471,320	**835,315,034**
Non-current assets held for sale		-	-
Total assets		**997,739,529**	**958,795,594**
EQUITY			
Share capital	19	7,860,651	7,860,651
Reserves	20	293,182,393	287,208,140
Net income for the period	21	(1,030,313)	10,609,590
Total equity		**300,012,731**	**305,678,381**
LIABILITIES			
Non-current liabilities			
Borrowings	22	12,803,943	18,162,657
Deferred income tax liabilities	24	2,841,983	2,481,220
Retirement benefit obligations	25	3,792,658	3,473,830
Provisions and other liabilities	26	1,400,305	1,594,106
		20,838,889	**25,711,813**
Current liabilities			
Trade payables	27	521,202,619	465,112,435
Short-term financial liabilities	28	132,744,200	149,262,436
Derivative financial liabilities	30	613,039	644,164
Provisions and other liabilities	32	22,328,051	12,386,365
		676,887,909	**627,405,400**
Total liabilities		**697,726,798**	**653,117,213**
Total equity and liabilities		**997,739,529**	**958,795,594**

[9] Pursuant to CONSOB Resolution n.15519 of 27 July 2006, the effects of relationships with related parties on the Esprinet S.p.A. statement of financial position items can be found in the statement of financial position in the next pages and commented on in the 'Notes to the Esprinet S.p.A. financial statements'.

Separate income statement

The Esprinet S.p.A. separate income statement is set out below. It is drawn up according to IFRS requirements and expenses are classified by 'function'[10]:

(euro)	Note	2018	2017
Sales from contracts with customers	33	**2,267,796,526**	**1,917,559,161**
Cost of sales		(2,166,520,891)	(1,819,846,389)
Gross profit	35	**101,275,635**	**97,712,772**
Sales and marketing costs	37	(36,418,943)	(30,181,258)
Overheads and administrative costs	38	(53,027,900)	(49,890,213)
Impairment loss/reversal of financial assets	39	(9,265,630)	(1,245,981)
Operating income (EBIT)		**2,563,162**	**16,395,320**
Finance costs - net	42	(3,457,632)	(1,879,980)
Result before income taxes		**(894,470)**	**14,515,340**
Income tax expenses	45	(135,843)	(3,905,750)
Net result		**(1,030,313)**	**10,609,590**
- of which attributable to non-controlling interests		-	-
- of which attributable to Group		(1,030,313)	10,609,590

Statement of comprehensive income

(euro)	2018	2017
Net result	**(1,030,313)**	**10,609,590**
Other comprehensive income:		
- Changes in 'cash flow hedge' equity reserve	96,121	(282,079)
- Taxes on changes in 'cash flow hedge' equity reserve	(23,471)	67,699
Other comprehensive income not to be reclassified in the separate income statement		
- Changes in 'TFR' equity reserve	221,162	721
- Taxes on changes in 'TFR' equity reserve	(61,704)	(201)
Other comprehensive income	**232,107**	**(213,860)**
Total comprehensive income	**(798,206)**	**10,395,730**
- of which attributable to Group	(798,206)	10,395,730
- of which attributable to non-controlling interests	-	-

[10] Pursuant to the CONSOB Resolution n.15519 of 27 July 2006, the effects of relationships with related parties on the Esprinet S.p.A. income statement items can be found in the separate income statement in the next pages and commented on in the 'Notes to the Esprinet S.p.A. financial statements'.

Statement of changes in equity

(euro/000)	Share capital	Reserves	Own shares	Profit for the period	Total net equity
Balance at 31 December 2016	**7,861**	**285,790**	**(5,145)**	**12,738**	**301,244**
Total comprehensive income/(loss)	**-**	**(214)**	**-**	**10,610**	**10,396**
Allocation of last year net income/(loss)	-	5,751	-	(5,751)	-
Dividend payment	-	-	-	(6,987)	**(6,987)**
Transactions with owners	-	5,751	-	**(12,738)**	**(6,987)**
Changes in 'stock grant' plan reserve	-	1,026	-	-	**1,026**
Balance at 31 December 2017	**7,861**	**292,353**	**(5,145)**	**10,610**	**305,679**
Total comprehensive income/(loss)	**-**	**232**	**-**	**(1,030)**	**(798)**
Allocation of last year net income/(loss)	-	3,623	-	(3,623)	-
Dividend payment	-	-	-	(6,987)	**(6,987)**
Acquisto azioni proprie	-	-	(3,929)	-	**(3,929)**
Transactions with owners	-	3,623	(3,929)	**(10,610)**	**(10,916)**
Changes in 'stock grant' plan reserve	-	(3,814)	4,274	-	**460**
Piani azionari in corso	-	645	-	-	**645**
Variazione per operazioni di fusione	-	4,828	-	-	**4,828**
FTA principi contabili IFRS	-	133	-	-	**133**
Other movements	-	(18)	-	-	**(18)**
Balance at 31 December 2018	**7,861**	**297,982**	**(4,800)**	**(1,030)**	**300,013**

Statement of cash flows[11]

(euro/000)	2018	2017
Cash flow provided by (used in) operating activities (D=A+B+C)	**24,329**	**55,146**
Cash flow generated from operations (A)	**14,773**	**20,177**
Operating income (EBIT)	2,563	16,396
Depreciation, amortisation and other fixed assets write-downs	3,182	3,163
Net changes in provisions for risks and charges	8,629	(91)
Net changes in retirement benefit obligations	(626)	(252)
Stock option/grant costs	1,025	961
Cash flow provided by (used in) changes in working capital (B)	**14,838**	**37,190**
Inventory	15,486	(102,575)
Trade receivables	(12,612)	48,902
Other current assets	(29,641)	9,270
Trade payables	35,364	84,021
Other current liabilities	6,241	(2,428)
Other cash flow provided by (used in) operating activities (C)	**(5,282)**	**(2,221)**
Interests paid, net	(1,576)	(746)
Foreign exchange (losses)/gains	(559)	191
Income taxes paid	(3,147)	(1,666)
Cash flow provided by (used in) investing activities (E)	**(30,301)**	**(2,282)**
Net investments in property, plant and equipment	(2,147)	(1,767)
Net investments in intangible assets	27	(43)
Changes in other non current assets and liabilities	2,825	(372)
Nilox Deutschland change shareholding	(300)	(100)
Reimbursement from 'stock grant' to subsidiaries	238	-
Edslan and Mosaico merge	(27,016)	-
Share buyback	(3,928)	-
Cash flow provided by (used in) financing activities (F)	**14,285**	**32,395**
Medium/long term borrowing	-	165,000
Repayment/renegotiation of medium/long-term borrowings	(33,676)	(73,655)
Net change in financial liabilities	10,435	(46,360)
Borrowed due within 12 months received/(granted)	53,000	(6,000)
Net change in financial assets and derivative instruments	(8,989)	611
Dividend payments	(6,987)	(6,987)
Increase/(decrease) in 'cash flow edge' equity reserve	73	(214)
Other movements	429	-
Net increase/(decrease) in cash and cash equivalents (G=D+E+F)	**8,313**	**85,259**
Cash and cash equivalents at year-beginning	**165,368**	**80,109**
Net increase/(decrease) in cash and cash equivalents	**8,313**	**85,259**
Cash and cash equivalents at year-end	**173,681**	**165,368**

[11] Effects of relationships with related parties were omitted because deemed non-significant.

Statement of financial position (Pursuant to Consob Resolution No. 15519 of 27 July 2006)

(euro/000)	31/12/2018	related parties	31/12/2017	related parties
ASSETS				
Non-current assets				
Property, plant and equipment	10,039		10,450	
Goodwill	16,429		10,626	
Intangible assets	649		913	
Investments in associates	-		-	
Investments in others	86,086		92,585	
Deferred income tax assets	4,970		2,134	
Derivative financial assets	-		377	
Receivables and other non-current assets	3,095	1,554	6,396	1,550
	121,268	**1,554**	**123,481**	**1,550**
Current assets				
Inventory	304,237		310,451	
Trade receivables	199,871	-	141,244	11
Income tax assets	2,945		2,891	
Other assets	195,363	171,791	215,361	193,015
	375		-	
Cash and cash equivalents	173,681		165,368	
	876,472	**171,791**	**835,315**	**193,026**
Non-current assets held for sale	-			
Total assets	**997,740**	**173,345**	**958,796**	**194,576**
EQUITY				
Share capital	7,861		7,861	
Reserves	293,182		287,208	
Net income for the period	(1,030)		10,610	
	300,013		**305,679**	
Total equity	**300,013**		**305,679**	
LIABILITIES				
Non-current liabilities				
Borrowings	12,804		18,163	
Deferred income tax liabilities	2,842		2,481	
Retirement benefit obligations	3,793		3,474	
Provisions and other liabilities	1,400		1,594	
	20,839		**25,712**	
Current liabilities				
Trade payables	521,203	-	465,112	-
Short-term financial liabilities	132,744		149,263	
Derivative financial liabilities	613		644	
Provisions and other liabilities	22,328	1,822	12,386	1,558
	676,888	**1,822**	**627,405**	**1,558**
Total liabilities	**697,727**	**1,822**	**653,117**	**1,558**
Total equity and liabilities	**997,740**	**1,822**	**958,796**	**1,558**

For further details regarding related parties please see the section ‘Relationships with related parties’ in the ‘Notes to Esprinet S.p.A. financial statements’.

Separate income statement (Pursuant to Consob Resolution No. 15519 of 27 July 2006)

(euro/000)	2018	non-recurring	related parties*	2017	non-recurring	related parties*
Sales from contracts with customers	2,267,797	-	56,765	1,917,559	-	62,532
Cost of sales	(2,166,521)	(6,080)	(692)	(1,819,846)	-	(3,767)
Gross profit	**101,276**	**(6,080)**		**97,713**	**-**	
Sales and marketing costs	(36,419)	-	(2,264)	(30,181)	-	(1,335)
Overheads and administrative costs	(53,028)	-	(2,495)	(49,890)	(235)	(1,656)
Impairment loss/reversal of financial assets	(9,266)	(8,823)		(1,246)	-	
Operating income (EBIT)	**2,563**	**(14,903)**		**16,396**	**(235)**	
Finance costs - net	(3,457)	-	634	(1,880)	-	1,050
Other investments expenses/(incomes)	-	-	-	-	-	-
Result before income tax	**(894)**	**(14,903)**		**14,516**	**(235)**	
Income tax expenses	(136)	3,814	-	(3,906)	65	-
Net result	**(1,030)**	**(11,089)**		**10,610**	**(170)**	
- of which attributable to non-controlling interests	-			-		
- of which attributable to Group	(1,030)	(11,089)		10,610	(170)	

(*) Emoluments to key managers excluded.

The table below shows the Esprinet S.p.A. pro-forma statement of financial position, drawn up according to IFRS requirements, including values that would have booked if mergers of EDSlan S.r.l. and Mosaico S.r.l. were made last year:

(euro/000)	31/12/2018	31/12/2017 Pro-forma
ASSETS		
Non-current assets		
Property, plant and equipment	10,039	10,741
Goodwill	16,429	16,429
Intangible assets	649	1,009
Investments in associates	-	-
Investments in others	86,086	85,945
Deferred income tax assets	4,970	2,600
Derivative financial assets	-	377
Receivables and other non-current assets	3,095	6,406
	121,268	**123,507**
Current assets		
Inventory	304,237	319,723
Trade receivables	199,871	187,259
Income tax assets	2,945	2,951
Other assets	195,363	174,344
Derivative financial assets	375	-
Cash and cash equivalents	173,681	179,311
	876,472	**863,588**
Disposal grou ps assets	-	
Total assets	**997,740**	**987,095**
EQUITY		
Share capital	7,861	7,861
Reserves	293,182	290,894
Group net income	(1,030)	11,752
	300,013	**310,507**
Total equity	**300,013**	**310,507**
LIABILITIES		
Non-current liabilities		
Borrowings	12,804	18,163
Deferred income tax liabilities	2,842	2,722
Retirement benefit obligations	3,793	4,211
Provisions and other liabilities	1,400	1,629
	20,839	**26,725**
Current liabilities		
Trade payables	521,203	485,926
Short-term financial liabilities	132,744	150,222
Income tax liabilities	-	531
Derivative financial liabilities	613	644
Provisions and other liabilities	22,328	12,540
	676,888	**649,863**
Total liabilities	**697,727**	**676,588**
Total equity and liabilities	**997,740**	**987,095**

The table below shows the Esprinet S.p.A. pro-forma separate income statement 'by function', drawn up according to IFRS requirements, including values that would have booked if mergers of EDSlan S.r.l. and Mosaico S.r.l. were made last year:

(euro/000)	2018	2017 Pro-forma
Sales from contracts with customers	**2,267,797**	**2,010,742**
Cost of sales	(2,166,521)	(1,901,506)
Gross profit	**101,276**	**109,236**
Sales and marketing costs	(36,419)	(35,726)
Overheads and administrative costs	(53,028)	(53,333)
Impairment loss/reversal of financial assets	(9,266)	(1,648)
Operating income (EBIT)	**2,563**	**18,529**
Finance costs - net	(3,457)	(2,246)
Result before income taxes	**(894)**	**16,283**
Income tax expenses	(136)	(4,531)
Net result	**(1,030)**	**11,752**
- of which attributable to non-controlling interests	-	-
- of which attributable to Group	(1,030)	11,752

Notes to the Esprinet S.p.A. financial statements

1. General information

Esprinet S.p.A. (or the 'Company') distributes IT products (hardware, software and services) pitching itself at a customer base made up of resellers that in turn target both consumer and business users.

It is also the parent company with both direct and indirect shareholdings in companies operating in Italy, Spain and Portugal.

In Italy and in Iberian peninsula, the Group operates solely in the 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics.

Esprinet S.p.A. has its registered and administrative offices in Italy at Vimercate (Monza e Brianza).
Ordinary shares in Esprinet S.p.A. (ticker: PRT.MI) have been listed in the STAR segment of the MTA market of Borsa Italiana S.p.A., the Italian Stock Exchange since July 27, 2001.
The parent company Esprinet S.p.A. drafted the Esprinet Group consolidated financial statements as at 31 December 2018.

2. Accounting principles and valuation criteria

The principal accounting policies applied in the preparation of these Esprinet S.p.A. financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

2.1 Accounting principles

The Esprinet S.p.A financial statements (or 'separate financial statements' as defined by IFRS) as at 31 December 2018 have been drawn up in compliance with IFRS requirements issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as the regulations issued as per art. 9 of D. Lgs. n. 38/2005.
The acronym IFRS stands for the International Financial Reporting Standards (IFRS), which include the recent evolution of the International Accounting Standards (IAS) and all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

The financial statements have been drawn up using the historical cost, except for the assessment of some financial instruments, where the fair value criteria are applied, and also the going concern presumption.

2.2 Presentation of financial statements

The presentation formats of the financial position and income and cash-flow statements have the following characteristics:

- statement of financial position: current and non-current assets and current and non-current liabilities are reported separately;
- statement of comprehensive income: income statement and statement of comprehensive income are reported in two different statements;
- separate income statement: costs have been analysed by function;
- statement of cash flows: drawn up as per the indirect method set out in IAS 7.

The choices made in terms of the presentation of the statement of accounts derive from the conviction that these contribute to an improvement in the quality of the information provided.

The figures presented in the separate and comprehensive income statements and in the statement of financial position are expressed in euro, whereas those in the statement of cash flows are expressed in thousands of euro.
Furthermore, in some cases the tables might have some inaccuracies due to the rounding-up to thousands.

2.3 Summary of significant valuation criteria and accounting policies

Non-current assets

Intangible assets and goodwill

Intangible assets are assets that have no identifiable physical nature, that are controlled by the company and that are able to generate future income.

They include goodwill, when it is acquired for a consideration.
Intangibles and goodwill deriving from business combinations occurred until the end of 2009 are recorded at purchase cost, including incidentals and necessary costs to make them available for use. For business combinations occurred from 1 January 2010, except some particular cases, goodwill is measured as the excess of the acquisition-date fair value of the consideration transferred compared to the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed (any costs directly attributable to the combination, except costs of issuing debt or equity instruments, are expensed).
Intangible assets with a defined useful life are systematically amortized over their useful life, taken as the estimate of the period that the assets shall be used by the Group. In particular the item 'Industrial and other patent rights' is amortized within three years.

Goodwill and other intangible assets with indefinite useful lives are not amortized on a straight-line basis, but are subject to an annual impairment test. The Impairment test is described below in the section entitled 'Impairment of non-financial assets'. The increased carrying amount of an intangible asset with defined or indefinite useful life attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortisation) had no impairment loss been recognised for the asset in prior years. This reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

Revaluation of goodwill is not permitted, even in application of specific laws, as it is not reinstated when the reasons for a write-down no longer apply.

Property, plant and equipment

Property, plant and equipment are shown in the financial statements at purchase or production cost, or at their conveyance value, including any directly attributable incidental costs and costs deemed necessary to make them operable.
Ordinary maintenance and repair costs are charged to the income statement for the year in which they are incurred. Extraordinary maintenance costs leading to a significant and tangible increase in the productivity or useful life of an asset are added to the value of the asset concerned and amortised over a period representing its remaining useful life.
Costs for leasehold improvements are entered under their relevant tangible assets category.

Individual components of a facility that have different useful lives are recognized separately, so that each component may be depreciated at a rate consistent with its useful life.
Fixed assets are systematically depreciated every year, in line with depreciation schedules drawn up to reflect the remaining usefulness of the assets concerned. The value reported in the statement of financial position is shown net of accumulated depreciation according to the remaining possible use of the asset.

The depreciation rates, substantially unchanged compared to the previous year, applied for each asset category are detailed as follows:

	Economic - technical rate
Security systems	25%
Generic plants	from 10% to 19%
Conditioning plants	from 13% to 14,3%
Telephone systems and equipment	20%
Communication and telesignal plants	25%
Industrial and commercial equipment	from 7,1% to 14%
Electronic office machines	20%
Furniture and fittings	11%
Other assets	from 10% to 19%

If there are indications of a decline in value, assets are subjected to an impairment test. The Impairment test is described below in the section entitled 'Impairment of non-financial assets'. When the reasons for a write-down no longer apply, the asset's cost may be reinstated. The increased carrying amount attributable to the reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. This reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case it is treated as a revaluation increase.

Leasing transactions

Assets acquired through financial leases are registered under property, plant and equipment, and are entered at the lower of the market value and the value obtained by time-discounting the rents and redemption price determined at the time the contract is signed. The relevant liability is entered under 'Financial liabilities'.
The leases, in which the lessor substantially maintains the risks and benefits associated with the ownership of assets, are itemised as operating leasing. The earnings (costs) emerging from operating leasing are entered straight-line in the income statement during the life of the leasing contract.

Impairment of non-financial assets

IAS 36 requires the testing of property, plant and equipment and intangible assets for impairment when there are indications that impairment has occurred. In the case of goodwill, other assets with indefinite lives and investments in subsidiaries, associates and other companies, this test must be conducted at least annually.

In the case of goodwill, Esprinet S.p.A. carries out the impairment tests foreseen by IAS 36 in respect of all cash generating units to which goodwill has been allocated.
The recoverability of a carrying amount is tested by comparing it against an asset's fair value, less cost to sell, when there is an active market, or its value in use, whichever is greater. Value in use is the present value of future cash flows expected to be derived from an asset or a Cash Generation Unit (CGU) and from its disposal at the end of its useful life. CGUs have been identified within the Company's organizational and business structure as homogeneous groups of assets that generate cash inflows independently through the continued use of the assets included in each group.

With reference to the investments in subsidiaries and in associated companies, in case of dividend distribution, the following should also be considered as 'impairment indicators':

- Investment in subsidiary book value in the financial statement exceeding the consolidated carrying amount of the subsidiary net asset (possible connected goodwill included);
- The dividend exceeding the total comprehensive income of the subsidiary in the period to which the dividends refer.

Investments in subsidiaries and other companies

Investments in subsidiaries, associates and other companies are valued at acquisition or subscription cost.
Cost is reduced for long-term losses, where investments have endured losses and are not expected – in the immediate future at least – to realise profits that will be such to absorb the losses incurred; the original value is restored in later years, should the reasons for a given write-down cease to exist. Positive balances arising at the time of acquisition between the acquisition cost and the quota of equity of the company invested in and belonging to the company at current values, is therefore included in the value charged to the investment.

Deferred income tax assets

Deferred income tax assets are recorded at face value. They are entered in the books when their recovery is deemed probable. See also the comment under item 'Income taxes'.

Financial assets

Receivables and financial fixed assets that will be held until their maturity are stated at the cost represented by the fair value of the initial payment given in exchange, increased by the costs of the transaction (e.g. commissions, consultancy fees, etc.). The initial statement value is subsequently modified to take into account any capital repayments, write-downs and amortization of the difference between the reimbursement value and the initial statement value. The amortization is carried out based on the effective internal rate which is the rate that renders the current value of expected cash flows and the initial statement value identical at the moment of the initial statement (so-called amortized cost method).

Financial assets destined for negotiation and financial assets available for sale are stated at fair value with the effect accounted in the income statement item 'Finance income/(cost)' and the Shareholders' Equity item 'Other reserves' respectively.
When the purchase or sale of a financial asset foresees the payment for the transaction and the delivery of the asset within a set number of days, established by the market authorities or by

convention (e.g. purchase of shares on regulated markets), the transaction is stated at the payment date.
Financial assets that are sold are eliminated from the assets when the right to receive cash flow is transferred together the risks and benefits associated with the ownership of that asset.
At each reporting date the Company assess whether there is any indication that a financial asset or a group of financial assets may be impaired.

Current assets

Inventory

Stock is taken at the lower of acquisition cost and realisable value, as obtained from market trends, whilst taking into account the features peculiar to the target sector of the Company concerned, which sells mainly IT products and consumer electronics that rapidly become obsolete.
The configuration of cost adopted when valuating stock is based on the FIFO method of accounting.
Purchase cost considers additional expenses as well as any discounts and allowances granted by vendors, in accordance with the sector's standard business practice, in relation to predetermined sales targets being achieved and marketing activities being adequately developed in order to promote the brands being distributed and to develop the sales channels utilised. Cost includes 'price protections' on inventories granted by suppliers on the purchasing prices.
Obsolete and surplus stock and stock characterised by slow turnover is written down to reflect the chances of selling it.

Trade and other receivables

Trade and other receivables are initially stated at 'fair value'.
After first appraisal, receivables are stated at the amortised cost based on the real IRR (Internal Rate of Return), that is, the rate that renders the current value of expected cash flows and the initial statement value identical at the moment of the initial appraisal (so-called amortised cost method).
The amount obtained using the amortised cost method, is then reduced to the realisable amount in the case of loss occurring.
Write-downs are determined by considering the solvency of individual creditors, the insurance coverage and the level of credit risk, based on the available information and accumulated historical experience.

Receivables assigned without recourse can be de-recognized only when they meet the de-recognition requirements of IFRS 9.

Income tax assets

Current taxation assets are stated at fair value; they include all those assets that are taxable by the Tax Authorities or that can be financially compensated in the short term. See also the comment under item 'Income taxes'.

Other current assets

Other current assets are stated at the lesser of the cost and the net realisable value.

Cash and cash equivalents

Cash in hand includes all liquid funds and deposits in bank accounts that are immediately available, as well as other liquidity with a duration of less than three months.
The liquid funds in euro are stated at their face value, while liquid funds in other currencies are stated at the current exchange rate at the end of the year.

Equity

Own shares

Own shares are stated at cost and deducted from equity. In the case of any subsequent sale, the difference between the cost of own shares and the selling price is recognized in equity.

Current and non-current liabilities

Financial liabilities

Financial liabilities are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.
Financial liabilities are initially stated at fair value, to which any eventual costs related to the transaction are added. Afterwards, financial liabilities are stated at the amortized cost using the actual interest rate for the discount calculation.
Financial liabilities are removed from the income statement once the obligation specified in the contract has been fulfilled, cancelled or expired. The difference between the book value of the financial liability which is paid off or transferred to another party and the sum paid is reported in the income statement.
The fair value of a financial asset or liability quoted in an active market is defined, at each reporting date, in terms of the quoted market price or of the dealers' price ('bid price' for asset held or liability to be issued, 'asking price' for an asset to be acquired or a liability held), without any deduction for transaction costs. If the market for a financial instrument is not active the fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Provisions for risks and charges

Provisions are made when there is the probable existence of an obligation, be it actual, legal or implicit, due to past events and the amount of the obligation can be reliably estimated. The provisions are stated at the value that represents the best estimate of the amount that the company would reasonable paid for settling the obligation or transferring it to third parties at year end. Where there is a significant financial effect over time and the payment date of the obligations can be reasonably estimated, the provisions are actualised; the increase in the provisions linked to the passing of time is stated in the separate income statement in the item 'Finance costs'.

Staff post-employment benefits

Staff post-employment benefits are defined on the basis of plans which even though not yet official are called either 'fixed contribution' or 'defined benefit' plans, depending on their characteristics.

In the 'fixed contribution' plans the obligation of the company, limited to the payment of contributions to the State or entity or a distinct legal authority (fund), is calculated on the basis of the contributions owed. Until the 2007 Financial Law and relative enforcing decrees came into force, the uncertainty regarding payment times meant that staff severance indemnity (TFR) was likened to a defined benefit plan.
Following the reform, the allocation of accruing staff severance indemnity quotas to the pension fund or to INPS, the Italian Social Security body, caused the transformation of the plan into a fixed contribution plan, where the company's obligation is exclusively the payment of the contributions either to the fund or to INPS.
Liabilities relating to past staff severance indemnity still represent a defined benefits plan calculated by independent actuaries using an actuarial-type method.

Since 2013 actuarial profits and losses, deriving from changes to actuarial hypotheses, are reported in an appropriate equity reserve figure as required by the IAS19R.
Pursuant to IAS 19, the above-mentioned reform has made it necessary to recalculate the value of the past staff severance indemnity provision due to the exclusion of the actuarial hypotheses linked to salary increases and the revision of financial-type hypotheses. This effect (curtailment) has been reported in the 2007 separate income statement in reduction of personnel costs.

Payables, other debts, other liabilities

Payables, other debts and other liabilities are initially reported at their fair value increased by any costs linked to the transaction. They are later reported in the income statement at their face value, since no time-discounting or separate entry of interest payable is deemed necessary given the foreseen payment times.
Provisions for presumed debt are liabilities paid for goods or services which have been received or supplied but not yet paid and include amounts due to staff or other subjects.
The degree of uncertainty regarding the timing or amount of the allocations for 'Other debt/liability' is rather less than that of the provisions.
For further details regarding trade payables please see 'Definitions' below.

Income statement

Revenues and expenses

Revenues from sales and services are stated at the moment of transfer of the typical risks and advantages of property or at the time the service is performed.
Revenues are recognised at the time of shipment when the risk of loss is transferred to the buyer at that time.
Revenues are stated net of returns, discount, allowances and bonuses, as well as directly related taxation.

Costs are recognised when related to goods and services sold or used in the period or proportionally when their useful future life cannot be determined.
The purchase cost of products is reported net of any discounts granted by vendors for 'protection' provided in respect of price-list reductions and product replacements. Credits arising from any such allowances are recorded by using the accrual method of accounting, based on information from the vendors concerned.
Discounts granted for immediate cash payments of invoices payable upon presentation are used to reduce the cost of the products purchased, since – as is standard practice in the sector in which the Company operates – the commercial component is considered predominant.

Dividends

Dividend payable is stated at the date of approval of the decision by the Assembly.

Stock grants

Labour costs include stock options and/or stock grants awarded to managers in as much as they represent actual remuneration accruing at the closing date of the financial statements.
The cost is calculated in reference to the fair value of the assignment awarded to the employee.
The portion belonging to the period is calculated pro rata temporis over the vesting period.

The fair value of assigned stock grants is measured by the 'Black-Scholes' and is stated in the form of a counterparty in the 'Reserves'.

Income taxes

Current income taxes are calculated with an estimate of taxable income; the forecast payable is stated in the item 'Current income tax liabilities' but, if surplus accounts have been paid, the receivable is stated in the item 'Current income tax assets'. Tax payables and receivables for current taxation are stated at the value that it is expected to pay to or to recover from the Tax Authorities when applying the rates and current tax law or laws which have been substantially approved at the end of the period.
Deferred and advance income taxes are calculated using the 'liability method' on the temporary differences between the values of assets and liabilities stated on the statement of financial position and the corresponding values recognised for tax purposes. The statement of assets for advanced taxation is made when their recovery is probable.
Deferred and advance taxation are not stated if they are linked to the initial statement of an asset or liability in a different transaction by a business combination and that does not have an impact on the results and taxable income.

Assets for advanced taxation and liabilities for deferred taxation are stated in the fixed assets and liabilities and are off-set for each single company if they are taxes that can be off-set. If the balance of this off-set is positive, it is stated in the item 'Deferred income tax assets'; if it is negative, it is stated in the item 'Deferred income tax liabilities'.

Foreign currency translation, transactions and balances

Functional and presentation currency

Items included in this financial statement are measured using the currency of the primary economic environment in which the entity operates (the functional currency).
The consolidated financial statements are presented in euro, which is the Company's functional and presentation currency.

Currency transactions and translation criteria

Foreign currency transactions are entered under functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currency are converted into euro by applying the current exchange rate at the end of the period and the effect is stated in the separate income statement. Non-monetary assets and liabilities in foreign currency valued at cost are stated at the initial exchange rate; when they are valued at fair value or their recoverable or sale value, the current exchange rate is used on the date that the evaluation is made.

Financial derivatives

Derivatives are financial assets and liabilities that are stated at their fair value.
Derivatives are classified as hedging instruments when the relationship between the derivative and the underlying instrument is documented and the effectiveness of the hedge is both high and regularly verified.

When a derivative covers the risk of variation of cash flow of the underlying instrument (cash flow hedge; e.g. to cover the variability of cash flow of assets/liabilities due to changes in interest rates), the variation in the fair value of the derivative is initially stated in the shareholders' equity (and, consequently, in the statement of comprehensive income) and afterwards in the separate income statement in line with the economic effects produced by the covered transaction.
If the hedging instrument expires or is sold, terminated or exercised (replacement excluded), or if the entity revokes the designation of the hedging relationship, the cumulative gain or loss on the hedging instrument recognised directly in equity from the period when the hedge was effective shall remain separately recognised in equity until the forecast transaction occurs.

Variations of fair value derivatives that do not fulfil the requirements necessary to be defined as hedging instruments are stated in the separate income statement.

Other information

Please note that the information required by Consob regarding significant operations and balances with related parties has been entered separately in the statement of accounts solely when significant and can also be found under 'Other significant information'.

2.4 Critical accounting estimates and definitions

2.4.1 Introduction

The IT and electronic consumables distribution sector presents some significant specific features, as it is to some extent independent of geographic constraints, especially as regards commercial relations with suppliers of products or vendors.
This is particularly evident in the conditions and formation of the so-called back-end profit margin, which results from the difference between the purchase price of the products and the sales price to the final consumer or reseller according to the terms of each supplier (with respect of the distributor's main function which naturally remains that of brokering the flow of products between supplier/producer and reseller/retailer).

Purchase conditions typically provide for a basic discount on end-users'/resellers' price lists and a series of additional conditions that vary from vendor to vendor in terms of function and terminology but which can normally be summarised in the following categories:
- bonuses/rebates for attaining targets ('sell-in', 'sell-out', number of clients, logistic efficiency, etc.);
- development funds, co-marketing and other incentives;
- cash discounts (also called 'prompt payment discounts').

Esprinet S.p.A. further benefits from current agreements with almost all the vendors in the form of specific contractual protections concerning the value of unsold stock, the aim of which is to neutralise the financial risk associated with variations in list prices of products ordered ('price protection') or already present in the distributor's warehouses ('stock protection'), within certain limits.
In the first case, the protection is generally recognised through the invoicing of products ordered and not yet sent at the new price; in the second case, the vendor usually accords a credit equal to the reduction in price of the products.
As for the cash discounts, these are generally recognised following respect of the contractually fixed payment terms and provide an incentive to pay punctually.
These conditions allow for deferred payments in all cases with respect to the issue of the relative invoice or sending of the merchandise.
In line with what happens for the financial discounts offered to some selected groups of customers, which are accounted for as reduced earnings, the cash discounts are accounted for in the form of reduced purchase costs.

It is not possible within the sector to establish mid-norm payment terms policies regarding payment to suppliers as there is a considerable variety of conditions according to supplier. More in particular, payment terms range from a minimum of 7 to a maximum of 120 days, and only occasionally a cash payment is required.

In some cases, the payment terms set out in the invoice are the object of further agreed deferrals, for each shipment or on the basis of clearly-defined commercial programmes set up by the suppliers.

In the cases in which the above-mentioned deferrals carry an additional charge, the interest rate applied is not explicit, except in rare cases. Further, it often happens that implicit deferral terms – sometimes applied through a reduction in the contractually agreed cash discounts – have no connection with the current financial market rates, thus revealing how the commercial item takes precedence over the strictly financial item compensating for the delay between the date the debt arises and its effective payment.

This element is also suborned by the relatively brief duration, on average, of the deferral period, even when extended, which never, except in rare cases, exceeds 90 days.

2.4.2 Critical Definitions

For the purposes of the drafting of the present statement of accounts, and as a further qualification of the definitions contained in the IFRS, some conventional definitions regarding the nature of the liability entries have been adopted.

Financial liabilities

'Financial debt' is the term used to describe obligations to pay given amounts on a given date arising from the obtaining of financial liquidity as a loan.
These include the type of transaction set out below, prevalently of a financial character and explicitly remunerated, and, in terms of the identity of the creditor, typically represented by a financial body or institution.
As examples, and regardless of the item's current or non-current character, the following liabilities are considered financial debt:

- payables to banks;
- payables to leasing companies (financial leasing operations);
- payables to factoring companies (without recourse advances).

Not included in the category of financial debt are those liabilities which, although not deferred payment for the purchase of goods or services, nevertheless do not strictly constitute loans.
By contrast, costs deriving from the above-mentioned loans, including interest on current account overdrafts, on short and medium/long-term loans, the amortisation of initial loan operation costs, costs associated with financial leasing and exchange-rate differences, are entered in the books among the financial costs.

Trade payables

The category 'payables to suppliers' includes liabilities arising from the deferred purchase of goods or services.
Liabilities representing the deferred payment of goods or services are therefore entered under payables to suppliers at their face value, since no updating and separate itemisation in the income statement in terms of explicit or separate interest due is deemed necessary for considering the expected payment times.

2.4.3 Critical accounting estimates and assumptions

The preparation of the financial statements and the related notes has required the use of estimates and assumptions both in the measurement of certain assets and liabilities and in the valuation of contingent assets and liabilities.
Estimates and assumptions have been made based on historical experience and other factors, including expectations of future events, the manifestation of which are deemed reasonable.
Estimates and assumptions are revised on a regular basis, and the impact of such revision is immediately recognised in the income statement in the period of the change, if the change affects that period only, or in the period of the change and future periods if the change affects both.

The assumptions regarding future performance are characterized by uncertainties. This means that different results - obviously neither estimable nor foreseeable, today – which might even cause significant adjustments to the book values of the relative items, cannot be excluded for the next financial year.

The financial statement items mainly affected by these situations of uncertainty are certain sales revenues, some sales reversals, the provisions for risks and charges, the allowances for doubtful accounts, depreciations and amortisation, employee benefits, income taxes and goodwill.

The critical valuation processes and the estimates and assumptions deemed likely to produce significant effects on the financial situation of the Esprinet S.p.A., should the future events set out not take place in whole or in part, are summarised below.

Goodwill

For purposes of verifying loss of goodwill value entered in the books, the 'value in use' of the Cash Generating Units ('CGUs') to which a goodwill value has been attributed has been calculated.
The CGUs have been identified within the Company's organisational and business structure as homogeneous groups of assets that generate cash inflows independently, through the continued use of the assets included in each group.
The use value has been calculated by the discounting back of expected cash-flows for each CGU as well as of the value expected from its disposal at the end of its useful life.
To this end, the so-called Discounted Cash Flow Model (DCF) has been used, which requires that future financial flows be discounted at a rate adjusted to the specific risks of each single CGU.
The evaluation of the recoverable amount for each Cash Generating Unit ('CGU'), in terms of value in use, is based on assumptions – sometimes complex - that by their nature involve the Directors' judgement, in particular with reference to future cash-flows forecasts, relating both to the period of the Group's strategic plan for 2018-2023E and beyond the plan horizon.

'Fair value' of derivatives

For purposes of the present statement of accounts it has been necessary to measure the fair value of the IRS - Interest Rate Swap contracts signed in April 2017 in order to hedge the risk of changes in future cash flows of the hedged loans technically defined as 'amortising - forward start'.

Their conditions fully comply with IFRS 9 regarding 'hedge accounting' (formal designation and documentation of the hedging relationship; hedge expected to be highly effective and reliably measured; forecast transaction highly probable and affecting profit or loss) and as a consequence, the derivative contracts were subject to the 'cash flow hedge' accounting rules. At inception date the portion of the gain or loss on the hedging instrument (that has been determined to be an effective hedge) has been recognised directly in equity. Subsequent changes in fair value of the expected future cash flows on the hedge item from inception of the hedge (due to changes in the interest rate curve) have been similarly recognised directly in equity (always within limits of being an effective hedge) and, consequently, shown in the statement of comprehensive income.

Stock grant

For the purposes of the present statement of accounts, it has been necessary to include in the books the economic/asset effects associated with the stock grant plans in favour of some managers of Esprinet S.p.A., the operation of which is better illustrated in the paragraphs 'Share incentive plans' and 'Share capital'.
The cost of these plans has been specifically determined with reference to the fair value of the rights assigned to the single beneficiaries at assignment date.
Bearing in mind the unusual and manifold operating conditions – in part governed by the consolidated financial results of the Group and in part by the permanence of the beneficiary in the Group until the vesting date of the plans – this fair value has been measured using the 'Black-Scholes' method, taking expected volatility, presumed dividend yield and the risk-free interest rate into account.

Revenue recognition

For purposes of recognising earnings on sales and services, insufficient information regarding haulers' actual consignment dates, means that dates are usually estimated by the Group on the basis of historical experience of average delivery times which differ according to the geographical location of the destination. For revenue recognition purposes for services, the actual moment the service is rendered is considered.

Revenues adjustments and credit notes to be issued toward customers

Esprinet S.p.A. usually estimates amounts to be recognised to customers as discounts for targets achievement, in order to promote the sales development also through temporary promotions, for different kind of incentives.
The Company has developed a series of procedures and checks to minimise potential errors in evaluations and estimates of the credit notes to be issued.
However, in the light of the significant judgements and estimates made, the large number and variety of customers dealings and the complexity of calculation, the possibility of differences between the estimated amounts and those actually received cannot be excluded.

Costs adjustments and credit notes due from vendors

Bearing in mind the unusual practices of the sector regarding the way purchase and sale conditions are defined and, ultimately, the way the trading margin is formed and stated, estimates are usually effected by the Company, especially where the occurrence of events might provoke significant financial effects.
Estimates of the sums of credit notes due from vendors to suppliers as rebates for the achieving of targets and incentives of various kinds, reimbursements for joint marketing activities, contractual stock protection, etc. at the drafting date of this document are referred to in particular.

The Company has developed a series of procedures and checks to minimise possible errors in evaluations and estimates of the credit notes due.
However, in the light of the significant judgements and estimates made, the large number and variety of vendors dealings and the complexity of calculation, the possibility of differences between the estimated amounts and those actually received cannot be excluded.

Depreciation and amortisation of assets

Tangible and intangible assets with a defined useful life are systematically depreciated throughout their useful life.
Useful life is defined as the period in which the activities will be used by the Company.
This is estimated on the basis of experience with similar assets, market conditions and other events likely to exercise any influence on the useful life including, just as an example, significant technological changes.
As a result, the actual economic life may differ from the estimated useful life.
The validity of the expected useful life in terms of its asset category is regularly checked by the Company. This revision may result in variations to the periods of depreciation and amortization quotas in future accounting periods.

Bad debt provision

For purposes of calculating the presumed degree of receivables realization, the Company makes forecasts concerning the degree of solvency of the other parties, on the basis of available information and historical experience.
The actual realizable value of receivables may differ from that estimated because of uncertainties regarding the conditions underlying the appraisal of solvency made.

Any extension and/or deterioration of the present economic and financial crisis may cause a further worsening in the financial conditions of the Company's debtors as opposed to that already taken into consideration when estimating the provision entered in the statement of financial position.

Stock obsolescence provision

The Group usually effects forecasts regarding the realisable value of obsolete, surplus or slow-moving stocks.
This estimate is mainly based on historical experience and takes into consideration the peculiarities of the respective stock sectors.
The value of encashment of the stocks may differ from that estimated because of the uncertainty affecting the conditions underlying the estimates made.
The present economic and financial crisis may cause a further worsening in market conditions compared with that taken into consideration when estimating the provision entered in the financial statements.

Provision for risks and charges

The Company makes provision for risks and charges on the basis of assumptions referred essentially to sums that might reasonably be paid to meet obligations for payment relating to past events.
The estimate is the result of a complex process including the involvement of legal and tax consultants and which also includes personal opinions on the part of the Company's management. The sums actually paid to extinguish or transfer the obligations for payment to third parties may also differ significantly from those estimated for purposes of provision.

Benefits to employees

Liabilities arising from benefits to employees subsequent to the employment noted in the statement of accounts are calculated by the application of actuarial methods as per IAS 19.
These methods have required the identification of several employment possibilities and estimates of a demographic (probability of death, disability, leaving the labour market, etc.) and financial nature (technical rate of discounting back, inflation rate, rate of increase in remuneration, rate of increase of severance indemnity).

The validity of the estimates made depends essentially on the stability of the regulations used as a reference point, the progress of market interest rates, the progress of the remuneration dynamics and eliminations, and also on the frequency of access to advances on the part of employees.

Income tax expenses

Current income taxes are calculated on the basis of the estimate of liable earnings, by applying the current fiscal rates pertaining on the date of the drafting of the statement of accounts.
Deferred and advance taxes are determined by the temporary differences arising between the values of the assets and liabilities reported and the corresponding values recognised for tax purposes, using those tax rates considered possible upon encashment of the asset or extinguishment of the liability. Deferred tax assets are registered when the associated recovery is deemed probable; this probability depends upon the effective existence of taxable results in the future enabling deductible temporary differences to be used.

The future taxable results have been estimated by taking into consideration the budget results and the plans consistent with those used to effect impairment tests. The fact that deferred tax assets refer to temporary tax differences/losses, a significant amount of which may be recovered over a very long time-span, compatible therefore with a situation where overcoming the crisis and economic recovery might extend beyond the time-frame implicit in the aforementioned plans, has also been taken into account.

2.5 Recently issued accounting standards

Information regarding the new approved accounting principles starting from 1 January 2018, as well as the principles applicable starting from 1 January 2018, together with the specifications concerning the approach of the Group towards them and the effects on the Esprinet S.p.A. financial statements can be found in the 'Notes to the consolidated financial statements'.

2.6 Changes in accounting estimates and reclassifications

Changes in critical accounting estimates

Pursuant to IAS 8, no changes in the critical accounting estimates regarding previous periods, have been made in this financial statements.

Reclassifications in income statement

No reclassifications in income statement regarding previous periods, have been made in this financial statements. In the notes to the items of the income statement (and sometimes also in the notes to the statement of financial position), for the sake of a better comparability, 'pro-forma' values as at 31 December 2017 are displayed that reflect the effects of the merger of the subsidiaries EDSlan S.r.l. and Mosaico S.r.l. as if occurred on 1 January 2017 (the merger occurred in 2018 with accounting and tax effects backdated to 1 January 2018).

3. Notes to statement of financial position items

Non-current assets

1) Property, plant and equipment

(euro/000)	Plant and machinery	Ind. & comm. equipment & other assets	Assets under construction & advances	Total
Historical cost	10,657	24,059	109	**34,826**
Accumulated depreciation	(7,996)	(16,380)	-	**(24,376)**
Balance at 31/12/2017	**2,661**	**7,679**	**109**	**10,450**
Merger changes - Historical cost	11	616	-	**627**
Merger changes - accumulated depreciation	(3)	(333)	-	**(336)**
Historical cost increase	356	1,174	1,018	**2,548**
Historical cost decrease	-	(123)	-	**(123)**
Historical cost reclassification	87	22	(109)	**-**
Increase in accumulated depreciation	(825)	(2,403)	-	**(3,228)**
Decrease in accumulated depreciation	-	102	-	**102**
Total changes	**(374)**	**(945)**	**909**	**(410)**
Historical cost	11,111	25,748	1,018	37,877
Accumulated depreciation	(8,824)	(19,014)	-	(27,838)
Balance at 31/12/2018	**2,287**	**6,734**	**1,018**	**10,039**

The property, plants and equipments as at 31 December 2018 amount to 10.0 million euro, showing a decrease of 0.4 million euro compared with the value as at 31 December 2017.

As of 31 December 2018, investments essentially concerned security, surveillance and air-conditioning systems, as well as equipment for the Cavenago logistics hub (part of these have not

yet been commissioned as of the period-end date) and electronic machines and furniture and furnishings.

The balance relating to the 'merger changes' equal to 0.3 million euro refers to the contribution of the EDSlan S.r.l. and Mosaico S.r.l. mergers into the Company legally effective as of 1 November 2018 with accounting and tax effects backdated to 1 January 2018.

The following is the breakdown of the item 'Industrial and commercial equipment and other assets':

(euro/000)	31/12/2018	31/12/2017	Var.
Electronic machines	3,472	4,151	(679)
Furniture and fittings	1,545	1,808	(263)
Industrial and commercial equipment	1,019	839	180
Other assets	698	881	(183)
Total	**6,734**	**7,679**	**(945)**

The useful life related to the various asset categories remained unchanged compared to the previous year.

Please note that there are no temporarily unused tangible fixed assets intended for sale and that supply contracts signed within the financial year, but not recognised in the financial statements are insignificant.

2) Goodwill

Goodwill amounts to 16.4 million euro showing an increase equal to 5.8 million euro compared with 31 December 2017 value (equal to 10.6 million euro), due to the merger of Mosaico S.r.l. during 2018 fiscal year.
The following table summarises the values of the single goodwill items in terms of the business combinations from which they arose:

(euro/000)	31/12/2018	31/12/2017	Var.
Mosaico S.r.l.	5,803	-	5,803
Assotrade S.p.A.	5,500	5,500	-
Pisani S.p.A.	3,878	3,878	-
Esprilog S.r.l.	1,248	1,248	-
Total	**16,429**	**10,626**	**5,803**

Mosaico S.r.l. represents goodwill generated from the excess price paid for the business unit 'VAD-Value Added Distribution' over its net equity value which was acquired in 2016 by Itway S.p.A. and then merged into Esprinet S.p.A. after the merger by incorporation of the former Mosaico S.r.l. occurred in 2018.
The Assotrade S.p.A. goodwill arose from the Esprinet's combination of the Assotrade 'IT Distribution' business unit. The Pisani S.p.A. and the EspriLog S.r.l. goodwill items refer to the merger deficit arisen from the merger into Esprinet S.p.A. of Pisani S.p.A. and EspriLog S.r.l..

Disclosures regarding impairment tests of assets: goodwill

IAS 36 requires the testing of property, plant and equipment and intangible assets with indefinite useful life for impairment whenever there are indications that such an impairment may have occurred.

In the case of goodwill and other intangible assets with an indefinite useful life, this test, so-called 'impairment test', must be carried out at least annually and whenever 'triggering events' occur, i.e. extraordinary negative events implying the asset may be impaired.

Goodwill does not generate cash flows independently of other assets or group of assets so, in compliance with IFRS, it is not an 'individual asset' and may not be subjected to a separate impairment test being tested for impairment together with the group of activities to which it has been allocated.
For the purposes of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's 'CGU - Cash-Generating Units', or groups of CGUs that must not to be larger than an operating segment determined in accordance with IFRS 8.
In this case it was only possible to consider the company as a whole, since no smaller independent CGU-Cash Generating Units were identified where all or part of the goodwill items could be allocated.

The method of testing the recoverable amount of the above goodwill items and the valuation system used can be found in the same section of the Consolidated Financial Statements and in the subsequent section 'Investments in subsidiaries and other companies', to which refer.

The tests performed did not highlight any impairment. Consequently no write-downs appear in the financial statements and goodwill amounts have therefore not changed versus the previous year.
In addition, the management believes there are no reasons to foresee key assumption changes able to generate an impairment of the Esprinet S.p.A.'s net asset recoverable amount below the respective carrying amount.
Consequently, also in compliance with joint Bank of Italy/Consob/Isvap document n. 4 of 3 March 2010, a sensitivity test was performed on the results of the test regarding the combined variation in the following basic assumptions:

- the long term growth rate 'g' in order to obtain the cash flows beyond plan horizon;
- the cash flow discounted rate;
- the forecasted EBITDA.

The variation range compared to the 'normal' case taken into account are as follows:

- 'g' equal to 0% and lower than -50%;
- WACC higher than +2% and +1%;
- EBITDA lower than -10% and -20%.

Even in the 'worst case' scenario, when simultaneously with all the three variables at the lowest value of the above ranges, no write-down of the goodwill booked in the financial statement as at 31 December 2018 would be necessary.

3) Intangible assets

(euro/000)	Industrial and other patent rights	Assets under construction and advances	Total
Historical cost	6,671	6	**6,677**
Accumulated amortisation	(5,764)	-	**(5,764)**
Balance at 31/12/2017	**907**	**6**	**913**
Merger changes - Historical cost	381	-	**381**
Merger changes - accumulated amortisation	(285)	-	**(285)**
Historical cost increase	92	105	**197**
Historical cost decrease	-	-	**-**
Historical cost reclassification	6	(6)	**-**
Increase in accumulated amortisation	(557)	-	**(557)**
Decrease in accumulated amortisation	-	-	**-**
Totale changes	**(363)**	**99**	**(264)**
Historical cost	7,150	105	**7,255**
Accumulated amortisation	(6,606)	-	**(6,606)**
Balance at 31/12/2018	**544**	**105**	**649**

The item ‘Industrial and other patent rights’ includes the costs sustained for the long-term renewal and upgrade of IT operating system (software).
The increase in ‘Industrial and other patent rights’ refers to the software updates carried out during the year.

The balance relating to the 'mergers changes' for 0.1 million euro refers to the contribution of the EDSlan S.r.l. and Mosaico S.r.l. mergers into the Company legally effective as of 1 November 2018 with accounting and tax effects backdated to 1 January 2018.

This item is amortised in three years.

5) Investments in subsidiaries and other companies

(euro/000)	31/12/2018	31/12/2017	Var.
Investments in others	86.086	92.585	(6.499)

The following information concerns the Company’s investments in associates.
Data concerning net equity and net income refer to the draft financial statements as at 31 December 2018 approved by the respective Boards of Directors.

(euro)	Headquarter	Net equity [1]	Profit/(loss) [1]	% possession	Cost	Value
Celly S.p.A.	Vimercate	5,402,395	799,376	80%	9,934,440	9,934,440
V-Valley S.r.l.	Vimercate	2,584,711	780,524	100%	20,000	20,000
Nilox Deutschland GmbH	Düsseldorf (Germany)	(276,006)	(662,789)	100%	400,000	400,000
Esprinet Iberica S.L.U.	Saragozza (Spain)	128,610,553	44,659,989	100%	75,681,490	75,681,490
Esprinet Portugal Lda	Porto (Portugal)	(81,877)	(399,616)	5%	50,000	50,000
Total		**136,239,776**	**45,177,484**		**86,085,930**	**86,085,930**

(1) Data from draft financial statements as at 31 December 2017 drawn up in compliance with the respective local accounting standards.

The following table shows the movement in investments in subsidiaries during the year:

(euro/000)	Balance at 31/12/2017	Increase	Decrease	Reversal	Balance at 31/12/2018
Celly S.p.A.	9,935	-	-	-	9,935
Mosaico S.r.l.	100	-	100	-	-
EDSlan S.r.l.	6,540	-	6,540	-	-
V-Valley S.r.l.	20	-	-	-	20
Nilox Deutschland GmbH	100	300	-	-	400
Esprinet Iberica S.L.U.	75,841	-	160	-	75,681
Esprinet Portugal Lda	50	-	-	-	50
Total	**92,586**	**300**	**6,800**	**-**	**86,086**

In the course of 2018, we point out the merger by incorporation of Mosaico S.r.l. and EDSlan S.r.l. into Esprinet S.p.A. on 1 November 2018, aiming at maximising synergies from 2016 acquisition transactions of distribution activities in the market segments networking, cabling, VoIP and UCC-Unified Communication as regards EDSlan S.r.l., and ICT Security, Enterprise Software, Virtualisation and OpenSource/Linux solutions as regards Mosaico S.r.l..
The increase in the value of the subsidiary Nilox Deutschland, equal to 0.3 million euro, is due to the recapitalisation made by the Company to cover year losses.

The company V-Valley S.r.l. has the role of 'sales dealer', managing the sales operations in its own name and on behalf of its parent company. It therefore carries out an activity ancillary to that of the parent company and is fully subordinate to it, representing a company vehicle in which part of the 'value chain' of the parent company is merged (basically invoicing and credit management, including management of insurance related to the factoring programmes). No specific impairment test was conducted on the above-mentioned company, on the one hand because of its complete subordination to Esprinet, also evidenced by its inclusion in the same CGU subject to impairment testing, and on the other hand considering its non-material value (the company is booked for 20 thousand euro in the financial statements as per the initial capital paid in by the sole shareholder, Esprinet).

In compliance with IAS 36, in order to verify whether there is any indication that its investments in subsidiaries may be impaired, the entity perform at least annually an impairment test by comparing the value in use and the carrying amount of these investments.

A) Valuation system

In the case of the above-mentioned investments, their value in use was calculated from the cash flows reasonably obtainable from operations, discounted to the date of the analysis.
The above-mentioned cash flows were primarily estimated on the basis of the Group's plans forecast approved by the Board of Directors. These plans were drawn up, on the basis of the budget of 2019 considered a 'pivotal' year, thanks to forecasting techniques useful for both a separate management of fixed and variable costs, and defining the revenues and product gross margin trend. This was done by 'benchmarking' trends in the sector and the end market in its entirety, as evaluated by reliable external sources, as well as assuming, for each investment, different trends according to the current and prospective competitive position.

Projections are thus based on forecasts normally covering a 5-year period and the 'value in use' is estimated using the Discounted Cash Flow (DCF) model which, in order to estimate the discounting of future cash flows, requires an appropriate discount rate reflecting the degree of risk of the same cash flows.

An 'asset side' approach was used which presupposes discounting unlevered cash flows generated by operations.
These cash flows were calculated net of 'figurative income taxes' measured by applying an estimated tax rate to the operating income (EBIT). The discount rate includes the effect of price increases attributable to general inflation so future cash flows are estimated in nominal terms.
In order to calculate the value in use of the investments in subsidiaries needed to assess their recoverable value versus their book value the respective net financial debt was deducted for each company at 31 December 2018.

To estimate the discount rate the WACC', or Weighted Average Cost of Capital, has been used. Its cost of the capital (Ke) has been calculated using a Capital Asset Pricing Model ('CAPM') approach.

The terminal value recorded at the end of the forecast period was calculated using the 'Perpetuity Method' (unlimited capitalisation model of the last year's cash flow).
The approach used presupposes that from the end of the 5th year on, the cash flow will grow at a constant rate of 'g' and that therefore the terminal value will be calculated as perpetual income through the capitalisation of the last cash flow of the plan at a rate corresponding to the discount-back rate used (WACC) corrected by a growth factor.

As a precaution, with reference to Terminal Value, no working capital reductions/releases are foreseen in the 'basis' year but, consistently with the past, the achievement of a 'steady state' is assumed, characterized by an absence of incremental investments, also with reference to the working capital.
Please note that, in compliance with IAS 36 (A20) provisions that require a discount rate used to be a pre-tax rate, the post-tax version CAPM-calculated WACC was adjusted into the pre-tax equivalent defined as pre-tax WACC which leads to the same result when discounting back pre-tax cash flows.

B) Basic assumptions / Critical variables

In addition to the basic assumptions already above explained, such as the analytical forecast horizon and the growth rate 'g', information referring to the definition method of the discounted rates applied to the most relevant impairment tests are reported in the following table.

	Celly S.p.A.	**Esprinet Iberica S.L.U.**
Discount rates:		
Equity Risk Premium	5.5%	5.5%
ß "*unlevered*" di industry	0.65	0.65
Target Financial Structure (D/D+E)	26.1%	26.1%
Target Financial Structure (E/D+E)	73.9%	73.9%
WACC *post-tax*	8.13%	7.25%
WACC *pre-tax*	10.78%	8.99%

C) Value adjustments and 'sensitivity analysis

The impairment test regarding the investments in Celly S.p.A. and Esprinet Iberica S.L.U. did not reveal any need for write-downs as at 31 December 2018.

In addition, the management believes there are no reasons to foresee key assumption changes able to generate an impairment of the investments.
In that regard, for information purposes, pursuant to IAS 36, different sensitivity analysis of the test results were performed taking into account simultaneously the variation of the following basic assumptions:

- the long term growth rate 'g' in order to obtain the cash flows beyond plan horizon;
- the cash flow discounted rate;
- the forecast EBITDA for the plan horizon.

The variation range compared to the 'unique' scenario taken into account are as follows:

- 'g' decreased by -50% and equal to zero;
- WACC higher than +2% and +1%;
- EBITDA lower than -10% and -20%.

With reference to the 'Iberica' investments we point out that, even in the 'worst case scenario', i.e. with all the three variables set in the most adverse extremes of the possible range fluctuation, no write-downs of the investment value subject to impairment test would be necessary

Referring to Celly the scenario where WACC equals to 9.13% and EBITDA is 10% lower, would lead to a write-down of 1.3 million euro, while the scenario where 'g' equals 0% (i.e. reducing it by -100%) would lead to an investment write-down of 0.2 million euro.

The abovementioned sensitivity analysis was performed as required by IAS 36 solely for purposes of information and the directors do not believe further write-downs will be necessary since the cash flow forecasts and basic assumptions used in the impairment test are considered reasonably representative of 'unique scenarios' where a certain symmetry between 'best' and 'worst' scenarios can be expected.

6) Deferred income tax assets

(euro/000)	31/12/2018	31/12/2017	Var.
Deferred income tax assets	4,970	2,134	2,836

The balance of this item is represented by taxed provisions and other temporary differences between carrying amounts and other values recognised for tax purposes which the Company expects to recover in future operating years when tax when taxable earnings will be accounted.

(euro/000)	31/12/2018			31/12/2017		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Bad debt provision	11,976	24.00%	2,874	4,116	24.00%	988
Director's fees not paid	252	24.00%	60	96	24.00%	23
Inventory obsolescence provision	4,607	3.90%	180	2,093	3.90%	82
Inventory obsolescence provision	4,607	24.00%	1,106	2,093	24.00%	502
Agent suppl. indemnity provision	634	3.90%	25	719	3.90%	28
Agent suppl. indemnity provision	634	24.00%	152	719	24.00%	173
Provision sales returns	855	24.00%	205	-	24.00%	-
Provision sales returns	855	3.90%	33	-	3.90%	-
Other	1,320	24%-27,9%	335	1,386	24%-27,9%	338
Deferred income tax assets			**4,970**			**2,134**

The item 'Other' refers mainly to the deferred income tax assets arising from the temporary differences on the exchange losses valuation, on the actuarial valuation of the staff severance indemnity (TFR) and on the derivatives valuation.

The time-related allocation of this item is as follows:

(euro/000)		Whitin 1 year	1-5 year	After 5 year	Total
Deferred income tax assets	31/12/2018	2,991	1,835	144	4,970
	31/12/2017	683	1,301	150	2,134

8) Derivative financial liabilities (non-current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivative financial assets	-	377	(377)

In October 2015, the Company and Celly's non-controlling shareholder mutually granted put/call options on the residual 20% of Celly's shares, currently owned by the minority shareholder and expiring between the 5th and 7th year after the acquisition by the Group occurred on 12 May 2014.
The amount recognised in the financial statements under 'Derivative financial assets' as at 31 December 2017 referred to discounted difference, calculated on the bases of the 1year-risk free interest rate prevailing at the year end, between the valuation of the said share in Celly S.p.A. at the potential exercise date as assessed by management and the valuation of this subsidiary shareholding at same date based on the contract that regulates the mutually granted options.
The item is reduced to zero compared with previous year, being reclassified under current 'derivative financial assets' as the period approaches in which the put/call option may be exercised by both parties.

9) Receivables and other non-current assets

(euro/000)	31/12/2018	31/12/2017	Var.
Guarantee deposits receivables	1,675	4,526	(2,851)
Trade receivables	1,420	1,870	(450)
Receivables and other non-current assets	**3,095**	**6,396**	**(3,301)**

The details of Receivables and other non-current assets are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Guarantee deposits receivables	1,675	4,536	(2,861)
Trade receivables	1,420	1,870	(450)
Receivables and other non-current assets	**3,095**	**6,406**	**(3,311)**

The trade receivables refer to the portion of credit toward the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF) which expiring date is after one year and arose from a delivery of goods from Esprinet S.p.A. toward the GdF in 2011.
These receivables consist of an yearly payments plan until January 2022 against which the Holding Company obtained a loan from Intesa Sanpaolo in 2013 with instalments paid directly by the customer. Since the counterparties of the two transactions are different, it was deemed necessary to keep the receivables from the customer and the payables to the financial entity booked separately until full repayment of the loan.
The change compared with 31 December 2017 is due to the allocation to current receivables of the portion expiring within the next fiscal year.

The item 'guarantee deposits receivables' includes substantially guarantee deposits relating to utilities and lease agreements ongoing. The reduction compared with the previous year substantially refers to the reclassification in the current year of guarantee deposits with the purchaser under the securitisation transaction into guarantee deposits booked under 'Other assets'.

Current assets

10) Inventory

(euro/000)	31/12/2018	31/12/2017	Var.
Finished products and goods	308,844	312,544	(3,700)
Provision for obsolescence	(4,607)	(2,093)	(2,514)
Inventory	**304,237**	**310,451**	**(6,214)**

The details of 'Inventory' item are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Finished products and goods	308,844	322,349	(13,505)
Provision for obsolescence	(4,607)	(2,626)	(1,981)
Inventory	**304,237**	**319,723**	**(15,486)**

Inventory totalling 304.2 million euro shows an increase of +2% (+4.8% compared with 2017 pro-forma items) as a consequence of the decrease in the turnover ratio compared with the previous year, as better shown in the section 'Operating net working capital' in the Directors' Report on Operations.

The 4.6 million euro allocated to Provision for obsolescence is intended to address the risks

associated with the presumed lower realisable value of obsolete and slow-moving stock.

The movement in the provision during the period was as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Provision for obsolescence: year-beginning	**2.093**	**1.450**	**643**
Uses	(1.363)	(278)	(1.085)
Accruals	3.344	921	2.423
Merger changes	533	-	533
Provision for obsolescence: year-end	**4.607**	**2.093**	**2.514**

The item 'merger changes' relates to the company EDSlan S.r.l. for 352 thousand euro and to Mosaico S.r.l. for 181 thousand euro, both merged into the Company in 2018, with accounting and tax effects backdated to 1 January 2018. For further information please refer to the paragraph 'Significant events occurred in the period' under 'Directors' Report on Operations'.

11) Trade receivables

(euro/000)	31/12/2018	31/12/2017	Var.
Trade receivables - gross	203,770	145,625	58,145
Bad debt provison	(3,899)	(4,381)	482
Trade recevables - net	**199,871**	**141,244**	**58,627**

The details of Trade Receivables are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.;

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Trade receivables - gross	203,770	192,867	10,903
Bad debt provison	(3,899)	(5,608)	1,709
Trade recevables - net	**199,871**	**187,259**	**12,612**

Trade receivables arise from normal sales dealings engaged in by the Company in the context of ordinary marketing activities. These operations are effected almost entirely with customers resident in Italy, are wholly in euro and are short-term.

Net trade receivables are adjusted by credit notes to be issued to customers for an amount equal to 24.6 million euro at the end of 2018 and 20.5 million euro at the end of 2017.

An increase in gross receivables of 58.7 million euro should be highlighted. Compared with the pro-forma values for the same year, the change amounts to 12.6 million euro substantially due to an increase in business volumes (2.3 million euro in 2018 against pro-forma sales for 2.0 million in 2017), offset by a higher use of technical forms of receivables finance (i.e. approx. 309 million euro at the end of 2018 vs 169 million in 2017).

For further information on this item trend and generally the Working Capital please refer to the developments in the paragraph 'Operating net working capital' in the Directors' Report on Operations.

The Trade receivables balance includes 3.6 million euro of receivables transferred to factoring firms under the 'with-recourse' factoring agreement (2.7 million euro in 2017).

Adjustments to the presumed net realisable value of receivables collected is effected through bad debt provision. This provision is made up of allocations estimated on the basis of a valuation analysis of each single customer in terms of the relevant receivables overdue, or existing trade disputes and by also taking into account insurance covers, however (further information can be found under 'Disclosures on risks and financial instruments'). The table below illustrates the movements in the bad debt provision:

(euro/000)	31/12/2018	31/12/2017	Var.
Bad debt provision: year-beginning	**4.381**	**3.895**	**486**
Uses	(2.234)	(569)	(1.665)
Accruals	525	1.055	(530)
Merger changes	1.227	-	1.227
Bad debt provision: year-end	**3.899**	**4.381**	**(482)**

The item 'merger changes' relates to the company EDSlan S.r.l., merged into the Company in 2018, with accounting and tax effects backdated to 1 January 2018. For further information please refer to the paragraph 'Significant events occurred in the period' under 'Directors' Report on Operations'.

12) Income tax assets (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Income tax assets	2,945	2,891	54

The details of income tax assets (current) are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Income tax assets	2,945	2,951	(6)

The Income tax assets mainly result from the higher tax advances paid compared with the current taxes accrued in 2018. Besides, 1.2 million euro relates to the refund claim of IRES tax paid as a result of the non-deduction of the IRAP tax on personnel costs in fiscal years 2004-2011.

13) Other assets

(euro/000)	31/12/2018	31/12/2017	Var.
Receivables from subsidiaries (A)	**170,481**	**193,002**	**(22,521)**
VAT receivables	19	7,056	(7,037)
Other tax assets	4,620	4,993	(373)
Other receivables from Tax authorities (C)	**4,639**	**12,049**	**(7,410)**
Receivables from factoring companies	242	1,202	(960)
Other financial receivables	10,880	510	10,370
Receivables from insurance companies	573	233	340
Receivables from suppliers	4,680	4,541	139
Receivables from employees	2	-	2
Receivables from others	72	157	(85)
Other receivables (D)	**16,449**	**6,643**	**9,806**
Prepayments (E)	**3,794**	**3,667**	**127**
Other assets (F= A+B+C+D+E)	**195,363**	**215,361**	**(19,998)**

The following tables show Receivables from subsidiaries detailed by type and by single company. For further information regarding the source figures please refer to the section headed 'Relationships with related parties'.

(euro/000)	31/12/2018	31/12/2017	Var.
Celly S.p.A.	2,004	3,003	(999)
EDSlan S.r.l.	-	1,689	(1,689)
Mosaico S.r.l.	-	1,053	(1,053)
V-Valley S.r.l.	56,227	25,363	30,864
Nilox Deutschland GmbH	1,826	-	1,826
Celly Nordic OY	-	1	(1)
Esprinet Iberica S.L.U.	5,510	3,695	1,815
Esprinet Portugal Lda	41	39	2
Vinzeo Technologies SAU	41	40	1
V-Valley Iberian S.L.U.	2	619	(617)
Trade receivables (a)	**65,651**	**35,502**	**30,149**
Celly S.p.A.	330	-	330
Receivables as per national cons. tax regime (b)	**330**	**-**	**330**
Celly S.p.A.	-	5,000	(5,000)
EDSlan S.r.l.	-	15,000	(15,000)
Mosaico S.r.l.	-	25,000	(25,000)
Esprinet Iberica S.L.U.	90,000	101,500	(11,500)
Esprinet Portugal Lda	7,500	5,000	2,500
V-Valley Iberian S.L.U.	7,000	6,000	1,000
Financial receivables (c)	**104,500**	**157,500**	**(53,000)**
Total receivables from subsidiaries (a+b+c)	**170,481**	**193,002**	**(22,521)**

(euro/000)	31/12/2018	31/12/2017	Var.
Celly S.p.A.	2,334	8,003	(5,669)
EDSlan S.r.l.	-	16,689	(16,689)
Mosaico S.r.l.	-	26,053	(26,053)
V-Valley S.r.l.	56,227	25,363	30,864
Nilox Deutschland GmbH	1,826	-	1,826
Celly Nordic OY	-	1	(1)
Esprinet Iberica S.L.U.	95,510	105,195	(9,685)
Esprinet Portugal Lda	7,541	5,039	2,502
Vinzeo Technologies SAU	41	40	1
V-Valley Iberian S.L.U.	7,002	6,619	383
Total receivables from subsidiaries	**170,481**	**193,002**	**(22,521)**

The details of Other assets are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.;

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Receivables from subsidiaries (A)	**170,481**	**150,261**	**20,220**
Receivables from associates (B)	**-**	**1,109**	**(1,109)**
VAT receivables	19	7,521	(7,502)
Other tax assets	4,620	4,993	(373)
Other receivables from tax authorities (C)	**4,639**	**12,514**	**(7,875)**
Receivables from factories companies	242	1,202	(960)
Other financial receivables	10,880	510	10,370
Receivables from insurance companies	573	233	340
Receivables from suppliers	4,680	4,657	23
Receivables from employees	2	-	2
Receivables from other	72	183	(111)
Other receivables (D)	**16,449**	**6,785**	**9,664**
Prepayments (E)	**3,794**	**3,675**	**119**
Other assets (F= A+B+C+D+E)	**195,363**	**174,344**	**21,019**

Vat receivables refer to input VAT accrued by the Company at 31 December 2018 as well as to refund claims which cannot be offset against operating tax liabilities. The change compared with 31 December 2017 shows a decrease of 7.0 million euro (7.5 million euro vs pro-forma figure) and mainly refers to higher sales than purchases from suppliers.

The 'Income tax assets' figure mainly refers to the financial receivables from the Tax Authorities, due to a partial payment of tax notices relating to indirect taxes on a provisional basis. The above led to tax disputes described in the section entitled 'Development of disputes involving Esprinet S.p.A. and the Group' in the notes to item '26) Provisions and other liabilities'.

Receivables from factoring companies include sums owed to the Company as a result of ‘without

recourse' factoring operations effected. The decrease compared with the previous year balance, is mainly due to the temporary differences in the collection of transferred receivables. At the draft date of this report was drafted, all the receivables payable had been paid.

Financial receivables from customers refer for 10.4 million euro to the guarantee deposit with the purchaser under the securitisation transaction conducted by the Company aimed at ensuring coverage of potential dilutions under this exercise or in the months following the transaction closing. This deposit, that till 31 December 2017 was equal to 2.8 million euro and booked under non-current assets, increased significantly during the current year due to contractual changes made for the renewal of the securitisation agreement; for further information please refer to 'Significant events occurring in the period' in the 'Directors' Report on Operations'. The remaining portion of the amount, equal to 0.5 million euro, refer to the short portion of receivables collectable within the subsequent year that arose from a delivery of goods in 2011 to the customer 'Guardia di finanza - GdF'. For further information please refer also to the section entitled 'Receivables and other non-current assets'.

Receivables from insurance companies include the insurance compensation – after deductibles – recognized by the insurance companies for claims of various kinds not yet paid but which are reasonably expected to be collected within the end of next year.

As at 31 December 2018, receivables from suppliers include 2.8 million euro due to the net receivable from the supplier of the 'Sport Technology' line that at the period end stopped its operations and entered into a voluntary liquidation process (for further information please refer to 'Significant events occurring in the period' under the Directors' Report on Operations').
The gross amount owed by the above-mentioned supplier (already net of 1.0 million euro for disputes relating to the nature and/or the amount of the mutual contractual rights) is equal to 11.6 million euro and was written down by 8.8 million euro in the light of its estimated collectibility; the following table illustrates the change in the bad debt provision:

(euro/000)	Starting provision	Additions	Uses	Final provision
2018 financial year	-	8,823	-	8,823
2017 financial year	-	-	-	-

With reference to the residual portion, receivables from suppliers refer to credit notes received exceeding the amount owed at the end of December for a mismatch between the timing of their quantification and the payment of suppliers. This item also includes receivables from suppliers for advance payments requested by suppliers before purchase orders are executed, as well as receivables from hauliers for advance VAT payments and customs duties pertaining to imports.

Prepayments are costs the accrual date of which is deferred compared with that of the cash movement (mainly payables for leasing contracts, maintenance fees, service fees).

14) Derivative financial liabilities (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivate financial assets	375	-	375
Derivate financial assets	**375**	**-**	**375**

In October 2015, the Company and Celly's non-controlling shareholder mutually granted put/call options on the residual 20% of Celly's shares, currently owned by the minority shareholder and expiring between the 5th and 7th year after the acquisition by the Group occurred on 12 May 2014.

The amount recognised in the financial statements under 'Derivative financial assets' refers to the outstanding difference at year-end date between the valuation of the said share in Celly S.p.A. at the potential exercise date as assessed by management and the valuation of this subsidiary shareholding at same date based on the contract that regulates the mutually granted options.
The item compared with previous year was reclassified under current 'derivative financial assets' as the period approaches in which the put/call option may be exercised by both parties.

17) Cash and cash equivalents

(euro/000)	31/12/2018	31/12/2017	Var.
Bank and postal deposit	173,668	165,353	8,315
Cash	13	11	2
Cheques	-	4	(4)
Total cash and cash equivalents	**173,681**	**165,368**	**8,313**

The details of 'Cash and cash equivalents' item are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Bank and postal deposit	173,668	179,295	(5,627)
Cash	13	12	1
Cheques	-	4	(4)
Total cash and cash equivalent	**173,681**	**179,311**	**(5,630)**

Cash and cash equivalents are almost entirely made up of bank balances, all immediately available. Of a partly temporary nature, the level of liquidity (originated in the normal short-term financial cycle of collections) dramatically fluctuates not only along the calendar year but also during each month, due for the most part to the concentration of payments received from customers at the end and middle of each month, while the maturities of payments to suppliers are distributed more evenly over the month. The market value of the cash and cash equivalents corresponds to their carrying amount.

The reduction compared with 31 December 2018 is shown in the statement of cash flows. to which reference is made for further details.

Equity

Items composing the shareholders' equity are explained in the following notes:

(euro/000)	31/12/2018	31/12/2017	Var.
Share Capital (A)	**7,861**	**7,861**	**-**
Reserves and profit carried over (B)	297,982	292,353	5,629
Own shares (C)	(4,800)	(5,145)	345
Total reserves (D=B+C)	**293,182**	**287,208**	**5,974**
Net income for the year (E)	**(1,030)**	**10,610**	**(11,640)**
Net equity (F=A+D+E)	**300,013**	**305,679**	**(5,666)**
Non-controlling interests (G)	-	-	-
Total equity (H=F+G)	**300,013**	**305,679**	**(5,666)**

19) Share capital

The Company Share capital, fully subscribed and paid-in as at 31 December 2018, is 7,860,651 euro and comprises 52,404,340 shares with a face value of 0.15 euro each.

The main information items used in reporting the value of the rights for the free assignment of the shares can be found in the 'Directors' Report on Operations'.
The value of these rights was reported in the separate income statement under costs relating to salaried staff with a balancing item reported in the statement of financial position under the 'Reserves' item.

20) Reserves

Reserves and profit carried over

This item increased by 5.6 million euro mainly due to the combined effect of the allocations of profits from previous years (10.6 million euro, net of dividends of 7.0 million euro - 0.135 euro per ordinary share - paid in May 2018), of the surplus of 4.8 million euro from the merger of the wholly-owned subsidiaries EDSlan S.r.l. and Mosaico S.r.l., as well as of the transition of a Company's stock grant plan to the next one (3.2 million euro).

Own shares on hand

The amount refers to the total purchase price of No. 1,150,000 Esprinet S.p.A. shares owned by the Company as at 31 December 2018.

The decrease compared with 646,889 shares as at 31 December 2017 is due to the allotment of 535,134 shares to beneficiaries of the Long Term Incentive Plan approved by the AGM of Esprinet S.p.A. on 30 April 2015 and to the purchase of further 1,038,245 shares occurred between 14 June and 11 October 2018 at an average unit price of 3.78 euro, net of fees, in fulfilment of the resolution of the AGM of 4 May 2018.

The following table shows the amount and the distributability of the reserves composing the net equity as per Art. 2427, 7-bis of the Italian Civil Code and their past usage:

(euro/000)				Summary of the uses in the three previous years	
Type/description	Amount	Possible uses	Quota available	To cover losses	For other reason
Share capital	**7,861**	---	-		
Reserves as per OIC:					
Share premium reserve (*)	11,683	A,B,C	11,683		
Revaluation reserve	30	A,B,C	30		
Legal reserve	1,572	B	-		
Own shares on hand	4,800	---	-		
Merger surplus	5,369	A,B,C	5,369		
Extraordinary reserve	263,437	A,B,C	263,437		
Net profit from exchange operations reserve	60	---	-		
IFRS reserve	11,031	---	-		-
Total Reserves	**297,982**		**280,519**	-	-
Total share capital and reserves	**305,843**		**280,519**		
Non-distributable quota (**)			-		
Residual distributable quota			**280,519**		

(*) Pursuant to Art. 2431 of the Civil Code the entire amount of this reserve can be distributed solely provided that the legal reserve has reached the limit established by Article 2430 of the Civil Code, including through the transfer of the share premium reserve. This limit had been reached as at 31 December 2008.

(**) Pursuant to Article 2426, 5), this is the non-distributable quota allocated to cover long-term costs not yet amortised.

Key: A: share capital increase. B: cover of losses. C: distribution to shareholders.

The main changes in net equity during 2018 can be found in the 'Statement of changes in equity'.

21) Net income

The year's net result amounts to -1.0 million euro, decreasing by 11.6 million euro from previous year's net income of 10.6 million euro.

Non-current liabilities

22) Borrowings

(euro/000)	31/12/2018	31/12/2017	Var.
Borrowings	12,804	18,163	(5,359)

The borrowings value refers to the valuation at the amortized cost of the portion of the medium-long term loans falling due beyond the following year.

The value as at 31 December 2018 includes minor loans signed by the Company in March 2017 (11.4 million euro), as well as the portion not yet due of the loan granted by the parent Company, from a delivery of goods to the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF), which led to the booking of an identical long-term receivable from GdF (1.4 million euro), as described under paragraph 9 'Receivables and other non-current assets'.

The change compared with previous year is due to the reclassification of the portion falling due within 12 months to short-term liabilities, in accordance with the amortisation plan.

Further details relating to the outstanding loans can be found in the following paragraph 'Loans and loan covenants'.

24) Deferred income tax liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Deferred income tax liabilities	2,842	2,481	361

The balance of this item depends on higher taxes that the Company has to pay in the next operating years due to temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding values recognised for tax purposes.

As shown in the next table, these differences mainly arise from the elimination of the tax amortisation of goodwill, the estimated foreign exchange gains and the adjustment of the staff severance provision ('TFR') to the actuarial valuation.

(euro/000)	31/12/2018			31/12/2017		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Goodwills' amortisation	9,460	24.00%	2,270	8,430	24.00%	2,023
Goodwills' amortisation	9,460	3.90%	369	8,430	3.90%	329
Change TFR provision	159	24.00%	38	159	24.00%	38
Estimated foreign exchange gains	247	24.00%	59	379	24.00%	91
Other	436	24.00%	106	-	24.00%	-
Total deferred income tax liabilities			**2,842**			**2,481**

The time-related allocation of deferred income tax liabilities is as follows:

(euro/000)		Within 1 year	1-5 year	After 5 year	Total
Deferred income tax liabilities	31/12/2018	203	-	2,639	2,842
	31/12/2017	129	-	2,352	2,481

25) Retirement benefit obligations

Retirement benefit obligations reflects the staff severance indemnities ('TFR') and other benefits accruing to salaried staff at the close of the period, assessed in accordance with actuarial criteria, pursuant to IAS 19.

Please note that from 1 January 2007 important modifications governing the Staff Severance Fund, among which the possibility for the worker to choose the destination of the accruing Staff Severance Fund, were introduced.
In particular, the new Staff Severance Fund flows can be channelled by the worker into a selected pension fund or kept in the company (in this case the Staff Severance Fund contributions will be paid into a treasury fund instituted at the INPS).

Changes occurred during the year are shown in the tables below:

(euro/000)	31/12/2018	31/12/2017	Var.
Balance at year-beginning	**3.474**	**3.682**	**(208)**
Service cost	9	-	9
Interest cost	50	45	5
Actuarial (gain)/loss	(162)	(1)	(161)
Merger changes	737	-	737
Pensions paid	(315)	(252)	(63)
Changes	**319**	**(208)**	527
Balance at year-end	**3.793**	**3.474**	**319**

Values recognised in the separate income statement are as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Amounts booked under personnel costs	9	-	9
Amounts booked under financial costs	50	45	5
Total	**59**	**45**	**14**

The Company, which has more than 50 employees as of 1 January 2017, transfers the staff severance indemnity quotas to third parties.
The increase in 'Retirement benefit obligations' is mainly due to the provision referring to Mosaico S.r.l. and EDSlan S.r.l. acquired after the merger into the Company occurred in 2018, net of utilisation (pensions paid) and actuarial gains.

The change in the 'actuarial gains or losses' compared with last year is mainly related to the experience adjustments that reflect the deviation of forward-looking assumptions used in the 31 December 2017 valuation and the actual development of the provision as at 31 December 2018 (members, payments occurred, benefit revaluation). the discount rate reflects the market returns, at

the balance sheet date of a panel of primary company bonds with a maturity date connected with the employee average residual employment with Esprinet S.p.A. (more than 10 years)[12]

The method known as 'Project Unit Credit Cost' used to assess the Staff Severance Indemnity (TFR) as per the IAS 19 accounting standard is based on the following assumptions:

a) Demographic assumptions

- probability of death: the values for the Italian population reported by ISTAT (Italian Central Statistics Institute) in reference to 2002, indicated separately according to gender;
- probability of disability: the results adopted in the INPS (Italian National Social Security Institute) model for projections up to 2010, indicated separately according to gender. These probabilities were calculated starting from the pension distribution by age and gender existing on 1 January 1987 with effect from 1984, 1985, 1986 referring to the credit segment personnel.
- period of retirement: attainment of first requirement for pension eligibility valid for the General Compulsory Insurance Scheme in the case of a generic worker;
- probability of terminating employment for reasons other than death: 6% annual frequency has been considered based on available statistics;
- probability of anticipating: an annual rate of 3% has been assumed.

b) Economic-financial assumptions

	31/12/2018	31/12/2017
Cost of living increase	1.5%	1.5%
Discounting rate	1.6%	1.3%
Remuneration increase	n/a	n/a
Staff severance indemnity (TFR) - annual rate increase	2.6%	2.6%

Sensitivity analyses

Pursuant to IAS 19R, a sensitivity analysis of changes in main actuarial hypothesis used in the calculation model is required.
As basic scenario the one above described was assumed and from that the most significant hypotheses (i.e. annual average discount rate, average cost of living increase and turn-over rate) were increased and decreased by half, a quarter and two percentage points respectively. The outputs so obtained are summarized as follows:

(euro)		Senstivity analisys
		Esprinet S.p.A.
Past Service Liability		
Annual discount rate	*+0,50%*	3,636,911
	-0.50%	3,959,659
Annual inflation rate	*+0,25%*	3,840,079
	-0.25%	3,746,093
Annual turnover rate	*+2,00%*	3,773,390
	-2.00%	3,825,994

As required by IAS 19 Revised, the estimated expected payments (in nominal value) for the next years are as follows:

[12] Please note that, the iBoxx Eurozone Corporates AA10+ index was used as parameter for the above mention calculation.

(Euro)	Future cash flow
Year	*Esprinet S.p.A.*
0 - 1	375,777
1 - 2	315,946
2 - 3	277,225
3 - 4	210,074
4 - 5	214,400
5 - 6	214,576
6 - 7	212,082
7 - 8	212,930
8 - 9	255,953
9 - 10	199,250
Over 10	1,871,497

26) Non-current provisions and other liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Long-term liabilities for cash incentives	105	-	105
Provisions for pensions and similar obligations	1,218	1,409	(191)
Other provisions	77	185	(108)
Non-current provisions and other liabilities	**1,400**	**1,594**	**(194)**

The item 'Provisions for pensions and similar obligations' includes the supplementary customer indemnity provision payable to agents based on current regulations governing the subject. The changes in the period were as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Provisions for pensions: year - beginning	**1.409**	**1.526**	**(117)**
Uses	(282)	(155)	(127)
Accruals	56	38	18
Merger changes	35	-	35
Total changes	**(191)**	**(117)**	**(74)**
Provisions for pensions: year - end	**1.218**	**1.409**	**(191)**

The amount entered under other provisions, is intended to cover risks relating to current legal and tax-related disputes. Changes occurred in the period are as below:

(euro/000)	31/12/2018	31/12/2017	Var.
Other provisions: year-beginning	**185**	**159**	**26**
Uses	(180)	(62)	(118)
Accruals	72	88	(16)
Other provisions: year-end	**77**	**185**	**(108)**

The notes regarding 2018 developments on the main disputes involving the Company, for which the company effected the relevant risk assessments and consequently effected accruals to the provision

for risks, where considered appropriate, can be found under 'Developments in legal and tax-related disputes' in the notes to the item 'Non-current provisions and other liabilities', in turn in the 'Notes to the consolidated financial statements'.
The Company's and the Group's policies regarding the management of legal and tax-related disputes can be found under 'Main risks and uncertainties facing the Group and Esprinet S.p.A.' in the 'Directors' Report on Operations'.

Current liabilities

27) Trade payables

(euro/000)	31/12/2018	31/12/2017	Var.
Trade payables	630,641	548,806	81,835
Receivables - credit notes	(109,438)	(83,694)	(25,744)
Total trade payables	**521,203**	**465,112**	**56,091**

The details of Trade Payables are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Trade payables	630,641	571,695	58,946
Receivables - credit notes	(109,438)	(85,769)	(23,669)
Total trade payables	**521,203**	**485,926**	**35,277**

Trade payables increased by +12% compared with the previous year (+7.3% compared with 31 December 2017 pro-forma) as a consequence of higher purchase volumes. For further information on this item trend and generally the Working Capital please refer to the developments in the paragraph 'Operating net working capital' in the Directors' Report on Operations.

The 'Receivables – credit notes' mainly refer to the rebates related to commercial targets reached, to various incentives, to reimbursement of joint marketing activities with suppliers and to stocks contractual protections.

28) Short-term financial liabilities

(euro/000)	31/12/2018	31/12/2017	Var.
Bank loans and overdrafts	108,220	135,440	(27,220)
Other financing payables	24,524	13,823	10,701
Short - term financial liabilities	**132,744**	**149,263**	**(16,519)**

The details of 'Short-term financial liabilities' are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Bank loans and overdrafts	108,220	136,399	(28,179)
Other financing payables	24,524	13,823	10,701
Short - term financial liabilities	**132,744**	**150,222**	**(17,478)**

Bank loans and overdraft refer almost entirely (106.0 million euro compared with 133.5 million euro as at 31 December 2017) to the valuation at the amortized cost of the portion of the medium-long term loans falling due within next year.
These loans include a medium/long-term senior loan granted in February 2017 by a pool of banks, consisting of a 5-year amortised facility in the original amount of 145.0 million euro (101.5 million euro drawn as at 31 December 2018 and 130.5 million as at 31 December 2017) and a 5-year revolving facility for 65.0 million euro (undrawn both the fiscal years).
The above-mentioned unsecured loan, maturing in 2022, is supported by 4 financial covenants which if not observed envisages the forfeiture of the benefit of the term and the possibility for the disbursing bodies to exercise the right to request early repayment.

As at 31 December 2018 and at previous year end, the entire outstanding amount of the amortised facility was booked under current financial liabilities since 1 out of the 4 above-mentioned covenants is expected to be unmet. For further details please refer to the paragraph 'Loans and loan covenants'.

The amount also includes the portions, falling due within this year, of two other minor loans taken in March 2017 (for 4.9 million euro), and of the loan (for 0.4 million euro) taken by the parent company relating to a delivery of goods to the customer 'Guardia di finanza - GdF'.
For further information about all loans please refer to the paragraph 'Loans and loan covenants'.

Other financing payables are mainly advances obtained from factoring companies and derive from the usual assignment of credits to the Company through recourse factoring and by outstanding payables received in the name and on behalf of clients transferred under the without-recourse factoring agreement. The debt increase compared with 31 December 2017 is due to higher volumes of receivables factored.

30) Derivative financial liabilities (current)

(euro/000)	31/12/2018	31/12/2017	Var.
Derivative financial liabilities	613	644	(31)

The amount refers to the 'fair value' of six 'IRS-Interest Rate Swap' contracts entered into in April 2017, to hedge the risk of interest rate fluctuations on a medium-long term facility signed with a pool of eight banks for 145.0 million euro in February 2017 (reduced to 101.5 million euro in capital as effect of principal repayments under the amortisation plan as at 31 December 2018), the so-called Term Loan Facility.
These derivatives contracts were signed with six of the eight lending banks granting the 'hedged' loan, for the whole part of each respective share in the Term Loan Facility and under identical conditions among them. Thanks to these IRSs as at 31 December 2018, 82.2 million euro of the whole loan are totally hedged from the risk of interest rate change.

The fair value of these derivative contracts, amounting to 0.6 million euro, is entirely booked under current liabilities as a consequence of the breach of one of 4 covenants under the hedged Term Loan Facility.
For further details regarding the transactions please refer to the sections entitled 'Loan and loans covenants' and 'Hedge accounting' under the paragraph 'Disclosure on risks and financial instruments'.

32) Provisions and other liabilities

Provisions and other liabilities include solely payables whose maturity is within the following 12 months.

(euro/000)	31/12/2018	31/12/2017	Var.
Payables to subsidiary and associated companies (A)	**255**	**1,558**	**(1,303)**
Social security liabilities (B)	**3,164**	**2,477**	**687**
VAT payables	7,350	-	7,350
Withholding tax liabilities	64	31	33
Other tax liabilities	1,193	1,077	116
Other payables to Tax authorities (C)	**8,607**	**1,108**	**7,499**
Payables to personnel	4,088	2,623	1,465
Payables to customers	5,041	3,452	1,589
Payables to others	898	742	156
Total other creditors (D)	**10,027**	**6,817**	**3,210**
Accrued expenses and deferred income related to:			
- Accrued expenses for insurance costs	267	393	(126)
- Other deferred income	8	33	(25)
Accrued expenses and deferred income (E)	**275**	**426**	**(151)**
Provisions and other liabilities (F=A+B+C+D+E)	**22,328**	**12,386**	**9,942**

The breakdown of Payables to subsidiaries and associated companies by type and by single company is as follows:

(euro/000)	31/12/2018	31/12/2017	Var.
Celly S.p.A.	75	149	(74)
EDSlan S.r.l.	-	564	(564)
Mosaico S.r.l.	-	202	(202)
V-Valley S.r.l.	95	-	95
Esprinet Iberica S.L.U.	85	71	14
Trade payables (a)	**255**	**986**	**(731)**
EDSlan S.r.l.	-	532	(532)
V-Valley S.r.l.	-	36	(36)
Celly S.p.A.	-	4	(4)
Payables due to the national cons. tax regime (b)	**-**	**572**	**(572)**
Total payables to subsidiary and associated companies (a+b+c)	**255**	**1,558**	**(1,303)**

(euro/000)	31/12/2018	31/12/2017	Var.
Celly S.p.A.	75	153	(78)
EDSlan S.r.l.	-	1,096	(1,096)
Mosaico S.r.l	-	202	(202)
V-Valley S.r.l.	95	36	59
Esprinet Iberica S.L.U.	85	71	14
Total payables to subsidiary and associated companies	**255**	**1,558**	**(1,303)**

The details of Provisions and other liabilities are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	31/12/2018	31/12/2017 Pro-forma	Var.
Payables to subsidiary and associated companies (A)	**255**	**260**	**(5)**
Social security liabilities (B)	**3,164**	**2,735**	**429**
VAT payables	7,350	394	6,956
Withholding tax liabilities	64	35	29
Other tax liabilities	1,193	1,296	(103)
Other payables to Tax authorities (C)	**8,607**	**1,725**	**6,882**
Payables to personnel	4,088	2,962	1,126
Payables to customers	5,041	3,675	1,366
Payables to others	898	757	141
Total other creditors (D)	**10,027**	**7,394**	**2,633**
Accrued expenses and deferred income related to:			
- Accrued expenses for insurance costs	267	393	(126)
- Other deferred income	8	33	(25)
Accrued expenses and deferred i ncome (E)	**275**	**426**	**(151)**
Provisions and other liabilities (F=A+B+C+D+E)	**22,328**	**12,540**	**9,788**

Social security liabilities mainly refer to payables to Welfare Institutions linked to wages and salaries paid in December and to social contributions accrued on deferred monthly payables, monetary incentives included.

Other tax liabilities are mainly taxes withheld by the Company from employees' income of December and from fees to consultants.

Payables to customers mainly refer to accounting movements linked to credit notes not yet settled relating to current trading relationships.

Payables to personnel refer to deferred monthly payables (holidays not taken, year-end bonus, summer salary, monetary incentives included) accrued at the end of the year.

Payables to others mainly include payables amounting to 0.5 million euro to Directors for fees accrued and unpaid relating to the year (0.3 million in 2017), as well as payables of 0.2 million euro to the Company's agents' network relating to commissions due and payable.

Accrued expenses and deferred income are, respectively, charges/income whose accrual date is anticipated/deferred compared with the cash expenditure/collection.

4. Guarantees, commitments and potential risks

Commitments and potential risks

(euro/000)	31/12/2018	31/12/2017	Var.
Third-party assets on consignment to the Company	36,501	36,242	259
Bank guarantees issued in favour of subsidiaries	258,862	238,785	20,077
Bank guarantees issued in favour of other companies	6,152	6,307	(155)
Total guarantees issued	**301,515**	**281,334**	**20,181**

Third-party assets on consignment to the Group

It refers to the value of goods owned by third parties deposited at the Esprinet S.p.A. warehouses.

Bank guarantees issued for the benefit of subsidiaries

The amount refers to letters of credit or comfort letters issued in favour of some banks and factor companies as guarantee for credit limits granted to Esprinet subsidiaries as well as guarantees to some suppliers. The change compared with the previous year mainly refers to the increase in guarantees on behalf of the subsidiaries Esprinet Iberica SLU (14.1 million euro), Vinzeo Technologies S.A.U. (8.3 million euro), V-Valley (4.5 million euro) and V-Valley Iberian (0.2 million euro). Instead, the guarantee amounting to 7.0 million euro on behalf of the subsidiary Mosaico - merged into Esprinet S.p.A. - was terminated during 2018.

Bank guarantees issued in favour of other companies

The amount mainly refers to bank guarantees issued for deposits in relation to property lease agreements entered into in Italy, and bank and insurance suretyships issued to the Public Administration in order to participate in tenders for services or supplies. The change compared to the previous year refers mainly to the termination of the existing guarantee as well as to their decrease.

5. Notes to income statement items

In order to complete this section, please consider that other analysis on Esprinet S.p.A. economic results have been provided in the Directors' report on operations, after tables on Group results.

33) Sales

The following are some breakdowns of sales performance. Sales by product family and by customer type has been moved to Directors' report on operations.

Sales by products and services.

(euro/million)	2018	%	2017	%		% *Var.*
Product sales	2,261.2	99.7%	1,898.2	99.0%	363.0	*19%*
Services Sales	6.6	0.3%	19.4	1.0%	(12.8)	*-66%*
Sales from contracts with customers	**2,267.8**	**100.0%**	**1,917.6**	**100.0%**	**350.2**	***18%***

The details of sales by products and services are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(milioni di euro)	2018	%	2017 pro-forma	%	Var.	% *Var.*
Product sales	2,261.2	99.7%	1,991.2	99.0%	270.0	*14%*
Services sales	6.6	0.3%	19.5	1.0%	(12.9)	*-66%*
Sales from contracts with customers	2,267.8	100.0%	2,010.7	100.0%	257.1	*13%*

Sales by geographical segment

(euro/million)	2018	%	2017	%	Var.	% *Var.*
Italy	2,201.7	97.1%	1,866.3	97.3%	335.4	18%
Other EU countries	60.2	2.7%	48.6	2.5%	11.6	24%
Extra EU countries	5.9	0.3%	2.7	0.1%	3.2	118%
Sales from contracts with clients Esprinet S.p.A.	**2,267.8**	**100.0%**	**1,917.6**	**100.0%**	**350.2**	**18%**

The details of sales by geographical segment are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/million)	2018	%	2017 pro-forma	%	Var.	% *Var.*
Italy	2,201.7	97.1%	1,958.4	97.4%	243.3	12%
Other EU countries	60.2	2.7%	49.6	2.5%	10.6	21%
Extra EU countries	5.9	0.3%	2.7	0.1%	3.2	119%
Sales from contracts with clients Esprinet S.p.A.	**2,267.8**	**100.0%**	**2,010.7**	**100.0%**	**257.1**	**13%**

Sales in other E.U. countries mainly refer to sales to the Spanish subsidiary Esprinet Iberica S.L.U; sales to extra E.U. countries refer mainly to sales to clients whose residence is in the Republic of San Marino.

Sales of which 'Principal' or 'Agent'

In accordance as from 1 January 2018 with the new IFRS 15 accounting standard, the Company has identified the distribution of the hardware and software products, the distribution of the own-brand products, the presentation of services not intermediated such as the activities in which is covers a role such as to require the representation of the revenues as 'principal'. Conversely, the distribution of cloud software and the brokerage of services were detected as business lines to be disclosed as 'agent'.
The table below displays the above-mentioned distinction, showing how revenues would have been recorded If the accounting standard had been adopted in 2017 with respect to the comparative periods, for the purpose of a reconciliation with previously published amounts.

(euro/million)	2018	%	2017	%	Var.	% Var.
Revenues from contracts with customers as 'principal'	2,265.3	*63.4%*	1,902.6	*59.4%*	362.7	*19%*
Revenues from contracts with customers as 'agent'	2.5	*0.1%*	1.7	*0.1%*	0.8	*47%*
Revenues from contracts with customers	**2,267.8**	**63.5%**	**1,904.3**	**59.4%**	**363.5**	***19%***
Revenues - Change as 'agent' in 2017			13.3		(13.3)	
Revenues from contracts with customers Esprinet S.p.A.	**2,267.8**		**1,917.6**		**350.2**	***18%***

The details of 'sales of which Principal/Agent' are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(milioni di euro)	2018	%	2017 pro-forma	%	Var.	% Var.
Revenues from contracts with customers as 'principal'	2,265.3	99.9%	1,995.5	99.9%	269.8	*14%*
Revenues from contracts with customers as 'agent'	2.5	0.1%	1.7	0.1%	0.8	*47%*
Revenues from contracts with customers	**2,267.8**	**100.0%**	**1,997.2**	**100.0%**	**270.6**	***14%***
Revenues - Change as 'agent' in 2017			13.5		(13.5)	
Revenues from contracts with customers Esprinet S.p.A	**2,267.8**		**2,010.7**		**257.1**	***13%***

At the year-end date, the Company already had customers orders for a total amount of 102.1 million euro (142.1 million euro as at 31 December 2017 pro-forma), of which 98.9 million euro (139.8 million euro as ata 31 December 2017 pro-forma) relating to customers shown as 'principals'.

35) Gross profit

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	2,267,797	100.00%	1,917,559	100.00%	350,238	*18%*
Cost of sales	2,166,521	95.53%	1,819,846	94.90%	346,675	*19%*
Gross profit	**101,276**	**4.47%**	**97,713**	**5.10%**	**3,563**	***4%***
- of which non recurring	6,080	0.27%	-	0.00%	6,080	*100%*
Gross profit "recurrent"	**107,356**	**4.73%**	**97,713**	**5.10%**	**9,643**	***12%***

The details of 'Gross profit' are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(milioni di euro)	2018	%	2017 pro-forma	%	Var.	% Var.
Sales from contracts with customers	2,267,797	100.00%	2,010,742	100.00%	257,055	13%
Cost of sales	2,166,521	95.53%	1,901,506	94.57%	265,015	14%
Gross profit	**101,276**	**4.47%**	**109,236**	**5.43%**	**(7,960)**	**-7%**
- of which non recurring	6,080	0.27%	-	0.00%	6,080	100%
Gross profit "recurrent"	**107,356**	**4.73%**	**109,236**	**5.43%**	**(1,880)**	**-2%**

Gross profit, equal to 101.3 million euro, showed an increase of +4% (increase of +12% if excluding non-recurring cost items) equal to +3.6 million euro compared with the same period in 2017 as a consequence of a worsening in the percentage margin from 5.10% to 4.47% (4.73% if excluding non-recurring cost items). Compared with pro-forma 2017, gross profit decreased by -7% (-2% excluding non-recurring cost items), since the decrease in gross profit margin (from 5.43% to 4.47%, 4.73% excluding non-recurring cost items) was not completely offset by sales growth. The non-recurring negative items, equal to 6.1 million euro are both from a steep and unexpected fall in end-user prices on some product families of the 'Nilox Sport' line which, also as a consequence of the lack of price protection provided by the supplier, led to a significant negative impact on gross margins, as well as from estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights.

As it is prevalent in the sectors where the Company operates, the cost of sales is adjusted downwards to take into account the premiums, premiums/rebates for having achieved targets, development provisions and co-marketing, cash discounts (so-called 'prompt payment discounts') and other incentives.
It is further reduced by the credit notes issued by vendors in relation to protection agreed for the value of stock.

The sales margin has been reduced by the difference between the amount of receivables transferred 'without-recourse' to factoring companies within the usual revolving programmes and the amounts collected. 2018 effect amounts to 3.0 million euro (3.3 million euro in 2017).

37-38-39) Operating costs

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		350,238	**18%**
Sales and marketing costs	36,419	1.61%	30,181	1.57%	6,238	21%
Overheads and administrative costs	53,028	2.34%	49,890	2.60%	3,138	6%
Impairment loss/reversal of financial assets	9,266	0.41%	1,246	0.06%	8,020	>100%
Operating costs	**98,713**	**4.35%**	**81,317**	**4.24%**	**17,396**	**21%**
- of which non recurring	8,823	0.39%	235	0.01%	8,588	>100%
'Recurring' operating costs	**89,890**	**3.96%**	**81,082**	**4.23%**	**8,808**	**11%**

The details of Operating costs are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	2018	%	2017 pro-forma	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**2,010,742**		257,055	***13%***
Sales and marketing costs	36,419	1.61%	35,726	1.78%	693	*2%*
Overheads and administrative costs	53,028	2.34%	53,735	2.67%	(707)	*-1%*
Impairment loss/reversal of financial assets	9,266	0.41%	1,246	0.06%	8,020	*>100%*
Operating costs	**98,713**	**4.35%**	**90,707**	**4.51%**	**8,006**	***9%***
- of which non recurring	8,823	0.39%	235	0.01%	8,588	*>100%*
'Recurring' operating costs	**89,890**	**3.96%**	**90,472**	**4.50%**	**(582)**	***-1%***

2018 operating costs of 98.7 million euro increased by +21% (+11% if excluding non-recurring cost items), with an operating costs margin up from 4.24% in 2017 to 4.35% in 2018 (down from 4.23% to 3.96% if excluding non-recurring costs). Compared with last year pro-forma figures the change in operating costs is equal to +9% (-1% if excluding non-recurring cost items).

During 2018, it was identified as non-recurring items the estimated impairment of 8.8 million euro in the overall value of the receivables from the supplier-importer for amounts originating from advances paid for supplies of goods entrusted to factories mostly in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

During 2017 the following were identified as non-recurrent items: the costs incurred within the sphere of the activities for reorganisation and rationalisation of the resources which had involved a total of 7 employees for an overall value of the indemnities acknowledged amounting to 235 thousand euro.

The following table gives a detailed breakdown of operating costs and their performance in the two years compared:

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	*18%*
Sales & marketing personnel costs	31,382	*1.38%*	25,358	*1.32%*	6,024	*24%*
Other sales & marketing costs	5,037	*0.22%*	4,823	*0.25%*	214	*4%*
Sales & marketing personnel costs	**36,419**	***1.61%***	**30,181**	***1.57%***	**6,238**	***21%***
Administr., IT, HR and general service personnel costs	16,177	*0.71%*	14,481	*0.76%*	1,696	*12%*
Directors' compensation	3,062	*0.14%*	2,979	*0.16%*	83	*3%*
Consulting services	4,018	*0.18%*	3,445	*0.18%*	573	*17%*
Logistics services	15,018	*0.66%*	13,997	*0.73%*	1,021	*7%*
Amortisation, depreciation and provisions	2,482	*0.11%*	2,415	*0.13%*	67	*3%*
Other overheads and administrative costs	12,271	*0.54%*	12,573	*0.66%*	(302)	*-2%*
Overheads and administrative costs	**53,028**	***2.34%***	**49,890**	***2.60%***	**3,138**	***6%***
Impairment loss/reversal of financial assets	9,266	*0.41%*	1,246	*0.06%*	8,020	*>100%*
Total SG&A	**98,713**	***4.35%***	**81,317**	***4.24%***	**17,396**	***21%***

(euro/000)	2018	%	2017 pro-forma	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**2,010,742**		**257,055**	*13%*
Sales & marketing personnel costs	31,382	*1.38%*	30,680	*1.53%*	702	*2%*
Other sales & marketing costs	5,037	*0.22%*	5,047	*0.25%*	(10)	*0%*
Sales & marketi ng personnel costs	**36,419**	***1.61%***	**35,727**	***1.78%***	**692**	***2%***
Administr., IT, HR and general service personnel costs	16,177	*0.71%*	15,995	*0.80%*	182	*1%*
Directors' compensation	3,062	*0.14%*	3,398	*0.17%*	(336)	*-10%*
Consulting services	4,018	*0.18%*	3,850	*0.19%*	168	*4%*
Logistics services	15,018	*0.66%*	14,244	*0.71%*	774	*5%*
Amortisation, depreciation and provisions	2,482	*0.11%*	2,597	*0.13%*	(115)	*-4%*
Other overheads and administrative costs	12,271	*0.54%*	13,248	*0.66%*	(977)	*-7%*
Overheads and admi ni strati ve costs	**53,028**	***2.34%***	**53,332**	***2.65%***	**(304)**	***-1%***
Impairment loss/reversal of financial assets	9,266	*0.41%*	1,648	*0.08%*	7,618	*>100%*
Total SG&A	**98,713**	***4.35%***	**90,707**	***4.51%***	**8,006**	***9%***

Sales and marketing costs mainly include the following:

- costs relating to personnel working in the marketing, sales and Web functions, corresponding social security contributions and accessory charges;
- agents and other commercial freelance charges;
- management cost for the Cash and Carry shops.

Overheads and administrative costs include:

- costs relating to management and administrative personnel, including the EDP area, human resources, general services and logistic costs;
- fees paid to corporate bodies and the related charges, travel, board and lodging expenses as well as remuneration of stock option plans;
- business consultancy, EDP consultancy to develop software and assistance with IT systems and payments to other consultants and free-lance personnel (for auditing services, real estate, tax, legal and various other consultancy services);
- postal, telephone and telecommunications costs;
- depreciation of property, plant and equipment, amortisation of intangible fixed assets (excluding assets relating to logistic equipment and plants allocated by function to sales costs) as well as provisions for risks;
- overheads and administrative costs, including leasing of premises, utilities, bank charges and fees, insurance, data connection and telephone costs.

The item 'Impairment loss/reversal of financial assets', equal to 9.2 million euro, refers mainly to non-recurring write-downs accounted for during the year referring for 8.8 million euro to the estimated reduction of the overall value of the receivables owed by the importer-supplier of the 'Sport Technology' products line for amounts originating from advances paid for supplies of goods entrusted to factories mostly in China as well as for credit notes (recall of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

Reclassification by nature of some categories of costs

For the purposes of providing more information, some categories of operating costs allocated by ‘function’ have been reclassified by ‘nature’.

Amortisation, depreciation, write-downs and accruals for risks

(euro/000)	2018	%	2017	%		% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	**18%**
Depreciation of tangible assets	2,849	0.13%	2,781	0.15%	68	2%
Amortisation of intangible assets	333	0.01%	382	0.02%	(49)	-13%
Amort . & depreciation	**3,182**	**0.14%**	**3,163**	**0.16%**	**19**	**1%**
Write-downs of fixed assets	-	0.00%	-	0.00%	-	0%
Amort. & depr., write-downs (A)	**3,182**	**0.14%**	**3,163**	**0.16%**	**19**	**1%**
Accruals for risks and charges (B)	128	0.01%	126	0.01%	2	2%
Amort. & depr., write-downs, accruals for risks (C=A+B)	**3,310**	**0.15%**	**3,289**	**0.17%**	**21**	**1%**

(euro/000)	2018	2017	Var.
Depreciation of tangible assets increasing the accumulated deprec.	3,228	3,113	115
Debited to subsidiaries	(379)	(332)	(47)
Depreciation of tangible assets	**2,849**	**2,781**	**68**
Amortisation of intangible assets increasing the accumulated deprec.	557	587	(30)
Debited to subsidiaries	(224)	(205)	(19)
Amortisation of intangible assets	**333**	**382**	**(49)**

Both depreciations and amortisations of assets contains the adjustments showed in the second table, useful in marching the values to the corresponding tables of asset movements.
The details of 'Amortisation, depreciation, write-downs and accruals for risk' are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	2018	%	2017 pro-forma	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**2,010,742**		**257,055**	**13%**
Depreciation of tangible assets	2,849	0.13%	2,877	0.14%	(28)	-1%
Amortisation of intangible assets	333	0.01%	469	0.02%	(136)	-29%
Amort . & depreci ati on	**3,182**	**0.14%**	**3,346**	**0.17%**	**(164)**	**-5%**
Write-downs of fixed assets	-	0.00%	-	0.00%	-	0%
Amort. & depr., wri te-downs(A)	**3,182**	**0.14%**	**3,346**	**0.17%**	**(164)**	**-5%**
Accruals for risks and charges (B)	128	0.01%	153	0.01%	(25)	-16%
Amort. & depr., wri te-downs, accruals for ri sks (C=A+B)	**3,310**	**0.15%**	**3,499**	**0.17%**	**(189)**	**-5%**

Personnel cost

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	***18%***
Wages and salaries	28,365	1.25%	23,916	1.25%	4,449	*19%*
Social contributions	8,664	0.38%	7,076	0.37%	1,588	*22%*
Pension obligations	2,174	0.10%	1,807	0.09%	367	*20%*
Other personnel costs	865	0.04%	769	0.04%	96	*12%*
Employee termination incentives	229	0.01%	293	0.02%	(64)	*-22%*
Share incentive plans	323	0.01%	306	0.02%	17	*6%*
Total labour costs [(1)]	**40,620**	**1.79%**	**34,167**	**1.78%**	**6,453**	***19%***

[(1)] Costs of temporary workers excluded.

The details of 'personnel cost' are shown below with comparative pro-forma figures from the previous year, which result from the merger by incorporation of EDSlan S.r.l. and Mosaico S.r.l.:

(euro/000)	2018	%	2017 Pro-forma	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**2,010,742**		**257,055**	***13%***
Wages and salaries	28,365	1.25%	27,725	1.38%	640	*2%*
Social contributions	8,664	0.38%	8,322	0.41%	342	*4%*
Pension obligations	2,174	0.10%	2,123	0.11%	51	*2%*
Other personnel costs	865	0.04%	884	0.04%	(19)	*-2%*
Employee termination incentives	229	0.01%	651	0.03%	(422)	*-65%*
Share incentive plans	323	0.01%	306	0.02%	17	*6%*
Total labour costs [(1)]	**40,620**	**1.79%**	**40,011**	**1.99%**	**609**	***2%***

[(1)] Costs of temporary workers excluded

Labour costs, amounting to 40.6 million euro in 2018, increased by +19% compared with 2017. Compared with 2017 pro-forma figures, the growth increased by only 0.6 million euro (+2%), mainly due to non-achievement of business target which led to a lesser extent of bonuses maturing in the previous year.

Details of the Company's employees at 31 December 2018, broken down by qualification, can be found under 'Human Resources' in the 'Directors' Report on Operations'.

<u>Share incentive plans</u>

On 4 May 2018 the 'Long Term Incentive Plan' approved by the AGM of 30 April 2015 came to maturity.
Ordinary shares underlying the above-mentioned incentive plan were delivered on 12 June 2018.

On 25 June 2018, free Esprinet stock grants were allotted under the Long Term Incentive Plan approved by the Esprinet AGM of 4 May 2018.
The Company currently owns only 111,755 of the ordinary shares underlying the above-mentioned Plan. Therefore it will need to acquire the remaining amount relating to the 1,150,000 rights granted.

Both plans were and will be booked at 'fair value' according to the 'Black-Scholes' method, taking into account the dividend yield (as per the latest dividend distribution to shareholders) and the level of the risk-free interest rate at grant date.

The main information items used in reporting the value of both the stock grant plans are summarized as follows:

	Plan 2015-2017	Plan 2018-2020
Allocation date	30/06/15	25/06/18
Vesting date	30/04/18	30/04/21
Expiry date	30/06/18	30/06/21
Total number of stock grant	1,150,000	1,150,000
Total number of stock grant allocated	646,889	1,150,000
Total number of stock grant allowed	535,134 (1)	1,150,000
Unit fair value (euro)	6.84	3.20
Total fair value (euro)	3,660,317	3,680,000
Risk free interest rate (BTP 3 years)	0.7% (2)	1.1% (3)
Duration (years)	3	3
Spot price (4)	7.20	3.58
"Dividend yield"	1.7%	3.8%

(1) Decrease due to employment termination of some beneficiaries and to the estimated partial achievement of performance targets.
(2) Source: Bloomberg, 29 June 2015
(3) Source: Bloomberg, 22 June 2018
(4) Official price of Esprinet S.p.A. shares at grant date.

Costs in the current income statement relating to the above-mentioned plans with a contra entry in the 'Reserve' item in the statement of financial position, totalled 323 thousand euro with reference to employees (371 thousand euro in 2017) and 703 thousand euro with reference to directors (655 thousand euro in 2017).

Costs relating to operating leasing are detailed in the table below:

(euro/000)	2018	%	2017	%	Var.	*% Var.*
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	***18%***
Lease of buildings	7,179	0.32%	7,908	0.41%	(729)	*-9%*
Lease of cars	1,272	0.06%	1,104	0.06%	168	*15%*
Lease of equipment	67	0.00%	186	0.01%	(119)	*-64%*
Lease of data connection lines	115	0.01%	94	0.00%	21	*22%*
Housing CED	149	0.01%	148	0.01%	1	*1%*
Leasing costs	**8,782**	**0.39%**	**9,440**	**0.49%**	**(658)**	***-7%***

Commitments for future payments pertaining to leasing rentals and operating leasing are as follows:

(euro/000)	2019	2020	2021	2022	2023	Oltre	Totale
Lease of buildings	8,386	8,304	8,058	7,893	7,454	35,999	76,093
Lease of cars	1,095	731	332	111	22	-	2,291
Lease of equipment	37	32	-	-	-	-	69
Lease of data connection lines	210	210	210	122	-	-	752
Housing CED	149	149	149	87	-	-	535
Leasing costs	**9,877**	**9,426**	**8,749**	**8,213**	**7,476**	**35,999**	**79,740**

42) Finance costs – net

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	***18%***
Interest expenses on borrowings	2,629	0.12%	2,805	0.15%	(176)	*-6%*
Interest expenses to banks	304	0.01%	249	0.01%	55	*22%*
Other interest expenses	14	0.00%	7	0.00%	7	*100%*
Upfront fees amortisation	730	0.03%	637	0.03%	93	*15%*
IAS 19 expenses/losses	50	0.00%	45	0.00%	5	*11%*
Derivatives ineffectiveness	116	0.01%	167	0.01%	(51)	*-31%*
Total financial expenses (A)	**3,843**	**0.17%**	**3,910**	**0.20%**	**(67)**	***-2%***
Interest income from banks	(25)	0.00%	(41)	0.00%	16	*-39%*
Interest income from others	(200)	-0.01%	(620)	-0.03%	420	*-68%*
Interest incomes from intercompany	(630)	-0.03%	(1,048)	-0.05%	418	*-40%*
Derivatives ineffectiveness	(3)	0.00%	-	0.00%	(3)	*-100%*
Total financial income(B)	**(858)**	**-0.04%**	**(1,709)**	**-0.09%**	**851**	***-50%***
Net financial exp. (C=A+B)	**2,985**	**0.13%**	**2,201**	**0.11%**	**784**	***36%***
Foreign exchange gains	(830)	-0.04%	(717)	-0.04%	(113)	*16%*
Foreign exchange losses	1,302	0.06%	396	0.02%	906	*>100%*
Net foreign exch. (profit)/losses (D)	**472**	**0.02%**	**(321)**	**-0.02%**	**793**	***<-100%***
Net financial (income)/costs (E=C+D)	**3,457**	**0.15%**	**1,880**	**0.10%**	**1,577**	***84%***

The overall balance between finance income and expense, which is negative for 3.5 million euro, compares with a negative balance of 1.9 million euro in the previous year (-1.6 million euro).

This trend is mainly due to the impact of lower interest income on financing to the benefit of Group Companies (-0.4 million euro), lower interest receivable from third parties for 0.4 million euro, because in 2017 the Company had booked revenues from the favourable outcome of a litigation with a credit insurance company, as well as the deterioration in the result of the foreign exchange management caused by the unfavourable trend of the Euro/US dollar exchange rate (-0.8 million euro during the year).

By contrast, the net bank interest was down by 0.1 million euro due - with average utilisation of bank facilities substantially unchanged - to a reduction in the cost of the debt essentially linked to a mix of less onerous technical forms.

45) Income tax expenses

(euro/000)	2018	%	2017	%	Var.	% Var.
Sales from contracts with customers	**2,267,797**		**1,917,559**		**350,238**	***18%***
Current tax - IRES (Corporation income tax)	1,747	0.08%	3,050	0.16%	(1,303)	*-43%*
Current tax - IRAP (Regional tax on productive activities)	725	0.03%	943	0.05%	(218)	*-23%*
Rainboursement IRES	-	0.00%	(122)	-0.01%	122	*-100%*
Current income taxes	**2,472**	**0.11%**	**3,871**	**0.20%**	**(1,399)**	***-36%***
Current tax - IRES (Corporation income tax)	(2,255)	-0.10%	46	0.00%	(2,301)	*<-100%*
Current tax - IRAP (Regional tax on productive activities)	(81)	0.00%	(11)	0.00%	(70)	*>100%*
Deferred income taxes	**(2,336)**	**-0.10%**	**35**	**0.00%**	**(2,371)**	***<-100%***
Current tax - IRES (Corporation income tax)	(508)	-0.02%	2,974	0.16%	(3,482)	*<-100%*
Current tax - IRAP (Regional tax on productive activities)	644	0.03%	932	0.05%	(288)	*-31%*
Total taxes	**136**	**0.01%**	**3,906**	**0.20%**	**(3,770)**	***-97%***

Income taxes, amounting to 136 thousand euro, dropped by -3.8 million euro compared with last year.

The following table illustrates the reconciliation between the theoretical and the effective tax rate:

(euro/000)	2018	2017
Profit before taxes [A]	**(894)**	**14,516**
Operating profit (EBIT)	**2,563**	**16,396**
(+) bad debt provision	9,348	1,055
(+) provision for risks and charges	128	126
Taxable amout for IRAP [B]	**12,039**	**17,577**
Theoretical taxation IRES [A*24.0%]	(215)	3,484
Theoretical taxation IRAP [B*3.9%]	470	686
Total theoretical taxation [C]	**255**	**4,169**
Theoretical tax rate [C/A]	***-28.5%***	***28.7%***
(-) tax relief - ACE (Aiuto alla Crescita Economica)	(379)	(361)
Other permanent differences	260	98
Total effective taxation [D]	**136**	**3,906**
Effective tax rate [D/A]	***-15.2%***	***26.9%***

6. Other significant information

6.1 Emoluments paid to the board members, statutory auditors and key managers

Disclosure in accordance with CONSOB Resolution 11971 dated 14 May 1999 and in compliance with the following amendments introduced with resolution 15520 dated 27 July 2006, regarding the emoluments of directors, statutory auditors of Esprinet S.p.A. and 'Key Managers', payable to them in respect of the positions held by them in the company during the year can be found in the paragraph of the same name in the 'Notes to the consolidated financial statements'.

6.2 Net financial indebtedness and financial liabilities analysis

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, net financial indebtedness (or 'net financial position') is substantially calculated in compliance with the criteria specified in the CESR or Committee of European Securities Regulators recommendation of 10 February 2005: 'CESR's recommendations for the consistent implementation of the European Commission's Regulation' and referred to by Consob itself.

(euro/000)	31/12/2018	31/12/2017
A. Bank deposits and cash on hand	173,681	165,364
B. Cheques	-	4
C. Trading securities	-	-
D. Liquidity (A+B+C)	173,681	165,368
Financial assets for derivatives	*375*	-
Customer financial receivables	*10,880*	*510*
Financial receivables from factoring companies	*241*	*1,202*
Financial receivables from Group companies	*104,500*	*157,500*
E. Current financial receivables	115,996	159,212
F. Current bank debt	2,238	1,908
G. Current portion of non current debt	105,982	133,532
H. Other current financial debt and financial liability for derivatives	25,137	14,467
I. Current financial debt (F+G+H)	133,357	149,907
J. Net current financial indebtedness (I-E-D)	**(156,320)**	**(174,673)**
K. Non-current bank loans	12,804	18,163
L. Customers financial receivables	(1,420)	(1,870)
M. Non-current financial liabilities for derivatives	-	(377)
N. Non-current financial indebtedness (K+L+M)	**11,384**	**15,916**
O. Net financial indebtedness (J+N)	**(144,936)**	**(158,757)**
Breakdown of net financial indebtedness:		
Short-term financial liabilities	132,744	149,263
Current financial (assets)/liabilities for derivatives	238	644
Customers financial receivables	(10,880)	(510)
Financial receivables from factoring companies	(241)	(1,202)
Financial receivables/liabilities from/to Group companies	(104,500)	(157,500)
Cash and cash equivalents	(173,681)	(165,368)
Net current financial debt	**(156,320)**	**(174,673)**
Non-current financial (assets)/liabilities for derivatives	-	(377)
Customers financial receivables	(1,420)	(1,870)
Borrowings	12,804	18,163
Net financial debt	**(144,936)**	**(158,757)**

With reference to the same table, it should be underlined that the net financial indebtedness, measured according to the CESR criteria, coincides with the notion of 'net financial debt'.

The net financial debt, showing a surplus of 144.9 million euro, results from the balance between gross financial debt of 145.5 million euro, financial liabilities for derivatives of 0.2 million euro, financial receivables from factoring companies of 0.2 million euro, financial receivables from Group

companies of 104.5 million euro, customers financial receivables of 12.3 million euro and cash and cash equivalents of 173.7 million euro.

The liquid assets mainly consist of free and unrestricted bank deposits of a transitional nature as they are formed temporarily at the end of the month as a result of the Company's distinctive financial cycle.
A feature of this cycle is the high concentration of funds received from customers and factoring companies – the latter in the form of net income from the without-recourse assignment of trade receivables – normally received at the end of each calendar month, while payments to suppliers, also tending to be concentrated at the end of the period, are usually spread more equally throughout the month. For this reason, the spot figure at the end of a period does not represent the net financial borrowings or the average treasury resources for the same period.

The without-recourse sale of account receivables revolving programme focussing on the large-scale distribution sector in particular, continued during 2018 as part of the processes aimed at the structural optimisation of the management of working capital. In addition to this, the securitisation programme also continued during the period, launched in Italy in July 2015 and renewed in July 2018, for additional trade receivables.

This programme is aimed at transferring risks and rewards to the buyer: the receivables sold are therefore de-recognized in the statement of financial position according to IFRS 9. The overall effect on the levels of financial debt as at 31 December 2018 is approx. 309 million euro (approx. 169 million euro as at 31 December 2017).

Details of the current portion of medium-/long-term financial debt and the portion falling due beyond the following year are illustrated below. It has to be noted that amounts can differ from the book value of loan principal since they represent the amortised cost calculated on the basis of the real interest rate.

(euro/000)	31/12/2018			31/12/2017			Var.		
	Curr.	Non curr.	Tot.	Curr.	Non curr.	Tot.	Curr.	Non curr.	Tot.
Pool loan 2017 (ag.: Banca IMI)	100,614	-	100,614	129,469	-	129,469	(28,855)	-	(28,855)
Carige	2,475	5,082	7,557	2,437	7,548	9,985	38	(2,466)	(2,428)
BCC Carate	2,466	6,304	8,770	1,220	8,770	9,990	1,246	(2,466)	(1,220)
Intesa Sanpaolo (GdF loan)	427	1,418	1,845	406	1,845	2,251	21	(427)	(406)
Total loan	**105,982**	**12,804**	**118,786**	**133,532**	**18,163**	**151,695**	**(27,550)**	**(5,359)**	**(32,909)**

6.3 Loans and loan covenants

The following table displays the book value of principal of the loans granted to the Company, having a weighted average rate in 2018 of approx. 1.67% (approx. 1.7% in 2017) or approx. 1.9% (unchanged compared with the previous year) taking into account the different forms of hedging the risk exposure to interest variability.

(euro/000)	31/12/2018	31/12/2017	Var.
Unsecured pool loan to Esprinet S.p.A. repayable in 1 six monthly instalments by February 2022	101,500	130,500	(29,000)
Pool loan 'GdF' (agent: Intesa Sanpaolo) to Esprinet S.p.A. repayable in 9 yearly instalments by January 2022	1,870	2,292	(422)
Unsecured loan (agent: Carige) to Esprinet S.p.A. repayable in 1 six-monthly instalments by December 2021	7,563	10,000	(2,437)
Unsecured loan (agent: BCC Carate) to Esprinet S.p.A. repayable in 1 six-monthly instalments by March 2022	8,777	10,000	(1,223)
Total book value of loan principal	**119,710**	**152,792**	**(33,082)**

The loan agreement with a book value of loan principal amounting to 101.5 million euro is a Term Loan Facility entered into by Esprinet S.p.A. with a pool of banks, received in February 2017 and maturing within February 2022. Such loan is subject to the compliance of 4 covenants, any breach of which allows the issuing institutes to demand immediate reimbursement. These covenants, which are subject to 6-monthly checks against the audited consolidated financial statements are listed as follows:

i) ratio of 'extended net financial indebtedness' to EBITDA;
ii) ratio of EBITDA to net financial charges;
iii) absolute amount of 'extended net financial indebtedness';
iv) amount of 'gross net financial indebtedness';

where 'extended net financial indebtedness' is the net financial indebtedness as measured in the previous section entitled 'Net financial indebtedness' gross of financial receivables and of the impact of prepayments received from factoring companies as part of without recourse sales of receivables programmes or securitisations.

A Revolving Facility, entered into on the same date and having the same maturity as the Term Loan Facility and the maximum principal equal to 65 million euro, undrawn as at the date of these financial statements, is also subject to the same covenants. The purpose of the Revolving Facility and the Term Loan Facility is to re-finance the existing outstanding indebtedness and to further consolidate financial structure by lengthening the average maturity of the financial debt.

As at 31 December 2018, even if the compliance of the above-mentioned covenants has to be checked against the consolidated and audited financial statements, the covenant consisting in the ratio of net financial indebtedness to EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities; with respect to the above, the Group already entered into negotiations with the pool of lending banks.
In addition, it should be highlighted that on 28 February 2019 the Company repaid 14.5 million euro in principal as per the amortisation plan of the amortising facility, thus reducing the liability to 87.0 million euro.

Loan agreements also contain the usual 'negative pledge', 'pari passu' and similar clauses none of which had been breached at the time this report was drafted.

6.4 Cash flow analysis

(euro/000)	2018	2017
Net financial debt at start of the year	**(158,757)**	**(114,504)**
Cash flow provided by (used in) operating activities	24,329	55,146
Cash flow provided by (used in) investing activities	(30,301)	(2,282)
Cash flow provided by (used in) changes in net equity	(6,485)	(7,201)
Total cash flow	**(12,457)**	**45,663**
Unpaid interests	(1,364)	(1,410)
Net financial position at end of year	**(144,936)**	**(158,757)**
Short-term financial liabilities	132,744	149,263
Customers financial receivables	(10,880)	(510)
Current financial (assets)/liabilities for derivatives	238	644
Financial receivables from factoring companies	(241)	(1,202)
Financial (assets)/liab. From/to Group companies	(104,500)	(157,500)
Cash and cash equivalents	(173,681)	(165,368)
Net current financial debt	**(156,320)**	**(174,673)**
Borrowings	12,804	18,163
Non-current financial (assets)/liab. for derivatives	-	(377)
Customers financial receivables	(1,420)	(1,870)
Net financial debt at start of the year	**(144,936)**	**(158,757)**

As shown in the table, as a result of cash flow developments detailed in the cash flow statement, Esprinet S.p.A. books a cash surplus equal to 144.9 million euro compared to 158.8 million euro as at 31 December 2017.

6.5 Shareholdings

Here follows the Shareholding schedule with data referring to the IFRS 'reporting package' at 31 December 2018 for the individual entities where the Company owns shareholdings:

Subsidiaries:

N.	Name	Headquarters	Interest held	Group interest held
1	Celly S.p.A.	Vimercate (MB) - Italy	80.00%	80.00%
2	V-Valley S.r.l.	Vimercate (MB) - Italy	100.00%	100.00%
3	Nilox Deutschland GmbH	Düsseldorf - Germany	100.00%	100.00%
4	Esprinet Iberica S.L.U.	Saragozza - Spain	100.00%	100.00%
5	Esprinet Portugal Lda	Porto - Portugal	5.00%	100.00%

N.	Name	Currency	Share capital	Net equity	Result for the period	Carrying amount
1	Celly S.p.A.	EUR	1,250,000	5,620,898	561,900	9,934,440
2	V-Valley S.r.l.	EUR	20,000	2,584,711	780,524	20,000
3	Nilox Deutschland GmbH	EUR	400,000	(276,006)	(662,789)	400,000
4	Esprinet Iberica S.L.U.	EUR	54,692,844	142,034,475	49,118,243	75,681,490
5	Esprinet Portugal Lda	EUR	400,000	(132,203)	(449,943)	50,000

Compared with 31 December 2017, it should be noticed the exit from the scope of EDSlan S.r.l. and Mosaico S.r.l. both merged by incorporation into Esprinet S.p.A. during 2018.

For further information please refer to the paragraph 'Significant events occurred in the period'.

6.6 Summary of subsidiaries' main financial and economic figures

The following tables show key data from the subsidiaries' draft financial statements as at 31 December 2018 as approved by the respective Boards of Directors. Please note that the financial statements have been drawn up in accordance with local accounting policies.

(euro/000)	Celly S.p.A.	Nilox Deutschland GmbH	V-Valley S.r.l.	Esprinet Iberica S.L.U.
Sales from contracts with customers	27,042	1,510	153,171	741,009
Cost of sales	(15,601)	(1,942)	(151,207)	(715,205)
Gross profit	**11,441**	**(431)**	**1,964**	**25,804**
Sales and marketing costs	(6,700)	(212)	-	(5,532)
Overheads and administrative costs	(2,990)	(19)	(865)	(18,538)
Impairment loss/reversal of financial assets	(61)	-	1	(80)
Operating income (EBIT)	**1,690**	**(663)**	**1,100**	**1,655**
Finance costs - net	(243)	(0)	(7)	(786)
Other investments expenses / (incomes)	(75)	-	-	43,989
Result before income taxes	**1,372**	**(663)**	**1,093**	**44,858**
Income tax expenses	(572)	-	(313)	(198)
Net result before non-controlling interests	**799**	**(663)**	**781**	**44,660**
Net result	**799**	**(663)**	**781**	**44,660**

(euro/000)	Celly S.p.A.	Nilox Deutschland GmbH	V-Valley S.r.l.	Esprinet Iberica S.L.U.
ASSETS				
Non-current assets				
Property, plant and equipment	87	-	-	2,873
Goodwill	-	-	-	40,992
Intangible assets	7	-	-	1
Investments in associates	-	-	-	-
Investments in others	6	-	-	78,497
Deferred income tax assets	604	-	66	4,463
Receivables and other non-current assets	-	-	-	323
	704	**-**	**66**	**127,151**
Current assets				
Inventory	5,946	-	-	88,699
Trade receivables	8,370	1,571	54,248	35,167
Income tax assets	-	-	-	238
Other assets	1,477	-	995	48,334
Cash and cash equivalents	316	210	5,508	74,066
	16,110	**1,781**	**60,751**	**246,504**
Non-current assets held for sale	**-**	**-**	**-**	**-**
Total assets	**16,814**	**1,781**	**60,817**	**373,655**
EQUITY				
Share capital	1,250	400	20	55,203
Reserves	3,353	(13)	1,784	28,755
Net income for the period	799	(663)	781	44,660
	5,402	**(276)**	**2,585**	**128,618**
Non-controlling interests				
Total equity	**5,402**	**(276)**	**2,585**	**128,618**
LIABILITIES				
Non-current liabilities				
Borrowings	-	-	-	-
Deferred income tax liabilities	7	-	-	144
Retirement benefit obligations	499	-	-	-
Provisions and other liabilities	460	-	-	149
	966	**-**	**-**	**294**
Current liabilities	-			
Trade payables	5,027	19	64	142,372
Short-term financial liabilities	2,141	-	1,383	90,237
Income tax liabilities	46	-	23	-
Provisions and other liabilities	3,231	2,038	56,762	12,134
	10,445	**2,057**	**58,232**	**244,743**
Total liabilities	**11,412**	**2,057**	**58,232**	**245,037**
Total equity and liabilities	**16,814**	**1,781**	**60,817**	**373,655**

6.7 Relationships with related entities

In next paragraphs balances of the statement of financial position and of the separate income statement deriving from operations with related parties (as defined by IAS 24), except for relationships with members of the key management that are detailed in the paragraph with the same name are summarised and explained.

6.7.1 Intercompany costs and revenues

Details of revenues and costs recorded by Esprinet S.p.A. in relation to the companies belonging to the Group are as follows:

(euro/000)	Type	2018		2017	
		Sales	Cost	Sales	Cost
Sales					
Edslan S.r.l.	Sales of goods	-	-	13,690	-
Mosaico S.r.l.	Sales of goods	-	-	2,174	-
Nilox Deutschland GmbH	Sales of goods	1,793	-	-	-
Esprinet Iberica S.L.U.	Sales of goods	54,445	-	42,857	-
Vinzeo SAU	Sales of goods	-	-	1,929	-
Celly Nordic OY	Sales of goods	-	-	1	-
Celly S.p.A.	Sales of goods	517	-	1,866	-
Subtotal		**56,754**	**-**	**62,516**	**-**
Cost of sales					
Edslan S.r.l.	Services costs	-	-	-	(18)
Edslan S.r.l.	Purchase of goods	-	-	-	1,916
Mosaico S.r.l.	Purchase of goods	-	-	-	1,139
Nilox Deutschland GmbH	Transport costs		(110)	-	-
Esprinet Iberica S.L.U.	Purchase of goods	-	602	-	448
Celly S.p.A.	Transport costs	-	(7)	-	(8)
Celly S.p.A.	Purchase of goods	-	207	-	290
Subtotal		**-**	**692**	**-**	**3,767**
Sales and marketing costs					
Edslan S.r.l.	Labour costs	-	-	-	(27)
Edslan S.r.l.	Transport costs	-	-	-	(17)
Edslan S.r.l.	Marketing costs	-	-	-	13
Mosaico S.r.l.	Transport costs	-	-	-	(11)
Mosaico S.r.l.	Marketing costs	-	-	-	37
V-Valley S.r.l.	Fees on sales	-	2,264	-	1,400
Esprinet Iberica S.L.U.	Labour costs	-	-	-	(55)
Esprinet Portugal Lda	Labour costs	-	-	-	(1)
Celly S.p.A.	Labour costs	-	-	-	(4)
Subtotal		**-**	**2,264**	**-**	**1,335**
Overheads and administrative costs					
Edslan S.r.l.	Hardware and software support costs	-	-	-	(125)
Edslan S.r.l.	Administrative services	-	-	-	(896)
Mosaico S.r.l.	Administrative services	-	-	-	(102)
Mosaico S.r.l.	Hardware and software support costs	-	-	-	(3)
V-Valley S.r.l.	Hardware and software support costs	-	(93)	-	(25)
V-Valley S.r.l.	Administrative services	-	(90)	-	(84)
Esprinet Iberica S.L.U.	Hardware and software support costs	-	(1,129)	-	(953)
Esprinet Iberica S.L.U.	Administrative services	-	(58)	-	(114)
Vinzeo SAU	Hardware and software support costs	-	(58)	-	(21)
Vinzeo SAU	Administrative services	-	(53)	-	(34)
V-Valley Iberian S.L.U.	Administrative services	-	(1)	-	(1)
V-Valley Iberian S.L.U.	Hardware and software support costs	-	(5)	-	-
Esprinet Portugal Lda	Hardware and software support costs	-	(24)	-	(31)
Esprinet Portugal Lda	Administrative services	-	(53)	-	(56)
Celly S.p.A.	Hardware and software support costs	-	(170)	-	(114)
Celly S.p.A.	Administrative services	-	(658)	-	(707)
Subtotal		**-**	**(2,394)**	**-**	**(3,266)**
Finance costs - net					
Celly S.p.A.	Interests income	9	-	35	-
Edslan S.r.l.	Interests income	-	-	71	-
Esprinet Portugal Lda	Interests income	39	-	37	-
Mosaico S.r.l.	Interests income	-	-	141	-
V-Valley Iberian S.l.u.	Interests income	38	-	37	-
Esprinet Iberica S.L.U.	Interests income	544	-	727	-
Subtotal		**630**	**-**	**1,048**	**-**
Total		**57,385**	**561**	**63,564**	**1,837**

6.7.2 Relationships with subsidiaries

The following is a summary of the Esprinet S.p.A.'s relationships with its subsidiaries. Intercompany receivables and payables have been detailed in the 'Notes to the statement of financial position items'. Intercompany costs and revenues have been detailed in the previous paragraph.
Please note that the relationships between Esprinet S.p.A. and its subsidiaries have been conducted in accordance with market conditions.

Relationships with subsidiaries subject to management and coordination activities

Esprinet S.p.A. manages and co-ordinates activities of the subsidiaries resident in Italy.
This activity consists in setting general and operational strategic policies for the Group, drafting general policies regarding human and financial resources management, defining and adapting:
- the corporate governance and internal control model;
- the Group Organisational Model pursuant to Legislative Decree 231/01;
- the System Security Planning Paper (SSPP) pursuant to Legislative Decree 196/03;
- the Code of Ethics;
- administrative-accounting procedures regarding financial reports.

Group co-ordination especially involves the centralised management of administrative, corporate and cash services which, in addition to enabling the subsidiary companies to achieve economies of scale, also enable them to focus their internal resources on managing the core business.

National consolidated tax regime – Subgroup Italy

Esprinet S.p.A. and its subsidiary Celly S.p.a. have opted for the tax regime as established in the 'National consolidated tax regime', as per Article 117 and followings of Presidential Decree 917/86 (TUIR) 2018 for the 3-years period 2018-2020.
In 2016 V-Valley opted again for the 'National consolidated tax regime' for the 2016-2018 3-year period.
The economic ratios, as well as the responsibilities and mutual obligations, between the consolidating company and the aforementioned subsidiaries are defined in the 'Consolidation regulations governing Esprinet Group member companies'.
Tax liabilities are usually reported under the item 'Current income tax liabilities', net of advances and the withholding taxes paid and tax credits, in general. The current Corporate Income Tax (IRES) is also reported under 'Current income tax liabilities' calculated by using estimates of positive and negative taxable amounts of the subsidiary companies which have accepted the National consolidated tax regime, net of advances and withholding taxes paid and the accruing tax credits of the companies in question; the corresponding receivables of the consolidating company referring to Group member companies and regarding the current tax corresponding to the positive taxable amounts transferred in the framework of the National consolidated tax regime, represent the balancing item of the tax liabilities reported.
Payables for compensations due to subsidiaries with negative taxable amounts are reported under the item 'Payables to subsidiaries and associated companies'.

The deferred and prepaid Corporate Income Tax (IRES) is calculated on the temporary differences between the values of assets and liabilities determined in accordance with the requirements of the Italian civil code and the corresponding tax values referring exclusively to the single companies.
The current, deferred and pre-paid Regional Business Tax (IRAP) is determined exclusively in the case of single companies.

Celly S.p.A.

During the year Celly S.p.A. purchased goods from the parent company totalling 0.2 million euro and also sold products to Esprinet S.p.A. totalling 0.5 million euro.

Moreover, Celly paid to the parent Company 0.8 million euro for office rental, headquarters management expenses, personnel costs charge back, EDP consultancy, debiting of general expenses, IT costs and expenses for the maintenance and management of its ledgers, books and registers, as well as for administrative activities related to its business purpose.
Finally, it paid Esprinet S.p.A. interest on the outstanding loan amounting to 9 thousand euro.

V-Valley S.r.l.

As a result of the commission agreement signed on 20 October 2010, V-Valley entered into purchase agreements in its own name, but on behalf of Esprinet S.p.A..The total amount of the agreements signed was 151 million euro (93 million euro in 2017), against which commission on sales accrued for 2.3 million euro (1.4 million euro in 2017).
Moreover, on the basis of a 'service agreement' signed between Esprinet S.p.A. and V-Valley, the latter paid a fee of 0.2 million euro to the parent company in 2018 for the rental of equipment, recharging of general expenses, telephone charges, IT costs and expenses for the maintenance and management of its ledgers, books and registers, as well as for administrative activities related to its business purpose.

In 2010 Esprinet S.p.A. gave V-Valley a warranty grant of 1 million euro (at Intesa San Paolo and still current in 2018), by which Esprinet S.p.A. stands guarantee in favour of the company's use of the same.
Likewise, Esprinet S.p.A. gave i) in 2011 Aosta Factor a letter of credit amounting to 20 million euro (still outstanding in 2018), ii) in 2013 IFI Italia S.p.A. a letter of credit amounting to 18 million euro (still outstanding in 2018), and iii) a letter of credit to MBFacta – previously Creditech - in 2016 amounting to 5 million euro, by which Esprinet acts as guarantor for the subsidiary's use of the same, in favour of V-Valley.

Esprinet Iberica S.L.U.

During the year Esprinet Iberica purchased goods from Esprinet S.p.A. totalling 54.4 million euro and also sold products to Esprinet S.p.A. totalling 0.6 million euro.

Esprinet Iberica also paid approx. 1.2 million euro according to a service agreement to lease equipment, for the use of data lines and administrative services, and loan interest of about 0.5 million euro.

Vinzeo Technologies S.A.U.

During the year, Vinzeo also paid approx. 0.1 million euro for the use of data lines and administrative services to the parent company.

Esprinet Portugal Lda

In 2018 Esprinet Portugal paid approx. 0.1 million euro to the parent company, mainly for the recharge of EDP consultancy and administrative services as well as for interest income amounting to 39 thousand euro on the existing loan.

V-Valley Iberian S.L.U.

In 2018 V-Valley Iberian S.L.U. paid approx. 6 thousand euro to the parent company, mainly for the recharge of EDP consultancy and administrative services as well as for interest income amounting to 38 thousand euro on the existing loan.

6.7.3 Relationships with 'other related parties'

Sales regard consumer electronics products sold at normal market conditions, mainly to key

managers and close members of their family.

(euro/000)	Type	2018				2017			
		Sales	Cost	Receiv.	Payab.	Sales	Cost	Receiv.	Payab.
Sales									
Infoklix S.p.A.	Sales of goods	-	-	-	-	-	-	2	-
Key managers e familiari	Sales of goods	11	-	-	-	16	-	9	-
Subtotal		**11**	**-**	**-**	**-**	**16**	**-**	**11**	**-**
Overheads and administrative costs									
Immobiliare Selene S.r.l.	Lease - premises	-	1,477	350	427	-	1,467	2	449
M.B. Immobiliare S.r.l.	Lease - premises	-	3,405	925	1,130	-	3,380	8	1,038
Immobiliare Selene S.r.l.	Overheads	-	-	9	4	-	7	-	4
M.B. Immobiliare S.r.l.	Overheads	-	(2)	26	6	-	17	-	6
M.B. Immobiliare S.r.l.	Maintenance of third-party assets	-	2	-	-	-	9	-	9
M.B. Immobiliare S.r.l.	Maintenance and logistic fees	-	7	-	-	-	2	-	-
Immobiliare Selene S.r.l.	Deposits	-	-	717	-	-	-	717	-
M.B. Immobiliare S.r.l.	Deposits	-	-	833	-	-	-	833	-
Subtotal		**-**	**4,889**	**2,860**	**1,567**	**-**	**4,882**	**1,560**	**1,506**
Finance costs-net									
Immobiliare Selene S.r.l.	Interest on deposits	2	-	2	-	1	-	2	-
M.B. Immobiliare S.r.l.	Interest on deposits	2	-	2	-	1	-	1	-
Subtotal		**4**	**-**	**4**	**-**	**2**	**-**	**3**	**-**
Total		**15**	**4,889**	**2,864**	**1,567**	**18**	**4,882**	**1,574**	**1,506**

Services received mainly refer to leasing agreements entered into under market conditions in previous years with real estate companies Immobiliare Selene S.r.l. in the case of the Cambiago (MI) logistics site and M.B. Immobiliare S.r.l. in the case of Cavenago (MB) logistics site.

As shown in the previous table, the total value of the aforementioned transactions is not material compared with the total volume of the Company's activities, however.

6.8 Non-recurring significant events and operations

The following were identified during 2018 as non-recurring items:

- the significant and unusual recognition of a negative gross margin, 6.1 million euro, on some product classes of the 'Sport Technology' range consequent to two phenomena: (i) an unexpected rapid drop in the price to the public which occurred in the fourth quarter of 2018 together with the cessation of the protection mechanisms guaranteed by the importer supplier following placement in liquidation of the same (reduction in the prices which also led to a significant adjustment to the estimated realisable value of the warehouse inventories) and (ii) the disputes arising with the same importer supplier relating to the nature and/or amount of the reciprocal contractual rights;
- the estimated reduction of 8.8 million euro in the overall value of the receivables which Esprinet S.p.A. is owed by the same supplier for amounts originating from advances paid for supplies of goods entrusted to factories mostly in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

During 2017 the following were identified as non-recurrent items: the costs incurred within the sphere of the activities for reorganisation and rationalisation of the resources which had involved a total of 7 employees for an overall value of the indemnities acknowledged amounting to 235 thousand euro.

The following table shows the impact of the above events and transactions on the income statement (including the related tax effects):

(euro/000)	Non -recurring Charge Type	2018	2017	Var.
Gross Profit		**(6,080)**	**-**	**(6,080)**
Overheads and administrative costs	Employee termination incentives	-	(235)	235
Impaiment loss/reversal of financial assets	Value adjustments on receivables from suppliers	(8,823)	-	(8,823)
Total SG&A	**Total SG&A**	**(8,823)**	**(235)**	**(8,588)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(14,903)**	**(235)**	**(14,668)**
Profit before income taxes	**Profit before income taxes**	**(14,903)**	**(235)**	**(14,668)**
Income tax expenses	Non -recurring events impact	3,814	65	3,749
Net income/(loss)	**Net income/(loss)**	**(11,089)**	**(170)**	**(10,919)**

6.9 Main disputes pending

Developments in existing legal and tax-related disputes can be found in a similar section under the comment to the statement of financial position item ‘Non-current provisions and other liabilities’ in the ‘Notes to the consolidated financial statements’.
Similarly, the ‘Directors’ Report on Operations’ also contains the Group’s policies regarding the management of legal and tax-related disputes under ‘Main risks and uncertainties facing the Group and Esprinet S.p.A.’.

6.10 Disclosure on risks and financial instruments

6.10.2 Financial instruments pursuant to IFRS 9: classes of risk and 'fair value'

The following tables illustrate the relationship between the financial instrument items in the statement of financial position and the financial assets and liabilities categories in accordance with the accounting standard IFRS 9.
For further details about the contents of individual balance sheet items please see the analyses provided in the specific sections in the chapter ‘Notes to the statement of financial position items’.

Assets	31/12/2018				31/12/2017			
(euro/000)	Carrying amount	Financial assets at FVTPL (1)	Loans and receiv.	Not IFRS 9	Carrying amount	Financial assets at FVTPL (1)	Loans and receiv.	Not IFRS 9
Derivative financial assets	-				377	377		
Customer financial receivables	*1.420*		*1.420*		*1.870*		*1.870*	
Guarantee deposits	*1.675*			*1.675*	*4.526*		*2.844*	*1.682*
Receiv and other non-curr. Assets	3.095		1.420	1.675	6.396		4.714	1.682
Non-current assets	**3.095**	**-**	**1.420**	**1.675**	**6.773**	**377**	**4.714**	**1.682**
Trade receivables	199.871		199.871		141.244		141.244	
Receivables from subsidiaries	*170.481*		*170.481*		*193.002*		*193.002*	
Other tax receivables	*4.639*			*4.639*	*12.049*			*12.049*
Receivables from factors	*242*		*242*		*1.202*		*1.202*	
Customer financial receivables	*10.880*		*10.880*		*510*		*510*	
Receivables from insurances	*573*		*573*		*233*		*233*	
Receivables from suppliers	*4.680*		*2.834*	*1.846*	*4.541*			*4.541*
Receivables from employees	*2*		*2*		*-*		*-*	
Receivables from others	*72*		*72*		*157*		*157*	
Pre-payments	*3.794*			*3.794*	*3.667*			*3.667*
Receiv and other curr. Assets	195.363		185.084	10.279	215.361		195.104	20.257
Derivative financial assets	375	375			-	-		
Cash and cash equivalents	173.681		173.681		165.368		165.368	
Current assets	**569.290**	**375**	**558.636**	**10.279**	**521.973**	**-**	**501.716**	**20.257**

Liabilities	31/12/2018				31/12/2017			
(euro/000)	Carrying amount	Financial liabilities at FVTPL (1)	Financial liabilities amortized cost	Not IFRS 9	Carrying amount	Financial liabilities at FVTPL (1)	Financial liabilities amortized cost	Not IFRS 9
Borrowings	12,804		12,804		18,163		18,163	
Provisions for pensions	*1,218*			*1,218*	*1,409*			*1,409*
Other provisions	*77*			*77*	*185*			*185*
Cash incentive liab	*105*		*105*		*-*		*-*	
Provis. and other non-curr. liab.	1,400		105	1,295	1,594		-	1,594
Non-current liabilities	**14,204**	**-**	**12,909**	**1,295**	**19,757**	**-**	**18,163**	**1,594**
Trade payables	521,203		521,203		465,112		465,112	
Short-term financial liabilities	132,744		132,744		149,263		149,263	
Derivative financial liabilities	613	613			644	644		
Payables to assoc. and subsidiar.	*255*		*255*		*1,558*		*1,558*	
Social security liabilities	*3,164*		*3,164*		*2,477*		*2,477*	
Other tax liabilities	*8,607*			*8,607*	*1,108*			*1,108*
Payables to others	*10,027*		*10,027*		*6,817*		*6,817*	
Accrued expenses (insurance)	*267*		*267*		*393*		*393*	
Deferred income	*8*			*8*	*33*			*33*
Provisions and other liabilities	22,328		13,713	8,615	12,386		11,245	1,141
Current liabilites	**676,888**	**613**	**667,660**	**8,615**	**627,405**	**644**	**625,620**	**1,141**

(1) 'FVTPL': Fair Value Through Profit and Loss.

As can be seen in the previous table, the statement of financial position classifications provide an almost immediate distinction between classes of financial instruments, as per their different valuation methods and exposure to financial risk:

- financial instruments measured at amortised cost:
  - cash and cash equivalents and financial receivables (current and non-current)
  - receivables from insurance companies
  - intercompany receivables

- trade receivables
- receivables from others
- receivables from suppliers
- receivables from employees
- trade payables
- financial liabilities
- intercompany payables
- other debts (current and non-current)

- financial instruments measured at 'fair value' since initial recognition:
  - derivative financial assets
  - derivative financial liabilities

Qualitative disclosures regarding the different risk classes can be found under the same section in the 'Notes to the consolidated financial statements'.

The fair value measurement of financial assets and liabilities reported in the statement of financial statements as provided for by IFRS 9 and governed by IFRS 7 and IFRS 13, grouped by classes of risk, and the methods and the assumptions applied in determining them, are as follows:

Assets	**31/12/2018**						**31/12/2017**					
		Fair value						**Fair value**				
(euro/000)	**Carrying amount**	Trade receiv	Financial receiv	Receiv. from insurers	Receiv. from Group	Rec. from employ	**Carrying amount**	Trade receiv	Financial receiv	Receiv. from insurers	Receiv. from Group	Rec. from emplo
Derivative financial asset	-						377		377			
Customer financial receiv	*1,420*		*1,518*				*1,870*		*2,028*			
Guarantee deposits	-		-				*2,844*		*2,852*			
Other non-curr. Assets	1,420		1,518		-		4,714		4,880		-	
Non-current assets	**1,420**	**-**	**1,518**	**-**	**-**	**-**	**5,091**	**-**	**5,257**	**-**	**-**	**-**
Trade receivables	199,871	199,871					141,244	141,244				
Receivables from subsid.	*170,481*				*170,481*		*193,002*				*193,002*	
Receiv. from factors	*242*		*242*				*1,202*		*1,202*			
Customer financial receiv	*10,880*		*10,880*				*510*		*510*			
Receiv. from insurances	*573*			*573*			*233*			*233*		
Receiv. from employees	*2*					*2*	-					
Receiv. from suppliers	*2,834*					*2,834*	-					
Receiv. From others	*72*					*72*	*157*					*157*
Other curr. assets	185,084	-	11,122	573	170,481	2,908	195,104	-	1,712	233	193,002	157
Derivative financial asset	375		375				-					
Cash and cash equival.	173,681		173,681				165,368		165,368			
Current assets	**559,011**	**199,871**	**185,178**	**573**	**170,481**	**2,908**	**501,716**	**141,244**	**167,080**	**233**	**193,002**	**157**

Liabilities	31/12/2018						31/12/2017					
		Fair value						Fair value				
(euro/000)	Carrying amount	Trade payables	Financial liabilities	FVTPL Derivate	Other payab.	Payab. to Group	Carrying amount	Trade payables	Financial liabilities	FVTPL Derivate	Other payab.	Payab. to Group
Borrowings	12,804		12,740				18,163		18,000			
Cash incentive liab	*105*				*105*		-				-	
Provisions and other liabilities	105				105		-				-	
Non-current liabilites	**12,909**	**-**	**12,740**	**-**	**105**	**-**	**18,163**	**-**	**18,000**	**-**	**-**	**-**
Trade payables	521,203	521,203					465,112	465,112				
Short-term financial liab	132,744		133,377				149,263		149,750			
Financial derivatives	613			613			644			644		
Intercompany payables	*255*					*255*	*1,558*					*1,558*
Social security liabilities	*3,164*				*3,164*		*2,477*				*2,477*	
Payables to others	*10,027*				*10,027*		*6,817*				*6,817*	
Accrued exp. (insurance)	*267*				*267*		*393*				*393*	
Provis. and other liabil.	13,713				13,458	255	11,245				9,687	1,558
Current liabilities	**668,273**	**521,203**	**133,377**	**613**	**13,458**	**255**	**626,264**	**465,112**	**149,750**	**644**	**9,687**	**1,558**

The corresponding hierarchy level for each of the abovementioned fair value list is described below:

Assets	31/12/2018			31/12/2017		
(euro/000)	Carrying amount	Fair value	Fair value hierarchy	Carrying amount	Fair value	Fair value hierarchy
Derrivate Financial Assets	-	-		377	377	*level 3*
Customer financial receivables	*1,420*	*1,518*	*level 2*	*1,870*	*2,028*	*level 2*
Guarantee deposits	-	-		*2,844*	*2,852*	*level 2*
Other non current assets	1,420	1,518		4,714	4,880	
Non - current assets	**1,420**	**1,518**		**5,091**	**5,257**	
Trade receivables	199,871	199,871	*level 2*	141,244	141,244	*level 2*
Receiv. From subsidiar.	*170,481*	*170,481*	*level 2*	*193,002*	*193,002*	*level 2*
Receiv. From factors	*242*	*242*	*level 2*	*1,202*	*1,202*	*level 2*
Customer financial receivables	*10,880*	*10,880*	*level 2*	*510*	*510*	*level 2*
Receiv. From insurances	*573*	*573*	*level 2*	*233*	*233*	*level 2*
Receiv. From suppliers	*2,834*	*2,834*	*level 2*	-	-	
Receiv. From employees	*2*	*2*	*level 2*	-	-	*level 2*
Receiv. From others	*72*	*72*	*level 2*	*157*	*157*	*level 2*
Other current assets	185,084	185,084		195,104	195,104	
Derrivate Financial Assets	375	375	*level 3*	-	-	
Cash and cash equival	173,681	173,681		165,368	165,368	
Current assets	**559,011**	**559,011**		**501,716**	**501,716**	

Liabilities	31/12/2018			31/12/2017		
(euro/000)	Carrying amount	Fair value	Fair value hierarchy	Carrying amount	Fair value	Fair value hierarchy
Borrowings	12,804	12,740	*level 2*	18,163	18,000	*level 2*
Cash incentive liab	*105*	*105*	*level 2*	-	-	*level 2*
Provisions and other liab	105	105		-	-	
Non-current liabilities	**12,909**	**12,845**		**18,163**	**18,000**	
Trade payables	521,203	521,203	*level 2*	465,112	465,112	*level 2*
Short-term financial liab.	132,744	133,377	*level 2*	149,263	149,750	*level 2*
Financial derivatives	613	613	*level 2*	644	644	*level 2*
Intercompany payables	*255*	*255*	*level 2*	*1,558*	*1,558*	*level 2*
Social security liabilities	*3,164*	*3,164*	*level 2*	*2,477*	*2,477*	*level 2*
Payables to others	*10,027*	*10,027*	*level 2*	*6,817*	*6,817*	*level 2*
Accroued exp. (insurance)	*267*	*267*	*level 2*	*393*	*393*	*level 2*
Provisions and other liab	13,713	13,713		11,245	11,245	
Current liabilities	**668,273**	**668,906**		**626,264**	**626,751**	

Given their short-term maturity, the gross carrying value of current assets (excluding derivatives if any), trade payables, short-term financial liabilities and other payables (excluding liabilities for monetary incentives), is deemed a reasonable approximation of their 'fair value' (classified in level 2 in the so called 'fair value hierarchy').

The 'fair value' of non-current assets and borrowings was estimated by discounting expected cash flows from principal and interest, according to the terms and the due dates of each agreement,and using the market interest curve at the balance sheet date, as adjusted for the effects of DVA (Debit Value Adjustment) and the CVA (Credit Value Adjustment).

The 'fair value' of 'Interest Rate Swap' (IRS) derivatives was estimated by discounting expected cash flows, according to the terms and the due dates of each derivative agreement and its underlying, and using the market interest curve at the balance sheet date, as adjusted for the effects of DVA (Debit Value Adjustment) and the CVA (Credit Value Adjustment).
The interest rates used were obtained from the 'Forward' and the 'Spot' Curve Euro at 31 December, as published by financial providers, plus any spread provided for by the agreement (such spread was not taken into account in applying the market interest curve for discounting cash flows). Since all inputs entered in the valuation model were based on observable market data instruments are classified at hierarchy level 2.
The soundness of the measurement made, with reference to IRS - Interest Rate Swap, was confirmed by the comparison with the value provided by the issuer banks.

The derivative financial asset comprises the difference between the valuation of the 20% of the remaining share in Celly S.p.A. and the forward price valuation payable under the option contract entered with the minority shareholder (exercisable from 12 May 2019).
The fair value so measured corresponds to a level 3 in the fair value hierarchy being based also on management estimates about future financial performance of the subsidiary. The underlying main assumptions based on which that value was calculated are consistent with those used in the 'DCF Model' for the CGU 2 Celly; for details reference is made to the paragraph 'B) Basic assumptions / critical variables' under 'Investments in subsidiaries and other companies' in the Notes to the Financial Statements.

As shown in the preceding tables, no reclassifications among hierarchic levels were made. Please refer to the paragraph 'Derivatives analysis' for information relating to existing derivative instruments.

Disclosures regarding net gains or net losses, interest income and interest expenses, fee income and expenses arising from financial instruments have been already given in the table dedicated to finance costs under '42) Finance costs'.

Moreover, please consider that the impairments of financial assets, which were estimated after a precise valuation of each individual debtor's solvency, are shown in the new specific item of the separate income statements 'Impairment loss/reversal of financial assets' as required by the Accounting Standards (till 31 December 2017 they were under the overheads and administrative costs). These impairments amount to 9.3 million euro in 2018 (1.1 million euro in 2017) due to the non-recurring event linked to the valuation of receivables claimed from the long-standing supplier of the 'Sport Technology' line that had started a voluntary liquidation process at period end (for further information please refer to 'Significant events occurring in the period' under the Directors' Report on Operations').

6.10.3 Additional information about financial assets

As during the previous year, no reclassification of a financial asset as one measured at cost or amortised cost, rather than at fair value, and vice versa, was made (the initial recognition of a financial instrument at fair value and the subsequent measurement at cost or amortised cost for some specified financial assets not detecting at this end).
As highlighted in the section 'Trade and other receivables' in the paragraph 'Summary of significant valuation criteria and accounting policies', in case of impairment by credit losses, the value of receivables is adjusted. This operation is effected by specially allocating a bad debt provision that directly reduces the carrying amount of the devaluated financial asset.
In the year closed 31 December 2018, as opposed to the previous year, the above-mentioned write-off affected both trade receivables and receivables claimed from the long-standing supplier of the 'Sport Technology' line in liquidation, since it was not deemed necessary for other financial assets.

The following table illustrates the change in the bad debt provision relating to trade receivables.

(euro/000)	Starting provision	Additions	Uses	Acquisitions	Final provision
2018 financial year	4,381	525	(2,234)	1,227	3,899
2017 financial year	3,895	1,055	(569)	-	4,381

Esprinet S.p.A. Group usually transfers financial assets.
These operations involve giving factoring companies trade receivables, for both discounting-back and without-recourse factoring schemes, as well as presenting promissory notes (known by their Italian acronym as RIBA) to banks as credit operations on realisation under usual reserves.
During 2018, the securitisation plan structured by UniCredit Bank AG started in July 2018 and renewed in July 2015 was also continued, under which trade receivables are assigned without recourse on a revolving basis to a 'special purpose vehicle' under Law no. 130/1999.
In the case of transfers of receivables for without-recourse factoring and advances under usual reserves, this operation not qualifying for derecognition, the Group continues to recognise all of these assets, the carrying amount of which continues to appear in the statement of financial position, under 'trade receivables' with an offsetting entry under the current financial liabilities as 'other financing payables' and 'payables to banks'.
As at 31 December 2018, the receivables sold with-recourse against which advances were obtained amounted to 2.4 million euro (1.5 million euro at 31 December 2017), while 'with recourse' advances of trade bills amounted to 0.2 million euro (1.6 million euro at 31 December 2017).
The financial assets' gross book value is the Company's maximum exposure to credit risk.

The following tables show an analysis of the status of trade receivables and the ageing of those not overdue and not impaired by credit losses:

(euro/000)	31/12/2018	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	203,770	5,245	48,499	15,026
Bad debt provision	(3,899)	(3,899)	-	-
Net trade receivables	**199,871**	**1,346**	**48,499**	**15,026**

(euro/000)	31/12/2017	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	145,625	5,049	47,895	92,681
Bad debt provision	(4,381)	(4,381)	-	-
Net trade receivables	**141,244**	**668**	**47,895**	**92,681**

(euro/000)	Total	Past due over 90 days	Past due 60 - 90 days	Past due 30 - 60 days	Past due under 30 days
Receiv. past due not impaired at 31/12/2018	48,499	812	1,391	5,642	40,654
Receiv. past due not impaired at 31/12/2017	47,895	1,109	239	138	46,409

Due to its historical experience and to its policy of not accepting orders from insolvent customers unless paid in advance, Esprinet S.p.A. does not believe that the premise for allocating provisions for doubtful receivables for amounts not yet overdue exist.

There are no financial assets which would otherwise be past due or impaired whose terms have been re-negotiated, except for some re-entry plans agreed with customers for not-material amounts.
The following instruments are usually used by Esprinet S.p.A. to limit its credit risk (the percentages refer to trade receivables at 31 December 2018):

- traditional credit insurance (covering approx. 90% of the face value of the insured receivables provided they are within the limit of the credit line given by the insurance company) covering approx. 50% of the total amount of trade receivables;
- without-recourse factoring with leading factoring companies covering approx. 12% of the receivables (the amount refers to receivables existing at the closing date of the financial year but subject to revolving credit at the times and with the methods of the schemes);
- real guarantees (bank guarantees and asset mortgages) for approx. 2% of total gross amount of receivables.

No financial or non-financial assets were obtained by the Group during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees). Nor did the Group hold collateral (of financial or non-financial assets) it was permitted to sell or re-pledge in the absence of default by the owner of the collateral.

No other financial assets regulated by IFRS 7 and IFRS 13 have been impaired in the current or in the previous year, except for the restatement of receivables claimed from the long-standing supplier of the 'Sport Technology' line in liquidation, since it was not deemed necessary for other financial assets. Please find below the change in the related bad debt provision and two tables showing the status and the ageing of overdue receivables:

(euro/000)	**Starting provision**	**Additions**	**Final provision**
2018 financial year	-	8,823	8,823
2017 financial year	-	-	-

	31/12/2018				31/12/2017			
(euro/000)	Carrying amount	Receiv. Impaired	Receiv. past due not impaired	Receiv. not past due not impaired	Carrying amount	Receiv. Impaired	Receiv. past due not impaired	Receiv. not past due not impaired
Derivate Financial Assets	-				377			377
Customer financial receiv	*1,420*			*1,420*	*1,870*			*1,870*
Guarantee deposits	-				*2,844*			*2,844*
Other non-current assets	1,420			1,420	4,714			4,714
Non-current assets	**1,420**	**-**	**-**	**1,420**	**5,091**	**-**	**-**	**5,091**
Receivables from subsidiar.	*170,481*		*876*	*169,605*	*193,002*		*556*	*192,446*
Receivables from factors	*242*		*13*	*239*	*1,202*		*13*	*1,189*
Customer financial receiv	*10,880*			*10,880*	*510*			*510*
Receivables from insurances	*573*		*573*		*233*		*233*	
Receivables from suppliers	*11,657*	*11,657*			-			
Receivables from employees	*2*			*2*	-			
Receivables from others	*72*		*72*		*157*		*89*	*68*
Other current assets	193,907	11,657	1,534	180,726	195,104		891	194,213
Derivate Financial Assets	375			375	-			-
Cash and cash equivalents	173,681		173,681		165,368		165,368	
Gross Current assets	**367,963**	**11,657**	**175,215**	**181,101**	**360,472**	**-**	**166,259**	**194,213**
Bad debts provision	(8,823)	(8,823)			-	-		
Net Current assets	**359,140**	**2,834**	**175,215**	**181,101**	**360,472**	**-**	**166,259**	**194,213**

(euro/000)	Total	Past due over 90 days	Past due 60 - 90 days	Past due 30 - 60 days	Past due under 30 days
Receivables from subsidiar.	876	153	42	600	81
Receivables from factoring companies	13	-	-	-	13
Receivables from insurance companies	573	208	195	134	36
Receivables from others	72	72	-	-	-
Receiv. past due not impaired at 31/12/2018	**1,534**	**433**	**237**	**734**	**130**
Receivables from subsidiar.	556	157	8	586	(195)
Receivables from factoring companies	13	-	-	-	13
Receivables from insurance companies	233	52	23	118	40
Receivables from others	89	89	-	-	-
Receiv. past due not impaired at 31/12/2017	**891**	**298**	**31**	**704**	**(142)**

Receivables from factoring companies relate wholly to ‘without-recourse’ factoring operations, where the ownership and connected risks of the sold receivables have therefore been wholly transferred to factoring companies.

The past due quota relates to sums due at the ending date of the year which were paid during the first days of the following year for technical reasons. The not yet due quota regards amounts collectable by contract only at the original due date of the receivable existing between the sold customers and the Company.
It should be noted, however, that these receivables had also almost completely been paid by the time this report was drawn up as the deadlines were met.

6.10.4 Additional information about financial liabilities

Amounts detailed in the following maturity analysis are the contractual undiscounted cash flows, including interests to be paid and excluding the effects of netting agreements:

(euro/000)	Carrying amount 31/12/2018	Future cash flows	in 6 months	6-12 months	1-2 years	2-5 years	After 5 years
Financial liabilities	12,804	13,445	144	89	5,699	7,513	-
Cash incentive liabilities	*105*	*105*	-	-	*84*	*21*	-
Provisions and other non-corr. Liabilities	105	105	-	-	84	21	-
Non-current liabilities	**12,909**	**13,550**	**144**	**89**	**5,783**	**7,534**	**-**
Trade payables	521,203	600,943	526,142	4,938	9,426	24,438	35,999
Short-term financial liabilities	132,744	136,536	134,035	2,501	-	-	-
Derivative financial liabilities	613	620	620	-	-	-	-
Payables to assoc. and subsidiaries	*255*	*255*	*255*	-	-	-	-
Social security liabilities	*3,164*	*3,164*	*3,164*	-	-	-	-
Payables to others	*10,027*	*10,027*	*10,027*	-	-	-	-
Accrued expenses (insurance)	*267*	*267*	*267*	-	-	-	-
Provisions and other liabilities	13,713	13,713	-	-	-	-	-
Current liabilites	**668,273**	**751,812**	**660,797**	**7,439**	**9,426**	**24,438**	**35,999**

(euro/000)	Carrying amount 31/12/2017	Future cash flows	in 6 months	6-12 months	1-2 years	2-5 years	After 5 years
Financial liabilities	18,163	19,278	200	123	5,705	13,250	-
Non-current liabilities	**18,163**	**19,278**	**200**	**123**	**5,705**	**13,250**	**-**
Trade payables	465,112	515,614	469,503	4,391	9,301	21,481	10,938
Short-term financial liabilities	149,263	155,501	153,039	2,462	-	-	-
Derivative financial liabilities	644	647	647	-	-	-	-
Payables to assoc. and subsidiaries	*1,558*	*1,558*	*1,558*	-	-	-	-
Social security liabilities	*2,477*	*2,477*	*2,477*	-	-	-	-
Payables to others	*6,817*	*6,817*	*6,817*	-	-	-	-
Accrued expenses (insurance)	*393*	*393*	*393*	-	-	-	-
Provisions and other liabilities	11,245	11,245	11,245	-	-	-	-
Current liabilites	**626,264**	**683,007**	**634,434**	**6,853**	**9,301**	**21,481**	**10,938**

The above tables can be understood more easily if the following are considered:

- when a counter-party has a choice of when an amount is paid, the liability has been included on the basis of the earliest date on which the Group can be required to pay;
- the amounts shown relate to contractual undiscounted cash flows gross of interests to be paid;
- the amount of floating rate loans payable has been estimated by reference to the conditions existing at the reporting date (i.e. the interest rate curve at the end of the year).

The Company has a medium/long-term senior loan granted in February 2017 by a pool of banks, consisting of a 5-year amortised facility in the original amount of 145.0 million euro (101.5 million euro as at 31 December 2017) and a 5-year revolving facility for 65.0 million euro (undrawn at 31 December 2018), that contain standard acceleration clauses in case of failure to meet certain

financial covenants when checked against data from the consolidated and audited financial statements.

As at 31 December 2018, according to the management estimates (to be checked against the consolidated and audited financial statements), a covenant referring to two loans with total residual 101.5 million euro in principal, consisting in the ratio of net financial indebtedness to EBITDA, is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts signed to hedge the loan interest rate risk - were booked under the current financial liabilities and the relevant contractual cash flows were assumed to take place within 6 month after the financial statements date; with respect to the above, the Company already entered into negotiations with the pool of lending banks. In addition, it should be highlighted that on 28 February 2019 the Company repaid 14.5 million euro in principal as per the amortisation plan of the amortising facility, thus reducing the liability to 87.0 million euro.

Apart from above and from the breach as at 31 December 2018 and 31 December 2017 of some covenants under the financing agreements, without any consequences though, the Company has never been in a default situation in relation to principal, interest, amortisation schedule or repayment terms of the loans.

For further information please refer to the next paragraph 'Loans and loan covenants'.

The Company also has a loan due in January 2022, with a remaining notional value of 1.9 million euro and posted for 1.8 million euro by effect of the amortising costs accounting method, achieved in December 2013 under the contractual terms of payment from the Public Administration for the supply of personal computers to the same by the parent company.

The issuing bank was granted by the Company an irrevocable collection derogation for multi-year contribution's collection due from the Public Administration and equal, in both the amounting and due dates, to the reimbursement loan plan that, for the above mentioned reason, do not contains dealings for a possible shirk benefitting from the reimbursement terms.

Up to now Esprinet S.p.A. has not issued any instruments containing both a liability and an equity component.

6.10.5 Hedge accounting

Introduction

Esprinet S.p.A. signs derivative contracts in order to hedge some loan agreements against fluctuating interest rates by means of a strategy of cash flow hedge.

The aim of these transactions hedging against interest rate risk is to fix the funding cost of medium/long-term floating-rate loans by entering into derivative contracts enabling receipt of a floating rate in return for payment of a fixed rate.

Hedging operations are therefore reported in the financial statements according to the requirements of the IFRS 9 accounting principle regarding 'hedge accounting' and in order to verify the hedge effectiveness, the Company periodically carries out effectiveness tests.

Derivative instruments as at balance sheet date

At year end, Esprinet S.p.A has six IRS contracts with different notional amounts but identical conditions (hedging instruments), entered into on 7 April 2017 with six of the eight lending banks that, on 28 February 2017, granted the medium-term floating-rate loan with an original notional amount

of 145.0 million euro (then reduced to 101.5 million euro as at 31 December 2018 due to the repayments pursuant to the amortisation plan), called the Term Loan Facility.
Each of the financing counterparties entered into a derivative contract in proportion to their respective share of the loan, which the derivative is intended to hedge through receipt of a floating interest rate in return for payment of a fixed interest rate, which are identical for each counterparty. This hedge is effective from the second instalment, i.e. 31 August 2017, covering a notional amount of 105.6 million euro (82.2 million euro as at 31 December 2018).

The main features of the six contracts are summarized below:

Trade date	7 April 2017
Effective date	31 August 2017
Termination date	28 February 2022
Notional amount	Total 105.6 million euro (subject to a sinking plan),; 82,2 million euro as at 31 December 2018
Fixed rate	0.21%, act/360
Fixed and floating rates payment dates	Every 28 February and 31 August starting from 28 February 2018 up to 28 February 2022, subject to adjustment in accordance with the modified business day convention
Fixed rate payer	Esprinet S.p.A.
Floating rate	Euribor 6M, act/360, fixed two days before the interest calculation period
Floating rate payer	Intesa Sanpaolo S.p.A., Unicredit S.p.A., Banca Nazionale del Lavoro S.p.A., Caixabank S.A., Unione di Banche Italiane S.p.A., Banco BPM S.p.A., each for its own contract.

Instruments terminated during the year

During the year no derivative financial instruments were settled. In the previous year, Esprinet S.p.A. settled the eight IRSs entered into in December 2014 with each of the eight lending banks that on 31 July 2014 granted the medium-term floating-rate loan of 65 million euro, called the Term Loan Facility. These IRSs were intended for hedging the Term Loan Facility entered into on 31 July 2014, by way of receipt of a floating rate in return for payment of a fixed rate. Their termination was the direct consequence of the settlement on 28 February 2017 of the above-mentioned loan (that in the meantime had reduced to 40.6 million euro). IRSs were settled at an aggregate amount of 0.3 million euro, substantially equal to their fair value at the termination date.

Information regarding derivative contracts existing during the year

As at 31 December 2018, according to the management estimates, a covenant referring to the Term Loan Facility with total residual 101.5 million euro in principal, which financial flows were partially hedged by the six IRS-Interest Rate Swap contracts entered into in April 2017, is expected to be unmet if a literal interpretation of the contract should prevail over a substantial interpretation when choosing, in the covenant consisting in the ratio of net financial indebtedness to EBITDA, the EBITDA structure to be used (EBITDA 'as reported' instead of 'recurring' EBITDA which reflects better the ability of the Group to bear its leverage level). Consequently, pursuant to the accounting standards in force, the liability representing the fair values of derivatives was entirely booked under current financial liabilities together with the amount of the hedged loan.

With respect to each of the IRSs outstanding at 31 December 2018, the conditions set by the IFRS 9 as regards ‘hedge accounting’ have been fully complied with since the signing date: formal designation and documentation of the hedging relationship, hedge expected to be highly effective and reliably measured, insignificant effect of the credit risk of both counterparties in relation to the derivative value, constant hedge ratio over time.
Thus, all IRSs were treated under the cash flow hedge accounting, which provides for recognition in the equity reserve of the respective fair value at the signing date (only for the effective portion) and thereafter changes in fair value due to movements of the interest rate curve, within the limits of the effective portion, and consequent recording in the comprehensive income statement.

In the previous fiscal year, hedge accounting provisions were fully met till 27 February 2017, i.e. the date immediately before the hedged loan was settled, the latter being however replaced - in interest rate risk terms - by a new loan entered into against this settlement. Thus, till that date, changes in IRSs fair value were recognised in the equity reserve, while later changes were booked under 'finance costs - net' directly in the income statement till the derivative termination date, as the hedging relationship no longer applied. As at 27 February 2017, 320 thousand euro relating to the changes in fair value of these settled derivatives were recorded under the 'cash flow hedge' reserve in equity; this reserve is gradually reversed to the income statement following the maturities of the settled loan, because the relevant interest rate risk still exists, even if shifted to the new loan. In particular, this rate risk - relating to the interest flows after 27 February 2017 - was hedged by the previous IRSs till that date (and will be reversed to income statement over time according to the periods originally covered) and is now hedged by the outstanding IRSs from the inception date.

The tables below illustrate the following information regarding derivative contracts with reference to the cash flow hedge accounting technique:
- the notional amount at 31 December 2018 and 2017 shared into portions maturing within or beyond a 12-months period;
- the amount recognised in the statement of financial position as at 31 December 2018 and 2017 representing the 'fair value' of the contracts if hedging is 'highly 'effective';
- the ineffective portion recognised or reversed in the income statement under 'Finance costs' from inception with reference to the instalments still outstanding at the same date;
- the change in fair value from the inception date to the financial statement closing date.

	Year	Notional amount		Fair Value (1)	Income statement (2)	Taxes on FV contracts (3)	Retained earnings (4)
		within 1 year	beyond 1 year				
Interest rate risk management							
- cash flow hedge IRS 2017	2018	82,167	-	613	135	(115)	(363)
- cash flow hedge IRS 2014	2018	-	-	-	-	-	(16)
	2018	**82,167**	**-**	**613**	**135**	**(115)**	**(379)**
- cash flow hedge IRS 2017	2017	105,643	-	644	174	(113)	(357)
- cash flow hedge IRS 2014	2017	-	-	-	-	-	(96)
	2017	**105,643**	**-**	**644**	**174**	**(113)**	**(453)**

(1) Amount of the (assets)/liabilities recorded in the statement of financial position resulting from derivatives measured at fair value using cash flow hedge accounting technique.
(2) Ineffective portion of the gain or loss on the hedging instrument as per IFRS 9 or the effective portion reversed in the income statement on an accrual basis.
(3) Deferred income taxes related to the fair value of the derivative contracts using the cash flow hedge accounting technique.
(4) Cumulative change in fair value from inception to the statement of financial position date recognised in equity using the cash flow hedge accounting technique.

The events that caused the changes in the amount of the 'cash flow hedge' equity reserve during the first half are so detailed:

(euro/000)	Year	Change in fair value of derivatives	Transfer to P&L (1)	Taxes effect trasfer to P&L	Ineffective portion of (gain)/loss to P&L	Taxes on fair value of derivatives	Change in equity reserve
- Equity reserve on derivatives 2017	2018	(444)	437	(105)	-	106	(6)
- Equity reserve on derivatives 2014	2017	-	105	(25)	-	-	80
	2018	**(444)**	**542**	**(130)**	**-**	**106**	**74**
- Equity reserve on derivatives 2017	2017	(644)	174	(42)	-	155	(357)
- Equity reserve on derivatives 2014	2017	(16)	204	(49)	-	4	143
	2017	**(660)**	**378**	**(91)**	**-**	**159**	**(214)**

(1) Accounted as increase/(decrease) in 'Financial charges'.

The following are the periods when the cash flows relating to the hedged items are expected to occur and when they are expected to affect the Income Statement:

(euro/000)			Total	0-6 months	6-12 months	1-2 years	2-5 years	After 5 years
Loans:	31/12/2018	Cash flows	2,736	2,736	-	-	-	-
		Impact on P&L	2,307	2,307	-	-	-	-
	31/12/2017	Cash flows	4,725	4,725	-	-	-	-
		Impact on P&L	4,184	4,184	-	-	-	-

Finally, the derivative instrument changes referring to the fair value variations recorded in the Income Statement are reported below:

(euro/000)	Year	FV 31/12/p.y.[1]	Rates past due	Variation FV rates not past due	FV 31/12/c.y.[2]
Derivatives 2014	2018	-	-	-	-
Derivatives 2014	2017	320	(313)	(7)	-
Total		**320**	**(313)**	**(7)**	**-**

(1) previous year, that for the 2017 fiscal year refers to 28 February 2017, when the hedging relationship no longer applied due to repayment of the underlying loan
(2) Current year

6.10.6 Sensitivity analyses

Since Esprinet S.p.A. is exposed to a limited currency risk it has decided not to effect sensitivity analyses regarding this type of risk (for more details see section 'Main risks and uncertainties facing the Group and Esprinet S.p.A.' in the 'Director's Report on Operations').
A sensitivity analysis regarding the interest rate risk was performed in order to show how profit or loss and equity would have been affected by changes in the interest rate curve that were reasonably possible during the period.
For these purposes, the 2018 market interest rate trend was taken into account together with the Group's estimates on rates in the immediate future and a forward shifting of spot/forward interest rate curves +/-100 basis points was simulated. The following tables show the results of the simulation (net of tax effects); each item includes both the current and non current portion:

Scenario 1: +100 basis points

	31/12/2018		31/12/2017	
(euro/000)	Net equity	Profit/(loss)	Net equity	Profit/(loss)
Derivative financial assets	(1)	(1)	(4)	(4)
Financial assets	914	914	1,136	1,136
Cash and cash equivalents	340	340	302	302
Borrowings [1]	(1,217)	(1,217)	(849)	(849)
Derivative financial liabilities	1,015	-	1,285	-
Total	**1,051**	**36**	**1,870**	**585**

[1] Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

Scenario 2: -100 basis points

	31/12/2018		31/12/2017	
(euro/000)	Net equity	Profit/(loss)	Net equity	Profit/(loss)
Derivative financial assets	1	1	4	4
Financial assets	(479)	(479)	(55)	(55)
Cash and cash equivalents	(19)	(19)	(31)	(31)
Borrowing [1]	145	145	309	309
Derivative financial liabilities	(1,040)	-	(1,318)	-
Total	**(1,392)**	**(352)**	**(1,091)**	**227**

[1] Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

6.11 Compensation for Esprinet S.p.A. auditing services

The following table drafted pursuant to Article 149-duodecies of the Consob Issuing Regulation, shows the emoluments posted during the financial year on the accrual basis of accounting for auditing services and others performed by the same auditing company and/or bodies belonging to its network:

Description	Provider of service	Fees (euro/000)	
		2018	2017
Auditing services:			
Examination of the annual accounts of one single company, accompanied by professional opinion	EY S.p.A.	186.2	154.6
Examination of the annual consolidated accounts of a group of companies accompanied by professional opinion	EY S.p.A.	26.3	23.0
Quarterly examination of accounts of one single company or group of companies during the year	EY S.p.A.	28.4	28.3
Subtotal		**240.9**	**205.9**
Other services:			
Services other than audit	EY S.p.A.	36.0	61.0
Subtotal		**36.0**	**61.0**
Total		**276.9**	**266.9**

7. Publication of the Draft Annual Report

The draft annual report and its publication were approved by the Esprinet S.p.A. Board of Directors during the meeting of 1 April 2019, which also authorised the Chairman to make any necessary or appropriate changes or additions to the structure of the document, in order to complete or improve it in any of its parts.

Vimercate, 1 April 2019

Of behalf of the Board of Directors
The Chairman
Maurizio Rota

Statement on the 'Consolidated financial statements' pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended

1. In consideration of the provisions of Article 154-bis, subsections 3 and 4, of legislative decree No. 58 of 24 February 1998, the undersigned Alessandro Cattani, Chief Executive Officer of Esprinet S.p.A and Pietro Aglianò, executive charged with drawing up the Esprinet S.p.A. accounting documents, hereby declare that the administrative and accounting procedures used in drawing up the consolidated financial statements relating to the year 2018 were:

- appropriate to the features of the Group
- effectively applied.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the consolidated financial statements at 31 December 2018 was effected in accordance with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internally-accepted reference framework.
No significant aspects emerged.

3. We further declare that:

3.1 the consolidated financial statements as at 31 December 2018:

a) have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) of the European Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
b) correspond to the amounts shown in the Company's accounts, books and records;
c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

3.2 The Directors' Report on Operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks to which they are exposed.

Vimercate, 1 April 2019

Chief Executive Officer of Esprinet S.p.A.	Executive charged with drafting the Esprinet S.p.A. financial reports
(Ing. Alessandro Cattani)	(Pietro Aglianò)

Statement on the 'separate financial statements' pursuant to Article 81-ter of Consob Regulation No. 11971 of 14 May 1999, as amended

1. In consideration of the provisions of Article 154-bis, subsections 3 and 4, of legislative decree No. 58 of 24 February 1998, the undersigned Alessandro Cattani, Chief Executive Officer of Esprinet S.p.A and Pietro Aglianò, executive charged with drawing up the Esprinet S.p.A. accounting documents, hereby declare that the administrative and accounting procedures used in drawing up the consolidated financial statements relating to the year 2018 were:

- appropriate to the features of the Company
- effectively applied.

2. The assessment of the adequacy of the administrative and accounting procedures used for the preparation of the separate financial statements at 31 December 2018 was effected in accordance with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internally-accepted reference framework.
No significant aspects emerged.

3. We further declare that:

3.1 the separate financial statements as at 31 December 2018:

a) have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) of the European Parliament and Counsel, dated 19 July 2002 as implemented in Italy by Article 9 of Legislative Decree no. 38 of 2005;
b) correspond to the amounts shown in the Company's accounts, books and records;
c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

3.2 The Directors' Report on Operations includes a reliable operating and financial review of the Company as well as a description of the main risks to which it is exposed.

Vimercate, 1 April 2019

Chief Executive Officer of Esprinet S.p.A.	Executive charged with drafting the Esprinet S.p.A. financial reports
(Ing. Alessandro Cattani)	(Pietro Aglianò)

Esprinet S.p.A.

Via Energy Park 20 – 20871 Vimercate (MB)

"REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998 AND ARTICLE 2429(3) OF THE ITALIAN CIVIL CODE – FINANCIAL STATEMENTS AS AT 31-12-2018"

Dear Shareholders,

By means of this Report, drawn up in accordance with Article 153 of Legislative Decree No. 58/1998 ("TUF"), also taking into account the applicable Consob Recommendations and the Code of Conduct of the Board of Statutory Auditors of Listed Companies issued by the National Council of Chartered Accountants and Bookkeepers, the Board of Statutory Auditors of Esprinet S.p.A. (hereinafter also referred to as the "Company") reports to you on the supervisory activity carried out during the year ended 31 December 2018 and the outcome thereof.

The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 4 May 2018 for a three-year term. The appointment was made, in accordance with the law and the Articles of Association, on the basis of lists submitted by shareholders, also taking into account provisions on gender balance.

1. Supervision performed and information received.

During the financial year ended 31 December 2018, the Board of Statutory Auditors performed the supervisory activities provided for by law, by the Code of Conduct of the Board of Statutory Auditors of Listed Companies issued by the National Council of Chartered Accountants and Bookkeepers, by Consob Recommendations on company audits and activities of the board of statutory auditors (in particular, Communication No. DAC/RM 97001574 of 20 February 1997 and Communication No. DEM 1025564 of 6 April 2001, later supplemented by Communication No. DEM/3021582 of 4 April 2003 and Communication No. DEM/6031329 of 7 April 2006) and by guidelines laid down in the Corporate Governance Code.

To this end, during the year the Board of Statutory Auditors:

- met 12 times, of which 7 were in its current composition;
- attended the 15 meetings of the Board of Directors in accordance with rules governing the Board of Statutory Auditors;

- attended 7 meetings of the Control and Risk Committee and 4 meetings of the Appointments and Remuneration Committee in accordance with rules governing the Board of Statutory Auditors;
- attended the Shareholders' Meeting;
- frequently exchanged information and held regular meetings with the Audit Company for the purposes of timely exchange of data and information relevant for the performance of their duties;
- frequently exchanged information and held regular meetings with the head of the internal audit department and Enterprise Risk Management;
- met the Board of Statutory Auditors of the subsidiary Celly S.p.a. to discuss administration and control systems and the general trend of company business, albeit nothing significant emerged from those meetings to warrant inclusion in this Report;
- regularly met the Supervisory Body appointed under Legislative Decree No. 231/2001.

During Board meetings, the Directors reported to the Board of Statutory Auditors on the activity carried out by the Company, the most significant economic, financial and equity transactions carried out by the Company and its subsidiaries and associates, and the transactions in which they held an interest on their own account or that of third parties.

During meetings and contacts with the Audit Company, no censurable facts emerged against the Directors.

With regard to Board activities, during 2018:

- no reports were received under Article 2408 of the Italian Civil Code;
- no complaints were received.

2. Main economic, financial and equity transactions and events Transactions with related parties

With regard to the main economic, financial and equity transactions carried out by the Company and the Group during 2018 and, more generally, the most significant events, the Board of Statutory Auditors reports as follows:

- on 30 April 2018 Esprinet S.p.A. reached an agreement with the pool *of financing banks for the grant of a* waiver relating to the violation, as verified in the consolidated financial statements at 31 December 2017, of one of the financial covenantson the five-year senior loan awarded to Esprinet S.p.A. in February 2017.

  Subsequently, on 2 May 2018, a further agreement was reached to renegotiate the structure of the covenants, including setting higher threshold values up to 2021.

- On 18 July 2018, in their capacity as originators, Esprinet S.p.A. and its wholly owned subsidiary V-Valley S.r.l. renewed the securitisation of trade receivables launched in July 2015. The amount of the programme was increased to €100.0 million from the original €80.0 million.
- The companies EDSlan S.r.l. and Mosaico S.r.l. were merged into Esprinet S.p.A. with legal effect from 1 November 2018 and with retroactive accounting and tax effect from 1 January 2018.
- Within the Iberian Subgroup, Tape S.L.U. (initially wholly owned by Vinzeo Technologies S.A.U. and acquired in April 2018 by Esprinet Iberica S.L.U.) was merged into V-Valley Iberian S.L.U. on 30 November 2018, with retroactive accounting and tax effect from 1 January 2018.
- On 19 December 2018, Esprinet's long-standing importer of products from the Sport Technology line went into voluntary liquidation. As highlighted in the notes to the financial statements, this supplier had worked with Esprinet for more than 15 years and since 2008 had been managing on the Group's behalf, on the basis of an exclusive framework agreement, production (product research and development, research, selection and quality control of production facilities), importation and after-sales activities (maintenance, repairs, management of returns, etc.) of a series of products mainly belonging to the Sport Technology line.

  Esprinet has receivables of €12.5 million from the above-mentioned supplier pertaining primarily to advances for the provision of goods entrusted to factories located mainly in China and to credit notes (withdrawal of products under warranty, repositioning and hedges against fluctuations in retail prices, etc.).

  In addition to the aforementioned supplier liquidation that prompted management *to* forecast an €8.8 million decline in receivables, during the fourth quarter of 2018 there was a sharp and unexpected decline in the retail prices of certain classes of products in the Sports Technology range, which, partly as a result of the disappearance of the price protection mechanisms guaranteed by the supplier and the failure to supply next-generation products, caused a reduction of €8.4 million in gross margins.

  The total impact of extraordinary charges related to these events was estimated by Directors to be €17.2 million.
- On 6 February 2019, the aforementioned importer, in the person of the liquidator, and its shareholders, brought a civil action against Esprinet S.p.A., seeking

compensation for damages of €55 million for alleged unlawful conduct in the commercial dealings with the importer that supposedly brought about its critical financial situation.

- On 19 February 2019, the majority shareholder in the supplier of the Sport Technology line, through its liquidator (in the meantime it had also entered voluntary liquidation), instigated a further civil action against Esprinet S.p.A., requesting the cancellation of a letter of guarantee issued by that shareholder in favour of Esprinet S.p.A. and in the interest of its subsidiary, or that said letter be declared null and void.
- The Board of Directors of Esprinet S.p.A. resolved to contest the action in court, requesting that all claims against it be dropped and that the claimants be ordered to pay the legal costs.
- The Group's financial structure includes a medium-/long-term senior loan secured by four economic and financial covenants. Failure to comply with these covenants will trigger the acceleration clause and entitle the lenders to seek early repayment.
  As at 31 December 2018, although compliance with financial covenants must be contractually verified on the basis of the consolidated annual financial statements certified by the Audit Company, looking at the Group's quarterly results, it is estimated that the debt/EBITDA covenant would be violated if the contract were to be literally and non-substantively interpreted when selecting the EBITDA configuration to be used ("as reported" EBITDA in lieu of "current" EBITDA, which is more indicative of the Group's ability to withstand the degree of leverage).
  On this basis, in accordance with applicable accounting principles, the entire outstanding amount of the "amortising" entry in addition to the liability representing the fair value of interest rate swaps (IRS) entered into to hedge interest rate risk was recognised among current financial payables.
- Esprinet S.p.A. is currently opposing requests for the payment of indirect taxes brought against the Company, for a total amount of €21.6 million, plus penalties and interest, in relation to transactions undertaken between 2010 and 2013. For more information on current litigation, please see the notes to the financial statements.

Opinion of the Board of Statutory Auditors

In general, the Board considers that the law, the Articles of Association and the principles of proper administration have been upheld.

The Board did not find or receive any news from the Audit Company or the Head of Internal Audit manager of any atypical and/or unusual transactions, as defined in the Consob Communication of 6 April 2001 and Consob Communication No. DEM/6064293 of 28 July 2006, conducted with third parties, related parties or within the group.

Regarding transactions with related parties, the Board of Statutory Auditors ensured that the procedure adopted by the Company complied with the principles laid down by Consob.

This procedure, which can be consulted on the Company's website, exempts resolutions regarding the remuneration of directors and other managers with strategic responsibilities under certain conditions.

In light of the specific nature of the Group's business, the inclusion of transactions that "fall within the ordinary course of business and related financial activities (identified on the basis of the criteria set forth in the Regulation and Consob Communication No. 1007868 of 24 September 2010 and that are (...) concluded under conditions equivalent to market or standard conditions" under "Ordinary transactions with related parties" assumes particular importance.

The Directors gave an account in the Report on Operations and in the Explanatory Notes of ordinary and less significant transactions carried out with related parties, indicating the nature and extent of those transactions. This disclosure is appropriate given the size of the transactions.

In the Corporate Governance Report, the Company described the most significant related-party transaction approved by the Board of Directors of Esprinet S.p.A. on 19.09.2018, concerning the rearrangement of the contractual lease relationship between the Company (as the tenant) and the related parties of M.B. Immobiliare S.r.l. ("M.B.") and Immobiliare Selene S.r.l. ("Selene") and relating respectively to the property complexes in Cavenago and Cambiago.

This transaction made provision for the stipulation of a new lease agreement between Esprinet S.p.A. and M.B. concerning the property complex in Cavenago, and the stipulation of a new lease agreement between Esprinet S.p.A. and Selene concerning the property complex in Cambiago.

Both new lease agreements will have a term of 10 years effective from 1 January 2019, renewable for a further six years.

For its part, the Board of Statutory Auditors did not find any infringements of legal provisions or the Articles of Association, or transactions executed by Directors that are manifestly imprudent or risky, in potential conflict of interest, contrary to resolutions adopted by the Shareholders' Meeting or that could in any case compromise the integrity of the Company's assets.
Esprinet S.p.A. exercised management and coordination activities with regard to all subsidiaries resident in Italy. Intragroup transactions are set out in detail in the notes to the financial statements.

3. Organisational structure, internal control and risk management system and administrative and accounting system.

The Board of Statutory Auditors verified compliance with principles of sound administration together with the adequacy of the organisational structure by acknowledging the fitness of the accounting and administrative system for the purpose of correctly representing management facts.
The internal control system is defined as a set of rules, procedures and organisational structures able to allow the Company to be managed soundly and correctly and consistently with the established goals, through an adequate identification, measurement, management and monitoring of the main risks.
The Head of Internal Audit, who does not perform operational functions, frequently reports to the Control and Risk Committee, to which he submits the annual work programme and reports periodically on activity being carried out. In its capacity as internal control committee established under Article 19 of Legislative Decree 39/2010, the Board maintains constant dialogue with the Department manager, verifying the effectiveness of his work.
After examining the activity carried out by this department, no significant problems emerged in the definition and effective application of the internal control and risk management system that could significantly compromise the achievement of an acceptable overall risk profile.
With regard to activities relating to the internal control system, the Board - supported by the Audit Company's findings - reported the constant monitoring and improvement of internal procedures. The Board was involved in a constant exchange of information with the Control and Risk Committee and also attended the Committee's meetings.

With reference to the internal control system, Esprinet S.p.A., adopting ERM methodology, is gradually identifying the main areas of corporate risk, monitoring such areas and implementing actions to improve them.
In the current year, as a result of the losses incurred in the "Sport Technology" line and following the writ of summons mentioned in paragraph 2, which alleges misconduct in the commercial dealings with the long-standing importer of the "Sport Technology" line, the Company, partly at the request of the Board of Statutory Auditors, initiated an internal due diligence process for the necessary additional information. This process was still ongoing at the date of preparation of this Report. From the information gathered so far, no reprehensible actions have been established.

The Report on Operations provides information on the risks to which the Company is exposed, including for the purposes of Article 19(1)(b) of Legislative Decree 39/2010 and Legislative Decree 254/2016.

The Company adopted the organisation and management model for the prevention of crimes laid down in Legislative Decree 231/2001 (the "Organisational Model") concerning the administrative responsibility of companies for offences committed by their employees and contractors, published on the corporate intranet and most recently updated on 11 September 2018: the Organisational Model introduced the system for whistleblowing through a dedicated platform, as advertised on the Company's website, which, as required by law, guarantees anonymity for the informant.
During the financial year, the Board was in constant contact with the Supervisory Body, whose Chair regularly attended meetings of the Board of Statutory Auditors. The meetings and the exchange of information revealed that no reports had been received by the Supervisory Body, with the exception of a communication on 8 March 2019 of alleged violations of the Code of Ethics related to the writ of summons mentioned in paragraph 2. The Supervisory Body reserved the right to assess the validity of the aforementioned report, including in the wake of the ongoing due diligence process.
The Board also noted that the Supervisory Body had continually updated the organisational model adopted by the Company, including in relation to changes in applicable legislation.
The Italian Supervisory Body also performs a linking and monitoring function with the Spanish subsidiaries in relation to this matter.

With particular reference to the administrative area, in the Corporate Governance and Ownership Report, the Board of Directors set out in detail the main features of existing risk management and internal control systems with regard to the financial reporting process, in accordance with the provisions of Article 123-bis of the TUF.

The Company has complied with the provisions introduced by Law 262/2005. The Board of Statutory Auditors has verified that the manager responsible continues to fulfil all the legal requirements.

Audit Company

The Company is subject to auditing by the Audit Company EY S.p.A. ("EY").

a) *Surveillance and control activities carried out by the Board of Statutory Auditors in relation to tasks assigned to it in its capacity as the "Internal Control and Audit Committee"*

As a result of the Reform of the statutory audit of the separate and consolidated financial statements of companies, transposing (via Legislative Decree No. 135/2016) Regulation (EU) No. 537/2014 and Directive No. 2014/56, the Board of Statutory Auditors, in its role as the "Internal Control and Audit Committee" (also the "ICAC"), independently assessed the organisational measures aimed at fully implementing the regulatory provisions which are specifically intended to strengthen the quality of auditing and the independence of statutory auditors and audit companies, in order to improve market and investor confidence in financial reporting.
During the year, the ICAC maintained continual dialogue with the auditors and ensured that the independence requirement was still fulfilled.
In relation to the new and other duties imposed on the Board in its capacity as the ICAC, independent assessments were therefore carried out on organisational measures designed to fully implement the new regulatory provisions.
With particular reference to the scope of Public Interest Entities ["**PIEs**"], such as Esprinet S.p.A., the regulatory changes involved a strengthening of the interaction between auditors and the ICAC, placing particular emphasis on maintaining the requirement of independence, including through constant monitoring of the activities carried out by the auditor, distinguishing between audit and non-audit services and, within these, those which are permitted and those which are prohibited by Article 5 of the above Regulation,

which expressly stipulates that the ICAC must first assess and give an opinion on any task which is assigned to the Auditor and can be classed as a non-audit service. During 2018, the Board of Statutory Auditors, with particular regard to the adequacy of the provision of non-audit services to the audited entity, in accordance with Article 5 of the EU Regulation, continually verified and monitored the independence of the Auditor, issuing dedicated and specific opinions for any task assigned and classed as a non-audit service.

With reference, however, to the audit activity, the Board, during the numerous meetings held with the auditor EY:

(i) obtained information on the checks carried out on the proper keeping of the Company's accounts and the correct recording of management events in the accounting records;

(ii) received from the Audit Company, pursuant to Article 11 of Regulation (EU) No. 537/2014, the Additional Report to the Internal Control and Audit Committee, from which: i) no significant shortcomings were identified in the internal control system for financial reporting and/or in the accounting system; ii) no cases of fraud or suspected fraud were identified; iii) no significant issues were identified regarding non-compliance cases; iv) no significant difficulties warranting the attention of the ICAC were encountered, nor difficulties related to the process of obtaining the necessary audit evidence;

(iii) received from the Audit Company, pursuant to Article 6(2)(a) of Regulation (EU) No. 537/2014, and pursuant to paragraph 17 of ISA Italia 260, confirmation of its independence, and referred to the table set out in the Financial Statements of Esprinet S.p.A. for details of the total fees charged to the company.

The Board of Statutory Auditors also examined the reports prepared by the independent auditor EY and issued on 16 April 2019, complementing the general framework of control functions established by law with reference to the financial reporting process.

The text of the Audit Report also includes the Key Aspects of the audit, i.e. those aspects considered the most significant in the context of the audit of the separate and consolidated financial statements.

With regard to opinions and certifications, in the Audit Report, the Audit Company:

- issued an opinion stating that the separate and consolidated financial statements of Esprinet S.p.A. give a true and fair view of the assets and financial position of the Company and the Group at 31 December 2018, of the income statement and of the cash flows for the year then ended;
- issued an opinion on consistency stating that the Reports on Operations accompanying the separate and the consolidated financial statements as at 31 December 2018 and certain specific information contained in the "Corporate Governance and Ownership Report" indicated in Article 123-*bis*, paragraph 4, of the TUF, which is the responsibility of the Company's Directors, had been drawn up in accordance with the law and were consistent with the Esprinet group's consolidated financial statements at 31.12.2018;
- declared, with reference to any significant errors in the Reports on Operations, based on its knowledge and understanding of the Company and the context of the audit activity, that it had nothing to report.

With reference, however, to the identification of Key Aspects, the Board of Statutory Auditors observed that they relate to:

(i) the valuation of goodwill;
(ii) the recognition of revenues, net of adjustments for allowances and discounts and the recognition of allowances from suppliers;
(iii) contingent liabilities and provisions for risks and charges.

b) Supervision of the independence of the external auditor

The Board of Statutory Auditors examined the Report on the Independence of the External Auditor, issued pursuant to Article 6(2)(a) of Regulation (EU) No. 537/2014, and pursuant to paragraph 17 of ISA Italia 260, issued on 16 April 2019, and found that there were no situations that compromised its independence or reasons for incompatibility, pursuant to Articles 10 and 17 of Legislative Decree No. 39/2010 and Articles 4 and 5 of Regulation (EU) No. 537/2014.

The following table, prepared pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation (Resolution No. 11971 of 14 May 1999 as subsequently amended and

supplemented) sets out the fees for 2018 for auditing services for the Esprinet Group and other services provided by the Audit Company and companies belonging to its network.

Description	Supplier	Fees (€ thousand)	
		2018	2017
Auditing:			
Audit of individual company's annual accounts, including drafting of professional opinion	EY [1]	374.0	337.1
Audit of consolidated annual accounts of a group of companies, including drafting of professional opinion	EY [1]	52.0	48.2
Audit of interim accounts of an individual company or a group of companies	EY [1]	55.4	55.3
Subtotal		**481.4**	**440.6**
Other services			
Non-audit services	EY	39.4	67.8
Subtotal		**39.4**	**67.8**
Total		**520.8**	**508.3**

As mentioned, in relation to the assignment of non-audit services, the Board of Statutory Auditors has continually carried out its own independent assessments of the potential risks to the independence of the external auditor and of the safeguards applied pursuant to Article 22-*ter* of Directive 2006/43/EC.

These assignments, for 2018, refer to €36 thousand for a limited review of the Company's sustainability reports (NFS) and €3.4 thousand for other services carried out for the Spanish subsidiary.

In relation to the above, with regard to the tasks assigned to EY and its network by Esprinet S.p.A. and Group companies, the Board of Statutory Auditors does not believe that there are any critical issues in terms of the independence of the Auditor.

Upon approval of the financial statements for the year ended 31.12.2018, the nine-year mandate granted to the Audit Company EY expired and therefore, pursuant to Article 16(2) of Regulation (EU) No. 537/2014, the Board of Statutory Auditors submitted its reasoned proposal for the award of the new mandate to the Shareholders' Meeting.

In light of the above, the Board considers that the internal control system is well organised to perform its duties and is achieving satisfactory results.

4. Results for the year and financial situation.

The 2018 financial year closed with a consolidated profit of €14.2 million, down by 46% compared with the previous year (€26.3 million). There was a net loss of €1 million compared with a net profit of€10.6 million in 2017.

The net consolidated financial position at 31.12.2018 showed a positive balance of €241 million, compared with €123.1 million at 31.12.2017.

Consolidated equity at 31.12.2018 amounted to €342.9 million compared with €338.2 million at 31.12.2017, an increase of €4.7 million.

Our examination of the Financial Statements, delivered to the Board in accordance with the law together with all the relevant annexes, was conducted in accordance with the code of conduct of the Board of Statutory Auditors recommended by the National Council of Chartered Accountants and Bookkeepers, by the National Companies and Stock Exchange Committee and in accordance with the rules set out in Legislative Decree No. 58/1998.

The Board of Statutory Auditors, also on the basis of information obtained from the Audit Firm, notes that:

- the format and contents of the financial statements are generally compliant with the law and that the applicable accounting principles have been correctly adopted;
- the financial statements correspond with the facts and information that the Board is aware of as a result of attending meetings of corporate bodies and exercising its supervisory duties as well as its powers of inspection and control;
- completeness of the Financial Statement file in accordance with the rules applicable to this case.

The Report on Operations was drawn up in accordance with the law and contains all the information necessary for a complete, clear and truthful representation of the Company's performance.

The Board considers that the Board of Directors has also fully provided in the Report on Operations and in the Notes to the Financial Statements the information required by:

- joint Banca d'Italia, Consob and ISVAP document No. 2 of 06.02.2009, i.e. disclosures regarding business continuity, financial risks, impairment tests and uncertainties in the use of estimates;

- joint Banca d'Italia, Consob and ISVAP document No. 4 of 03.03.2010, i.e. disclosures regarding impairment tests, contractual clauses of financial liabilities and fair value hierarchies. None of the other types of disclosure laid down in the above document apply, i.e. impairment of equity-based financial instruments classified as "available for sale" and debt restructuring.
- Consob Communication No. 0003907 of 19.01.2015 on the most important issues in financial reports, as well as subsequent Consob Communication Nos. 0007780 of 28.01.2016 and 0031948 of 10.03.2017.

Furthermore, the Report on Operations also contains environmental and staff information pursuant to Article 2428 of the Italian Civil Code and the Notes to the Financial Statements also contain the information laid down in Article 149-*duodecies* of the Issuers' Regulation on remuneration paid to the audit firm.

The Notes to the Financial Statements refer to the Notes to the Consolidated Financial Statements, which disclose the remuneration paid to managers with strategic responsibilities and the remuneration paid to Directors in Group companies, which are also disclosed in the report on the remuneration policy under Article 123-*ter* of Legislative Decree 58/1998.

The Company also prepared the consolidated financial statements.

5. Corporate governance

Detailed information on how the corporate governance principles approved by Borsa Italiana (contained in the relevant Corporate Governance Code, hereinafter referred to in short as the "Borsa Italiana Code") were implemented was provided by the Directors in the Annual Corporate Governance and Ownership Report approved on 1 April 2019 and attached to the notes to the financial statements.

This Report satisfied the provisions of Article 123-*bis* of the TUF. The Audit Company confirmed in its reports that the Report on Operations and the disclosures pursuant to Article 123-*bis* (1)(c), (d), (f), (l) and (m) and (2)(b)of Legislative Decree 58/98 submitted in the Corporate Governance and Ownership Report were consistent with the separate and consolidated financial statements.

The Board monitored the implementation of the corporate governance rules provided for in the Borsa Italiana Code, with which by way of public disclosure the Company states it complies.

The Board of Statutory Auditors also noted the process of preparing the 2019 Annual Report on Remuneration and Incentive Policies, pursuant to Article 123-*ter* of Legislative Decree 58/1998 and in the context of the disclosures required by Article 84-*quater* of Consob Regulation 11971/1999, which consists of two sections:

- the first section, which contains the Esprinet Group's remuneration policy for 2019, to be submitted for the approval of the Shareholders' Meeting called to approve the Financial Statements for the year ended 31.12.2018;
- the second section, which describes the procedures by which the remuneration policy in force in 2018 was implemented during the relevant year, providing a final account of the remuneration actually paid.

The composition of the Board of Directors is consistent with legal provisions on gender balance.

6. Consolidated non-financial statement

We supervised compliance with the provisions of Legislative Decree No. 254 of 30 December 2016 and Consob Regulation No. 20267/2018 concerning the consolidated non-financial statement of Esprinet S.p.A. and its subsidiaries (hereinafter "NFS").

The Board of Statutory Auditors finds that the Company, in its capacity as Parent Company, has prepared, following the issue of Legislative Decree No. 254 of 30 December 2016 ("Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups" - the "Decree"), the Group's 2018 Consolidated NFS as required by Articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" (hereinafter "GRI Standards"), defined in 2016 by the GRI – *Global Reporting Initiative* - and identified by the Directors as the reporting standard.

The Board of Statutory Auditors supervised compliance with the provisions of the Decree in the preparation of the NFS, ensuring that the NFS allows an understanding of the Company's activity, performance, results and impact, and reports on important environmental, social and personnel issues as well as those concerning the respect for human rights and the fight against active and passive corruption, taking into account the Company's activities and characteristics, in accordance with Article 3 of the aforementioned Legislative Decree.

The Board of Statutory Auditors also acknowledged that, pursuant to Article 3, paragraph 10, EY, the entity responsible for auditing the Group's financial statements, issued the relevant Report on the Consolidated NFS on 16 April 2019 attesting to the conformity of the information provided in that document with Articles 3 and 4 of Legislative Decree No. 254/2016 and the GRI standards.

7. Concluding remarks on supervisory activities and the financial statements.

Through direct audits and information obtained from the Audit Company and the manager responsible for preparing the Company's accounts, the Board of Statutory Auditors established compliance with legal rules regarding the drawing up and presentation of the Esprinet Group's consolidated financial statements, Esprinet S.p.A.'s separate financial statements and the associated Board of Directors' Report. Furthermore, the supervisory activities revealed no facts that required reporting to the control bodies or mentioning in this report.

In its reports issued pursuant to Articles 14 and 16 of Legislative Decree No. 39 of 27 January 2010, the Audit Company issued an unreserved opinion on the 2018 separate and consolidated financial statements. The separate and consolidated financial statements are accompanied by the statements of the manager responsible for preparing the accounts and the Chief Executive Officer as per Article 154-*bis* of the TUF.

On the basis of activity carried out during the financial year, the Board of Statutory Auditors finds no impediment to approving the financial statements for the year ended 31 December 2018 and the associated motions for resolutions put forward by the Board of Directors.

Vimercate, 16 April 2019

The Board of Statutory Auditors

Chair (Bettina Solimando)

Acting Auditor (Patrizia Paleologo Oriundi)

Acting Auditor (Franco Abbate)

Esprinet S.p.A.

Consolidated financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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ey.com

Building a better working world

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Esprinet S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Esprinet Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of of Esprinet S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We identified the following key audit matters:

Key Audit Matters	Audit Responses
Valuation of goodwill	
The goodwill balance was 90,6 million at December 31, 2018, and was allocated to the Group's Cash Generating Unit (CGU) "CGU1 – B2B Distribution of Information Technology and Consumer Electronics (Italy)", "CGU2 – B2C Distribution of phone accessories (Italy)" and "CGU3 – B2B Distribution of Information Technology and Consumer Electronics (Iberian Peninsula)". The processes and methodologies to valuate and determine the recoverable amount of each CGU are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the future cash flow forecasts in the period covered by the Group business plan, the assessment of the normalized cash flows used to estimate the terminal value and the long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions used in estimating the recoverable amount of goodwill, we determined that this area represents a key audit matter. The disclosures related to the valuation of goodwill are included in note "2. Goodwill".	Our audit procedures in response to this key audit matter included, among others: i) assessment of the process and key controls implemented by the Group in connection with the valuation of goodwill; ii) validation of the CGUs perimeter and the allocation of the carrying amounts of assets and liabilities to each CGU; iii) assessment of the future cash flow forecasts; iv) assessment of the consistency of the future cash flow forecasts assigned to each CGU against the 2019-2023 Group business plan approved by the Board of Directors; v) assessment of the accuracy of cash flow projections as compared to historical results; vi) assessment of the long term growth rates and discount rates. In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount. Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding the valuation of goodwill.
Revenue recognition, net of rebates and discounts and accounting of rebates from suppliers	
The Group recognizes rebates and discounts to its customers that are in line with industry's practices; such adjustments, including the estimate of the year-end component, are accounted for as a reduction in revenues and account receivables. In addition, the Group executed agreements with	Our audit procedures in response to this key audit matter included, among others: i) assessment of the process and key controls implemented by the Group in connection with the estimate of rebates and discounts; ii) assessment of the operating effectiveness of the key controls related

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its suppliers to reduce the risk of inventory obsolescence, based on which it benefits from discounts, rebates and right of return of such products to the suppliers; these adjustments, including the estimate of the year-end component, are accounted for as a reduction in costs and account payables.

Considering the significance of the estimation process, the number and diversity of contractual terms executed with clients and suppliers, and the complexity of the calculation, we determined that this area represents a key audit matter.

The disclosures related to the estimation of rebates and discounts are included in note "2.7.3 Critical accounting estimates and assumptions – Revenues adjustments and credit notes to be issued toward customers and Costs adjustments and credit notes due from vendors".

to the validation of contractual terms and information related to sales and purchases;

iii) tests of detail on the data extracted by the information systems, as well as of the calculation performed;

iv) substantive testing on a sample of transactions;

v) comparison of prior year estimate against actual results and analysis of variances;

vi) comparison of the current year estimate against subsequent accrual results;

vii) analysis of the credit notes issued and received after the year-end date.

Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding revenues and costs recognition.

Contingent liabilities and Provisions for risks and charges

The Group is involved in certain tax disputes and other legal proceedings with the supplier of the "Sport Technology" brand, as well as with its shareholders.

The processes and methodologies to evaluate the risks associated to such disputes are based on complex elements that by their nature imply the use of managements' judgement, specifically with reference to the assessment of the uncertainties related to expected results of the disputes that are not under their control, also considering the assessment made by external tax and legal counsels.

Considering the significance of the estimation process, the level of judgement and complexity of the valuation of the uncertainties connected to the disputes, we determined that this area represents a key audit matter.

The disclosures related to contingent liabilities and provisions for risks and charges are included in note "26. Non-current provisions and other liabilities – Disputes involving Esprinet S.p.A. and the Group and their development".

Our audit procedures in response to this key audit matter included, among others:

i) assessment of the process implemented by the Group in order to identify and valuate contingent liabilities and related accruals;

ii) assessment of managements' key assumptions used to valuate such disputes, also considering information obtained by external tax and legal counsels;

iii) analysis of the supporting documentation as well as of the acts of these disputes and the examination of the confirmation letters provided by external tax and legal counsels;

iv) review of the minutes of Shareholders and Board of Directors meetings.

Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding such disputes.

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Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Esprinet S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such

disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Esprinet S.p.A., in the general meeting held on April 27, 2010, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Esprinet S.p.A. are responsible for the preparation of the Report on Operations and of

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the Report on Corporate Governance and Ownership Structure of Esprinet Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Esprinet Group as at December 31, 2018, and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of of Esprinet Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Esprinet S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 16, 2019

EY S.p.A.
Signed by: Massimo Meloni, partner

This report has been translated into the English language solely for the convenience of international readers.

Esprinet S.p.A.

Financial statements as at December 31, 2018

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Esprinet S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Esprinet S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the separate income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matters	Audit Responses
Valuation of goodwill and investments	
The goodwill and investments balance was Euro 16,4 million and Euro 86,1 million, respectively, at December 31, 2018, and the goodwill was allocated to the Group's Cash Generating Unit (CGU) "CGU1 – B2B Distribution of Information Technology and Consumer Electronics (Italy)". The most significant investments relate to Esprinet Iberica S.L.U for Euro 75,7 million and Celly S.p.A. for Euro 9,9 million. The processes and methodologies to valuate and determine the recoverable amount of each CGU and investment are based on complex assumptions that, due to their nature, imply the use of judgement by management, in particular with reference to the future cash flow forecasts in the period covered by the Group business plan, the assessment of the normalized cash flows used to estimate the terminal value and the long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions used in estimating the recoverable amount of goodwill and investments, we determined that this area represents a key audit matter. The disclosures related to the valuation of goodwill and investments are included in note "2. Goodwill" and in note "5. Investments in subsidiaries and other companies".	Our audit procedures in response to this key audit matter included, among others: i) assessment of the process and key controls implemented by the Company in connection with the valuation of goodwill and investments; ii) assessment of the future cash flow forecasts; iii) assessment of the consistency of the future cash flow forecasts assigned to the CGU and to the investments against the 2019-2023 business plan approved by the Board of Directors; iv) assessment of the accuracy of cash flow projections as compared to historical results; v) assessment of the long term growth rates and discount rates. In performing our analysis, we engaged our experts in valuation techniques, who have independently performed calculation and sensitivity analyses of key assumptions in order to determine any changes in assumptions that could materially impact the valuation of the recoverable amount. Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding the valuation of goodwill and investments.
Revenue recognition, net of rebates and discounts and accounting of rebates from suppliers	
The Company recognizes rebates and discounts to its customers that are in line with industry's practices; such adjustments, including the estimate of the year-end component, are accounted for as a reduction in revenues and account receivables. In addition, the Company executed agreements with its suppliers to reduce the risk of inventory	Our audit procedures in response to this key audit matter included, among others: i) assessment of the process and key controls implemented by the Company in connection with the estimate of rebates and discounts; ii) assessment of the operating effectiveness of the key controls

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obsolescence, based on which it benefits from discounts, rebates and right of return of such products to the suppliers; these adjustments, including the estimate of the year-end component, are accounted for as a reduction in costs and account payables.

Considering the significance of the estimation process, the number and diversity of contractual terms executed with clients and suppliers, and the complexity of the calculation, we determined that this area represents a key audit matter.

The disclosures related to the estimation of rebates and discounts are included in note "2.4.3 Critical accounting estimates and assumptions – Revenues adjustments and credit notes to be issued toward customers and Costs adjustments and credit notes due from vendors".

related to the validation of contractual terms and information related to sales and purchases;

iii) tests of detail on the data extracted by the information systems, as well as tests of the calculation performed;
iv) substantive testing on a sample of transactions;
v) comparison of prior year estimate against actual results and analysis of variances;
vi) comparison of the current year estimate against subsequent accrual results;
vii) analysis of the credit notes issued and received after the year-end date.

Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding revenues and costs recognition.

Contingent liabilities and Provisions for risks and charges

The Company is involved in certain tax disputes and other legal proceedings with the supplier of the "Sport Technology" brand, as well as with its shareholders.

The processes and methodologies to evaluate the risks associated to such disputes are based on complex elements that by their nature imply the use of managements' judgement, specifically with reference to the assessment of the uncertainties related to expected results of the disputes that are not under their control, also considering the assessment made by external tax and legal counsels.

Considering the significance of the estimation process, the level of judgement and complexity of the valuation of the uncertainties connected to the disputes, we determined that this area represents a key audit matter.

The disclosures related to contingent liabilities and provisions for risks and charges included in note "26. Non-current provisions and other liabilities".

Our audit procedures in response to this key audit matter included, among others:

i) assessment of the process implemented by the Group in order to identify and valuate contingent liabilities and related accruals;
ii) assessment of managements' key assumptions used to valuate such disputes, also considering information obtained by external tax and legal counsels;
iii) analysis of the supporting documentation as well as of the acts of these disputes and the examination of the confirmation letters provided by external tax and legal counsels;
iv) review of the minutes of Shareholders and Board of Directors meetings.

Lastly, we reviewed the adequacy of the disclosures made in the explanatory notes to the financial statements regarding such disputes.

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Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Esprinet S.p.A., in the general meeting held on April 27, 2010, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Esprinet S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Esprinet S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express

an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Esprinet S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Esprinet S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Esprinet S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, April 16, 2019

EY S.p.A.
Signed by: Massimo Meloni, partner

This report has been translated into the English language solely for the convenience of international readers.