Esprinet Group

Draft Annual Report 2019

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 31/12/2019: 7,860,651 euro
www.esprinet.com - info@esprinet.com

CONTENTS

[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 2019

Consolidated results overview

1. Letter from the Chairman

To our Shareholders,

The Esprinet Group ended 2019 with a consolidated net profit, including the share attributable to minority interests, of 23.6 million euro, an increase of +66% compared to 14.2 million euro in 2018, thanks to an increase in revenues of +10% to a record level of almost 4 billion euro.

All the main economic and financial indicators were largely positive and improved compared to the previous year.
The Group has retained its market-leading position in both Italy and Spain, significantly improving its penetration share in the former and keeping it substantially stable in the latter.

The macroeconomic climate

In 2019 the global economy slowed its growth compared to the previous year (+2.9% compared to 3.6%). All the main geographical and economic areas suffered from this slowdown, mainly evident in the industrial production segment, while the tertiary sector performed better.
Geopolitical tensions combined with uncertainty concerning trade policies mainly due to the tariff dispute between the US and China are certainly among the elements that have most influenced macroeconomic dynamics. Europe also saw its own slowdown from +1.9% to +1.2%, with Italy posting a modest +0.2%.
European industrial production has suffered more than the tertiary sector from the effects of tensions between the US and China and uncertainty about the outcome of Brexit.
At the end of the year, there were precautionary signs of improvement, but these were completely cancelled out by the outbreak of the Covid-19 virus.
The entire world is facing a health and economic emergency that may not only impact on the level of social and economic well-being but also on the very way of life of the global population.
There is a proliferation of studies by the most accredited research institutes attempting to hypothesise the most likely scenarios for the remainder of 2020 and the following years. However, at the moment, also due to the uncertainty of when or if the health emergency may return, there is a lack of consensus on the evolution of socio-economic prospects.
Much will obviously depend on the timings and spread of the virus and on controlling the epidemic and the qualitative and quantitative level of coordinated action that governments in almost all nations are taking to combat the pandemic.

Product Innovation

As in previous years, in 2019 the segment of products with high technological complexity, typically intended for the 'data centres' of companies, recorded the majority of innovations.
The mixed models defined as 'Hybrid Cloud', which involve both the installation of computing and memory power in companies and the connection to Cloud solutions for the management of particular workloads or data storage tasks, are constantly evolving.
The progressive migration of portions of 'work-loads' to the Cloud involves the creation of increasingly sophisticated software and hardware solutions for controlling data flows and securing them. As a result, advanced solutions for networking, virtualisation and cyber-security are becoming increasingly popular.
The 'Intelligent Edge', i.e. the relocation of computing power near the data generation areas, especially in factories or in general in places populated with sensors and 'intelligent' objects, also feeds computer investment flows into production areas and not only into offices or homes.
The arrival of 5G solutions will allow for the opening of new application spaces, especially in the health field. In this area, also in light of the Covid-19 epidemic, investment in the research of diagnostic and

treatment tools that can be fully integrated into computer networks, to allow for governance and optimisation, will have to increase.
The long period of social distancing to combat the spread of Covid-19 has led to an exponential increase in the rate of use of so-called Smartworking or 'agile' work. Businesses and individuals will need increasingly greater bandwidth to connect to remote systems and to use simplified tools for collaboration, video-conferencing and secure remote access to information systems.
Product innovation in the printer segment helped to partially counteract the structural downward trend, compensating with managed print services ('copy cost' or 'pay-per-page' services) and with the launch of printers with lower energy consumption in view of the trend of data virtualisation that has long been underlying the ongoing reduction in print volumes.
The PC area, on the other hand, has shown considerable resilience in terms of volumes both for the continuous process of innovation, especially in Notebooks, and for the process of constant technological renewal of the installed inventory.
Consumer electronics continues to go through a transition phase waiting for real product innovations that can provide a boost to consumption.
The phenomenon of flexible screens, which was supposed to represent a turning point for the smartphone industry, has not resulted in practical, usable products; on the other hand, the continuous enhancement of cameras and image management software on mobile phones are the basis of the positive performance of the sector.
Eyes are now focused on the arrival of new 5G solutions and, presumably, on the world of healthcare sensors that can be integrated with devices such as smart-watches that measure heart rate, temperature and oxygen saturation.
The TV sector continues to be characterised by the ongoing updating of broadcasting standards, but the real drivers of growth in the sector in the future could be the spread of interconnected household appliances and above all electrical mobility.

Overall, the market continues to show a high degree of dynamism in terms of innovation, which helps to ensure generally favourable conditions for the development of the entire IT and consumer electronics supply chain.
Moreover, the spread of Covid-19, even if it represents in the short term an evident source of criticality, can act as a catalyst for a greater use of technology in the medium-long term.
In this context, technology distributors, such as Esprinet, are called upon to expand the range of products and the type of support services required by the ecosystem of professional retailers and manufacturers in order to effectively and efficiently convey new solutions to end users.

Technology distribution

The Italian technology distribution segment grew by +8% compared to 2018, and in this context our Group's market share grew strongly. Distribution in Spain also grew by 6% overall, but market share was substantially stable.
In line with the trend observed in recent years, the prominence of the distribution channel within the 'go-to-market' models of manufacturers has increased, mainly due to the increase in technological complexity and the related need for efficient and capillary sales structures as well as distribution points with a wide range of technologies in line with the need to vary the cost structures of vendors.

Activities in Italy

During 2019, Italian activities recorded a strong increase in turnover due to the growth in market demand as well as the increase in market share, mainly concentrated in the 'retail' customer segment.
Pressure continued on the first product margin, largely due to a shift in the product mix towards lower margin segments such as PC and telephony, despite some initial signs of margin stabilisation in this important product segment.
The 'Advanced Solutions' market segment also suffered in volume from the failure to repeat the contribution that last year came from a major public tender in the Server segment.

The control of costs, the improvement in sales volumes against modest reductions in the first percentage margin and the complete reabsorption of the negative 'one-off' effects that had a strong impact on the 'Sport Technology' 2018 line allowed us to present significantly improved results.

Business on the Iberian peninsula

The distribution sector in the Iberian Peninsula has been particularly impressive thanks to an excellent performance in almost all market segments excluding accessories.
Competitive pressure remained high and the Group continued its strategy of abandoning product/customer combinations characterised by unsatisfactory rates of return on investment.
The cost discipline partially offset the reduction in margins in absolute value resulting from the selective policy on volumes.
With a view to achieving the strategic objectives of the 'Advanced Solutions' segment, considerable investments were made in human capital and marketing activities, thanks to which significant results were achieved.
The opening of a logistics centre near Lisbon has made it possible to improve the level of service provided to customers in Portugal and to attract new important distribution contracts.

The new initiatives

During the year, work continued to involve employees and customers in the creation of an Esprinet 'ecosystem' involving closer attention being paid to the needs of these two groups of 'Stakeholders', better communication between them and a better level of service provided.
The central focus of teamwork was the 'Together is Better' or 'TIB' initiative, which summarises our Employee Satisfaction and Customer Satisfaction programmes, in the belief that satisfied employees can create satisfied customers and satisfied customers can deliver long-term financial results in line with our investors' value creation expectations.
During the year, the Group consequently presented an update of its business plan to the financial community which, relying on this management vision and capitalising on the market trends described above, intends to further improve the Group's competitive profile.
One of the pillars of this plan is the improvement of customer service to ensure better margins on the product segments that have been predominantly converted into 'commodities' in recent years (PCs and smartphones).
Alongside this, there is a strong focus on the high margin business areas of the 'Advanced Solution' segment, growth in Portugal, the best coverage of the Cloud segment and in general 'as-a-service' sales.
However, at the heart of the strategy remains the focus on the return on investment, which is increasingly the true metric of discerning the areas in which to invest or, on the contrary, to take action to improve or even exit.
By supporting these initiatives with a renewed commitment to communicating with the investment community, we believe we have laid a solid foundation to ensure a better return for our shareholders over time.

Conclusions

Unfortunately, the year opened with a truly unprecedented health emergency.
The sudden changes in the macroeconomic environment and the need to ensure the health of employees and associates have created major challenges for our Group.
Fortunately, thanks to years of far-sighted planning and wise management of discontinuity risks, combined with the excellent quality of our management team, financial and asset solidity and consolidated network of relationships with customers, suppliers and territorial organisations, today we are able to effectively deal with the Covid-19 emergency, leaving the Group's operations substantially unchanged.

In the long term, we also envisage important opportunities in the foreseeable acceleration of the consolidation process in the distribution sector, as well as an awareness of the increasingly pervasive role of technology in segments of the population that are more resistant to innovation.

Never before has it been more appropriate to recognise all of our staff who, under unprecedented conditions of stress, have guaranteed and continue to guarantee full operations for the Group.
To them, my heartfelt thanks is extended, as well as to other external stakeholders, customers and suppliers.
Finally, particular gratitude should be relayed to the medical staff, doctors and nurses, who with their spirit of sacrifice and willingness to give, have set an example to the world, making all of us proud.

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 2019 economic 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	2019	%	2018	%	% var. 19/18	2017	%
Profit & Loss								
Sales from contracts with customers		3,945,371	100.0%	3,571,190	100.0%	10%	3,217,172	100.0%
Gross profit		175,344	4.4%	162,272	4.5%	8%	167,763	5.2%
EBITDA	(1)	55,728	1.4%	28,409	0.8%	96%	39,475	1.2%
Operating income (EBIT)		41,068	1.0%	23,720	0.7%	73%	34,347	1.1%
Profit before income tax		31,657	0.8%	19,179	0.5%	65%	33,634	1.0%
Net income		23,553	0.6%	14,158	0.4%	66%	26,279	0.8%
Financial data								
Cash flow	(2)	38,213		18,847			31,033	
Gross investments		2,852		3,064			3,843	
Net working capital	(3)	(122,381)		(2,224)			107,133	
Operating net working capital	(4)	(121,027)		10,443			104,175	
Fixed assets	(5)	226,007		118,502			122,403	
Net capital employed	(6)	86,747		101,855			215,128	
Net equity		359,022		342,898			338,188	
Tangible net equity	(7)	267,826		251,579			246,522	
Net financial debt	(8)	(272,275)		(241,044)			(123,058)	
Main indicators								
Net financial debt / Net equity		(0.8)		(0.7)			(0.4)	
Net financial debt / Tangible net equity		(1.0)		(1.0)			(0.5)	
EBIT / Finance costs - net		4.4		5.2			45.9	
EBITDA / Finance costs - net		5.9		6.3			52.7	
Net financial debt/ EBITDA	(9)	(4.9)		(8.4)			(3.1)	
ROCE	(10)	9.8%		9.4%			7.6%	
Operational data								
N. of employees at end-period		1,317		1,262			1,247	
Avarage number of employees	(11)	1,290		1,255			1,288	
Earnings per share (euro)								
- Basic		0.46		0.27		70%	0.51	
- Diluted		0.45		0.27		67%	0.50	

(1) EBITDA is equal to the operating profit (EBIT) gross of amortisation, depreciation and write-downs.
(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 debt, lease liabilities, cash and cash equivalents, assets/liabilities for derivative instruments and financial receivables from factoring companies.
(9) Equal to the ratio between (a) current EBIT - excluding the effects of IFRS 16 - net of taxes calculated at the effective tax rate of the last published annual consolidated financial statements, and (b) average net invested capital.
(10) 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 27 July 2001.
The graph below illustrates the share performance from 1 January to 31 December 2019:

The Esprinet share closed 2019 at an official price of 5.18 euro, an increase of +45% compared to the closing price on 31 December 2018 (3.57 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, there is a share appreciation of +270% which does not take into account dividends distributed and the related reinvestment.
During the course of the year, the share price fell back to a minimum of 2.70 euro in June and then showed an upward trend, reaching a high of 5.18 euro on 30 December 2019.
The average price for the year was 3.52 euro.
During the year, a dividend of 0.135 euro per share was distributed, a 3.83% dividend yield when compared with the average quotation of the year.

The average daily volumes traded in 2019 were 170,355 (-25% compared[1] to 225,875 in 2018). Volumes reached an all-time high (1,152,288 shares traded) in the session held on 22 November 2019. Average volumes daily traded were 344,682 shares in the same month.
On 14 April 2020 the Esprinet share price was 3.65 euro (-30% compared to the closing price). Average daily trading up to the same date was 146,976 shares per day.

[1] simple arithmetic mean (source: Bloomberg)

Call of Shareholders' Meeting

ESPRINET S.p.A.
Head-quarter in Vimercate (MB), Via Energy Park n. 20
Share capital 7,860,651.00 euro, 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: MB-1158694
Website: www.esprinet.com

Convening of Ordinary and Extraordinary Shareholders' Meetings

The Ordinary and Extraordinary Shareholders' Meeting of Esprinet S.p.A. ('**Company**' or '**Esprinet**') is convened at the Studio Notarile Marchetti, in Milan, Via Agnello n. 18, in single call, on 25 May 2020 at 11:00 a.m., to deliberate on the following

Agenda

Ordinary part

1. Financial statements as at 31 December 2019:
   1.1. Approval of the Financial Statements as at 31 December 2019, Directors' Report on Operations, Statutory Auditors' Report and Independent Auditors' Report. Presentation of the Consolidated Financial Statements as at 31 December 2019 and Consolidated Non-Financial Disclosure in accordance with Italian Legislative Decree 254/2016 – 30/12/2016 - Sustainability Report.
   1.2. Allocation of the result for the year.

2. Report on the Remuneration Policy and compensation paid:
   2.1. Binding resolution on the first section pursuant to Article 123-ter, paragraph 3-bis of the TUF (Consolidated Law on Finance).
   2.2. Non-binding resolution on the second section pursuant to Article 123-ter, paragraph 6 of the TUF.

3. Proposal to revoke the authorisation to purchase own shares approved by the Shareholders' Meeting of 8 May 2019.

Extraordinary part

1. Cancellation of 1,470,217 own shares in the portfolio, with no reduction of share capital, and subsequent amendment of art. 5 of the company Articles of Association. Inherent and consequent resolutions.

It should be noted that the date and/or place and/or the manner in which the Shareholders' Meeting is to be held and/or voted on and/or conducted as indicated in this Notice of Call remain subject to compatibility with the regulations in force or measures issued by the competent Authorities due to the Covid-19 epidemiological emergency.

Any changes will be promptly disclosed in the same manner as for the publication of the Notice and/or through the information channels provided for by the regulations in force from time to time.

Due to the current health emergency, in compliance with Decree Law No. 18 of 17 March 2020 ('**Decree No. 18**'), **the Company has established that attendance at the Shareholders' Meeting shall take place exclusively through a designated representative, pursuant to Art. 135-undecies of Legislative Decree No. 58 of 24 February 1998 ('TUF')**.
The designated representative may also be granted proxies and/or sub-delegations pursuant to Article 135-novies of the TUF, as an exception to Article 135-undecies, paragraph 4, of the same decree, in order to allow for the widest possible use of this remote voting tool for all shareholders, in accordance with the fundamental principles of protecting the health of shareholders, employees, representatives and consultants of the Company.
The participation in the Shareholders' Meeting of the persons entitled to attend (the Chairperson, the Chief Executive Officer, the Chairperson of the Board of Statutory Auditors, the other members of the corporate bodies, the secretary, the designated representative, the independent auditor and/or the employees and/or collaborators authorised by the Chairperson), in consideration of the limitations that may arise for the above mentioned health needs, may take place exclusively by means of telecommunications that allow for their identification, in the manner individually communicated to them, in compliance with the applicable regulations for this eventuality.

For information on the share capital, the right to participate, the right to supplement the Agenda and to submit new resolution proposals, representation at the Shareholders' Meeting and the right to ask questions before the Shareholders' Meeting, please refer to the full text of the Notice of Call published on the Company's internet site www.esprinet.com, Investor Relations – Corporate Documentation – 2020 Shareholders' Meeting.

DOCUMENTATION
The documentation relating to the Shareholders' Meeting, together with the resolution proposals, will be made available to the public within the terms of the law in the manner provided for by the regulations in force, with the right of the Shareholders and those who have the right to vote to obtain copies. This documentation will be available at the Company's registered office, as well as at the eMarket Storage mechanism at www.emarketstorage.com and on the Company's website www.esprinet.com Investor Relations - Corporate Documents - Shareholders' Meeting 2020 section. In compliance with the ongoing Covid-19 health emergency containment measures issued by the competent authorities, the public is asked to avoid access to the registered office for the acquisition of the documents in question until these measures are exhausted.

The Company reserves the right to supplement and/or modify the content of this Notice should it become necessary as a result of the evolution of the current Covid-19 emergency situation.

Corporate governance

1. Company Officers

Board of Directors:

(Mandate expiring with approval of accounts 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
(RNC): Remuneration and Nomination Committee
(SC): Strategy Committee
(CSC): Competitiveness and Sustainability Committee

Board of Statutory Auditors:

(Mandate expiring with approval of accounts 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:

(Mandate expiring with approval of accounts for the year ending 31 December 2027)

PricewaterhouseCoopers 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 – 2020 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 their 'consumables' (cartridges, tapes, toners, magnetic supports), the Group also distributes tablets, 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, video-games 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 is active in the distribution of branded IT products (hardware and software), mobile phone equipment and, through its subsidiary Celly S.p.A., in the wholesale distribution of accessories for the latter and is aimed at a clientèle made up of resellers oriented towards both "consumer" and "business" end users. Its markets in geographical terms are Italy and Iberian Peninsula.

The range marketed by the Group consists of over 600 brands from more than 200 primary standing technology manufacturers (vendors), including all the world's leading technology manufacturers (HP, Apple, Samsung, Asus, Lenovo, Dell, Microsoft, Acer, Xiaomi, Epson, to name just a few).
The Group has also been distributing, in both geographic markets, house-branded products

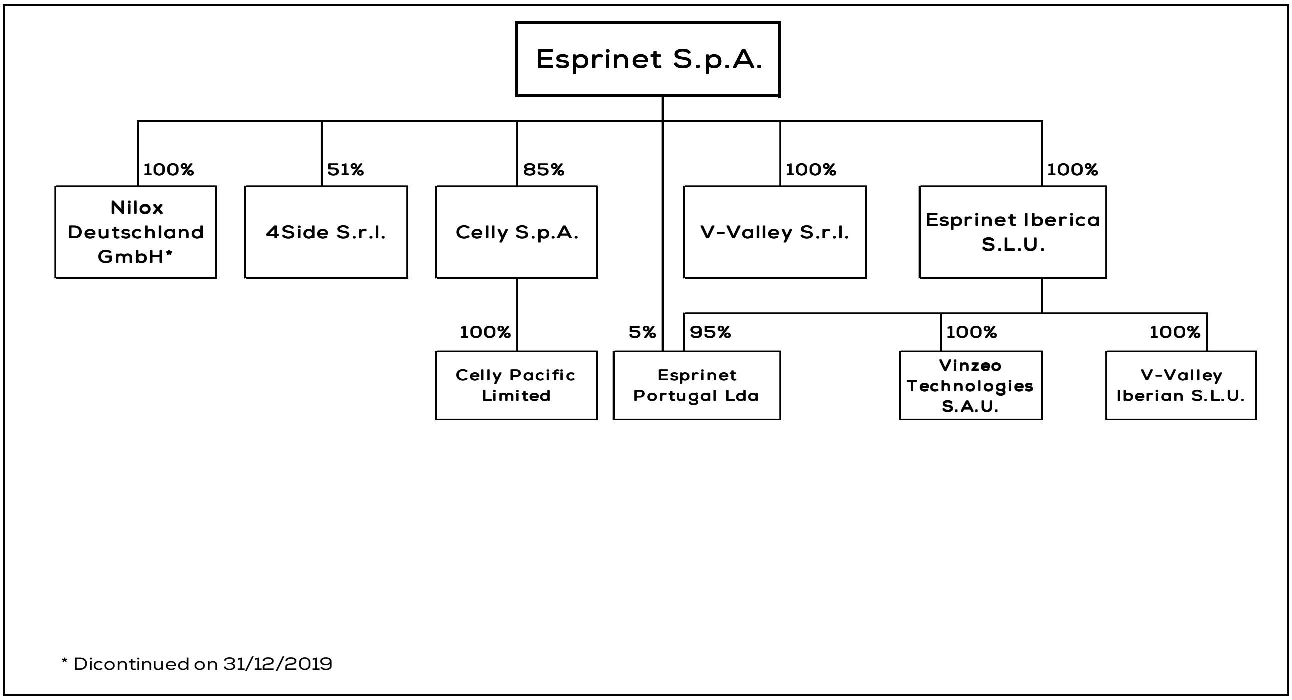
commissioned by third parties; these brands are Nilox, for entertainment sport products and PCs accessories, and Celly for mobile devices accessories.

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 2019 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), Basiano (MI) and Zaragoza (Spain), all leased premises, totalling approx. 140,000 sqm (approx. 100,000 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 2019:



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 the end of the period, Subgroup Italy includes, in addition to the parent company Esprinet S.p.A., the companies directly controlled by it: V-Valley S.r.l., Celly S.p.A., Nilox Deutschland Gmbh (in liquidation since 16 September 2019) and 4Side S.r.l. (acquired 51% on 20 March 2019).

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 telephony equipment, is understood to include its wholly owned subsidiary Celly Pacific LTD, a Chinese company operating in the same operating sector 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 specialised 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 20 July 2015, Esprinet S.p.A., in the context of the termination of relations with the co-Chief Executive Officer of Celly S.p.A., Claudio Gottero, acquired from GIR S.r.l., a company controlled by the latter, 20% of the share capital of Celly S.p.A. As consequence of this acquisition, Esprinet owns 80% in Celly's share capital.

In June 2019 the board of directors of Esprinet S.p.A., as part of a wider agreement relating to the corporate governance structure of the subsidiary Celly S.p.A., approved to waive the exercise of the European 'call option' – subject to prior symmetric waiver to 'put option' - on the remaining 20% of the share capital of Celly owned by Stefano Bonfanti by accepting as consideration a 5% share in Celly's equity. As a result of this transaction, on 13 September, Esprinet's stake rose to 85%.

On 31 October 2019, the company Celly Nordic OY, already in liquidation and wholly owned by Celly S.p.A., was deleted from the Finnish Companies Register.

Celly S.p.A. is the sole shareholder of Celly Pacific LTD, a Chinese company operating in the same sector.

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.

This company, which has been operational since December 2010, includes all the distribution activities of 'value' products (essentially servers, high-end storage and networking, virtualisation, security, bar-code scanning).

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. The company was in liquidation as at 31 December 2019.

4Side S.r.l.

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 an industry considered as strategic for the company business.
The notarial deed was signed on 20 March 2019.

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 29 April 2015, Esprinet Portugal Lda, a company incorporated under Portuguese law, was established with the aim of further developing the Group's distribution activities on Portuguese territory, until that date carried out by the Spanish subsidiary Esprinet Iberica S.L.U.

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' segment (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 headquarters 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, virtualisation 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 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:

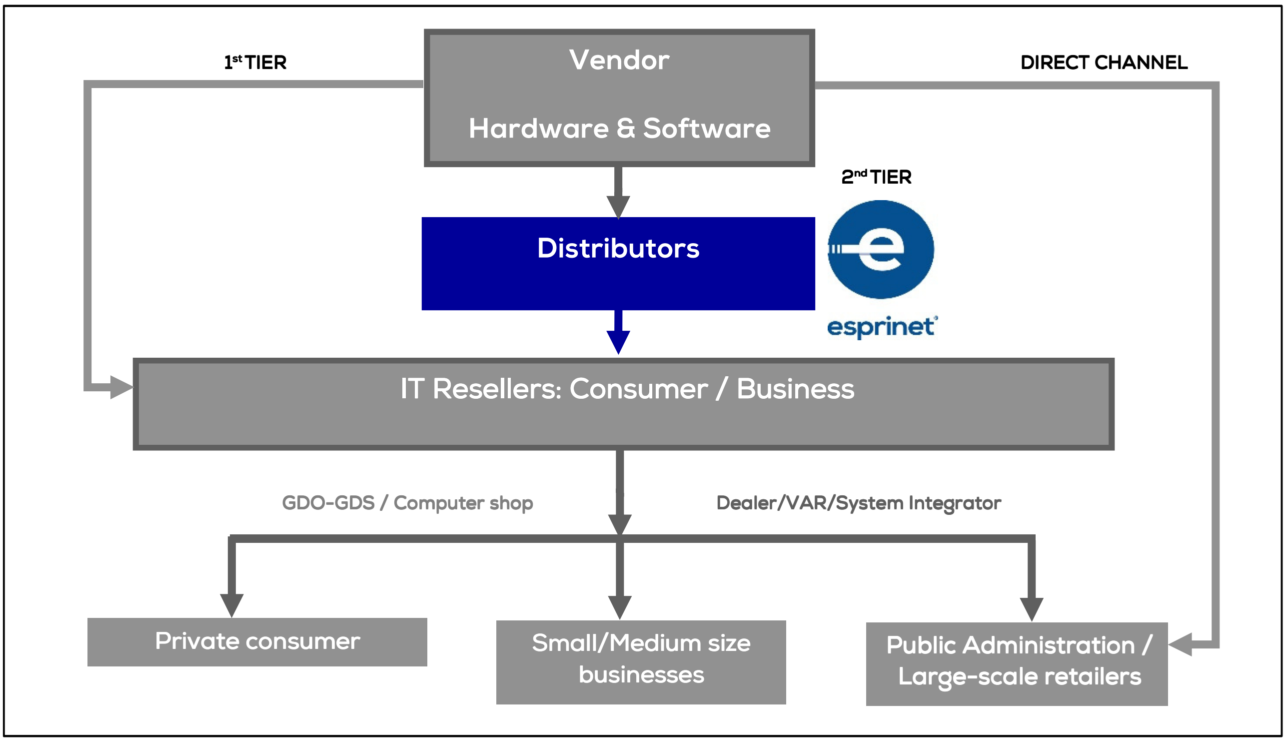
VAR ("Value Added Reseller")	GDO/GDS (Large-scale retail and specialist sectors)
Corporate Reseller	Sub-distribution
System Integrator	Computer shop
Dealer	Shop on-line
Office automation products and consumables specialist	

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:



Europe

The distribution segment, measured by the British research company Context (January 2020) through a panel of distributors largely representative of the general trend, recorded revenues of approximately 77.16 billion euro in 2019, an increase (+3.3%) compared to 74.66 billion euro in 2018. In particular, the trend by quarter highlights the following: +5.4% Q1 2019 vs Q1 2018, +3.7% Q2 2019 vs Q2 2018, +4.5% Q3 2019 vs Q3 2018, +0.7% Q4 2019 vs Q4 2018.

Among the most important countries in terms of size, Italy recorded the highest growth (+7.6%), followed by Spain (+6.3%). Germany, which remains the leading market in Europe, grew by 2.2% from 16.6 billion euro to 17.0 billion euro. The United Kingdom, second in size, decreased by -1.7%. Finally, France shows a growth of 3.0%.

The following table summarises the distribution trend in the last two quarters, in the second half of the year and in the full 2019 year compared with the same periods of the previous year:

Country	Q3-19 vs Q3-18	Q4-19 vs Q4-18	2H 2019 vs 2H 2018	2019 YTD vs 2018 YTD
Total	**4.5%**	**0.7%**	**2.3%**	**3.3%**
Germany	3.6%	-1.4%	0.7%	2.2%
UK & Ireland	2.0%	-8.1%	-3.5%	-1.7%
Italy	11.6%	6.5%	8.5%	7.6%
France	1.7%	0.8%	1.2%	3.0%
Spain	6.2%	1.4%	3.4%	6.3%
Merged Countries	-3.2%	10.5%	4.2%	4.4%
Poland	13.4%	9.3%	11.0%	9.8%
Switzerland	5.8%	3.4%	4.4%	2.3%
Austria	7.4%	10.8%	9.4%	7.9%
Belgium	11.0%	7.3%	8.8%	8.9%
Sweden	2.5%	-2.9%	-0.5%	5.1%
Czech Republic	3.0%	-0.5%	0.9%	2.8%
Denmark	-3.2%	-5.1%	-4.3%	-2.3%
Portugal	5.5%	6.7%	6.2%	7.9%
Finland	4.5%	2.0%	3.1%	1.6%
Norway	21.1%	1.5%	9.3%	10.2%
Baltics	6.0%	0.7%	3.0%	4.9%
Slovakia	-6.4%	4.2%	-0.3%	-0.3%

Source: Context, January 2020

Italy

IT, electronics consumption and distribution sector

In 2019, the Italian Information & Communication Technology ('ICT')[2] market, as measured by EITO (European IT Observatory, November 2019) data which monitors end-user purchases in European countries, recorded a 4.4% growth to 21.22 billion euro from 20.33 billion euro.
Among the main product categories, Mobile Phones recorded the highest growth of +8.3% (from 6.25 billion euro to 6.77 billion euro in 2019). 'PCs' also grew (+3.4%, from 2.20 billion euro to 2.27 billion euro), mainly thanks to 'Portable PCs' (+6.2% from 1.57 billion euro to 1.66 billion euro) and more specifically thanks to the 'Business' segment (+10%, from 840 million euro to 924 million euro). Within the 'PCs' category, on the other hand, there is a decrease in 'Desktop PCs' (-3.5%). Also worthy of note is the growth in 'Storage';, which rose from 300 million euro to 322 million euro, up 7.3%, and 'Software', up 5.4% to 7.09 billion euro. The 'Servers' (-3.2%, from 614 million euro to 594 million euro) and 'Workstations' (-6.0%, from 160 million euro to 150 million euro) categories closed negative.

In 2019, the Italian distribution market (source: Context, January 2020) showed a +7.6% growth compared with 2018. The analysis by half-year reveals that the second half-year shows a growth of +8.7% compared to the same period of the previous year (+11.6% Q3 2019 vs Q3 2018 and +6.8% Q4 2019 vs Q4 2018).

In this context, Esprinet Italia confirms its position as the leading distributor in the Italian market, according to Context data, increasing its market share by 1.5% since the beginning of the year thanks to a positive performance in the 'IT Clients' and 'Consumer Electronics' businesses.

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

Spain

IT, electronics consumption and distribution sector

In 2019, the Spanish Information & Communication Technology ('ICT')[3] market, as measured by EITO (European IT Observatory, May 2019) data, which monitors end-user purchases in European countries, grew by +4.5% to 15.32 billion euro in sales from 14.66 billion euro.
The software segment grew (+5%), reaching 4.06 billion euro. The 'Mobile Phones' category also grew, +8.1% from 5.21 billion euro in 2018 to 5.63 billion euro in 2019. 'PCs', 2.02 billion euro in 2019, increased by +2.7%, thanks to the growth of 'Portable PCs' by +6.1%; 'Desktop PCs' on the other hand, decreased by -7.4%. The 'Workstations' category saw an increase of +7%, while 'Servers' rose from 383 million euro in 2018 to 394 million euro in 2019 (+2.7%). Finally, 'Storage' showed a slight decrease of -0.5%. The performance of 'Tablet PCs' was also negative, falling by -2.0% to 690 million euro.

In 2019, the Spanish distribution market (source: Context, Jan 2020) grew by +6.3% compared to 2018 and Esprinet's market share increased slightly by +0.2%.

Portugal

IT, electronics consumption and distribution sector

In 2019, the Portuguese Information & Communication Technology ('ICT')[2] market, as measured by EITO (European IT Observatory, November 2019) data, which monitors end-user purchases in European countries, grew by +13.1% to 2.92 billion euro from 2.58 billion euro.
The 'Mobile Phones' category grew significantly by +21.8%, reaching 1.06 billion euro. Also noteworthy is the growth in 'PCs' (+16.2%, from 368 million euro in 2018 to 427 million euro in 2019). In detail, both 'Portable PCs' (+15.6%) and 'Desktop PCs' (+18.8%) grew. 'Software' increased by +5.7% to 689 million euro.

In 2019, the Portuguese distribution market (source: Context, January 2020) showed a growth of +7.9% compared to 2018 and Esprinet's market share was substantially unchanged (-0.2%).

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

MAIN CONSOLIDATED RESULTS AS AT 31 DECEMBER 2019[4]

It should be highlighted that the scope of consolidation as at 31 December 2019 includes the results of 4Side S.r.l., acquired on 20 March 2019. In addition, it should also be highlighted that, from 1 January 2019 the Group adopted the new IFRS 16 with a modified retrospective approach (option B, with no restatement of the contracts already in place at 1 January 2019, without applying this standard to 'modest-value' and short-term assets).

[3] Excluding IT & Business Services and Carrier Services. Thus the following industries are covered: IT Equipment, Software and Telecommunication Equipment.
[4] The scope of consolidation as at 31 December 2019 includes the results of 4Side S.r.l., acquired on 20 March 2019. In addition, from 1 January 2019 the Group adopted the new IFRS 16 with a modified retrospective approach (option B, with no restatement of the contracts already in place as at 1 January 2019, without applying this standard to 'modest-value' and short-term assets).

Sales from contracts with customers, equal to 3,945.4 million euro, showed an increase of +10% compared with 3,571.2 million euro in 2018.

Consolidated gross profit totalled 175.3 million euro and showed an increase of +8% compared with 2018 due to the combined effect of higher revenues achieved offset by a decrease in the percentage margin (+1% excluding the 2018 result of 8.4 million euro in non-recurring charges, and the 2019 result of the positive contribution of 3.0 million euro by 4Side S.r.l., since the effect of the first-time adoption of IFRS 16 had no impact).

Operating income (EBIT) equal to 41.1 million euro, showed an increase of +73% compared to 2018 (23.7 million euro) with a margin on revenues of 1.04% (0.66% in 2018).
These results benefit from the effects of the first-time application of IFRS 16 (which led to the reversal of lease payments against the recognition of lower depreciation charges on the right to use the related assets for 1.9 million euro for the entire year) and the positive contribution of 1.6 million euro by 4Side S.r.l.

Profit before income taxes, amounting to 31.7 million euro and including the positive contribution of 1.5 million euro of the newly acquired 4Side S.r.l., shows an increase of +65% compared to 2018. The improvement is less than the +73% recorded at EBIT level mainly as a result of the interest expense (3.5 million euro) deriving from the first-time recognition of lease liabilities (108.8 million euro as at 31 December 2019) introduced by IFRS 16, and the charges related to the early repayment of the existing pool loan for 72.5 million euro.

The net income totalled 23.6 million euro for the whole year, showing a significant increase compared to the same period last year.

Basic earnings per ordinary share, equal to 0.46 euro, showed an increase of +70% compared with the value in 2018 (0.27 euro).

The Group's main economic, financial and net assets position as at 31 December 2019 are hereby summarised:

(euro/000)	**2019**	**2018**	**Var. %**
Sales from contracts with customers	**3,945,371**	**3,571,190**	***10%***
Cost of sales	(3,770,027)	(3,408,918)	*11%*
Gross profit	**175,344**	**162,272**	***8%***
Gross Profit %	*4.44%*	*4.54%*	
Sales and marketing costs	(50,820)	(52,792)	*-4%*
Overheads and administrative costs	(83,086)	(76,287)	*9%*
Impairment loss/reversal of financial assets	(370)	(9,473)	*-96%*
Operating income (EBIT)	**41,068**	**23,720**	***73%***
EBIT %	*1.04%*	*0.66%*	
Finance costs - net	(9,411)	(4,541)	*107%*
Profit before income taxes	**31,657**	**19,179**	***65%***
Income tax expenses	(8,104)	(5,021)	*61%*
Net income	**23,553**	**14,158**	***66%***
Earnings per share - basic (euro)	0.46	0.27	*70%*

For a better comparison with the 2018 figures, the Group's main financial results are shown below using the adjusted figures at 31 December 2019 without the IFRS 16 impact:

(euro/000)	**2019 Pre-IFRS 16**	**2018**	**Var. %**
Sales from contracts with customers	**3,945,371**	**3,571,190**	***10%***
Cost of sales	(3,770,027)	(3,408,918)	*11%*
Gross Profit	**175,344**	**162,272**	***8%***
Gross Profit %	*4.44%*	*4.54%*	
Sales and marketing costs	(53,248)	(52,792)	*1%*
Overheads and administrative costs	(82,597)	(76,287)	*8%*
Impairment loss/reversal of financial assets	(370)	(9,473)	*-96%*
Operating income (EBIT)	**39,129**	**23,720**	***65%***
EBIT %	*0.99%*	*0.66%*	
Finance costs - net	(5,871)	(4,541)	*29%*
Profit before income taxes	**33,258**	**19,179**	***73%***
Income tax expenses	(8,422)	(5,021)	*68%*
Net income	**24,836**	**14,158**	***75%***

Net financial position is positive for 272.3 million euro and shows an improvement of 31.3 million euro compared with 241.0 million euro at 31 December 2018.
It includes 108.8 million euro of lease liabilities not present at 31 December 2018 as a result of the first-time adoption of IFRS 16.
The improvement in the net financial position, neutralising the latter effect, is equal to 140.0 million euro, mainly due to the reduction in the levels of net trade working capital at year-end, which is negative by 121.1 million euro (an improvement of 131.5 million euro compared to 31 December 2018).
The value of the net financial position at 31 December 2019, as well as at the end of each quarterly period, is affected by certain technical factors, such as the assignment without recourse of trade receivables as part of factoring and securitisation programmes, as well as by the seasonality typical of the end of the year in which there is a trend in trade payables that does not reflect the average levels of financial support provided by suppliers during the year.

Given that the factoring and securitisation programmes mentioned above define the complete transfer of risks and benefits to the assignees, the assigned receivables are eliminated from the assets in accordance with 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 consolidated net financial debt as at 31 December 2019 was 480.1 million euro (596.7 million euro as at 31 December 2018).

Net equity amounted to 359.0 million euro, an increase of 16.1 million euro compared to 342.9 million euro as at 31 December 2018 due to the reinvestment of 75% of profits made in the previous year.

(euro/000)	31/12/2019	31/12/2018
Fixed assets	226,007	118,502
Operating net working capital	(121,027)	10,443
Other current assets/liabilities	(1,354)	(12,667)
Other non-current assets/liabilities	(16,879)	(14,424)
Total uses	**86,747**	**101,855**
Short-term financial liabilities	35,862	138,311
Lease liabilities	8,597	-
Current financial (assets)/liabilities for derivatives	-	610
Financial receivables from factoring companies	(3,526)	(242)
Current debts for investments in subsidiaries	-	1,082
Other current financial receivables	(9,719)	(10,881)
Cash and cash equivalents	(463,777)	(381,308)
Net current financial debt	(432,563)	(252,428)
Borrowings	61,045	12,804
Lease liabilities	100,212	-
Other non - current financial receivables	(969)	(1,420)
Net financial debt (A)	(272,275)	(241,044)
Net equity (B)	359,022	342,898
Total sources of funds (C=A+B)	**86,747**	**101,855**

For a better comparison with 31 December 2018 figures, the main financial and net assets position results are shown below using the adjusted figures as at 31 December 2019 without the impact of IFRS 16:

(euro/000)	31/12/2019 Pre - IFRS 16	31/12/2018
Fixed assets	118,544	118,502
Operating net working capital	(121,074)	10,443
Other current assets/liabilities	(1,370)	(12,667)
Other non-current assets/liabilities	(16,879)	(14,424)
Total uses	**(20,779)**	**101,855**
Short-term financial liabilities	35,862	138,311
Lease liabilities	-	-
Current financial (assets)/liabilities for derivatives	-	610
Financial receivables from factoring companies	(3,526)	(242)
Current debts for investments in subsidiaries	-	1,082
Other current financial receivables	(9,719)	(10,881)
Cash and cash equivalents	(463,777)	(381,308)
Net current financial debt	(441,160)	(252,428)
Borrowings	61,045	12,804
Lease liabilities	-	-
Other non - current financial receivables	(969)	(1,420)
Net Financial debt (A)	(381,084)	(241,044)
Net equity (B)	360,305	342,898
Total sources of funds (C=A+ B)	**(20,779)**	**101,855**

MAIN CONSOLIDATED RESULTS BY GEOGRAPHICAL AREA

Subgroup Italy[5]

Sales from contracts with customers, equal to 2,563.6 million euro, showed an increase of +12% compared with 2,293.9 million euro in 2018.

Gross profit was 122.9 million euro, an increase of +10% compared to 2018 due to higher revenues, although offset by a slight reduction in the percentage margin (+1% growth excluding the 2018 result of 6.5 million euro in non-recurring charges and the 2019 result of the positive contribution of 3.0 million euro by the newly acquired company 4Side S.r.l.).

Operating income (EBIT) amounted to 20.8 million euro, or 0.81% of revenues, up 16.4 million euro from 4.4 million euro in the previous year.
This performance was affected by the presence in the previous year of non-recurring charges of 15.3 million euro related to several product classes of the 'Sport Technology' range and the estimated reduction in the value of receivables from the supplier of these products, and by the positive effects in 2019 of the first application of IFRS 16 (1.6 million euro) and the first consolidation of 4Side S.r.l. (1.6 million euro).

The net financial position is positive for 173.9 million euro and shows an improvement of 27.4 million euro compared with 146.5 million euro as at 31 December 2018.
It includes 88.8 million euro of lease liabilities not present as at 31 December 2018 as a result of the first-time adoption of IFRS 16.
The improvement in the net financial position, neutralising the latter effect, is equal to 116.2 million euro, mainly due to the reduction in the levels of net trade working capital at year-end, which is negative by 80.3 million euro (an improvement of 128.6 million euro compared to 31 December 2018).
The value of the net financial position as at 31 December 2019, as well as at the end of each quarterly period, is affected by certain technical factors, such as the assignment without recourse of trade receivables as part of factoring and securitisation programmes, as well as by the seasonality typical of the end of the year in which there is a trend in trade payables that does not reflect the average levels of financial support provided by suppliers during the year.
The impact of both 'without-recourse' sale and securitisation programmes of trade receivables as at 31 December 2019 was 268.0 million euro (319.9 million euro as at 31 December 2018).

Subgroup Italy's main economic, financial and net assets position as at 31 December 2019 are hereby summarised:

[5] Esprinet, V-Valley, 4Side, Nilox Deutschland and Group Celly

(euro/000)	2019	2018	Var. %
Sales to third parties	2,519,351	2,236,833	*13%*
Intercompany sales	44,235	57,103	*-23%*
Sales from contracts with customers	**2,563,586**	**2,293,936**	***12%***
Cost of sales	(2,440,707)	(2,181,941)	*12%*
Gross profit	**122,879**	**111,995**	***10%***
Gross Profit %	*4.79%*	*4.88%*	
Sales and marketing costs	(39,322)	(41,229)	*-5%*
Overheads and administrative costs	(62,546)	(57,032)	*10%*
Impairment loss/reversal of financial assets	(234)	(9,348)	*-97%*
Operating income (EBIT)	**20,777**	**4,386**	***>100%***
EBIT %	*0.81%*	*0.19%*	

For a better comparison with 31 December 2018 figures, the main economic results of the Subgroup Italy are shown below using the adjusted figures as at 31 December 2019 without the impact of IFRS 16:

(euro/000)	2019 Pre-IFRS 16	2018	Var. %
Sales to third parties	2,519,351	2,236,833	*13%*
Intercompany sales	44,235	57,103	*-23%*
Sales from contracts with customers	**2,563,586**	**2,293,936**	***12%***
Cost of sales	(2,440,707)	(2,181,941)	*12%*
Gross Profit	**122,879**	**111,995**	***10%***
Gross Profit %	*4.79%*	*4.88%*	
Sales and marketing costs	(41,474)	(41,229)	*1%*
Overheads and administrative costs	(61,985)	(57,032)	*9%*
Impairment loss/reversal of financial assets	(234)	(9,348)	*-97%*
Operating income (EBIT)	**19,186**	**4,386**	***>100%***
EBIT %	*0.75%*	*0.19%*	

(euro/000)	31/12/2019	31/12/2018
Fixed assets	204,170	115,414
Operating net working capital	(80,254)	48,346
Other current assets/liabilities	15,311	830
Other non-current assets/liabilities	(10,037)	(9,310)
Total uses	**129,190**	**155,280**
Short-term financial liabilities	24,179	136,269
Lease liabilities	6,563	-
Current debts for investments in subsidiaries	-	1,082
Current financial (assets)/liabilities for derivatives	-	613
Financial receivables from factoring companies	(3,526)	(242)
Financial (assets)/liab. from/to Group companies	-	(104,500)
Other current financial receivables	(9,717)	(10,880)
Cash and cash equivalents	(294,967)	(180,219)
Net current financial debt	(277,468)	(157,877)
Borrowings	22,294	12,804
Lease liabilities	82,243	-
Other non - current financial receivables	(969)	(1,420)
Net Financial debt (A)	(173,900)	(146,493)
Net equity (B)	303,090	301,773
Total sources of funds (C=A+B)	**129,190**	**155,280**

For a better comparison with 31 December 2018 figures, the main financial and net assets position results are shown below using the adjusted figures as at 31 December 2019 without the impact of IFRS 16:

(euro/000)	31/12/2019 Pre - IFRS 16	31/12/2018
Fixed assets	116,487	115,414
Operating net working capital	(80,301)	48,346
Other current assets/liabilities	15,294	830
Other non-current assets/liabilities	(10,037)	(9,310)
Total uses	**41,443**	**155,280**
Short-term financial liabilities	24,179	136,269
Lease liabilities	-	-
Current debts for investments in subsidiaries	-	1,082
Current financial (assets)/liabilities for derivatives	-	613
Financial receivables from factoring companies	(3,526)	(242)
Financial (assets)/liab. from/to Group companies	-	(104,500)
Other current financial receivables	(9,717)	(10,880)
Cash and cash equivalents	(294,967)	(180,219)
Net current financial debt	(284,031)	(157,877)
Borrowings	22,294	12,804
Lease liabilities	-	-
Other non - current financial receivables	(969)	(1,420)
Net Financial debt (A)	(262,706)	(146,493)
Net equity (B)	304,149	301,773
Total sources of funds (C=A+ B)	**41,443**	**155,280**

Subgroup Iberica[6]

Sales from contracts with customers, equal to 1,426.0 million euro, showed an increase of +7% compared with 1,334.4 million euro in 2018.

The gross profit amounted to 52.3 million euro, up 4% compared with 2018, due to the combined effect of higher sales, offset by a decrease in the percentage margin.
In the previous year, non-recurring charges related to several product classes of the 'Sport Technology' range were also recorded for 1.9 million euro.

Operating income (EBIT) equal to 20.1 million euro, showed an increase of +3% compared to 2018 (0.6 million euro) with a margin on revenues of 1.41% (1.46% in 2018).
The trends described are conditioned by the presence in the previous year of the aforementioned non-recurring charges of 1.9 million euro and the benefits in 2019 of 0.4 million euro deriving from the first-time adoption of IFRS 16.

The net financial position is positive for 98.4 million euro and shows an improvement of 3.8 million euro compared to 94.6 million euro as at 31 December 2018.
It includes 20.0 million euro of lease liabilities not present as at 31 December 2018 as a result of the first-time adoption of IFRS 16.
The improvement in the net financial position, neutralising the latter effect, is equal to 23.8 million euro, mainly due to the reduction in the levels of net trade working capital at year-end, which is negative by 40.4 million euro (an improvement of 3.1 million euro compared to 31 December 2018).
The value of the net financial position as at 31 December 2019, as well as at the end of each quarterly period, is affected by certain technical factors, such as the assignment without recourse of trade receivables as part of factoring and securitisation programmes, as well as by the seasonality typical of the end of the year in which there is a trend in trade payables that does not reflect the average levels of financial support provided by suppliers during the year.

The impact of both 'without-recourse' sale and receivable financing programmes was 212.1 million euro (276.8 million euro as at 31 December 2018).

The Subgroup Iberica's main economic, financial and net assets position as at 31 December 2019 are hereby summarised:

[6] Esprinet Iberica, Esprinet Portugal, Vinzeo Technologies and V-Valley Iberian

(euro/000)	**2019**	**2018**	**Var. %**
Sales to third parties	1,426,021	1,334,357	*7%*
Intercompany sales	-	-	*0%*
Sales from contracts with customers	**1,426,021**	**1,334,357**	***7%***
Cost of sales	(1,373,694)	(1,283,897)	*7%*
Gross profit	**52,327**	**50,460**	***4%***
Gross Profit %	*3.67%*	*3.78%*	
Sales and marketing costs	(11,497)	(11,563)	*-1%*
Overheads and administrative costs	(20,581)	(19,272)	*7%*
Impairment loss/reversal of financial assets	(136)	(125)	*9%*
Operating income (EBIT)	**20,113**	**19,500**	***3%***
EBIT %	*1.41%*	*1.46%*	

For a better comparison with 31 December 2018 figures, the main economic results of the Subgroup Iberica are shown below, where the figures as at 31 December 2019 are adjusted for the effects of IFRS 16:

(euro/000)	**2019 Pre-IFRS 16**	**2018**	**Var. %**
Sales to third parties	1,426,021	1,334,357	*7%*
Intercompany sales	-	-	*0%*
Sales from contracts with customers	**1,426,021**	**1,334,357**	***7%***
Cost of sales	(1,373,694)	(1,283,897)	*7%*
Gross Profit	**52,327**	**50,460**	***4%***
Gross Profit %	*3.67%*	*3.78%*	
Sales and marketing costs	(11,773)	(11,563)	*2%*
Overheads and administrative costs	(20,653)	(19,272)	*7%*
Impairment loss/reversal of financial assets	(136)	(125)	*9%*
Operating income (EBIT)	**19,765**	**19,500**	***1%***
EBIT %	*1.39%*	*1.46%*	

(euro/000)	31/12/2019	31/12/2018
Fixed assets	96,529	77,606
Operating net working capital	(40,367)	(37,317)
Other current assets/liabilities	(16,666)	(13,496)
Other non-current assets/liabilities	(6,842)	(5,114)
Total uses	**32,654**	**21,679**
Short-term financial liabilities	11,683	2,042
Lease liabilities	2,034	-
Current financial (assets)/liabilities for derivatives	-	(3)
Financial (assets)/liab. from/to Group companies	-	104,500
Other current financial receivables	(2)	(1)
Cash and cash equivalents	(168,810)	(201,089)
Net current financial debt	(155,095)	(94,551)
Borrowings	38,751	-
Lease liabilities	17,969	-
Net Financial debt (A)	(98,375)	(94,551)
Net equity (B)	131,029	116,230
Total sources of funds (C=A+B)	**32,654**	**21,679**

For a better comparison with 31 December 2018 figures, the main financial and net assets position results are shown below using the adjusted figures as at 31 December 2019 without the impact of IFRS 16:

(euro/000)	31/12/2019 Pre - IFRS 16	31/12/2018
Fixed assets	76,749	77,606
Operating net working capital	(40,367)	(37,317)
Other current assets/liabilities	(16,665)	(13,496)
Other non-current assets/liabilities	(6,842)	(5,114)
Total uses	**12,875**	**21,679**
Short-term financial liabilities	11,683	2,042
Lease liabilities	-	-
Current financial (assets)/liabilities for derivatives	-	(3)
Financial (assets)/liab. from/to Group companies	-	104,500
Other current financial receivables	(2)	(1)
Cash and cash equivalents	(168,810)	(201,089)
Net current financial debt	(157,129)	(94,551)
Borrowings	38,751	-
Lease liabilities	-	-
Net Financial debt (A)	(118,378)	(94,551)
Net equity (B)	131,253	116,230
Total sources of funds (C=A+ B)	**12,875**	**21,679**

Esprinet S.p.A.

Sales from contracts with customers, equal to 2,524.2 million euro, show an increase of +11% compared with 2,267.8 million euro as of 31 December 2018.

Gross profit is equal to 109.8 million euro and shows an increase of +8% (+2% if non-recurring cost items are excluded, as the effect of the first-time application of IFRS 16 is nil) equal to8.5 million euro compared to the same period of 2018, due to a decrease in the percentage margin from 4.47% to 4.35%. + In 2018, the non-recurring negative items, equal to 6.1 million euro were due to the unexpected rapid fall in end-user prices on some product classes in 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, in addition to the estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights.

Operating income (EBIT) equal to 17.1 million euro, showed an increase of 14.6 million euro compared to 2018 (2.6 million euro, which included 14.9 million euro of non-recurring charges in 2018), with a margin on revenues of 0.68% (0.11% in 2018).
These results benefit from the effects of the first-time adoption of IFRS 16 (which resulted in the reversal of lease payments against the recognition of lower depreciation charges on the right to use the related assets for 1.6 million euro for the entire year).

Profit before income taxes, amounting to 7.6 million euro, increased by 8.5 million euro compared with a loss before taxes of 0.9 million euro in 2018. The improvement is lower than that recorded at EBIT level mainly as a result of the interest expense (2.9 million euro) deriving from the first-time recognition of lease liabilities (88.1 million euro as at 31 December 2019) introduced by IFRS 16, and the charges related to the early repayment of the existing pool loan for 72.5 million euro.

The net profit totalled 4.6 million euro for the whole year, showing an increase compared to the same period last year.

The net financial position is positive for 163.7 million euro and shows an improvement of 18.8 million euro compared with 144.9 million euro as at 31 December 2018.
It includes 88.1 million euro of lease liabilities not present as at 31 December 2018 as a result of the first-time adoption of IFRS 16.
The improvement in the net financial position, neutralising the latter effect, is equal to 106.9 million euro, mainly due to the reduction in the levels of net trade working capital at year-end, which is negative by 135.9 million euro (an improvement of 118.8 million euro compared to 31 December 2018).
The value of the net financial position as at 31 December 2019, as well as at the end of each quarterly period, is affected by certain technical factors, such as the assignment without recourse of trade receivables as part of factoring and securitisation programmes, as well as by the seasonality typical of the end of the year in which there is a trend in trade payables that does not reflect the average levels of financial support provided by suppliers during the year.
The impact of both 'without-recourse' sale and securitisation programmes of trade receivables as at 31 December 2019 was 258.3 million euro (308.8 million euro as at 31 December 2018).

Equity as at 31 December 2019 amounted to 295.4 million euro.

The main economic, financial and net assets position of the parent company Esprinet S.p.A. as at 31 December 2019 are hereby summarised:

(euro/000)	2019	2018	Var. %
Sales from contracts with customers	**2,524,171**	**2,267,797**	***11%***
Cost of sales	(2,414,385)	(2,166,521)	*11%*
Gross profit	**109,786**	**101,276**	***8%***
Gross Profit %	*4.35%*	*4.47%*	
Sales and marketing costs	(33,744)	(36,419)	*-7%*
Overheads and administrative costs	(58,326)	(53,028)	*10%*
Impairment loss/reversal of financial assets	(570)	(9,266)	*-94%*
Operating income (EBIT)	**17,146**	**2,563**	***>100%***
EBIT %	*0.68%*	*0.10%*	
Finance costs - net	(7,929)	(3,457)	*>100%*
Investments expenses / (incomes)	(1,600)	-	*-100%*
Result before income taxes	**7,617**	**(894)**	***<-100%***
Income tax expenses	(3,013)	(136)	*>100%*
Net result	**4,604**	**(1,030)**	***<-100%***

For a better comparison with 31 December 2018 figures, the main economic results of Esprinet S.p.A. are shown below, in which the figures as at 31 December 2019 are adjusted for the effects of IFRS 16:

(euro/000)	2019 Pre-IFRS 16	2018	Var. %
Sales from contracts with customers	**2,524,171**	**2,267,797**	***11%***
Cost of sales	(2,414,385)	(2,166,521)	*11%*
Gross Profit	**109,786**	**101,276**	***8%***
Gross Profit %	*4.35%*	*4.47%*	
Sales and marketing costs	(35,787)	(36,419)	*-2%*
Overheads and administrative costs	(57,885)	(53,028)	*9%*
Impairment loss/reversal of financial assets	(570)	(9,266)	*-94%*
Operating income (EBIT)	**15,544**	**2,563**	***>100%***
EBIT %	*0.62%*	*0.11%*	
Finance costs - net	(5,051)	(3,457)	*46%*
Investments expenses / (incomes)	(1,600)	-	*-100%*
Result before income taxes	**8,893**	**(894)**	***<-100%***
Income tax expenses	(3,249)	(136)	*>100%*
Net result	**5,644**	**(1,030)**	***<-100%***

(euro/000)	31/12/2019	31/12/2018
Fixed assets	205,843	119,848
Operating net working capital	(135,818)	(17,095)
Other current assets/liabilities	70,610	60,358
Other non-current assets/liabilities	(8,935)	(8,034)
Total uses	**131,700**	**155,077**
Short-term financial liabilities	22,812	132,744
Lease liabilities	6,374	-
Current financial (assets)/liabilities for derivatives	-	238
Financial receivables from factoring companies	(3,526)	(241)
Financial (assets)/liab. From/to Group companies	6,921	(104,500)
Other current financial receivables	(9,718)	(10,880)
Cash and cash equivalents	(289,642)	(173,681)
Net current financial debt	(266,779)	(156,320)
Borrowings	22,294	12,804
Lease liabilities	81,742	-
Other non - current financial receivables	(969)	(1,420)
Net Financial debt (A)	(163,712)	(144,936)
Net equity (B)	295,412	300,013
Total sources of funds (C=A+B)	**131,700**	**155,077**

To facilitate comparison with the figures as at 31 December 2018, the main financial and equity results of Esprinet S.p.A. are shown below, in which the figures as at 31 December 2019 are adjusted for the effects of IFRS 16:

(euro/000)	31/12/2019 Pre - IFRS 16	31/12/2018
Fixed assets	118,832	119,848
Operating net working capital	(135,865)	(17,095)
Other current assets/liabilities	70,593	60,358
Other non-current assets/liabilities	(8,935)	(8,034)
Total uses	**44,624**	**155,077**
Short-term financial liabilities	22,812	132,744
Lease liabilities	-	-
Current financial (assets)/liabilities for derivatives	-	238
Financial receivables from factoring companies	(3,526)	(241)
Current debts for investments in subsidiaries	-	-
Financial (assets)/liab. From/to Group companies	6,921	(104,500)
Other current financial receivables	(9,718)	(10,880)
Cash and cash equivalents	(289,642)	(173,681)
Net current financial debt	(273,153)	(156,320)
Borrowings	22,294	12,804
Lease liabilities	-	-
Other non - current financial receivables	(969)	(1,420)
Net Financial debt (A)	(251,828)	(144,936)
Net equity (B)	296,452	300,013
Total sources of funds (C=A+ B)	**44,624**	**155,077**

D) Reclassified income statement

The reclassified consolidated income statement is shown below:

(i) Gross profit, net of depreciation and amortisation, is included in the cost of sales in the income statement by function;
(ii) the gross operating margin (EBITDA) determined as operating profit (EBIT) gross of amortisation, depreciation and write-downs;
(iii) operating income (EBIT) determined as operating income (EBIT) net of non-recurring items:

(€/000)	**2019**			**2018**	**% Var.**
			Pre-IFRS16		
Sales from contracts with customers	**3,945,371**		**3,945,371**	**3,571,190**	**10%**
Cost of goods sold excl. factoring/securitisation	3,764,900		3,764,900	3,394,888	11%
Financial cost of factoring/securisation[1]	4,421		4,421	4,869	-9%
Gross Profit[2]	**176,050**		**176,050**	**171,433**	**3%**
Gross Profit %	*4.46%*		*4.46%*	*4.80%*	
Personnel costs	64,203		64,203	61,126	5%
Other operating costs	56,117	(11,913)	68,030	64,656	-13%
EBITDA	**55,730**	**11,913**	**43,817**	**45,651**	**22%**
EBITDA %	*1.41%*		*1.11%*	*1.28%*	
Depreciation and amortisation	4,688		4,688	4,691	0%
IFRS 16 Right of Use depreciation	9,974	9,974	0	-	n/s
Recurring EBIT	**41,068**	**1,939**	**39,129**	**40,960**	**0%**
Recurring EBIT %	*1.04%*		*0.99%*	*1.15%*	
Non recurring costs[3]	0		0	17,240	n/s
EBIT	**41,068**	**1,939**	**39,129**	**23,720**	**73%**
Recurring EBIT %	*1.04%*		*0.99%*	*0.66%*	
IFRS 16 interest expenses on leases	3,540	3,540	-	-	n/s
Other financial (income) expenses	4,206		4,206	3,579	18%
Foreign exchange (gains) losses	1,665		1,665	962	73%
Profit before income taxes	**31,657**	**(1,601)**	**33,258**	**19,179**	**65%**
Income taxes	8,104	(318)	8,422	5,021	61%
Net income	**23,553**	**(1,283)**	**24,836**	**14,158**	**66%**

NOTES

(1) Financial discounts for without recourse advances on trade receivables under revolving factoring and securitisation programmes.
(2) Net of depreciation and amortisation which, by function, would be included in the cost of sales.
(3) Of which 8.4 million euro included in 'Cost of sales excluding financial discounts' and 8.8 million euro included in 'Other operating costs' in 2018.

Esprinet S.p.A.

(€/000)	2019			2018	% Var.
			Pre-IFRS16		
Sales from contracts with customers	**2,524,171**		**2,524,171**	**2,267,797**	**11%**
Cost of goods sold excl. factoring/securitisation	2,411,173		2,411,173	2,156,697	12%
Financial cost of factoring/securisation[(1)]	2,506		2,506	3,000	-16%
Gross Profit[(2)]	**110,492**		**110,492**	**108,100**	**2%**
Gross Profit %	*4.38%*		*4.38%*	*4.77%*	
Personnel costs	41,327		41,327	40,620	2%
Other operating costs	41,398	(9,134)	50,532	46,832	-12%
EBITDA	**27,767**	**9,134**	**18,633**	**20,648**	**34%**
EBITDA %	*1.10%*		*0.74%*	*0.91%*	
Depreciation and amortisation	3,089		3,089	3,182	-3%
IFRS 16 Right of Use depreciation	7,532	7,532	0	-	n/s
Recurring EBIT	**17,146**	**1,602**	**15,544**	**17,466**	**-2%**
Recurring EBIT %	*0.68%*		*0.62%*	*0.77%*	
Non recurring costs[(3)]	0		0	14,903	n/s
EBIT	**17,146**	**1,602**	**15,544**	**2,563**	**569%**
Recurring EBIT %	*0.68%*		*0.62%*	*0.11%*	
IFRS 16 interest expenses on leases	2,878	2,878	-	-	n/s
Other financial (income) expenses	3,792		3,792	2,985	27%
Foreign exchange (gains) losses	1,259		1,259	472	>100%
Cost (income) from investments	1,600		1,600	-	>100%
Profit before income taxes	**7,617**	**(1,276)**	**8,893**	**(894)**	**>100%**
Income taxes	3,013	(236)	3,249	136	>100%
Net income	**4,604**	**(1,040)**	**5,644**	**(1,030)**	**>100%**

NOTES

(1) Financial discounts for without recourse advances on trade receivables under revolving factoring and securitisation programmes.
(2) Net of depreciation and amortisation which, by function, would be included in the cost of sales.
(3) Of which 6.1 million euro included in 'Cost of sales excluding financial discounts' and 8.8 million euro included in 'Other operating costs' in 2018.

2. Operating net working capital

The following table shows details of working capital ratios compared with the previous year:

(euro/000)	31/12/2019			31/12/2018		
	Group	Italy	Iberica	Group	Italy	Iberica
Trade receivables [a]	**470,999**	**331,471**	**139,528**	**383,865**	**263,479**	**120,386**
Trade receivables net of VAT (1)	387,010	271,698	115,312	315,459	215,966	99,493
Sales from contracts with customers (2)	3,945,371	2,519,351	1,426,020	3,571,190	2,293,935	1,277,255
[A] Days Sales Outstanding - DSO (3)	36	39	30	32	34	28
Inventory [b]	**497,220**	**343,841**	**153,379**	**494,444**	**311,280**	**183,164**
[B] Days Sales of Inventory - DSI (4)	48	51	42	53	52	54
Trade payables [c]	**1,089,246**	**755,566**	**333,680**	**867,866**	**526,413**	**341,453**
Trade payables net of VAT (1)	895,085	619,316	275,769	713,679	431,486	282,193
Cost of Sales	3,770,027	2,440,707	1,329,320	3,408,918	2,181,941	1,226,977
Total SG&A	134,276	102,102	32,174	138,552	107,609	30,943
[C] Days Payable Outstanding - DPO (5)	84	89	74	73	69	82
Operating net working capital [a+b-c]	**(121,027)**	**(80,254)**	**(40,773)**	**10,443**	**48,346**	**(37,903)**
Cash conversion Cycle [A+B-C]	**-**	**1**	**(2)**	**12**	**17**	**-**
Operating net working capital/Sales	**-3.1%**	**-3.2%**	**-2.9%**	**0.3%**	**2.1%**	**-3.0%**

(1) Net of VAT measured by applying the ordinary rate of 22% for Subgroup Italy and 21% for Spain.
(2) Amounts net of intercompany revenues.
(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.

At Group level, there was an improvement in the level of working capital as at 31 December compared to the end of the previous year (-121.0 million euro compared to 10.4 million euro as at 31 December 2018).

On the basis of the level of working capital existing as at 31 December, applying the method of calculating the turnover days described in the notes to the previous table, there is a decrease of 16 days with reference to the Subgroup Italy in the duration of the entire cash conversion cycle and a ratio reduced to -3.2% from 2.1% between working capital and revenues.
Subgroup Iberica shows a decrease of 2 days in the duration of the entire cash conversion cycle and a ratio between working capital and revenues that improves from an absorption of working capital equal to -3.0% to an incidence of financing equal to -2.9%. The improvement is almost entirely due to the decrease in average warehouse turnover days counterbalanced by the reduction in average days of payment by suppliers and the increase in average days of collection of receivables from customers.

During 2019, the Company's revolving programme of 'without-recourse' sale of receivables continued in Italy and Spain 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. Also taking into account technical forms of factoring other than 'no recourse assignment', but with similar effects - i.e. 'confirming' used in Spain - as well as securitisation, the overall impact on financial debt was approx. 480.1 million euro (approx. 596.7 million euro as at 31 December 2018). The effect of these transactions translates into a reduction in the number of days of timely receivables turnover.

Below is the evolution of working capital of Esprinet S.p.A. in the last two financial years:

(euro/000)	Esprinet S.p.A.	
	31/12/2019	31/12/2018
Trade receivables [a]	**272,957**	**199,871**
Trade receivables net of VAT (1)	223,735	163,829
Sales from contracts with customers (2)	2,482,066	2,211,043
[A] Days Sales Outstanding - DSO (3)	33	27
Inventory [b]	**335,188**	**304,237**
[B] Days Sales of Inventory - DSI (4)	51	51
Trade payables [c]	**743,963**	**521,193**
Trade payables net of VAT (1)	609,806	427,207
Cost of Sales (5)	2,413,008	2,165,829
Total SG&A (6)	92,687	98,843
[C] Days Payables Outstanding - DPO (7)	89	69
Operating net working capital [a+b-c]	**(135,818)**	**(17,085)**
Cash conversion Cycle [A+B-C]	**(5)**	**9**
Operating net working capital / Sales	**-5.5%**	**-0.8%**

(1) Net of VAT measured by applying the ordinary 22% rate.
(2) Net of intercompany sales amounting to 42.1 million euro (56.8 million euro in 2018) 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 1.4 million euro (0.7 million euro in 2018) as shown in the table displayed in the separate financial statements.
(6) Net of intercompany costs and recharges for -0.1 million euro (-0.1 million euro in 2018) 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 2019 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 -5.5% from -0.8% in 2018. This improvement, according to the methodology followed and described in the notes to the table, is mainly due to the improvement in the turnover rate of trade payables, slightly offset by the deterioration in the turnover rate of trade receivables, while the inventory turnover rate remains unchanged compared to the previous year.

During 2019, the Company's revolving programme 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. Also taking into account technical forms of factoring other than 'no recourse assignment', but with similar effects – i.e. 'confirming' used in Spain – as well as securitisation, the overall impact on financial debt was approx. 258.3 million euro (approx. 309 million euro as at 31 December 2018).

3. Net Financial Position

The tables below show the contributions of Subgroup Italy and Subgroup Iberica to the Group's net financial position (or 'net financial debt' or 'net financial indebtedness') as at 31 December 2019:

	31/12/2019			31/12/2018			Var. Group
	Italy	Iberica	Group	Italy	Iberica	Group	
Short-term financial liabilities	24,179	11,683	35,862	136,269	2,042	138,311	(102,449)
Lease liabilities	6,563	2,034	8,597	-	-	-	8,597
Other current financial receivables	(9,717)	(2)	(9,719)	(10,880)	(1)	(10,881)	1,162
Current financial (assets)/liabilities for derivatives	-	-	-	613	(3)	610	(610)
Financial receivables from factoring companies	(3,526)	-	(3,526)	(242)	-	(242)	(3,284)
Current Debts for investments in subsidiaries	-	-	-	1,082	-	1,082	(1,082)
Financial (assets)/liab. from/to Group companies	-	-	-	(104,500)	104,500	-	-
Cash and cash equivalents	(294,967)	(168,810)	(463,777)	(180,219)	(201,089)	(381,308)	(82,469)
Net current financial debt	**(277,468)**	**(155,095)**	**(432,563)**	**(157,877)**	**(94,551)**	**(252,428)**	**(180,135)**
Borrowings	22,294	38,751	61,045	12,804	-	12,804	48,241
Lease liabilities	82,243	17,969	100,212	-	-	-	100,212
Other non - current financial receivables	(969)	-	(969)	(1,420)	-	(1,420)	451
Net financial debt	**(173,900)**	**(98,375)**	**(272,275)**	**(146,493)**	**(94,551)**	**(241,044)**	**(31,231)**

The Group's net financial situation at year-end showed a 272.3 million euro cash surplus, up +31.3 million euro compared with the 241.0 million euro surplus recorded as at 31 December 2018.

The net financial position includes 108.8 million euro in lease liabilities not present as at 31 December 2018 as a result of the first-time adoption of IFRS 16.
The improvement in the net financial position, neutralising the latter effect, is equal to 381.1 million euro, mainly due to the reduction in the levels of net trade working capital at year-end, which is negative by 121.1 million euro (an improvement of 131.5 million euro compared to 31 December 2018).

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

(euro/000)	31/12/2019					31/12/2018			
	Esprinet	Celly*	V-Valley	Nilox Deutschland GmbH	4Side S.r.l.	Esprinet	Celly*	V-Valley	Nilox Deutschland GmbH
Short-term financial liabilities	22,812	1,263	104	-	-	132,744	2,141	1,383	-
Lease liabilities	6,374	68	-	-	121	-	-	-	-
Other current financial receivables	(9,717)	-	-	-	-	(10,880)	-	-	-
Current financial (assets)/liabilities for derivatives	-	-	-	-	-	238	-	-	-
Financial receivables from factoring companies	(3,526)	-	-	-	-	(242)	-	-	-
Financial (assets)/liab. from/to Group companies	6,921	-	(7,921)	-	1,000	(104,500)	-	-	-
Cash and cash equivalents	(289,642)	(736)	(2)	(633)	(3,954)	(173,681)	(820)	(5,508)	(210)
Net current financial debt	**(266,778)**	**595**	**(7,819)**	**(633)**	**(2,833)**	**(156,321)**	**1,321**	**(4,125)**	**(210)**
Borrowings	22,294	-	-	-	-	12,804	-	-	-
Lease liabilities	81,742	56	-	-	445	-	-	-	-
Other non - current financial receivables	(969)	-	-	-	-	(1,420)	-	-	-
Net financial debt	**(163,712)**	**651**	**(7,819)**	**(633)**	**(2,388)**	**(144,937)**	**1,321**	**(4,125)**	**(210)**

* Refers to the subgroup made up of Celly S.p.A. 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 2019, or at the end of each month or quarter, is not representative of the average net financial indebtedness customarily observable during the same period.

However, compared to 31 December 2018, there was a reduction in the average level of debt exposure to the banking system due to a lower average use of bank funding sources, at the same average cost of debt.

4. Sales by product family and customer type

Group sales by Customer type and product family

Sales by Customer type

(euro/million)	2019	%	2018	%	Var.	% Var.
Retailer/e-tailer	1,933.3	49.0%	1,661.7	46.5%	271.6	*16%*
IT Reseller	2,057.0	52.1%	1,954.4	54.7%	102.6	*5%*
Adjustments	(44.9)	-1.1%	(44.9)	-1.3%	0.0	*0%*
Sales from contracts with customers	**3,945.4**	**100.0%**	**3,571.2**	**100.0%**	**374.2**	***10%***

The breakdown of sales by type of customer shows robust growth in both 'consumer' and 'business' segments. Particularly significant was the growth in the 'Retailer/e-tailer' category where the Group has now consolidated its absolute leadership position. The IT Reseller segment, growing by +5%, represents the area in which the Group intends to focus its investments during 2020.

Sales by product family

(euro/million)	2019	%	2018	%	Var.	% Var.
PC (notebook, tablet, desktop, monitor)	1,372.8	34.8%	1,212.8	34.0%	160.0	*13%*
Printing devices and supplies	418.3	10.6%	393.1	11.0%	25.2	*6%*
Other IT products	244.9	6.2%	237.9	6.7%	7.0	*3%*
Total IT Clients	**2,036.0**	**51.6%**	**1,843.8**	**51.6%**	**192.2**	***10%***
Hardware (networking, storage, server and others)	407.4	10.3%	409.0	11.5%	(1.6)	*0%*
Software, Services, Cloud	153.6	3.9%	146.8	4.1%	6.8	*5%*
Total Advanced Solutions	**561.0**	**14.2%**	**555.7**	**15.6%**	**5.3**	***1%***
Smartphones	1,103.2	28.0%	997.4	27.9%	105.8	*11%*
White goods	55.7	1.4%	37.2	1.0%	18.5	*50%*
Gaming (hardware and software)	43.4	1.1%	29.5	0.8%	13.9	*47%*
Other consumer electronics products	191.0	4.8%	152.5	4.3%	38.5	*25%*
Total Consumer Electronics	**1,393.3**	**35.3%**	**1,216.6**	**34.1%**	**176.7**	***15%***
Adjustments	(44.9)	-1.1%	(44.9)	-1.3%	0.0	*0%*
Sales from contracts with customers	**3,945.4**	**100.0%**	**3,571.2**	**100.0%**	**374.2**	***10%***

The analysis of Sales by product line shows a significant increase in the Consumer Electronics segment (1,393.3 million euro, +15%), within which, in addition to the +11% growth for Smartphones, positive performance was recorded for high margin segments such as Home Appliances (+50%) and Gaming (43.4 million euro, +47% compared to 2018 also thanks to the acquisition of 4Side Srl, exclusive distributor for Italy of Activision Blizzard products). The IT Clients segment is driven both by the positive performance of PCs (+13%) and Printers and Consumables, which recorded sales of 418.3 million euro, up 6% from 393.1 million euro in 2018.

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

Sales by Customer type

(euro/million)	2019	%	2018	%	Var.	% Var.
Retailer/e-tailer	1,117.8	44.3%	897.0	39.6%	220.8	*25%*
IT Reseller	1,401.9	55.5%	1,354.6	59.7%	47.3	*3%*
Adjustments	4.5	0.2%	16.2	0.7%	(11.7)	*-72%*
Sales from contracts with customers	**2,524.2**	**100.0%**	**2,267.8**	**100.0%**	**256.4**	***11%***

The breakdown of sales by customer type shows robust growth in both consumer and business segments. Particularly significant was the growth in the 'Retailer/e-tailer' category where the Company has now consolidated its absolute leadership position. The IT Reseller segment, growing by +3%, represents the area in which the Company intends to focus its investments during 2020.

Sales by product family

(euro/million)	2019	%	2018	%	Var.	% Var.
PC (notebook, tablet, desktop, monitor)	646.4	25.6%	570.5	25.2%	75.9	*13%*
Printing devices and supplies	306.7	12.2%	288.5	12.7%	18.2	*6%*
Other IT products	148.9	5.9%	149.3	6.6%	(0.4)	*0%*
Total IT Clients	**1,102.0**	**43.7%**	**1,008.3**	**44.5%**	**93.7**	***9%***
Hardware (networking, storage, server and others)	320.9	12.7%	332.0	14.6%	(11.1)	*-3%*
Software, Services, Cloud	122.8	4.9%	128.7	5.7%	(5.9)	*-5%*
Total Advanced Solutions	**443.7**	**17.6%**	**460.7**	**20.3%**	**(17.0)**	***-4%***
Smartphones	731.1	29.0%	601.9	26.5%	129.2	*21%*
White goods	53.8	2.1%	35.4	1.6%	18.4	*52%*
Gaming (hardware and software)	27.0	1.1%	28.1	1.2%	(1.1)	*-4%*
Other consumer electronics products	162.1	6.4%	117.2	5.2%	44.9	*38%*
Total Consumer Electronics	**974.0**	**38.6%**	**782.6**	**34.5%**	**191.4**	***24%***
Adjustments	4.5	0.2%	16.2	0.7%	(11.7)	*-72%*
Sales from contracts with customers	**2,524.2**	**100.0%**	**2,267.8**	**100.0%**	**256.4**	***11%***

The analysis of sales by product line shows a significant increase in the Consumer Electronics segment (974.0 million euro, +24%), within which there is a widespread positive performance with the sole exception of Gaming (27.0 million euro, -4% compared to 2018) also due to the acquisition of 4Side Srl, exclusive distributor for Italy of Activision Blizzard products, which directly serves customers previously supplied by Esprinet S.p.A. The IT Clients segment is driven by the positive performance of both PCs (+13%) and Printers and Consumables (+6%) compared to 2018. The Advanced Solutions segment bucked the trend, down compared to the previous year (443.7 million euro, -4%).

Significant events occurring in the period

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

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 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, 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 an 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).

The corporate governance structure, according to which minority shareholders will jointly manage the business together with Esprinet S.p.A., is 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 deed was signed on 20 March 2019.

Esprinet S.p.A. Annual Shareholders' Meeting

On 8 May 2019, Esprinet AGM approved the separate financial statements for the fiscal year ended as at 31 December 2018 and the distribution of a dividend of 0.135 euro per ordinary share, corresponding to a pay-out ratio of 49%[7].
The dividend payment was scheduled from 15 May 2019, ex-coupon no. 14 on 13 May 2019 and record date on 14 May 2019.

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 No. 58/1998;
- authorised, subject to prior revocation of former authorisation resolved on the Shareholders' Meeting of 4 May 2018, the acquisition and disposal of own shares according to Art. 2357 and following paragraphs of the Italian Civil Code, Art. 132 of Legislative Decree No. 58/98 of articles 73 and 144-bis and Appendix 3A, Schedule 4 of CONSOB Resolution No. 11971 of 14 May 1999 ('Issuer Regulations'), of Regulation (EU) 596/2014 and Delegated Regulation (EU) 2016/1052 and other current laws and regulations;
- authorised the appointment of the independent auditors PricewaterhouseCoopers S.p.A., also for a limited audit of the condensed half-yearly report, for the years 2019 to 2027 pursuant to Legislative Decree No. 39/2010 and to the European Regulation (EU) No. 537/2014.

Medium term loans in favour of the subsidiaries Esprinet Iberica and Vinzeo

In 2019, within a group plan aimed at leveraging on their own finance capabilities, Esprinet Iberica and Vinzeo signed seven unsecured 'amortising' term loans with duration from 3 to 5 years for a total of 47.0 million euro of which 34.0 million in favour of Esprinet Iberica and 13.0 million in favour of Vinzeo.

Waiver to exercise the option on minority interests of Celly S.p.A. and 5% increase in the relevant shareholding

In June 2019 the board of directors of Esprinet S.p.A. approved to waive the exercise of the European 'call option' on the 20% of the share capital of Celly S.p.A. by accepting as consideration a 5% share in Celly's equity.
This transfer was carried out on 13 September 2019.

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

Share buy-back programme

Under the starting share buy-back programme, which was resolved by the Shareholders' Meeting of Esprinet S.p.A. on 8 May 2019, the Company purchased a total of 1,145,008 ordinary shares of Esprinet S.p.A. between 1 July 2019 and 31 December 2019 (corresponding to 2.18% of total share capital) with an average purchase price of euro 3.36 per share, net of fees.

Taking into account the above-mentioned purchases, Esprinet S.p.A. held 2,295,008 own shares (equal to 4.38% of share capital) as at 31 December 2019.

Financial structure strengthening

On 30 September, Esprinet S.p.A. signed a 3-year unsecured RCF-Revolving Credit Facility with a pool of Italian and international banks for a total amount of 152.5 million euro. This transaction was closed after the full repayment of the previous pool loan, which was outstanding for 72.5 million euro, being undrawn the relative revolving credit line of 65.0 million euro.
This loan is supported by a set of financial covenants, which are ordinary for this kind of transaction:
- ratio of net financial indebtedness' to EBITDA;
- ratio of 'extended net financial indebtedness' to Equity;
- ratio of EBITDA to net financial expense;
- amount of 'gross net financial indebtedness'.

In addition, on 7 November 2019 the subsidiary Vinzeo Technologies S.A.U. was granted two 5-year loans with a total amount of 10.0 million euro from two Spanish banks.
As a result of the new pool loan and the medium-term loans granted or approved within the period for a total amount of 72.0 million, the Group financial structure was completed.

Deletion of Celly Nordic OY in liquidation from the Companies Register

On 31 October 2019, the company Celly Nordic OY, already in liquidation as at 30 September 2019 and wholly owned by Celly S.p.A., was deleted from the Finnish Companies Register.

Developments in legal disputes

With reference to the writ of summons served on 6 February 2019 from the long-standing supplier of the 'Sport Technology' products line, with respect to information disclosed in the Financial Statements at 31 December 2018, it should be highlighted that on 21 May 2019 the Liquidator of the above-mentioned supplier filed a preliminary application for a voluntary arrangement with creditors with the competent Court in accordance with Art. 6, paragraph 6 of the Italian Bankruptcy Law.
In relation to this procedure, it has become known that the original deadline granted for the filing of the final proposal for composition, the composition plan and the additional documentation required by Article 161 of the Italian Bankruptcy Law had been extended by the Court until 4 October 2019. Despite the constant checks carried out at the Companies' Register, it has not so far been possible to obtain any further information on this concordat procedure, which may also have been delayed as a result of the 'Covid-19' emergency.

Developments in tax disputes

The main events, occurred since 1 January 2019 to the date of this interim report, are as follows:

Esprinet S.p.A. has several tax disputes concerning indirect taxes claimed from the Company, with a total amount of 18.7 million euro, plus penalties and interest, with respect to transactions occurred between 2010 and 2013. Since several 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 2019 to the date of this interim report are as follows:

- on 12 February 2019 the Regional Tax Commission issued an adverse appeal judgement for the year 2011 (disputed tax amounts to € 1.0 million) against which the Company filed an appeal with the Supreme Court;
- on 13 February 2019 the Provincial Tax Commission issued an adverse first-instance judgement for the year 2013 (disputed tax amounts to 0.1 million euro) against which the Company filed an appeal with the Regional Tax Commission on 10 June 2019. The hearing was held on 29 January 2020 and the judgment is pending;
- On 1 April 2019 the Italian Revenue Office lodged an appeal with the Regional Tax Commission against the first instance judgement which related to 2012 (disputed tax amounts to 3.1 million euro) and was favourable to the Company;
- On 11 June 2019 (and again on 5 August 2019) the Company received full repayment of the sums it had paid pending judgement in the dispute relating to the year 2010 (disputed tax amount to 2.8 million euro) thanks to a favourable decision from the Regional Tax Commission of 23 March 2018, which became final since the Revenue Office did not appeal;
- On 11 November 2019, as provided for by the administrative procedure, the Company paid an advance of 6.2 million euro in relation to the litigation for 2013 (contested tax of 14.5 million euro). The first instance hearing, set for 25 March 2020, has been postponed to a later date due to measures for combating the Covid-19 epidemiological emergency.

On 18 March 2019, Esprinet was served a notice of appeal from the Italian Revenue Office against the Provincial Tax Commission's favourable first-instance judgement of 18 September 2018, relating to the adjustment and settlement notice that claimed higher registration fees for 182 thousand euro, relating to the 2016 acquisition agreement of a business unit from EDSlan S.p.A. (now I-Trading S.r.l.). On 17 May 2019 the Company filed its arguments. The Regional Tax Commission met on 22 January 2020 and is awaiting the ruling.

On 31 May 2019, Comprel S.r.l., a company controlled by Esprinet S.p.A. until July 2014 and in favour of which it granted guarantees at the time of transferring its shares, filed an application for facilitated settlement of the pending tax disputes (Art. 6 e 7 Law Decree No. 119/2018) with reference to assessment notices relating to Ires, Irap and VAT 2006 (disputed tax amounts to 0.1 million euro).

On 16 July 2019, Monclick S.r.l., a company controlled by Esprinet S.p.A. until February 2014 and in favour of which it granted guarantees at the time of transferring its shares, filed an appeal with the Supreme Court against the appeal judgement issued by the Regional Tax Commission, which overturned the first instance judgement related to challenged direct taxes for 2012 amounting to 0.1 million euro.

On 23 July 2019 an overall tax inspection was started against the Company relating to tax year for direct taxes, IRAP and VAT for 2016 with respect to Mosaico S.r.l., which was merged into Esprinet S.p.A. on 1 November 2018 followed by a tax audit report.
In consideration of the findings and of the small amounts involved, Mosaico S.r.l. filed a voluntary correction return and at the same time paid the small amount of 10 thousand euro.

Following the spread of Covid-19, as a result of the various measures issued by government bodies that provide for measures to curb the movement of persons and the performance of activities, including judicial activities, all hearings were suspended and postponed until a date to be set.

Subsequent events

Relevant events occurred after period end are briefly described below:

The health emergency caused by the spread of the coronavirus, qualified as a pandemic by the WHO-World Health Organisation, has led to a global economic crisis whose overall medium- to long-term effects are currently undergoing a complex assessment.

Globally, the effects of Covid-19 first appeared in China last January while Italy and Europe were caught up in the pandemic between the end of February and the first half of March. In China, production activities have gradually resumed while in Italy and Europe there is a strong slowdown due to the 'draconian' measures put in place to limit the movement of people and block production activities ordered by individual national governments in order to contain the spread of the epidemic.
This event, which occurred after the balance sheet date, does not imply an adjustment to the carrying amounts as at 31 December 2019 as required by IAS 10.
During the 'lockdown' period, the Esprinet Group continued to operate thanks to the activation of the necessary 'business continuity' controls and strict compliance with health protocols designed to preserve the health and safety of employees and collaborators, which made it possible to partially mitigate the effects of Covid-19.
The supply chain to which the Group belongs, that of the production, distribution and marketing of ICT in Italy and Spain, has not suffered any particular interruptions as a result of the restrictive measures.
The main criticality identified so far is the lack of supply of a number of products due to the reduction in the capacity of the suppliers most dependent on production plants located in areas such as China and South Korea, which have been strongly impacted by the restrictive measures adopted to contain the coronavirus. This situation is gradually being normalised and for the current month of April it is assumed that the factories can start working at full capacity.
For the second and third quarters, however, taking into account the rapid evolution of the situation and the persistence of blocking measures, it is expected that the health and social crisis will turn into an economic crisis capable of producing significant impacts on the Group's activities and economic and financial results.

What is foreshadowed is in fact the materialisation of effects, in part already underway, strongly interconnected, and triggered by the blocking measures for productive activities and restriction of individual intra-national and international movements, which are capable of triggering a perverse circle of (i) decreases in the demand for consumer goods and investments, (ii) interruption of logistic chains, (iii) reductions of the volumes of business activities, (iv) reductions of the employment levels (v) reductions of the available income, (vi) tensions in the liquidity on the part of companies.

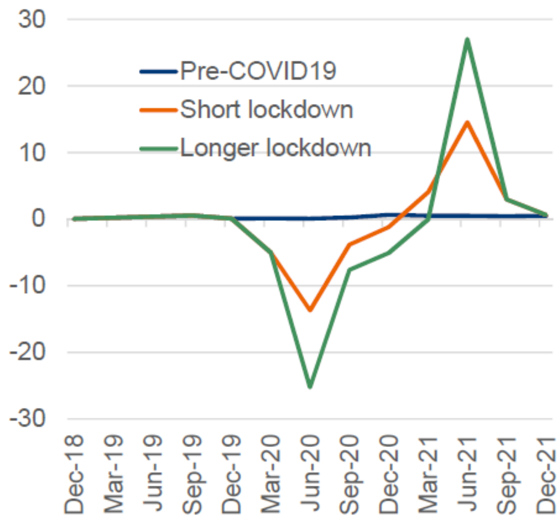
At present, based on the information available, the main working assumption used to estimate the effects of Covid-19 on the Group's balance sheet, income statement and financial position is to adopt a 'Baseline' scenario currently considered the most probable in terms of recovery time and foreseeable timeframes for economic activities.
This scenario is assumed to be similar for activities based in Italy and those based in Spain and materialises in the form of a strong recession in 2020, with a very significant contraction in GDP and a less than compensatory recovery in 2021.
In the scenario considered, the effects on the real economy are not expected to be passed on to the financial system and the banks as well, as it is believed that the increased capital strength of such institutions ensure that this can be avoided.

The overall methodological framework is based on the identification of future trends in the volumes of activity that will benefit from the negative effects expected in relation to Covid-19.
This simplifying choice is based on the lack of sufficient information and trends to enable estimations of the foreseeable dynamics in terms of product margins (in particular deriving from the shortage in several types of products expected for the months of April and May).
The forecasts made by different accredited sources for Italy and Spain (Unicredit, Intesa Sanpaolo, La Caixa, EY, Studio Ambrosetti, Cerved, Ufficio Studi Confindustria et al.) were analysed, which lead to estimates of a reduction in economic activity levels of approximately -10% in the most pessimistic cases.
Ultimately, the most recent information sources were preferred and the following GDP reduction rates for 2020 were estimated: Italy -10.7%, Spain -10.0%, Portugal -10.0%.

The GDP decrease rates used for Spain and Portugal are higher than that which may be inferred from the studies consulted, which indicate a value of -3.5% for both economies, but have also been conservatively aligned with Italian data for consistency with the scenario considered.
On average, these rates reflect a crisis scenario based on the following assumptions:
- a duration of the lockdown in Italy, Spain and Portugal until mid-May, with gradual release from June and partial normalisation in the third quarter;
- failure to reach 'threshold' break-up levels that could undermine the possibility of a timely recovery to pre-Covid activity levels, inducing persistent and structural effects;
- no major reduction of infections as a result of the relaxation of virus containment measures, i.e. during the winter period.

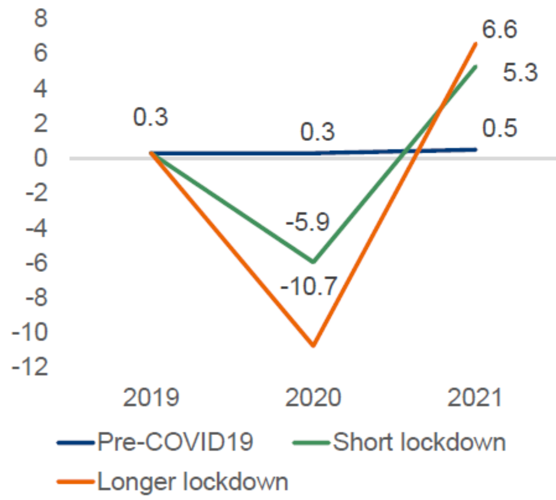
A partial recovery in growth rates is estimated for 2021 as follows: Italy +6.6%, Spain +6.0%, Portugal +6.0%, therefore with only a partial recovery of activity volumes compared to 2020.
The following graphs summarise the most recent GDP estimates for Italy, Spain and Portugal:

GDP, % change y/y, quarterly data



Source: ISP calculations and forecasts

GDP, % change y/y, annual data



Source: ISP calculations and forecasts

Growth forecasts (%)	2019	2020		2021	
		current	*pre-shock*	current	*pre-shock*
World economy	**2,9**	**-0,4**	*3,2*	**5,6**	*3,4*
Advanced economies	**1,7**	**-2,0**	*1,5*	**3,5**	*1,6*
US	**2,3**	**-1,7**	*1,8*	**3,4**	*1,8*
Euro area	**1,2**	**-3,1**	*1,1*	**4,4**	*1,3*
Germany	0,6	-3,1	*0,7*	4,1	*1,5*
France	1,2	-2,7	*1,4*	4,5	*1,5*
Italy	0,2	-4,6	*0,5*	5,0	*0,7*
Spain	2,0	-3,6	*1,5*	5,7	*1,5*
Portugal	2,2	-3,4	*1,7*	5,9	*1,6*
Emerging & developing economies	**3,8**	**0,5**	*4,4*	**6,6**	*4,5*
China	**6,1**	**2,5**	*5,5*	**11,0**	*5,7*

Source: CaixaBank Research.

Due to a lack of reliable data, it has not been possible to use any tool for the transition from the expected general economic performance to the expected dynamics of the ICT sector. In fact, although it is possible to infer for the ICT sector a progressive 'inelasticisation' of demand in relation to the

increasingly 'mission critical' role of IT in companies, the processes of progressive digitisation of households and several economic drivers of demand (PCs and printers for smart-working, software for data security, Cloud services, collaboration platforms), these drivers have been considered as 'upside' scenarios.
For the years from 2022 onwards, trend forecasts by post-Covid-19 product category have been maintained, i.e. without taking into account particular residual impacts and even assuming a resumption of the growth trajectory envisaged in the Forecast Plans.
The impacts on the supply side are mainly attributable to supply chain shocks both in terms of supplies, particularly from the Far-East, and domestic logistics chains in Italy and Spain.
ICT suppliers depend to a large extent on China for their production. As the latter is known to be the first country to recover from the health emergency, it has been estimated - also on the basis of information coming directly from vendors - that the consequences on the supply side will be discounted in the GDP decline forecasts.

Share buy-back programme

To complete the starting share buy-back programme approved by the Shareholders' Meeting of Esprinet S.p.A. on 8 May 2019, the Company purchased a total of 325,209 ordinary shares of Esprinet S.p.A. between 1 January 2020 and 24 February 2020. (corresponding to 0.62% of total share capital) with an average purchase price of euro 5.09 per share, net of fees.

Following these purchases, Esprinet S.p.A. owns 2,620,217 own shares (or 5% of share capital) as of the date of this report.

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.

Business Outlook

The business outlook for 2020 is strongly conditioned by the effects of the current health emergency due to the spread of coronavirus globally and in the countries where the Group operates, as explained in the 'Subsequent events' and 'Business continuity' sections.
These effects will depend on the duration, intensity and effectiveness of the containment and, conversely, the extent of the expected recession and the effectiveness of the anti-crisis policies promoted in the different countries as well as within the Community.
Although the health emergency is not considered an event such as to jeopardise the continuity of the Esprinet Group's operations, also taking into account the fact that during the 'lockdown' period the Group continued to operate due to the peculiar nature of the activities carried out, and the fact that the ICT supply chain did not suffer drastic interruptions, nevertheless, in the coming months a crisis with partially unpredictable implications will have to be faced, amounting to a unique and unprecedented situation.

What can reasonably be expected, also taking into account the rapid evolution of the phenomenon and the persistence of blocking measures, is that the health and social crisis will turn into an economic crisis of such magnitude as to produce potentially unfavourable effects on the Group's economic and financial results.
It is believed, in fact, that the combined shock of supply and demand may lead to a drop in turnover in the Group's reference markets, triggered by the negative interaction of the decline in demand for consumer goods and investments, the 'disruption' in logistics chains, the reduction in business volumes, the reduction in employment levels and disposable income and, finally, tensions in liquidity on the part of companies due to a deterioration in the creditworthiness of customers.
The magnitude of these effects on the economy also depends, firstly, on the timing of the containment of contagion and the related relaxation of social distancing measures and the freezing of business

activities, and secondly, on the effectiveness of measures to support businesses and households adopted by national governments and supranational bodies (EU, ECB, EIB), which are also likely to have a negative impact on the already high levels of public debt in many countries (including Italy and, to a lesser extent, Spain).

For the current year, it is expected that the health emergency may cause a collapse in the growth rates of the economies in both Italy and Spain and that this trend will result in a reduction in the Group's business volumes.
In this context, a series of actions aimed at containing the impact of Covid-19 have been anticipated and activated:

- a number of cost containment measures have been taken, in particular for fixed and semi-fixed costs (leases, transport, overheads);
- a number of measures have been taken to optimise working capital management, in particular by requesting additional payment extensions from major suppliers;
- it was decided not to propose any distribution of 2020 dividends at the shareholders' meeting and the buy-back plan approved on 8 May 2019 was revoked;
- several actions have been taken to strengthen the financial structure, in particular through the use of the pool Revolving Line for 152.5 million euro.

In a situation characterised by strong uncertainties about the negative effects of the pandemic and the timeframes and methods of resolving the crisis, it is very difficult to provide reliable forecasts of the Group's future performance.
However, on the basis of the simulations conducted and without taking into account the results of cost rationalisation actions aimed in particular at reducing the effect of operating leverage, it is possible to forecast a reduction in operating profitability compared to that which could have been assumed before the outbreak of the pandemic, due to expectations of revenue growth in the next two quarters which are lower than the annual trend, which can be summarised as a reduction in consolidated EBIT in a range that could go as far as -40% of the internal budget.
On the other hand, as regards the effects on the balance sheet and financial position, it is considered that, at the present time, there is not sufficient information, in particular with regard to the possible deterioration in the solvency of customers, to allow for a reliable estimate.

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 rationalisation 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 to 31 December 2018, the number of employees of Esprinet S.p.A. at the end of 2019 increased by 12 (from 742 to 754), due to the filling of vacancies that were open on 31/12/2018 and filled at the beginning of 2019 and to investment in new business areas with the opening of new brands during the year.

The average number of employees for Esprinet S.p.A. as at 31/12/2019 increased by 37 compared to the previous year, increasing to 748 from 711. This increase is due, on the one hand, to the fact that in 2018 the companies Edslan and Mosaico were merged by incorporation into Esprinet Spa and, on the other, to the increase in the number of employees described above.

No significant changes occurred in the number of employees at Celly (Celly S.p.A. and Celly Pacific Limited).

In addition, as from 20/03/2019 the company 4Side S.r.l. also became part of Subgroup Italy, which as at 31/12/2019 had 13 employees.

With regard to the Esprinet Iberica Group, there was an increase of 27 employees compared to the previous year, due to the increase of 10 employees in the company Esprinet Iberica S.L.U. (net of the transfer of 19 employees from V-Valley Iberian S.L.U. to the latter), the increase of 13 employees in Vinzeo Technologies S.A.U. and 4 in Esprinet Portugal Lda.

The increase in the workforce is due in part to the replacement of staff who resigned at the end of 2018, which was completed at the beginning of 2019, and in part to the growth in the number of employees in the Front Office and Logistics area. As far as the Front Office is concerned, the most accentuated increases are recorded:

- in the Consumer and Small Medium Business areas, for the management of promotional services, the strengthening of e-commerce and the commercial supervision of customers.
- in the Advanced Value Solutions area, to strengthen the technical support areas for sales and the opening of new brands during the year.

In the Logistics area, there was an increase of 7 employees compared to 31 December 2018, mainly due to the management of higher volumes of activity, typical of the last quarter of the year, and to the replacement of staff temporarily absent.

The average number of employees for the total number of companies in the Iberian Peninsula as at 31/12/2019 increased by 32 compared to 31/12/2018, in line with the number of employees as at 31 December and due to the increase in the number of resources employed.

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]
			31/12/2019		
Esprinet S.p.A.	18	736	-	**754**	**748**
V-Valley S.r.l.	-	-	-	**-**	**-**
Celly [2]	-	51	-	**51**	**50**
Nilox Deutschland Gmbh	-	1	-	**1**	**1**
4 Side S.r.l.	4	9		**13**	**7**
Subgroup Italy	**22**	**797**	**-**	**819**	**806**
Esprinet Iberica S.L.U.	-	254	87	**341**	**327**
Esprinet Portugal L.d.A.	-	12	-	**12**	**10**
Vinzeo Technologies S.A.U.	-	145	-	**145**	**138**
Tape S.L.U. [4]	-	-	-	**-**	**-**
V-Valley Iberian S.L.U.	-	-	-	**-**	**10**
Subgroup Iberica	**-**	**411**	**87**	**498**	**485**
Esprinet Group	**22**	**1,208**	**87**	**1,317**	**1,291**
			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**

[1] Average of the balance as at 31/12/2018 and as at 31/12/2019.
[2] Refers to the subgroup made up of Celly S.p.A. and Celly Pacific Limited.
[3] company 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 higher number of entries for Subgroup Italy, which mainly derive from the acquisition of the company 4Side (14 employees at the time of the acquisition) and the filling of vacancies that were open at the end of 2018 as indicated above.

As far as the companies of the Iberian Peninsula are concerned, there is an imbalance in favour of increases in the number of employees compared to decreases - for the reasons already indicated in the commentary on the previous table - with a proportional increase in the workforce for Esprinet Portugal, followed by Vinzeo Technologies and Esprinet Iberica.

	Headcount as at 31/12/2018	Increase	Decrease	Headcount as at 31/12/2019
Esprinet S.p.A.	742	95	83	754
Celly[(1)]	49	14	12	51
Nilox Deutschland GmbH	1	-	-	1
4Side S.r.l.[(2)]	-	15	2	13
V-Valley S.r.l.	-			-
Subgroup Italy	**792**	**124**	**97**	**819**
Esprinet Iberica S.L.U.	312	80	51	341
Vinzeo Technologies S.A.U.	132	55	42	145
V-Valley Iberian S.L.U. [(3)]	19	0	19	-
Esprinet Portugal Lda	8	5	1	12
Subgroup Spain	**471**	**140**	**113**	**498**
Total Group	**1,263**	**264**	**210**	**1,317**

[(1)] Refers to the subgroup made up of Celly S.p.A., Celly Nordic OY and Celly Pacific Limited.
[(1)] Of which increase of 14 linked to the acquisition of 4Side S.r.l.
[(3)] The company's personnel joined Esprinet Iberica S.L.U. during 2019.

With respect to gender distribution, the table below highlights a constant predominance of women employees in the Group: 54.7% as at 31 December 2019.
In line with last year, the percentage of women is almost unchanged in Subgroup Italy at approx. 51.4% (421 out of 819).

With reference to the Iberian Peninsula (Spain and Portugal) women still significantly outnumber men (300 out of 498, equal to 60.2%), remaining substantially stable compared to the figure recorded as at 31/12/2018 (60%).

At year end, the percentage of graduates out of the Group total was 36.6%; the percentage of high-school leavers was 53.4%.

	31/12/2019										
	Italy					Iberian Peninsula (Spain and Portugal)					
	Esprinet S.p.A.	V-Valley S.r.l.	Celly [(1)]	Nilox Gmbh	4Side 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	361	-	26	1	10	131	6	61	-	**596**	*45.3%*
Women	393	-	25	-	3	210	6	84	-	**721**	*54.7%*
Total	**754**	**-**	**51**	**1**	**13**	**341**	**12**	**145**	**-**	**1,317**	***100%***
Graduation	247	-	31	1	4	123	8	68		**482**	*36.6%*
High School Cert.	462	-	19		9	168	3	42		**703**	*53.4%*
Secondary School Cert	45	-	1			50	1	35		**132**	*10.0%*
Total	**754**	**-**	**51**	**1**	**13**	**341**	**12**	**145**	**-**	**1,317**	***100%***

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

Training

During 2019 the Group (Esprinet S.p.A., Celly S.p.A., Esprinet Iberica S.L.U., Vinzeo Technologies S.A., V-Valley Iberian S.L.U. and Esprinet Portugal L.d.A.) provided 21,909 hours of training, an increase compared to the previous year (19,423). Excluding directors and interns, the Esprinet Group provided 21,387 hours of training.

With regard to the Italian Group, in Esprinet S.p.A., Celly S.p.A. and 4Side S.r.l. a total of 14,886 hours of training were provided, with an important increase compared to last year (13,807.5 hours). Of these, 2,608.5 hours referred to privacy, health and safety at work and were pursuant to Legislative Decree No. 231.

An important focus was also placed on language training during 2019 - particularly for English and Spanish. In 2019, a total of 2,243.5 hours were provided. In particular, for the English language, about 1,500 hours of classroom time were provided in small groups during which 61 participants were involved. In addition to weekly training sessions, business English workshops were held.

Internal training has also maintained its structure, based on the catalogue, with further revisions for an effective response to the training needs identified.

In particular, training dedicated to new recruits, aimed at colleagues in the company for less than 12 months, focused on initial organisational concepts and company tools and involved colleagues in the classroom for a total of 1,824 hours, a slight decrease (2,097) due to the suspension of several training courses due to the revision of the procedures covered by the session. There were 585 classroom attendances with more than 30 internal teachers.

The training designed for positions in the company of more than 12 months involved 1,197 people, involving a larger corporate number of staff than in 2018 (826), for a total of 8,034.5 hours, a growing trend (in 2018, 6,686 hours were provided).

In addition to the courses traditionally proposed for the development of soft skills or technical expertise, since January 2019, training has been provided on communication in the digital age and on the use of social networks for professional purposes. The course involved 136 people for a total of more than 1,000 classroom hours.

An important training element, to which more than 200 classroom hours were also dedicated, in 2019 was for the course dedicated to the Smart Working project - now part of the corporate culture and in continuous evolution - mainly aimed at colleagues who recently joined the company.

With reference to the Iberian peninsula, 7,022.5 training hours were delivered in 2019, a significant increase (1,407.5 hours) compared to last year.

Esprinet Iberica and Vinzeo contribute largely to the total training hours provided, with 4,906 hours and 1,927 hours respectively, through the preparation of an annual training plan divided into various areas of expertise.

Of the total, 590 hours were dedicated to compulsory training for the prevention of risks at work and we continue to invest in language training (particularly English and Italian), with 2,565 hours dedicated in 2019, involving 66 employees.

Esprinet Iberica has continued to invest in training plans dedicated to the health and safety of its workers as well as stress prevention, dedicating 1,350 hours of training to postural correction courses using the Pilates method, Mindfulness, use of defibrillators and safe operation of forklifts for warehouse personnel.

Thanks also to these initiatives, Esprinet Iberica has become part of the Red Aragonesa de Empresa Saludables network, established by the Autonomous Community of Aragon to recognise the qualification of Health Organisation for the 24 Aragonese companies that have distinguished themselves for their efforts in improving the health and well-being of their employees.

The remaining training activities concerned training related to the Microsoft Office application, in particular Excel, but also other software and business tools, with an investment of 1,251 hours of training, the development and improvement of soft skills, as well as specialist training related to the professional activities carried out in the company.

As in previous years, a significant part of the training was carried out thanks to funded training, so called Fundae.

Recruitment

In 2019, Italian recruiting activities continued to be intensive, with 137 searches for all structures of the Group's Italian companies, managed throughout 2019. Several of these are still ongoing in the year 2020 and others ended with recruitment in 2020. With regard to sales areas, onboarding of new resources continued with a preference for expert and higher-seniority profiles over junior roles.
During 2019, the activities of Employer Branding and the consolidation of relations with territorial universities continued: with Università Bocconi, Università Cattolica and the 24-hour Business School. In these meetings, representatives of structures such as Marketing, Channel Marketing and CSR, shared best practices adopted in the company with students.
Also in 2019 the Esprinet group invested more than 1000 hours in the 'alternanza scuola-lavoro' (dual education) project; in fact, it gave the opportunity to 14 young people, in their third and fourth years of high schools in the area, to do their internship in Esprinet, while 2 young people had the same experience in Celly. The students had the opportunity to experience the world of Esprinet and Celly and work with the Company's employees for a period of two weeks.
To support the development of the local economy, Esprinet also participated in the reciprocity internship between schools and businesses, promoted by the Milan Chamber of Commerce Monza Brianza Lodi and carried out by Formaper, with the aim of improving the skills of young people preparing for their professional future.
During 2019, collaboration continued with specialist research and recruiting companies for the search for senior professionals with specific skills.
As part of the professional development plans, the investment in internal roles continues, with the vertical and horizontal growth of a number of employees who changed roles and took on greater responsibilities during 2019.
Job Posting remains a valid system that favours internal mobility and facilitates job and cross-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.

As far as the Iberian Peninsula is concerned, recruitment activity in 2019 continued to be very intense, not only because of an increase in staff turnover, but also because of the need to introduce new roles, mainly for professionals with previous work experience and specific skills for highly specialised business areas, which was flanked by the effort to recruit staff to replace temporarily absent workers, rather than for covering peak workloads in the company's logistics area.
During 2019, 111 job role searches were carried out, several of which concluded with recruitment in 2020.
During 2019, activities continued to consolidate relationships with universities and business schools to find junior staff for internships or training contracts, welcoming 22 people on internships at the various company offices.
Also in 2019 Esprinet Iberica invested in the 'alternanza scuola-lavoro' (dual education) project with several students from Italy, who were able to complete a 2-week internship in the company.
In 2019, Esprinet Iberica participated in the Coach project with the Chamber of Commerce of Zaragoza and the Fundación EXIT dedicated to preventing early school leaving of young people in situations of social vulnerability and giving them the opportunity to learn about the professional opportunities they can access while continuing their studies. The 2019 edition was attended by 29 young people aged between 16 and 29 and 33 coaches from 13 companies in Zaragoza. The project lasted 2 months, during which 2 employees of Esprinet Iberica played the role of coach and mentor of a participant to guide and motivate him/her to continue his/her study path.
As in previous years, all the Spanish companies of the group continued to collaborate with Spanish Vocational Training Institutes so that students could carry out the compulsory internships provided for in their study plan, placing 29 students in different locations and company structures.

During 2019, collaboration continued with a number of specialist recruitment and selection companies, for the recruitment of senior roles, with specific skills, and with providers for additional junior roles and to manage warehouse personnel searches.

Organisation

2019 was an important year for the Italian Group, with a particular focus on customer satisfaction. The starting point was the launch of the TIBesprinet - Together is better project, which is a new approach to improve the customer experience. The first initiative linked to the project was the initiation of a survey, both for employees and customers.

At the end of the Internal Survey, several actions were implemented, aimed at tackling several of the issues that emerged:

- Organisation of the corporate kick-off, an institutional and fun experience that involved all employees of Esprinet Italia, coming from all the offices, and several representatives of the other companies of the Group.
- Activation of a pilot project to improve interdepartmental collaboration and communication.
- Launch of the Smart Working 2.0 pilot, which provides for the possibility of using smart working for a maximum of 2 days a week for all eligible roles, maintaining the meritocratic and seniority criteria. Also thanks to the 2.0 evolutions of 2019 mentioned above, Smart Working has witnessed an increasing popularity. From the date of confirmation of the project to 31.12.2019, 579 employees joined the initiative, 63% of whom were women. On average in 2019 there were 78 people in smart working every day, a strong increase compared to 2018 (54 people on average).
- Extension of starting and finishing hourly flexibility in order to improve the work-life balance.
- Creation of a multifunctional space within the company for lunches, breaks and informal meetings between colleagues and/or external visitors.
- Periodic meetings to update on the company's quarterly results managed by the Chief Executive Officer.

With regard to extraordinary transactions, on 19 March 2019, Esprinet, through a press release (issued pursuant to Consob Regulation No. 11971/99), stated that it had acquired 51% of the shares of 4Side Srl (a company formed by the historical management of the Italian branch of Activision Blizzard: Paolo Chisari - General Manager, Maurizio Pedroni - Sales Director, Piero Terragni - Operation Director and Stefano Mattioli - Finance Director) based in Legnano.

As far as the internal structure of Esprinet Italia is concerned, there have been two reorganisations of the commercial divisions of Country Italia with a view to optimising commercial processes:

- The structure dedicated to the Nilox brand, as a private label of Esprinet, has undergone a major reorganisation that has led to its inclusion within the largest commercial division dedicated to the world of Consumer Electronics.
- In April the new organisation of the division was launched, identifiable with V-Valley, which deals with the development of the market for technologically complex solutions. In order to continue the growth process, the marketing (brand management) and specialist sales functions (sales specialist and business development), originally merged into BUs dedicated to individual technologies, have been separated.
  A specialist marketing and sales department has therefore been created, each with a Marketing Unit or Sales Unit specialising in technology (Server & Storage, Networking & Security, Software & Cloud, etc.). The purpose of this organisational model is to focus teams not only by technology but also by function in order to create, each according to their role, a differential value for the supplier and the customer. For example, product marketing may devise new initiatives (or new markets) to enable suppliers to reach new customers or sell new products; specialist sales may develop a higher level of service for customers (in terms of sales support, pre-sales, demand generation).
  The organisation is completed by the third department, that of technical pre-sales and customer training.

As far as Subgroup Iberica is concerned, 2019 was also important for the focus on customer satisfaction. Following the line already initiated by the parent company in Italy, during the summer the TIBesprinet - Together is better project was launched, which implemented a new approach to improve the customer experience. The first initiative linked to the project was the initiation of a survey, both for customers and employees.

In relation to the suggestions already received by the company from employees directly and through company trade union representatives, various actions have been implemented to improve certain aspects:

- Launch of the Smart Working 2.0 pilot project which provides for the extension of the possibility of using smart working to a maximum of 80 hours per quarter (compared to 40 hours per quarter since the previous year) for all relevant roles depending on the type of work carried out, the autonomy and meritocracy of the individual and a minimum seniority in the role of one year. Smart Working 2.0 was very successful in this launch phase and it was decided to extend it for the first quarter of 2020 in order to be able to subsequently evaluate any changes and/or extensions.
- Launch of a pilot project to further extend inbound and outbound hourly flexibility in order to improve the work-life balance.
- Quarterly update meetings on the business results managed by the Chief Executive Officer.
- Launch of a Survey in December 2019 with the aim of receiving feedback on the initiatives undertaken and new suggestions for improvement to work on during 2020.

As far as the Iberian Peninsula is concerned, several organisational changes were also made during 2019 with the aim of adapting the corporate structure to the most significant business needs:

- The transfer of all V-Valley Iberian employees to Esprinet Iberica, in the new **Enterprise Security** division, dedicated to the development of the cyber-security business.
- The creation of a new division, **Cloud & EaaS** (Everything as a Service), focused on the development of new proposals for our business partners, through a cross-cutting organisational model that works with all the Group's business units, with the aim of offering Cloud services and pay-per-use models of technological infrastructure.
- The reorganisation of the structure dedicated to the Nilox brand, which, similar to events in Italy, has been included within the wider commercial organisation of the company.
- The strengthening of the presence in Portugal, with new additions for the commercial structure dedicated to Small Medium Business and Advanced Value Solutions customers and with the opening of a warehouse near Lisbon, thanks to the agreement with an important Logistic Service Provider.

Development and 'compensation'

In 2019 the performance management process continued to represent an important moment of reflection and sharing for the Group, in which each manager was called upon to assess the performance of his or her team for 2018 and to identify the specific training needs on which to work with the HR department to define courses and action plans based on the findings.

The calibration meetings, an opportunity for sharing with the HR management, were scheduled for the first half of 2019, of which there were 30; the project involved 615 employees of Esprinet S.p.A. and Celly S.p.A.

In Italy, as in the case of the Iberian Peninsula, a variable incentive process has been started for employees of commercial structures and managerial positions, as usual, both in relation to individual and corporate objectives, which will be finalised in March 2020, following the final approval of the 2019 results.

This year, unlike previous years, the entire plan was managed for Italy on a web platform, in line with the progressive digitalisation of the main HR processes.

In terms of compensation, in 2019 the variable staff incentive system for the Esprinet group was based on the assessment of performance measured through the achievement of both individual and corporate objectives.

Specifically, the corporate objective was linked to an improvement in Customer Satisfaction.

In addition, the Esprinet Group's remuneration policy has been implemented with interventions on both fixed and variable remuneration. This plan involved approximately 36% of the corporate workforce in Esprinet S.p.A. and Celly S.p.A. and approximately 13% in the Esprinet Iberica group (percentages calculated on the average number of employees for the year).

An 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

For Esprinet S.p.A., as part of the FOR-TE project, two agreements have been entered into pursuant to Art. 14 with which the private employer, in order to comply with the obligation under Law No. 68/99, may entrust a work order to type 'b' social cooperatives, i.e. cooperatives that carry out production and service activities dedicated to the employment integration of disadvantaged people, including people with disabilities.
These agreements signed with the Provinces of Milan and Monza e Brianza provide for the onboarding of 1 and 9 disabled people respectively, in Esprivillage di Cesano Boscone.

The onboarding carried out in the Province of Milan, in excess of the legal obligation, compensated for the resulting vacancy in the Province of Ravenna, while the 9 recruitments in the Province of Monza e Brianza reduced, as of May 2019, the total of the partial exemption, from 20 to 11 employees.

Conversely, there were no vacancies at Celly S.p.A. and 4Side S.r.l.

As regards the companies Esprinet Iberica and Vinzeo Technologies, which are the only affected by the regulations on the mandatory recruitment of disabled personnel, it should be noted that, for 2019, compliance with the employment objectives set out in the regulations is noted and that, as far as only Esprinet Iberica is concerned, the use of alternative institutions is continuing in the case of failure to employ personnel with disabilities, collaboration contracts being activated with two entities dedicated to the employment of people with disabilities, Stylepack S.L. and Ilunion.
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 to Vinzeo Technologies of the use of this alternative institute is currently being assessed.

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 gained 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 subsidiaries Esprinet Iberica S.L.U. and Vinzeo S.A.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 2019 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 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 aforementioned 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 Ecoasimelec 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 computerising the whole special waste production chain at national level.

Information according to Legislative Decree No. 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 No. 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

Risk management is a strategic tool for creating value. The activities of the Esprinet Group and Esprinet S.p.A. are in fact exposed to certain risk factors that may influence their economic, equity and financial situation.
Esprinet S.p.A. and the Esprinet Group identify, assess and manage risks in compliance with internationally recognised models and techniques.
Starting in 2009, the Group adopted an operational and organisational model for risk management and monitoring of adequacy over time (so-called 'ERM-Enterprise Risk Management') inspired by the methodology of the Committee of Sponsoring Organisations of the Treadway Commission (so-called 'CoSO'), which makes it possible to identify and manage risks in a uniform manner within Group companies. This is based on a methodological framework aimed at creating an effective risk management system capable of involving, at different levels, the actors in the internal control system who are assigned different roles of responsibility for 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:

- mapping and assessment of the main business risks ('risk assessment' and 'risk scoring');
- identification of 'risk management' priorities;

- identification of a 'risk strategy' (acceptance, optimisation, improvement or monitoring of control measures) for each risk mapped and its declination into operational action plans.

The final aim of the process described is to identify potential events that may affect the business activity and to keep the level of risk within the acceptable threshold defined by the administrative body in order to achieve the business objectives.
During 2019, the envisaged activity plan was adequately implemented, including an audit plan and a plan to strengthen controls on the risks considered to be priorities.
New procedures have been developed or existing procedures revised and new management methods have been introduced, supported by developments in the information system.
At the end of the year, there were no significant changes in risk exposure compared with the previous year.
With regard to 2020, the Group's activities will be mainly focused on monitoring existing risk control levels since the annual review of the main business risks has led to the substantial confirmation of the existing mapping. In light of the increase in the incidence of foreign currency purchases by the Group, adequate tools will also be identified and implemented to manage exchange rate risk of a transactional nature.
In addition, in light of the Group's growing sensitivity and expertise on 'ESG-Environmental, Social, Governance' issues and the increased perception of the severity of the non-compliance risks associated with them, a more detailed screening of 'non-financial' risks will be carried out in order to verify the completeness of the current mapping and, if necessary, review the current management methods.

Covid-19 emergency

The business outlook for 2020 could be affected by risks and uncertainties that depend on multiple external factors outside the Group's sphere of control.
This refers to the current health emergency due to the spread of the coronavirus and qualified as a pandemic by the World Health Organisation (WHO), and the impact of the resulting global economic crisis with overall effects that are expected to be enormous.
More detailed information on this emergency and the various actions taken by the Group in terms of assessment and protection of the Group's equity, economic and financial position is provided in the 'Subsequent events' and 'Business outlook' sections to which reference should be made.

In addition to the worsening global macroeconomic scenario and the high risk of deterioration in the credit profile of certain customer segments, the pandemic is causing a slowdown in business activity linked to restrictive measures on the movement of goods and persons issued by national and foreign authorities.
In order to deal with this situation, the Group has activated the Business Continuity plans necessary to maintain continuity through the extension of 'smart-working' to 100% of the company workforce not operating in warehouses. The measures for the protection and safeguarding of the health of workers indicated in the Company-Union protocol, with reference to employees operating in centralised logistics and 'Esprivillage' cash&carrys, have been promptly and adequately implemented.
The main control standards defined for the minimisation of biological risks from contagion are described below:

- general information on the precautions to be taken to prevent the spread of the virus;
- ways of entering the company for both employees and outsiders, in relation to temperature control and cases of access prohibition;
- access rules for external suppliers;
- continuous cleaning and sanitisation of environments and equipment;
- personal hygiene precautions;
- guidelines on Personal Protective Equipment (PPE);
- rules for the management of common spaces;
- corporate organisation (shifts, travel cancellation, etc.)

- management of any symptomatic people in the company.

The reorganisation of internal work habits through remote access for the majority of activities, and relapses of an emotional nature linked to the new method of working, are likely to produce drops in productivity that cannot be quantified at the moment.

Risks classification

The definition of the main business risks is based on the following macro-classification:

- strategic risks;
- operational risks;
- compliance risks;
- financial risks.

The following is a brief description of the main risks, 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 2019, the Italian and Spanish technology distribution markets rose +8% and +6% respectively compared with 2018, and the Esprinet Group outperformed the market with a market share of over 26%, confirming its leadership in Southern Europe (Context data).

However, it is not certain that the market will perform in line with analysts' expectations and, if these expectations are not realised, 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.

n principle, acquisition transactions present the risk that the expected synergies may not be activated, in whole or in part, or that the costs of integration, explicit and/or implicit, may be higher than 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 regulatory and cultural issues different from those met with so far by the Group.
These problems are attributable, in addition to the implementation of adequate organisational mechanisms for coordination between the acquired entities and the rest of the Group, to the need to align with standards and policies mainly in terms of internal control procedures, reporting, information management and data security.

Therefore, it is not possible to provide any guarantee regarding the Group's future ability to successfully complete further acquisitions, nor to be able to preserve the competitive positioning of any target acquisitions, nor to be able to replicate favourably its business model and proposal system.

Business continuity

These consolidated financial statements have been prepared on a going concern basis as there is a reasonable expectation that the Esprinet Group will continue to operate in the future (at least in the foreseeable future and in any case over a period of at least 12 months).
The Covid-19 health emergency, which is a significant event likely to have a significant impact on the Group's balance sheet, income statement and financial position, is not considered an event capable of jeopardising the Group's business continuity.
During the 'lockdown' period, characterised by the progressive closure ordered by government decrees in both Italy and Spain, the Esprinet Group continued to operate thanks to the activation of the necessary 'business continuity' controls and strict compliance with health protocols designed to preserve the health and safety of employees and collaborators.
The supply chain to which the Group belongs, that of the production, distribution and marketing of ICT in Italy and Spain, has also not been interrupted as a result of regulatory provisions.
The main criticality identified so far is the lack of supply of a number of products due to the reduction in the capacity of the suppliers most dependent on production plants located in areas such as China and South Korea, which have been strongly impacted by the restrictive measures adopted to contain the coronavirus. This situation is gradually being normalised and for the current month of April it is assumed that the factories can start working at full capacity.

The other main factors that have been considered are the following:

- the main exogenous risks to which the Group is exposed;
- changes in the general macroeconomic situation in the European market, particularly in Italy and Spain;
- changes in environmental and business conditions and competitive dynamics;
- changes in legislative and regulatory frameworks;
- the actual and potential outcomes of ongoing litigation;
- financial risks.

On the basis of the factors described above, it is believed that at present there are no elements of uncertainty as to the Group's going concern prospects.

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 customers, 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 aforementioned 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, as the share of revenues from the sale of own brand products (accessories, consumer products, micro-informatics under the Celly and Nilox brands) is reduced in relation to the total.
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 78% of the total amount (63% in 2018).

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 level 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.
The constant monitoring of product and customer margins and the search for the best mix within its portfolio of suppliers and customers are the main factors in mitigating this 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 several 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 several 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 several 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 several legal and tax disputes involving several 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, several 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).

Overall responsibility for setting up and supervising the Group's financial risk management system lies with the Board of Directors, as part of the more general Internal Control System, which is headed by the various organisational units that are functionally responsible for the operational management of individual types of risk.
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 customers 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 ageing 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 customers on sales with reference to Esprinet S.p.A. and to the Group respectively:

Entity	% top 10 customers
Esprinet S.p.A.	42%
Group	39%

The incidence of the top 10 customers on the Esprinet Group's sales is equal to approx. 39% (36% in 2018).

Liquidity risk

Liquidity risk, or funding risk, represents the risk that the Group may encounter difficulties in obtaining - under economic conditions - the funds necessary to meet its commitments under financial instruments.
The policy for the management of this risk is based on a criterion of the utmost prudence aimed at avoiding, in the event of unforeseen events, having to bear excessive burdens or even having its reputation in the market compromised.
Liquidity risk management hinges on cash-flow planning and also on the maintenance of consistent amounts of unused lines of credit in Italy, Spain and in Portugal 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 2019, the Group had unused credit lines of 459 million euro (384 million euro as at 31 December 2018), or approx. 85% (approx. 76% as at 31 December 2018) of the total of the existing credit lines.
The availability of unused credit lines did not create, with the exception of the Revolving line, 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 significantly covered both by several medium/long-term loans taken out with Italian and Spanish financial institutions and a pool Revolving Line with a residual duration of 33 months.
The latter constitutes one of the pillars of liquidity risk management and is subject to compliance with certain covenants, the violation of which gives the lending institutions the contractual right to request immediate repayment.

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.

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 2019, these purchases were mainly in US dollars and amounted to 5.8% of the Esprinet Group's total purchases (3.0% in 2018).
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. The Group does not have other financial assets and liabilities, nor in particular loans, denominated in foreign currency. It follows that the currency risk is limited to commercial operations, as described above.
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.
The bank lines available to the Esprinet Group have a cost largely based on interest rates indexed to the 'Europe Interbank Offered Rate' or Euribor. In almost all contracts, this parameter has a 'floor' of zero, as is now customary in the presence of persistently negative short-term rates along the yield curve, which partially mitigates the level of exposure to this risk.
The Group, as a result of analysis on the value 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). The instrument typically used is an 'IRS-Interest Rate Swap' of the 'plain vanilla' type, also and especially in light of its eligibility for cash flow hedge accounting.
Due to the early termination of the Term Loan and the related IRS - granted to the parent company Esprinet by a pool of banks and the obtaining in its place of a Revolving Credit Line and a plethora of medium-term loans on a bilateral basis mostly concentrated on the subsidiaries in Spain (Esprinet Iberica and Vinzeo) and largely at a fixed rate, both the degree of risk and the instruments that can be used are very limited. To date, the Group does not have any interest rate hedges in place.
In addition, the Group has a risk monitoring and control system capable of effectively and promptly promoting the revision of the interest rate risk management strategy as the characteristics of the capital structure change.

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 2,620,217 own ordinary shares, representing 5% of the share capital, of which 1,150,000 to service the Long-Term Incentive Plan for 2018-2020 3-year period as approved by the Esprinet AGM on 4 May 2018, 1,145,008 own ordinary shares, purchased between 1 July and 31 December 2019 at an average unit price of 3.36 euro net of commission and 325,209 own ordinary shares, purchased between 1 January and 24 February 2020 at an average unit price of 4.50 euro net of fees, in implementation of the resolution passed by the Shareholders' Meeting of Esprinet S.p.A. on 8 May 2019, which will subsequently be cancelled with the consequent proportional allocation of the rights incorporated by the same to the benefit of the remaining shares.

Thus, this programme represents an opportunity for the Company to award its shareholders extra compensation on top of dividend distribution.

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 the Group's entities 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 12/03/2010 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

Purchase of 51% share in 4Side S.r.l.

On 20 March 2019, Esprinet S.p.A. acquired 51% of the shares of 4Side S.r.l., a company whose purpose is the marketing and exclusive distribution in Italy for Activision Blizzard branded gaming products. This acquisition, which was recorded using the acquisition method, resulted in an overall 0.1 million euro goodwill, resulting from the difference between the amount paid (1.3 million euro) representing the fair value compared to the assets and liabilities of 4Side S.r.l. measured at fair value, as summarised in the table below:

(euro/000)	Fair value 4Side S.r.l. 20/03/2019
Fixed, intangible, financial assets and right of uses	529
Deferred income tax assets	2,709
Receivables and other non-current assets	2
Trade receivables	(1,698)
Other current assets	791
Cash and cash equivalents	3,209
Long-term lease liabilities	(317)
Retirement benefit obligations	(519)
Trade payables	(535)
Short-term lease liabilities	(102)
Other current liabilities	(1,664)
Net assets fair value	**2,405**
Interest of minority shareholders: 49%	(1,178)
Net assets fair value relating to Esprinet S.p.A. shareholders	**1,227**
Goodwill	121
Cash paid	**1,348**

Esprinet S.p.A. and the minority shareholders of 4Side S.r.l. have signed an option to purchase the remaining 49% of the shares of 4Side S.r.l. from Esprinet S.p.A. exercisable towards these minority shareholders in a period between the 4th and 6th year following the date of the transaction.
The acquisition contract provides for customary seller guarantees for this kind of transactions relating to any future liabilities arising from events preceding, but not known at, the transaction date.

Fair value of receivables, which are all short-term in nature, represents the expected recoverable value from the customers and is net of a 1.7 million euro bad debt provision.
Transaction costs, which are not material, were entered in the income statement under overheads & administrative costs and are included in the cash flow provided by operating activities in the cash flow statement.

The net cash flow from the acquisition was equal to +1.4 million euro, as shown in the following table:

(euro/000)	4Side S.r.l. 20/03/2019
Cash and cash equivalents	3,209
Lease liabilities	(419)
Net financial debts acquired	**2,790**
Cash paid	(1,348)
Net cash outflow on acquisition	**1,442**

Finally, it should be noted that 4Side S.r.l., from the date of purchase of the shares by Esprinet S.p.A., has contributed 15.6 million euro to consolidated sales and a profit of 0.5 million euro to the net profit

of the Esprinet Group. If the acquisition had taken place at the beginning of the year, the contribution from 4Side S.r.l. is estimated to have been almost equal both in terms of sales and net profit.
Finally, it should be noted that the net profit realised by 4Side S.r.l. is only 51% attributable to the shareholders of the parent company Esprinet S.p.A.

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 Management Organisational Model pursuant to Legislative Decree No. 231/01;
- the System Security Planning Paper (SSPP) pursuant to Legislative Decree No. 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 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 et seq. of Presidential Decree No. 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 2019 for the 3-year period 2019-2021.
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-year 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 31/12/18 or at appointment date	No. of shares purchased	No. of shares sold	Decrease for office termination	No. Of shares at 31/12/19 or at termination date
Maurizio Rota (2)	Chairman	2,741,378	-	-	-	2,741,378
Alessandro Cattani	Chief Executive Officer	677,527	-	-	-	677,527
Valerio Casari	Director	56,000	-	-	-	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	-	-	-	-	-
Total Board of Directors		**5,194,412**	**-**	**-**	**-**	**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 No. 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, noting 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 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 several themes, the relevant sections in which the requirements applicable to the Group are met are shown below:

1. Going concern information, '*Notes to the consolidated financial statements*' - '*Accounting principles and valuation criteria*' section;
2. Information on financial risks, '*Directors' Report on Operations*' - '*Main risks and uncertainties*' section - and '*Notes to the consolidated financial statements*' - '*Disclosure on risks and financial instruments*' section;

3. Information on impairment testing of assets (so-called Impairment test), '*Notes to the consolidated financial statements*' – '*Goodwill*' section, item;
4. Disclosure about uncertainties when using estimates, '*Notes to the consolidated financial statements*' - '*Main accounting estimates*' section;
5. Disclosure on financial liabilities type clauses, '*Notes to the consolidated financial statements*' - '*Loans and loan covenants*' section;
6. Disclosure concerning 'fair value hierarchy', '*Notes to the consolidated financial statements*' - '*Financial instruments pursuant to IFRS 9: classes of risk and fair value*' section.

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 several 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.

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

10. Reconciliation of equity and Group result and corresponding values of the 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	
	31/12/19	**31/12/18**	**31/12/19**	**31/12/18**
Esprinet S.p.A. separate financial statements	**4,604**	**(1,030)**	**295,412**	**300,013**
<u>Consolidation adjustments:</u>				
Net equity and result for the year of consolidated companies net of minority interests	16,214	15,055	143,414	124,700
Esprinet S.p.A. 's investments in consolidated subsidiaries carryng amount	-	-	(88,013)	(86,086)
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
Goodwill from 4Side srl business combination	-	-	121	-
Deletion of non-realised (profit)/loss on inventory, net of fiscal effect	118	(98)	(314)	(432)
Subsidiaries's risk provision deletion	743	-	743	-
Investments in subsidiaries write-down deletion	1,600	-	1,600	-
Option on Celly shares	274	231	-	(1,356)
Other movements	-	-	867	867
Consolidated net equity	**23,553**	**14,158**	**359,022**	**342,898**

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

The company, in accordance with the provisions of Article 5, paragraph 3, letter b, of Legislative Decree No. 254/2016, prepared the consolidated disclosure of non-financial information, which represents a separate statement. The 2019 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 provided for by Legislative Decree No. 196/2003, integrated by Legislative Decree No. 5/2012 (decree on simplification) - continues to be prepared and applied by the companies of the Group localised in Italy.

Proposal of approval of the Financial Statement and allocation of the net results for 2019

To our Shareholders,
After presenting the separate financial statements of Esprinet S.p.A. and the Group consolidated financial statements as at 31 December 2019, 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 Annual Report, as well as to our Report on Operations and the Notes to the financial statements, we propose to allocate the net profit of 4,603,878.26 euro;

- entirely to increase the Extraordinary Reserve.

Note that the company needs not set aside amounts to the legal reserve having reached 20% of the Share Capital.

Vimercate, 15 April 2020

Of behalf of the Board of Directors
The Chairman
Maurizio Rota.

2019 Consolidated Financial Statements of the Esprinet Group

CONTENTS of the 2019 Consolidated Financial Statements of the Esprinet Group

ESPRINET GROUP

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	31/12/2019	related parties*	31/12/2018	related parties*
ASSETS					
Non-current assets					
Property, plant and equipment	1	11,824		13,327	
Right-of-use assets	4	107,310		-	
Goodwill	2	90,716		90,595	
Intangible assets	3	480		724	
Deferred income tax assets	6	13,469		11,884	
Receivables and other non-current assets	9	3,177	-	3,392	1,554
		226,976	-	**119,922**	1,554
Current assets					
Inventory	10	497,220		494,444	
Trade receivables	11	470,999	1	383,865	-
Income tax assets	12	1,514		3,421	
Other assets	13	40,956	-	29,610	1,310
Derivative financial assets	14	-		3	
Cash and cash equivalents	17	463,777		381,308	
		1,474,466	1	**1,292,651**	1,310
Total assets		**1,701,442**	1	**1,412,573**	2,864
EQUITY					
Share capital	19	7,861		7,861	
Reserves	20	325,554		319,831	
Group net income	21	23,099		14,031	
Group net equity		**356,514**		**341,723**	
Non-controlling interests		2,508		1,175	
Total equity		**359,022**		**342,898**	
LIABILITIES					
Non-current liabilities					
Borrowings	22	61,045		12,804	
Lease liabilities	31	100,212		-	
Deferred income tax liabilities	24	9,712		8,138	
Retirement benefit obligations	25	4,669		4,397	
Provisions and other liabilities	26	2,498		1,889	
		178,136		**27,228**	
Current liabilities					
Trade payables	27	1,089,246	-	867,866	-
Short-term financial liabilities	28	35,862		138,311	
Lease liabilities	36	8,597		-	
Income tax liabilities	29	27		103	
Derivative financial liabilities	30	-		613	
Debts for investments in subsidiaries	51	-		1,082	
Provisions and other liabilities	32	30,552	-	34,472	1,567
		1,164,284	-	**1,042,447**	1,567
Total liabilities		**1,342,420**	-	**1,069,675**	1,567
Total equity and liabilities		**1,701,442**	-	**1,412,573**	1,567

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

Consolidated income statement

These are drawn up according to IFRS requirements and expenses are classified by 'function'. They also include the information required pursuant to Consob Resolution No. 15519 of 27 July 2006:

(euro/000)	Notes	2019	non - recurring	related parties*	2018	non - recurring	related parties*
Sales from contracts with customers	33	**3,945,371**	-	8	**3,571,190**	-	11
Cost of sales		(3,770,027)	-	-	(3,408,918)	(8,417)	-
Gross profit	35	**175,344**	-		**162,272**	(8,417)	
Sales and marketing costs	37	(50,820)	-	-	(52,792)	-	-
Overheads and administrative costs	38	(83,086)	-	(14)	(76,287)	-	(4,889)
Impairment loss/reversal of financial assets	39	(370)	-		(9,473)	(8,823)	
Operating income (EBIT)		**41,068**	-		**23,720**	(17,240)	
Finance costs - net	42	(9,411)	-	11	(4,541)	-	4
Profit before income taxes		**31,657**	-		**19,179**	(17,240)	
Income tax expenses	45	(8,104)	-	-	(5,021)	4,401	-
Net income		**23,553**	-		**14,158**	(12,839)	
- of which attributable to non-controlling interests		454			127		
- of which attributable to Group		23,099	-		14,031	(12,839)	
Earnings per share - basic (euro)	46	0.46			0.27		
Earnings per share - diluted (euro)	46	0.45			0.27		

* Emoluments to key managers excluded.

Consolidated statement of comprehensive income

(€/000)	2019	2018
Net income (A)	**23,553**	**14,158**
Other comprehensive income:		
- Changes in 'cash flow hedge' equity reserve	500	75
- Taxes on changes in 'cash flow hedge' equity reserve	(120)	(23)
- Changes in translation adjustment reserve	(2)	1
Other comprehensive income not be reclassified in the separate income statement:		
- Changes in 'TFR' equity reserve	(195)	185
- Taxes on changes in 'TFR' equity reserve	47	(51)
Other comprehensive income (B):	**230**	**187**
Total comprehensive income (C=A+B)	**23,783**	**14,345**
- of which attributable to Group	23,336	14,217
- of which attributable to non-controlling interests	447	128

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 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**
Currently active Share plans	-	645	-	-	**645**	-	**645**
FTA for new IFRS standard application	-	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**
							-
Balance at 31 December 2018	**7,861**	**325,679**	**(4,800)**	**14,158**	**342,898**	**1,175**	**341,723**
Total comprehensive income/(loss)	**-**	**230**	**-**	**23,553**	**23,783**	**447**	**23,336**
Allocation of last year net income/(loss)	-	14,158	-	(14,158)	**-**	-	**-**
Increase in reserve from 4Side acquisition	-	1,180	-	-	**1,180**	1,180	**-**
Dividend payment	-	(6,919)	-	-	**(6,919)**	-	**(6,919)**
20% Celly Call Option deletion	-	1,082	-	-	**1,082**	-	**1,082**
Celly Group step up acquisition	-	(475)	-	-	**(475)**	(310)	**(165)**
Purchases of own shares	-	-	(3,847)	-	**(3,847)**	-	**(3,847)**
Transactions with owners	**-**	**9,026**	**(3,847)**	**(14,158)**	**(8,979)**	**870**	**(9,849)**
Grant of share under share plans	-	1,251	-	-	**1,251**	-	**1,251**
Other variations	-	69	-	-	**69**	16	**53**
Balance at 31 December 2019	**7,861**	**336,255**	**(8,647)**	**23,553**	**359,022**	**2,508**	**356,514**

Consolidated statement of cash flows[1]

(euro/000)	2019	2018
Cash flow provided by (used in) operating activities (D=A+B+C)	**159,869**	**127,577**
Cash flow generated from operations (A)	**57,080**	**37,438**
Operating income (EBIT)	41,068	23,720
Depreciation, amortisation and other fixed assets write-downs	14,662	4,691
Net changes in provisions for risks and charges	609	8,208
Net changes in retirement benefit obligations	(510)	(285)
Stock option/grant costs	1,251	1,104
Cash flow provided by (used in) changes in working capital (B)	**113,553**	**98,347**
Inventory	(2,776)	(12,893)
Trade receivables	(88,832)	(70,792)
Other current assets	(6,526)	(2,135)
Trade payables	221,128	177,429
Other current liabilities	(9,441)	6,738
Other cash flow provided by (used in) operating activities (C)	**(10,764)**	**(8,208)**
Interests paid, net	(6,059)	(2,338)
Foreign exchange (losses)/gains	(1,948)	(974)
Income taxes paid	(2,757)	(4,896)
Cash flow provided by (used in) investing activities (E)	**(2,938)**	**1,901**
Net investments in property, plant and equipment	(4,889)	(2,797)
Net investments in intangible assets	(302)	(241)
Changes in other non current assets and liabilities	805	4,939
4Side business combination	1,448	-
Cash flow provided by (used in) financing activities (F)	**(74,462)**	**(45,139)**
Medium/long term borrowing	72,000	-
Repayment/renegotiation of medium/long-term borrowings	(115,408)	(38,912)
Leasing liabilities remboursement	(6,115)	-
Net change in financial liabilities	(12,427)	13,176
Net change in financial assets and derivative instruments	(1,893)	(8,617)
Dividend payments	(6,919)	(6,987)
Own shares acquisition	(3,847)	(3,928)
Changes in third parties net equity	147	129
Net increase/(decrease) in cash and cash equivalents (G=D+E+F)	**82,469**	**84,339**
Cash and cash equivalents at year-beginning	**381,308**	**296,969**
Net increase/(decrease) in cash and cash equivalents	**82,469**	**84,339**
Cash and cash equivalents at year-end	**463,777**	**381,308**

[1] 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 the 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 27 July 2001.

With regard to the information required by Article 2427 22-quinquies of the Italian Civil Code, it should be noted that the consolidated financial statements in question represent the largest group of which Esprinet S.p.A. is a part.

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 2019 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 Legislative Decree No. 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 have been prepared on the basis of the accounts of the parent company and its direct and/or indirect subsidiaries or associated companies, as approved by their respective Boards of Directors[2].
Wherever necessary, the accounts of subsidiaries were suitably adjusted to ensure consistency with the accounting standards used by the parent company and all relate to financial years that have the same closing date as the parent company.

The table below lists companies included in the consolidation scope as at 31 December 2019, 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	85.00%	Esprinet S.p.A.	85.00%
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%
4Side S.r.l	Legnano (MI)	100,000	51.00%	Esprinet S.p.A.	51.00%
Subsidiaries indirectly controlled:					
Celly Pacific LTD	Honk Kong (China)	935	85.00%	Celly S.p.A.	100.00%
Esprinet Portugal Lda	Porto (Portugal)	1,000,000	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.

[2] With the exception of Celly Pacific LTD since they do not have this Body.

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-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 recognised assets and liabilities are recognised 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 sum of the consideration and non-controlling interests is less than the fair value of the net assets of the acquired subsidiary, the difference is recognised directly in the income statement.

In financial years up to and including 2009, business combinations were accounted for using the purchase method. 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 carried out in several stages were accounted for at separate times.

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 profit 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 amortisation or impairment are not permitted.
The income statement reflects the Group's share of the associate's result for the year. Profits and losses deriving from transactions between the Group and the associate are eliminated in proportion to the shareholding in the associate.

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 recognise 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. If this is the case, the Group calculates the amount of the loss as the difference between the recoverable value of the associated company and its carrying amount in its financial statements, recording this difference in the statement of profit (loss) for the year and classifying it in the "share of profit (loss) of associated companies".
It should be noted that as at 31 December 2019 there were no investments in associated companies.

Intercompany dividends

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

2.4 Changes to the Group's consolidation area

Compared to 31 December 2018, the company 4Side S.r.l., whose 51% of the share capital was acquired on 20 March 2019, is included in the scope of consolidation; the increase from 80% to 85%, on 13 September 2019, of the shareholding in the subsidiary Celly S.p.A. and the de-registering of the company Celly Nordic OY wholly owned by Celly S.p.A. and already in liquidation since June 2019.

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

2.5 Changes in accounting standards

No reclassification or changes in the critical accounting estimates regarding previous periods, pursuant to IAS 8, have been made in this Annual Report. Following the first-time application as of 1 January 2019 of the new international standard IFRS 16, as permitted, it was not necessary to retrospectively reflect the effects of these new provisions in the comparative data of the financial position statement as at 31 December 2018, the separate and comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement as at 31 December 2018. Application of the standard on 1 January 2019 resulted in the recognition by the Group of a 'right to use' the assets and a corresponding financial liability of approximately 114.9 million euro.

For further information, please refer to the section '2.8 Recently issued accounting standards'.

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 amortised 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 amortised within three years.
Goodwill and other intangible assets with indefinite useful lives are not amortised 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 book value 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 recognised 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	da 3% a 20%
Other specific plants	15%
Conditioning plants	da 3% a 14,3%
Telephone systems and equipment	da 10% a 20%
Communication and telesignal plants	25%
Industrial and commercial equipment	da 7.1% a 15%
Electronic office machines	da 20% a 25%
Furniture and fittings	da 10% a 25%
Other assets	da 10% a 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. Reversals of impairment losses may not exceed the book value that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised in previous 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 leases are recognised in accordance with IFRS 16, among fixed assets through the recognition of an asset representing the right of use of the underlying asset for the duration of the contract (Right of Use), recording a corresponding liability for future lease payments under 'Lease liabilities'.

Subsequent to initial recognition, the right of use is amortised in accordance with IAS 16, while the carrying amount of the lease liability increases due to the interest accrued in each period and decreases due to payments made.
Interest expenses on the lease liability and amortisation of the right to use the asset are recognised separately in the income statement. Future lease payments contractually due are discounted using the interest rate implicit in the relevant contract; where this is not easily and reliably determinable, the lessee's incremental borrowing rate is used.
The standard also requires that on the occurrence of specified events (for example, a change in the terms of the lease contract, a change in future lease payments resulting from a change in an index or rate used to determine such payments) the financial liability for the lease shall be remeasured with an adjustment for the right to use the asset.
The standard also establishes two exemptions for application in relation to assets considered to be of 'low value' and short-term leasing contracts whose revenues/costs are recognised on a straight-line basis in the income statement over the term 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 the carrying amount recorded in the financial statements with the greater of fair value net of disposal costs, when there is an active market, and the value in use of the asset. 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. Expected future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the cost of money in relation to the investment period and the risks specific to the asset. An impairment loss is recognised in the income statement when the carrying value of the asset, or of the related CGU to which it is allocated, is higher than its recoverable value. 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.

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 (non-current and current)

Financial assets are classified on the basis of the business model adopted by the Group in managing their cash flows and on the basis of the contractual characteristics of the cash flows obtainable from the asset. The business models identified are as follows:

- Hold to collect: In this category financial assets are classified for which the following requirements are met, (i) the asset is held under a business model whose objective is to hold the asset for the purpose of collecting contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented only by payments of principal and interest on the amount of principal to be returned.
  These assets fall within the category of assets measured at amortised cost. These are mainly trade and other receivables, as described in the 'Trade and other receivables' section. Receivables, with the exception of trade receivables that do not contain a significant financial component, are initially recognised in the financial statements at their fair value; when subsequently measured, they are measured at amortised cost using the effective interest rate.

Trade receivables that do not contain a significant financial component are instead recognised at the price defined for the related transaction (determined in accordance with IFRS 15 Revenue from Contracts with Customers). At subsequent measurement, assets in this category are measured at amortised cost, using the effective interest rate. The effects of this measurement are recognised among the financial components of income. These assets are also subject to the impairment model as defined in the 'Trade and other receivables' section.

- Hold to collect and sell: this category includes financial assets whose business model provides both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal. These assets fall under the category of assets measured at fair value with the effects attributed to OCI. In this case, changes in the fair value of the asset are recognised in equity as other components of comprehensive income. The cumulative amount of changes in fair value, recognised in the equity reserve which includes the other components of comprehensive income, is reversed to the income statement when the asset is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and impairments is recorded in the income statement. It should be noted that as at 31 December 2019 there were no financial assets recognised at fair value through OCI.
- Hold to sell: this category includes financial assets that are not classified in any of the above categories (i.e. residual category). These assets are recognised at fair value both at initial recognition and at subsequent measurement. Profits and losses arising from changes in fair value are recognised in the consolidated income statement in the period in which they are recognised. This category mainly includes receivables subject to mass and recurring selling.

See also the 'Trade and other receivables' section.

Purchases and disposals of financial assets are accounted for on the settlement date.

In the case of financial assets measured at fair value, if they are traded on an active market, the fair value is defined, at each reporting date, in terms of the quoted market price or 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.

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 accounted for using the amortised cost method. On initial recognition they are measured at fair value, except for trade receivables that do not include a

significant financial component as described in the 'Financial assets (non-current and current)' section.
The value of receivables is reduced, where impairment losses occur, to their realisable value.
Impairments are carried out on the basis of expected loss ('Expected Credit Loss model'). In particular, the same 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.
Transactions involving the assignment of receivables without recourse, for which substantially all risks and benefits are transferred to the assignee, result in the derecognition of receivables from the balance sheet, since the requirements of IFRS 9 are met.
On the other hand, transactions involving the assignment of receivables with recourse continue to be recorded as assets since not all risks and benefits have been transferred to the assignee.

The need to manage credit risk, working capital and, consequently, cash flow also requires the systematic execution of operations such as the assignment of such receivables to financial operators either definitively (without recourse) or temporarily (with recourse).
For the Esprinet Group, these transactions take the form of contractually agreed revolving factoring programmes to factoring companies or banks, and securitisation programmes for loans.
The receivables that are the subject of the aforementioned factoring programs are measured as defined in the Financial assets section at fair value through profit and loss'.
Impairments carried out in accordance with IFRS9 are recognised in the consolidated income statement and are represented under the '*Impairment loss/reversal of financial assets*' item.

Tax assets

Tax 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'.

Cash and cash equivalents

Cash and cash equivalents 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. Consequently 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 deducted from equity. In the case of any subsequent sale, the difference between the cost of own shares and the selling price is recognised 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 debt is stated at the amortised 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 carrying amount of the financial liability which is paid off or transferred to another party and the sum paid is reported in the income statement.

In the case of financial liabilities measured at fair value, if they are traded on an active market, the fair value is defined, at each reporting date, in terms of the quoted market price or 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 '*Financial income and charges*'.

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, resulted in 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.
Subsequently, they are recorded at amortised cost, which, since it is not considered necessary to carry out any discounting and separate entry in the income statement of the explicit or unbundled interest expense as it is not material in view of the expected payment time, coincides with the face value.

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.

Income statement

Revenues and expenses

On the basis of the five-stage model introduced by IFRS 15, the Group proceeds with the recognition of revenues after identifying the contracts with its customers and the related services to be satisfied (transfer of goods/services), determining the consideration to which it believes it is entitled in exchange for the satisfaction of each of these services, and evaluating the manner in which these services are satisfied (performance at a given time versus fulfilment over time).
Specifically, revenues are recognised only if the following requirements are met:

a) the parties to the contract have approved the contract and have undertaken to fulfil their respective obligations; there is therefore an agreement between the parties which creates rights and obligations due irrespective of the form in which such an agreement is expressed;
b) the Group may identify the rights of each party with respect to the goods or services to be transferred;
c) the Group can identify the terms of payment for the goods or services to be transferred;
d) the contract has commercial substance; and
e) it is likely that the Group will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When the above requirements are met, the Group recognises revenues as described below.

Revenues from sales are recognised when control of the goods subject to the transaction is transferred to the buyer or when the goods are delivered and the customer acquires the ability to decide on the use of the goods and to substantially reap all of the benefits.
Revenues are stated net of returns, discount, allowances and bonuses treated as variable components of the agreed consideration.
Revenues from the provision of services are recognised on completion of the service.

It should be noted that the payment times granted to the Group's customers do not exceed 12 months, therefore the Group does not record adjustments to the transaction price to consider components of a financial nature.

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	31.12.2019	Average 2019
Hong Kong Dollar (HKD)	8.75	8.77
US Dollar (USD)	1.12	1.12

Derivative instruments

Derivative instruments are accounted for in accordance with IFRS 9. At the date of execution they are initially recorded at fair value as 'fair value through profit and loss' financial assets when the fair value is positive or as 'fair value through profit and loss' financial liabilities when the fair value is negative.
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 subsequently reversed to the separate income statement when the economic effects of the hedged item manifest.
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, when it is reversed in the consolidated income statement.

If derivatives hedge the risk of changes in the fair value of assets and liabilities recorded in the balance sheet ('fair value hedge'), both changes in the fair value of the hedging instrument and changes in the hedged item are recognised in the consolidated income statement.

Variations of fair value derivatives that do not fulfil the requirements necessary to be defined as hedging instruments are stated in the 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 Main accounting estimates

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.
These specificities relate in particular to the conditions and procedures for the formation of the commercial margin for the part known as the 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 (so-called 'prompt payment discount' or 'cash discount').

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. 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 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 characterised by uncertainties. This means that different results - obviously neither estimable nor foreseeable, today – which might even cause significant adjustments to the carrying amounts 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, goodwill, rights of use and related lease liabilities.

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.

Right of use and financial liabilities for leasing

The initial recognition of a right of use and the related lease liabilities in relation to leasing contracts of assets depends on various elements of estimation relating, mainly, to the duration of the non-cancellable period of the contract, the interest rate implicit in the lease, the costs of dismantling/replacement/restoration of the asset at the end of the contract.

At the effective date the lessee shall measure the lease liability at the current value of lease payments due in the non-cancellable period.
The non-cancellable period is in turn dependent on assessments of the probability of the lessee exercising the renewal or interruption options and, if the right to early termination is also under the control of the lessor, in relation to the possible costs for that party too resulting from the interruption.

Payments due for the lease shall be discounted using the interest rate implicit in the lease if this can be easily determined. If this is not possible, the lessee must use their marginal borrowing rate.
The interest rate that causes the current value of the lease payments due and the unsecured residual value to be equal to the sum of the fair value of the underlying asset and any initial direct costs of the lessor.
The marginal borrowing rate is the interest rate that the lessee would have to pay for a loan, with a similar duration and with similar security, necessary to obtain a value similar to the right-of-use asset in a similar economic environment.

In order to determine the non-cancellable period of each contract, particularly with regard to real estate, the contractual terms were analysed and assumptions were made in relation to possible renewal periods connected with the location of the same, the possibility of moving to other areas, the costs associated with such transactions.
The leasing contracts in place do not show the implicit borrowing rate for which the marginal loan rate applicable to the Group has been determined, separately for clusters of contracts with a similar duration. In order to quantify the marginal lending rate, assessments were made in relation to the

spread applicable to the Group based on the Parent Company's rating, the free risk lending rates applicable in the countries where the Group operates, the guarantees from which these loans would be supported and the materiality with respect to the Group's level of debt.

The above assessments are based on assumptions and analyses that are by their nature complex and changeable over time, which could therefore lead to subsequent amendments, in the event of a change in the non-cancellable period of the contract, or to the quantification of different rates in subsequent periods for new contracts to which they apply.

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.
The so-called 'Discounted Cash Flow Model' (DCF) has been used for this purpose, 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 2020-2024E and beyond the period.

'Fair value' of derivatives

During the year it became 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'. Such contracts, settled by the closing date of these financial statements, have been accounted for using the hedge accounting technique.

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, insignificant effect of the credit risk of both counterparties in relation to the derivative value, constant hedge ratio over time) and as a consequence, the derivative contracts were subject to such 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

Property, plant and equipment 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 amortisation 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 expected degree of solvency of the other parties ('Expected Credit Loss model') taking into account available information, collateral to contain credit risk and considering accumulated historical experience.
For loans that are planned to be transferred to third parties as part of securitisation programmes or to be sold to factoring companies or banks, the fair value through profit and loss is measured.

The actual realisable 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 current economic and financial climate 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 and contingent liabilities

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. If a financial outlay becomes possible but the amount cannot be determined, this fact is disclosed in the notes to the financial statements.

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 standards adopted in the preparation of the consolidated financial statements as at 31 December 2019 are consistent with those used in the consolidated financial statements as at 31 December 2018, except for the accounting standards and amendments described below and obligatorily applied with effect from 1 January 2019 after being endorsed by the competent authorities.

The main changes are as follows:

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 and short-term leases. At the commencement date of a lease, a lessee recognises 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are 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 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 accounting under IAS 17. Lessors 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 to make more extensive disclosures than under IAS 17. IFRS 16 came into force for financial years beginning on or after 1 January 2019. A lessee may choose to apply the standard using either a full retrospective or a simplified retrospective approach. The latter option was chosen by the Group. Thus, it was not necessary to retrospectively reflect the effects of these new provisions in the comparative data of the statement of financial position as at 31 December 2018, the separate and comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement. Application of the standard on 1 January 2019 resulted in the recognition by the Group of a 'right to use' the assets and a corresponding financial liability of approximately 114.9 million euro. In particular, the Group with respect to leasing contracts previously classified as operating leases, accounted for a financial liability and a right-of-use equal to the discounted value of the residual future payments at the transition date.
Based on the analysis carried out, the identified contracts, where the Group acts as a lessee, refer mainly to the lease of office and operating buildings, to company vehicles and to industrial and commercial equipment and other assets.
In the adoption of IFRS 16, the Group benefited from the exemption granted by the standard with respect to the short-term leases for each class of assets. At the same time, the Group also benefited from the exemption referred to low value leases. Payments linked to those leases were booked as charges on a straight-line basis in the income statement. Low-value assets include IT appliances, small office supplies and warehouse equipment. Costs relating to low-value leases and short-term leases in 2019 totalled 0.2 million euro.

As permitted by the standard, the Group has not applied IFRS 16 to leases of intangible assets.

In addition, the above-mentioned standard required some professional judgement. In particular, the Group analysed the lease contracts with regards to the lease term, defining the 'non-cancellable' period for each of them, together with the effects of extension and early termination clauses whose exercise was deemed reasonably certain. Specifically, for real estate, this valuation considered the specific facts and circumstances of each activity. With regard to the other categories of assets, mainly company cars, the Group generally considered it unlikely that any extension or early termination clauses would be exercised in view of the Group's usual practice.

With respect to the discount rate, the Group adopted the expected marginal borrowing rate applicable to loans having a similar term and similar security which would be necessary to obtain a value similar to the right-of-use asset in a similar economic environment. The above-mentioned rate is between 2.5% and 3.3% as at 1 January 2019.

Lease liabilities as at 1 January 2019 can be reconciled with the commitments resulting from operating leases as at 31 December 2018 as follows:

(euro/000)	**1° January 2019 Esprinet Group**
Pledges for operation lease under IFRS 16 scope as at 31 December 2018	**96,327**
Non-discounted Liabilities for non - operational lease as at 1 January 2019	*47,074*
Discounting effects	(28,477)
Pledges for operational lease from the transition to IFRS 16 as at 1 January 2019	**114,924**

The effects on the balance sheet as at 1 January 2019 of the application of IFRS 16 are summarised in these financial statements in the subsequent notes.

The following table indicates the impacts from adoption of IFRS 16 on the consolidated financial statements as at 31 December 2019:

(euro/000)	31.12.2019 Published	31.12.2019 Pre-IFRS 16	IFRS 16 effects
ASSETS			
Non-current assets			
Property, plant and equipment	11,824	11,824	-
Right-of-use assets	107,310	-	107,310
Goodwill	90,716	90,716	-
Intangible assets	480	480	-
Deferred income tax assets	13,469	13,316	153
Receivables and other non-current assets	3,177	3,177	-
	226,976	**119,513**	**107,463**
Current assets			
Inventory	497,220	497,220	-
Trade receivables	470,999	470,999	-
Income tax assets	1,514	1,349	165
Other assets	40,956	41,105	(149)
Cash and cash equivalents	463,777	463,777	-
	1,474,466	**1,474,450**	**16**
Disposal groups assets	**-**	**-**	**-**
Total assets	**1,701,442**	**1,593,963**	**107,479**
EQUITY			
Share capital	7,861	7,861	-
Reserves	325,554	325,554	-
Group net income	23,099	24,374	(1,275)
Group net equity	**356,514**	**357,789**	**(1,275)**
Non-controlling interests	**2,508**	**2,516**	**(8)**
Total equity	**359,022**	**360,305**	**(1,283)**
LIABILITIES			
Non-current liabilities			
Borrowings	61,045	61,045	-
Lease liabilities	100,212	-	100,212
Deferred income tax liabilities	9,712	9,712	-
Retirement benefit obligations	4,669	4,669	-
Provisions and other liabilities	2,498	2,498	-
	178,136	**77,924**	**100,212**
Current liabilities			
Trade payables	1,089,246	1,089,293	(47)
Short-term financial liabilities	35,862	35,862	-
Lease liabilities	8,597	-	8,597
Income tax liabilities	27	27	-
Provisions and other liabilities	30,552	30,552	-
	1,164,284	**1,155,734**	**8,550**
Disposal groups liabilities	**-**	**-**	**-**
Total liabilities	**1,342,420**	**1,233,658**	**108,762**
Total equity and liabilities	**1,701,442**	**1,593,963**	**107,479**

(euro/000)	2019 Published	2019 Pre-IFRS 16	IFRS 16 effects
Sales from contracts with customers	**3,945,371**	**3,945,371**	**-**
Cost of sales	(3,770,027)	(3,770,027)	-
Gross Profit	**175,344**	**175,344**	**-**
Sales and marketing costs	(50,820)	(53,248)	2,428
Overheads and administrative costs	(83,086)	(82,597)	(489)
Impairment loss/reversal of financial assets	(370)	(370)	-
Operating income (EBIT)	**41,068**	**39,129**	**1,939**
Finance costs - net	(9,411)	(5,871)	(3,540)
Profit before income taxes	**31,657**	**33,258**	**(1,601)**
Income tax expenses	(8,104)	(8,422)	318
Net income	**23,553**	**24,836**	**(1,283)**

The breakdown of the effects of the application of IFRS 16 between '*Sales and marketing costs*' and '*Overheads and administrative costs*' is due to the different classification, given the representation by destination, of the lease payments of Cash & Carry within '*Sales and marketing costs*' and amortisation and depreciation within '*Overheads and administrative costs*'.

The new standard's adoption to the contracts identified therefore determined:

• in the statement of financial position: the initial recognition of an asset representative of the right of use pursuant to IFRS 16, which will then be depreciated over the residual contractual term and a financial liability equivalent to the present value of future minimum non-cancellable lease instalments which the lessee will have to pay as from 1 January 2019, which will subsequently be reduced as the lease payments are made, as well as a decrease in receivables and current assets following the reclassification of rentals paid in advance as rights of use and a decrease in trade payables following the reversal of the operating lease rentals;
• in the Income Statement: a worsening of the net profit due to the elimination of the rental charges replaced with the recognition of (i) the depreciation of the right-of-use assets and (ii) the financial expense on the recorded payable, as well as the related tax effects.
The estimate of the effects of first-time adoption of IFRS 16 takes into account any guidance provided by IFRIC in view of the first application of the standard in 2019 financial reports.

The application of the new standard for Esprinet from a lessor perspective has had no impact on the Group's financial statements.

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. The amendments, applicable from 1 January 2019, had no significant impacts, for the Group, on the consolidated Financial Statements as at 31 December 2019.

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 amendments, applicable from 1 January 2019, had no significant impacts, for the Group, on the consolidated Financial Statements as at 31 December 2019.

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. The amendments, applicable from 1 January 2019, had no significant impacts, for the Group, on the consolidated Financial Statements as at 31 December 2019.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement - published on 14 March 2019 and aims to clarify that in the event of changes to the defined contribution plan, companies are required to recalculate the cost of the service for the portion remaining after the plan is amended using actuarial assumptions that reflect the benefits offered by the plan and the plan's 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). The amendments, applicable from 1 January 2019, had no significant impacts, for the Group, on the consolidated Financial Statements as at 31 December 2019.

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*. The amendments, applicable from 1 January 2019, had no significant impacts, for the Group, on the consolidated Financial Statements as at 31 December 2019.

The following are the standards and interpretations issued but not yet in force and/or approved 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 by the Group

Amendment to the references of the Conceptual framework in the IFRS: issued in March 2018, the amendment was issued in order to update the references and citations of several IFRSs to recall the new version of the conceptual framework and no longer, with exceptions, the one approved in 2010.

Amendments to IAS 1 and IAS 2018 – in October 8, the IASB published several amendments to IAS 8 and IAS 1 that provide clarifications on the definition of 'materiality'. These amendments will apply from 1 January 2020.

Amendment to IFRS 9, IAS 39 and IFRS 7: In September 2019, the IASB published amendments relating to the reform of reference interest rates. The amendments to IFRS 9, IAS 39 and IFRS 7 aim to mitigate the effects of the interest rate reform (known as the IBOR reform) on financial reporting. The amendments should ensure that hedge accounting continues to exist or can be designated despite the uncertainties related to the expected replacement of different interest rates. These amendments will apply from 1 January 2020.

The Group will adopt these new standards, amendments and interpretations, based on the application date indicated; the potential impacts are not expected to be significant for the Group.

Standards issued but not yet endorsed by the European Union

IFRS 17 – Insurance Contracts - Issued in May 2017 by IASB, the new standard will replace IFRS 4 and will be effective from 1 January 2021.

Amendments to IFRS 3 – in October 2018, the IASB published some amendments to IFRS 3 that amend the definition of 'business'. These amendments will apply from 1 January 2020.

The Group will adopt these new standards, amendments and interpretations, based on the application date indicated, and will evaluate potential impact, when they are endorsed.

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 organisation by geographical segments is the main way of managing and analysing the Group's results by CODMs (Chief Operating Decision Makers), 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 set out below.

Separate income statement and other significant information by operating segments

(euro/000)	2019			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. It & CE B2B		
Sales to third parties	2,519,351	1,426,021	-	3,945,371
Intersegment sales	44,235	-	(44,235)	-
Sales from contracts with customers	**2,563,586**	**1,426,021**	**(44,235)**	**3,945,371**
Cost of sales	(2,440,707)	(1,373,694)	44,374	(3,770,027)
Gross profit	**122,879**	**52,327**	**139**	**175,344**
Gross Profit %	*4.79%*	*3.67%*		*4.44%*
Sales and marketing costs	(39,322)	(11,497)	(1)	(50,820)
Overheads and admin. costs	(62,546)	(20,581)	41	(83,086)
Impairment loss/reversal of financial assets	(234)	(136)	-	(370)
Operating income (Ebit)	**20,777**	**20,113**	**179**	**41,068**
EBIT %	*0.81%*	*1.41%*		*1.04%*
Finance costs - net				(9,411)
Profit before income tax				**31,657**
Income tax expenses				(8,104)
Net income				**23,553**
- of which attributable to non-controlling interests				454
- of which attributable to Group				23,099
Depreciation and amortisation	**10,963**	**3,129**	570	**14,662**
Other non-cash items	**3,880**	**91**	-	**3,971**
Investments	**2,398**	**454**	-	**2,852**
Total assets	**1,221,985**	**561,129**	(81,672)	**1,701,442**

(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)
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**

Statement of financial position by operating segments

(euro/000)	31/12/2019			
	Italy	Iberian Pen.		
	Distr. IT & CE B2B	Distr. IT & CE B2B	Elim. and other	Group
ASSETS				
Non-current assets				
Property, plant and equipment	9,167	2,657	-	11,824
Right-of-use assets	87,605	19,705	-	107,310
Goodwill	21,571	68,106	1,039	90,716
Intangible assets	332	148	-	480
Investments in others	75,853	-	(75,853)	-
Deferred income tax assets	7,736	5,611	122	13,469
Receivables and other non-current assets	2,875	302	-	3,177
	205,139	**96,529**	**(74,692)**	**226,976**
Current assets				
Inventory	343,841	153,785	(406)	497,220
Trade receivables	331,471	139,528	-	470,999
Income tax assets	1,417	97	-	1,514
Other assets	45,150	2,380	(6,574)	40,956
Cash and cash equivalents	294,967	168,810	-	463,777
	1,016,846	**464,600**	**(6,980)**	**1,474,466**
Total assets	**1,221,985**	**561,129**	**(81,672)**	**1,701,442**
EQUITY				
Share capital	7,861	54,693	(54,693)	7,861
Reserves	284,389	61,634	(20,469)	325,554
Group net income	8,290	14,705	104	23,099
Group net equity	**300,540**	**131,032**	**(75,058)**	**356,514**
Non-controlling interests	2,550	(3)	(39)	2,508
Total equity	**303,090**	**131,029**	**(75,097)**	**359,022**
LIABILITIES				
Non-current liabilities				
Borrowings	22,294	38,751	-	61,045
Lease liabilities	82,243	17,969	-	100,212
Deferred income tax liabilities	3,179	6,533	-	9,712
Retirement benefit obligations	4,669	-	-	4,669
Provisions and other liabilities	2,189	309	-	2,498
	114,574	**63,562**	**-**	**178,136**
Current liabilities				
Trade payables	755,566	333,680	-	1,089,246
Short-term financial liabilities	24,179	11,683	-	35,862
Lease liabilities	6,563	2,034	-	8,597
Income tax liabilities	23	4	-	27
Provisions and other liabilities	17,990	19,137	(6,575)	30,552
	804,321	**366,538**	**(6,575)**	**1,164,284**
Total liabilities	**918,895**	**430,100**	**(6,575)**	**1,342,420**
Total equity and liabilities	**1,221,985**	**561,129**	**(81,672)**	**1,701,442**

(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
Right-of-use assets	-	-	-	-
Goodwill	21,450	68,106	1,039	90,595
Intangible assets	656	68	-	724
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**
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
Lease liabilities	-	-	-	-
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
Lease liabilities	-	-	-	-
Income tax liabilities	100	3	-	103
Provisions and other liabilities	23,810	16,652	(5,990)	34,472
	688,287	**464,650**	**(110,490)**	**1,042,447**
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**

3.3 Other information

The Group's operating segments can be identified by the geographical markets where the Group operates: Italy and the Iberian Peninsula.
The '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, 4Side S.r.l. 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 '*Summary of significant valuation criteria*

and accounting policies'. 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 'Revenues' section 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 entity.

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	**31/12/2019**				**31/12/2018**			
(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**
Customer financial receivables	*969*		*969*		*1,420*		*1,420*	
Guarantee deposits	*2,208*		*2,208*		*1,972*		*1,972*	
Rec.and other non-curr. Assets	3,177		3,177	-	3,392		3,392	-
Non-current assets	**3,177**	**-**	**3,177**	**-**	**3,392**	**-**	**3,392**	**-**
Trade receivables	470,999	214,599	256,400		383,865	203,597	180,268	
Receivables from factors	*3,526*		*3,526*		*242*		*242*	
Customer financial receivables	*9,719*		*9,719*		*10,881*		*10,881*	
Other tax receivables	*11,126*		*-*	*11,126*	*7,192*			*7,192*
Receivables from suppliers	*10,244*		*10,244*		*5,752*		*5,752*	
Receivables from insurances	*414*		*414*		*673*		*673*	
Receivables from employees	*-*		*-*		*2*		*2*	
Receivables from others	*136*		*136*		*76*		*76*	
Pre-payments	*5,791*			*5,791*	*4,792*			*4,792*
Rec.and other Assets	40,956		24,039	16,917	29,610		17,626	11,984
Derivative financial assets	-	-			3	3		
Cash and cash equivalents	463,777		463,777		381,308		381,308	
Current assets	**975,732**	**214,599**	**744,216**	**16,917**	**794,786**	**203,600**	**579,202**	**11,984**

Liabilities	**31/12/2019**				**31/12/2018**			
(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	61,045		61,045		12,804		12,804	
Lease liabilities	100,212		100,212		-		-	
Provisions of pensions	*1,661*			*1,661*	*1,678*			*1,678*
Other provisions	*127*			*127*	*106*			*106*
Cash incentive liabilities	*710*		*710*		*105*		*105*	
Provis. And other non-curr. Liab.	2,498		710	1,788	1,889		105	1,784
Non-current liabilities	**163,755**	**-**	**161,967**	**1,788**	**14,693**	**-**	**12,909**	**1,784**
Trade payables	1,089,246		1,089,246		867,866		867,866	
Short-term financial liabilities	35,862		35,862		138,311		138,311	
Lease liabilities	8,597		8,597		-		-	
Derivative financial liabilities	-				613	613		
Debts for investments in subsidiar.	-				1,082	1,082		
Associates liabilities	*4,237*		*4,237*		*3,886*		*3,886*	
Social security liabilities	*11,148*			*11,148*	*15,881*			*15,881*
Other liabilities	*14,904*		*14,904*		*14,430*		*14,430*	
Payables to others	*250*		*250*		*267*		*267*	
Deferred income	*13*			*13*	*8*			*8*
Provisions and other liabilities	30,552	-	19,391	11,161	34,472	-	18,583	15,889
Current liabilities	**1,164,257**	**-**	**1,153,096**	**11,161**	**1,042,344**	**1,695**	**1,024,760**	**15,889**

[1] 'FVTPL': Fair Value Through Profit and Loss includes derivatives at 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 debt;
- lease 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.

The fair value of the assets and liabilities recorded in the financial statements at fair value, as specified in greater detail below, corresponds to a level 2 in the hierarchy with the exception of 'Debt for acquisition of investments' which, also deriving from estimates made by management, corresponds to level 3.

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.
Customer financial receivables are subject to the same type but at an even lower level of risk, since they are represented by receivables from the Italian Public Administration.

Trade receivables are subject to credit risk. They are the result of a structured process first of customer selection and credit recognition and then of credit monitoring. The risk is mitigated by recourse to traditional insurance contracts with leading international insurance companies, without-recourse factoring schemes and, for the remainder, through 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 the previous 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 would be 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 lease liabilities and debts for investments in subsidiaries, are subject to the risk that the Group will be unable to respect the payment commitments undertaken in a timely manner (liquidity risk).

Financial debt 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.

Payables for equity investments measured at fair value, which are subject to the same liquidity risk, are characterised by an intermediate level of risk compared to the two previous cases, given the obligations contractually assumed but also the type of counterparty represented by minority shareholders who are also directors of the company on which the option itself insists.

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	**31/12/2019**						**31/12/2018**					
		Fair value						**Fair value**				
(euro/000)	**Carrying amount**	**Trade receiv.**	**Financial receiv.**	**Receiv. From others**	**Receiv. From insurers**	**Receiv. From employ e**	**Carrying amount**	**Trade receiv.**	**Financial receiv.**	**Receiv. From others**	**Receiv. From insurer s**	**Receiv. From employe**
Customer financial receivables	*969*		*1,036*				*1,420*		*1,518*			
Guarantee deposits	*2,208*	*2,372*	-				*1,972*	*2,118*				
Other non current assets	3,177	2,372	1,036				3,392	2,118	1,518			
Non - current assets	**3,177**	**2,372**	**1,036**	**-**	**-**	**-**	**3,392**	**2,118**	**1,518**	**-**	**-**	**-**
Trade receivables	470,999	470,999					383,865	383,865				
Receiv. From factors	*3,526*		*3,526*				*242*		*242*			
Customer financial receivables	*9,719*		*9,719*				*10,881*		*10,881*			
Receiv. From suppliers	*10,244*			*10,244*			*5,752*			*5,752*		
Receiv. From insurances	*414*				*414*		*673*				*673*	
Receiv. From employees	-					-	*2*					*2*
Receiv. From others	*136*			*136*			*76*			*76*		
Other receivables	24,039		13,245	10,380	414	-	17,626		11,123	5,828	673	2
Derivate Financial Assets	-			-			3			3		
Cash and cash equival.	463,777		463,777				381,308		381,308			
Current assets	**958,815**	**470,999**	**477,022**	**10,380**	**414**	**-**	**782,802**	**383,865**	**392,431**	**5,831**	**673**	**2**

Liabilities	**31/12/2019**					**31/12/2018**				
		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	61,045		60,760			12,804		12,740		
Cash incentive liab.	*710*				*710*	*105*				*105*
Provisions and other liab	710				710	105				105
Non-current liabilities	**61,755**	**-**	**60,760**	**-**	**710**	**12,909**	**-**	**12,740**	**-**	**105**
Trade payables	1,089,246	1,089,246				867,866	867,866			
Short-term financial liab.	35,862		36,622			138,311		138,949		
Financial Derivatives	-					613			613	
Debts for investments in subsidiar.	-					1,082		1,082		
Social security liabilities	4,237				4,237	3,886				3,886
Payables to others	14,904				14,904	14,430				14,430
Accroued exp. (insurance)	250				250	267				267
Provisions and other liab.	19,391				19,391	18,583				18,583
Current liabilities	**1,144,499**	**1,089,246**	**36,622**	**-**	**19,391**	**1,026,455**	**867,866**	**140,031**	**613**	**18,583**

IFRS 13 identifies a hierarchy of assessment techniques based on three levels:

- Level 1: the data used in the assessments is represented by prices quoted on markets where assets and liabilities identical to those being assessed are traded;
- Level 2: the data used in the assessments, other than the quoted prices referred to in Level 1, are observable for the financial asset or liability, both directly (prices) and indirectly (derived from prices);
- Level 3: non-observable data; where observable data is not available and, therefore, there is little or no market activity for the assets and liabilities being assessed.

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

The 'fair value' of non-current assets and financial debt 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 as 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 in 2018 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 thus measured corresponds to a level 3 in the fair value hierarchy being based also on management estimates about future financial performance of the subsidiary whose main assumptions on which this value was determined were consistent with those used in the 'DCF Model' relating to CGU 2 Celly for the year 2018.
This option right was not exercised and was therefore extinguished as reported in '*Significant events occurring in the period* in the *Directors' Report on Operations* to which reference should be made.

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 provided in the table dedicated to finance costs under '*42) Financial income and expense*'.

Adjustments to the value of financial assets, estimated following a precise assessment of the solvency of each debtor, are shown under the item 'Impairment loss/reversal of financial assets' in the separate income statement. These adjustments totalled 0.4 million euro in 2019 (9.6 million euro in 2018 including 8.8 million euro relating to the non-recurring event represented by the assessment of the receivable due from the long-standing supplier of the 'Sport Technology' line, which at the end of 2018 started a voluntary liquidation process).

4.3 Additional information about financial assets

During the year, as in the previous year, it was not necessary to make any changes in the method of accounting for financial assets (not recognising the initial recognition at fair value and subsequent recognition at cost of certain balance sheet items, as required by international accounting standards).

As already highlighted in the section '*Trade and other receivables*' the value of receivables is constantly reduced by the established impairment losses.
This transaction 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, 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
2019 financial year	5,220	1,389	(1,611)	1,661	6,659
2018 financial year	7,099	823	(2,702)	-	5,220

The Group usually transfers financial assets. These operations involve giving factoring companies trade receivables, for both with-recourse 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 2019, 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 with-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 2019 the receivables sold with-recourse against which advances were obtained subject to collection amounted to 0.6 million euro (3.2 million euro as at 31 December 2018); while 'with recourse' advances of trade bills amount to 1.4 million euro (0.2 million euro as at 31 December 2018).

The financial assets' gross carrying amount is the Group's maximum exposure to credit risk.

Below is an analysis of the status of trade receivables due from customers and the seniority of those that have not suffered lasting losses in value:

(euro/000)	31/12/2019	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	477,658	225,086	106,420	146,152
Bad debt provision	(6,659)	(6,659)	-	-
Net trade receivables	**470,999**	**218,427**	**106,420**	**146,152**

(euro/000)	31/12/2018	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	389,185	7,439	68,781	312,965
Bad debt provision	(5,220)	(5,220)	-	-
Net trade receivables	**383,965**	**2,219**	**68,781**	**312,965**

(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 31/12/2019	106,420	2,668	3,154	7,411	93,187
Receiv. past due not impaired at 31/12/2018	68,781	2,189	3,737	8,168	54,687

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 with the exception of receivables falling within the 'hold to collect' cluster. This cluster concerns receivables assigned to third parties on the basis of binding programmes for which the cashable value has been taken into account by such third parties. 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 as at 31 December 2019):

- 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. 61% of the total amount of trade receivables;
- without-recourse factoring with leading factoring companies covering approx. 13% 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 non-significant amounts.

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.

With regard to the other financial assets governed by IFRS 7 and IFRS 13, apart from the adjustment of the value of the receivable due from the long-standing supplier of the 'Sport Technology' line in voluntary liquidation, made in the previous year, they have not suffered permanent losses in value, either in the current year or in the previous year . The changes in the related bad debt provision are shown below, together with two summary tables providing information on their status and the seniority of receivables overdue:

(euro/000)	Starting provision	Additions	Uses	Final provision
2019 financial year	8,823	-	-	8,823
2018 financial year	-	8,823	-	8,823

	31/12/2019				31/12/2018			
(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**
Customer financial receiv	*969*			*969*	*1,420*			*1,420*
Guarantee deposits	*2,208*			*2,208*	*1,972*			*1,972*
Other non-current assets	3,177			3,177	3,392			3,392
Non-current assets	**3,177**	**-**	**-**	**3,177**	**3,392**	**-**	**-**	**3,392**
Receivables from factors	*3,526*		*192*	*3,334*	*242*		*13*	*229*
Customer financial receiv	*9,719*			*9,719*	*10,881*			*10,881*
Receivables from suppliers	*19,067*	*11,448*	*7,619*		*14,575*	*11,657*	*2,918*	
Receivables from insurances	*414*		*377*	*37*	*673*		*573*	*100*
Receivables from employees	*-*			*-*	*2*			*2*
Receivables from others	*136*		*136*	*-*	*76*		*75*	*1*
Other current assets	32,862	11,448	8,324	13,090	26,449	11,657	3,579	11,213
Derivate Financial Assets	-			-	3			3
Cash and cash equivalents	463,777		463,777		381,308		381,308	
Gross Current assets	**496,639**	**11,448**	**472,101**	**13,090**	**407,760**	**11,657**	**384,887**	**11,216**
Bad debts provision	(8,823)	(8,823)			(8,823)	(8,823)		
Net Current assets	**487,816**	**2,625**	**472,101**	**13,090**	**398,937**	**2,834**	**384,887**	**11,216**

(euro/000)	Total	Past due over 90 daysi	Past due 60 - 90 days	Past due 30 - 60 days	Past due under 30 days
Receivables from factoring companies	192	-	-	-	192
Receivables from insurance companies	377	204	21	31	121
Receivables from others	136	136	-	-	-
Receiv. past due not impaired at 31/12/2019	**705**	**340**	**21**	**31**	**313**
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 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 31/12/2019	Future cash flow	in 6 months	6-12 months	1-2 years	2-5 years	after 5 years
Borrowings	61,045	63,350	428	433	24,867	37,622	-
Lease liabilities	100,212	125,401	1,580	1,526	11,274	30,547	80,474
Cash incentive liabilities	*710*	*2,290*	*1,580*	-	*628*	*82*	-
Provisions and other non-corr. Liabilities	710	2,290	1,580	-	628	82	-
Non-current liabilities	**161,967**	**191,041**	**3,588**	**1,959**	**36,769**	**68,251**	**80,474**
Trade payables	1,089,246	1,091,982	1,089,745	1,317	917	3	-
Short-term financial liabilities	35,862	35,904	26,690	9,214	-	-	-
Lease liabilities	8,597	8,521	4,236	4,285	-	-	-
Social security liabilities	*4,237*	*4,237*	*4,237*	-	-	-	-
Payables to others	*14,904*	*14,904*	*14,904*	-	-	-	-
Accrued expenses (insurance)	*250*	*250*	*250*	-	-	-	-
Provisions and other liabilities	19,391	19,391	19,391	-	-	-	-
Current liabilites	**1,153,096**	**1,155,798**	**1,140,062**	**14,816**	**917**	**3**	**-**

(euro/000)	Carrying amount 31/12/2018	Future cash flow	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**

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, one of the covenants relating to a *Term Loan Facility* and one *Revolving Facility* subscribed by Esprinet S.p.A. with a pool of domestic and international banks, and with a total residual capital value of 101.5 million euro, had not been met. 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 debt and the relevant contractual cash flows were assumed to take place within 6 months after the financial statements date.
The *Revolving Facility*, with a value of 65.0 million euro, had not been used as at 31 December 2018 and was not used during 2019, while repayments of the *Term Loan Facility* continued regularly, according to the initial amortisation plan, during the year until the early repayment on 26 September 2019 of its residual principal amount of 72.5 million euro.
On 30 September, Esprinet S.p.A. signed a 3-year 'unsecured' RCF-Revolving Credit Facility with almost the same pool of banks for a total amount of 152.5 million euro, which is also subject to the verification of a structure of typical financial covenants for transactions of this nature.

With the exception of what has just been described and the failure to comply, again without producing any consequences, both as at 31 December 2017 and 31 December 2016 with part of the financial ratios provided for in the loan agreements, the Group has never been in a default situation with regard to the clauses concerning the nominal principal, interest, amortisation plan or repayment of loans payable.

For further information please refer to the next section '*Loans and loan covenants*'.
The Group also has other minor loans not subject to financial covenants (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 1.4 million euro and registered at an almost identical value 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, both in terms of value and maturity, to the repayment plan of the loan, which for this reason does not contain any agreements providing for the possible forfeiture of the benefit of the repayment 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 (so-called '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 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

At the end of the year, the Group did not have any hedging derivatives in place.

Instruments terminated during the year

In 2019 the parent company Esprinet S.p.A., as a result of the early repayment, on 26 September 2019, of the medium-term pool loan called the *Term Loan Facility*, originally amounting to 145.0 million euro (reduced at the repayment date to 72.5 million euro in principal due to the repayments provided for in the amortisation plan, and replaced by a 3-year unsecured RCF-Revolving Credit Facility of 152.5 million euro, also signed with a pool of domestic and international banks), terminated the six 'IRS-Interest Rate Swap' ('IRS') contracts signed on 7 April 2017 with six of the eight banks providing this loan and with the purpose of 'hedging', through the collection of the variable interest rate against payment of the fixed rate, an 81% share of the aforementioned Term Loan Facility.
IRSs were settled at an aggregate amount of 0.5 million euro, substantially equal to their fair value at the termination date.

The main features of the six settled contracts are summarised below:

Trade date	7 April 2017
Effective date	31 August 2017
Termination date	28 February 2022
Notional amount	105.6 million euro amortising; 58.7 million euro as at 26 September 2019
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 player	Esprinet S.p.A.
Floating rate	Euribor 6M, act/360, fixed two days before the interest calculation period

Floating rate player	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.

At 31 December 2018, one covenant relating to the Term Loan Facility, whose cash flows had been hedged by the six above-mentioned derivatives, had not been met. As from that date, the liability representing the fair values of derivatives was entirely booked under current financial liabilities together with the amount of the hedged loan.

For IRSs extinguished during 2019, the conditions set out in IFRS 9 for the application of hedge accounting were fully met until 25 September 2019, the date immediately prior to the extinction of the loan 'hedged' by the same: 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.
The accounting technique of the "cash flow hedge" which provides for the recognition of the related fair value (limited to the effective portion) and subsequently of changes in fair value resulting from movements in the interest rate curve, all within the limits of the effective portion of the hedge and therefore recognised in the statement of comprehensive income, is to be recognised in the shareholders' equity reserve at the date the contract was entered into.
The changes in the fair value of the IRSs occurring up to 25 September 2019 have therefore been recognised in the equity reserve, while later changes were booked under 'financial income and expense' directly in the income statement till the derivative termination date, as the hedging relationship no longer applied.

As of 31 December 2018, a further 16 thousand euro had been recognised in the 'cash flow hedge' reserve as part of shareholders' equity, generated by changes in the fair value of previous hedging derivatives, subscribed by the parent company in 2014 and settled in 2017 when the hedged loan was replaced with the Term Loan Facility repaid during the year. This reserve was gradually reversed to the separate income statement according to the maturities of the loan originally hedged (which ended on 31 July 2019) due to the fact that the relevant interest rate risk still existed, even if 'shifted' to the subsequent loan.

During the previous year, two 'hedging' IRSs were settled, signed in 2015 by the subsidiary Vinzeo Technologies S.A.U. as a result of the repayment of the 'hedged' loans.
The main features of the two contracts settled by Vinzeo Technologies S.A.U. are summarised below:

Trade date	9 July and 15 October 2015
Termination date	20 July and 20 November 2018
Notional amount	7.0 million euro amortising; 3.5 million euro as at 31 December 2018
Fixed rate	0.433% and 0.467%, act/360
Fixed rate player	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.

The table below illustrate the following information regarding derivative contracts with reference to the cash flow hedge accounting technique (until 25 September 2019):
- the notional amount as at 25 September 2019 and as at 31 December 2018 shared into portions maturing within or beyond a 12-months period;
- the amount recognised in the statement of financial position as at 25 September 2019 and 31 December 2018 representing the 'fair value' of the contracts at the date of the 'highly 'effective hedge termination;
- the ineffective portion recognised or reversed in the income statement under '*Finance expense*' from inception to 25 September 2019 and 31 December 2018 with reference to the instalments still outstanding at the same date;
- the change in the fair value from the inception date to 25 September 2019 and 31 December 2018.

	Financial year	Notional amount		FV 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	2019	58,690	-	577	28	(132)	(417)
- Esprinet IRS 2014 cash flow hedge on derivatives	2019	-	-	-	-	-	-
- Vinzeo cash flow hedge on derivatives	2019	-		-	-	-	-
	2019	**58,690**	**-**	**577**	**28**	**(132)**	**(417)**
- 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)**

(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.

Below are details of the events that gave rise to the changes that occurred during the year in the shareholders' equity reserve relating to derivative instruments accounted for using the cash flow hedge technique:

	2019					
(euro/'000)	**Change in FV of derivatives**	**Transfer to P&L [1]**	**Taxes effect on P&L**	**Ineffective portion of (gain)/loss**	**Taxes on fair value of derivatives**	**Change in equity reserve**
- Esprinet IRS 2017 cash flow hedge on derivates	(317)	246	(59)	-	76	(54)
- Esprinet IRS 2014 cash flow hedge on derivates	-	21	(5)	-	-	16
- Vinzeo cash flow hedge on derivates	-	-	-	-	-	-
Total	**(317)**	**267**	**(64)**	**-**	**76**	**(38)**

(1) Accounted as increase/(decrease) in Financial expense.

	2018					
(euro/'000)	**Change in fair value of derivatives**	**Transfer to P&L [1]**	**Taxes effect on P&L**	**Ineffective portion of (gain)/loss**	**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 expense.

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:	31/12/2019	Cash flow	-	-	-	-	-	-
		Impact on P&L	-	-	-	-	-	-
	31/12/2018	Cash flow	2,736	2,736	-	-	-	-
		Impact on P&L	2,307	2,307	-	-	-	-

Finally, the derivative instrument changes referring to the fair value variations recorded in the Income Statement resulting from the termination of the hedging relationship are reported below:

(euro/000)	Year	FV 31/12/p.y[1]	Rates past due [2]	Variation FV rates not past due	FV 31/12/c.y [3]
Esprinet derivatives	2019	**577**	**(538)**	**(39)**	-
Vinzeo derivatives	2019	n.a.	n.a.	n.a.	n.a.
Total		**577**	**(538)**	**(39)**	**-**
Esprinet derivatives	2018	n.a.	n.a.	n.a.	n.a.
Vinzeo derivatives	2018	n.a.	n.a.	n.a.	n.a.
Total		**-**	**-**	**-**	**-**

(1) Previous year, that for the 2019 fiscal year refers to 25 September 2019, when the hedging relationship no longer applied due to repayment of the underlying loan.
(2) Including the portion accrued within the period of high effectiveness of the cover.
(3) Current year

4.6 Non-hedging derivatives

As part of the business combination of Vinzeo Technologies S.A.U., two "Interest Rate Cap" derivative contracts were acquired which provide for the company to receive from the counterparty bank the difference with respect to the agreed maximum threshold when the 3-month Euribor exceeds certain maximum thresholds.
These instruments are intended to cover all short-term facilities against fluctuating interest rates by means of cash flow hedging strategy (so-called 'cash flow hedge').
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	2019	(3)	-	3	-
Interest Rate Cap	2018	(36)	-	33	(3)

(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 Group 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 2019 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

	31/12/2019		31/12/2018	
(euro/000)	**Net equity**	**Profit/(loss)**	**Net equity**	**Profit/(loss)**
Cash and cash equivalents	658	658	696	696
Debts for investments in subsidiaries	-	-	3	3
Financial liabilities [(1)]	(1,332)	(1,332)	(1,305)	(1,305)
Derivative financial liabilities	600	600	1,015	-
Total	**(74)**	**(74)**	**409**	**(606)**

(1) Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

Scenario 2: -100 basis points

	31/12/2019		31/12/2018	
(euro/000)	**Net equity**	**Profit/(loss)**	**Net equity**	**Profit/(loss)**
Cash and cash equivalents	(54)	(54)	(26)	(26)
Debts for investments in subsidiaries	-	-	(3)	(3)
Financial liabilities [(1)]	527	527	190	190
Derivative financial liabilities	(612)	(612)	(1,040)	-
Total	**(139)**	**(139)**	**(879)**	**161**

(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 11.8 million euro as at 31 December 2019 (versus the 13.3 million euro as at 31 December 2018). 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	15,538	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**
Business combination acquisition - historical cost	2	335	-	**337**
Business combination acquisition - accumulated depreciation	-	(260)	-	**(260)**
Historical cost increase	441	2,198	115	**2,754**
Historical cost decrease	(112)	(1,731)	-	**(1,843)**
Historical cost reclassification	34	985	(1,019)	**-**
Increase in accumulated depreciation	(1,180)	(2,929)	-	**(4,109)**
Decrease in accumulated depreciation	97	1,521	-	**1,618**
Total changes	**(718)**	**119**	**(904)**	**(1,503)**
Historical cost	15,903	33,541	115	49,559
Accumulated depreciation	(12,815)	(24,920)	-	(37,735)
Balance at 31/12/2019	**3,088**	**8,621**	**115**	**11,824**

As at 31 December 2019, investments in '*plant and machinery*' mainly refer to purchases of new security, surveillance and energy efficiency equipment by the parent company in the logistic hub of Cavenago.

Investments in '*Industrial & commercial equipment & other assets*' refer to the purchase of electronic office machinery and office furniture by the parent company Esprinet S.p.A., and to 0.3 million euro for the purchase of new equipment and office machinery by the Spanish subsidiaries.

Investments in '*Assets under construction*' refer mainly to the acquisition, by the parent company Esprinet S.p.A., of equipment for the logistic hub in Cavenago, not yet operating as at 31 December 2019.

The item '*Business combination acquisitions*', equal to a net value of 0.1 million euro, refers to the contribution generated by the first consolidation of 4Side S.r.l., 51% of which was purchased by the parent company Esprinet S.p.A. on 20 March 2019.

There are no other temporarily unused property, plant and equipment intended for sale.

The depreciation rates applied to each asset category are unchanged relative to the fiscal year closed as at 31 December 2018.

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

(euro/000)	31/12/2019	31/12/2018	Var.
Electronic machines	4,372	3,739	633
Furniture and fittings	1,537	1,903	(366)
Industrial and commercial equipment	1,735	1,704	31
Other assets	977	1,156	(179)
Total	**8,621**	**8,502**	**119**

4) Right-of-use assets

Essential information, together with a summary of impacts emerging from the IFRS 16 (Leases) adoption from 1 January 2019, is displayed below.

(euro/000)	31/12/2019	31/12/2018	Var.
Right-of-use assets	107,310	-	107,310

In accordance with IFRS 16, the accounting representation of lease liabilities (which do not constitute the provision of services) is made through the recognition in the statement of financial position of a liability of a financial nature, represented by the present value of future lease payments, against the recognition under assets of the right to use the leased asset.

(euro/000)	Rental Property	Cars	Ind. & Comm. Equipment & other assets	Total
Balance at 31/12/2018	**-**	**-**	**-**	**-**
Initial book value 01/01/2019 - historical amount	112,272	1,728	372	**114,372**
Initial book value 01/01/2019 - provision for depreciation	-	-	-	**-**
Historical cost increase	1,490	1,693	-	**3,183**
Historical cost decrease	(288)	-	-	**(288)**
Increase in accumulated depreciation	(8,742)	(1,137)	(95)	**(9,974)**
Decrease in accumulated depreciation	17	-	-	**17**
Total changes	**(7,523)**	**556**	**(95)**	**(7,062)**
Historical cost	113,474	3,421	372	117,267
Accumulated depreciation	(8,725)	(1,137)	(95)	(9,957)
Balance at 31/12/2019	**104,749**	**2,284**	**277**	**107,310**

In the Group, the contracts that fall within the scope of IFRS 16 refer to the use of:

- office and operating buildings;
- company vehicles;
- industrial and commercial equipment and other assets.

The right-of-use assets and the financial liabilities relating to lease contracts are booked in specific entries in the statement of financial position.

The changes during the year, taking into account as initial value the amount as at 1 January 2019, are mainly attributable to the following:

- new contracts for the rental of retail outlets attributable to the parent company Esprinet S.p.A. for 0.5 million euro, to the Spanish subsidiaries for approximately 0.5 million euro and the renewal of the rental contract for the offices of subsidiary 4 Side S.r.l. for 0.5 million euro;
- new company car rental contracts signed by the parent company Esprinet S.p.A. for 1.0 million euro, the subsidiary 4Side S.r.l. for 0.2 million euro and the Spanish subsidiaries for approximately 0.5 million euro;

in addition to the depreciation for the period determined on the basis of the residual duration of the contract.

For further information on the adoption of the new IFRS 16, please refer to the section 2.8 'Recently issued accounting standards'.

2) Goodwill

(euro/000)	31/12/2019	31/12/2018	Var.
Goodwill	90,716	90,595	121

All goodwill items recorded under assets 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.
The increase in the value of goodwill of 0.1 million euro compared to the previous year is due to the acquisition of the company 4Side S.r.l. in March 2019.

Information on impairment testing of assets: goodwill

Scope of application

IAS 36 requires that the existence of impairment losses on property, plant and equipment and intangible assets with a finite useful life be assessed when there are indications that such a problem may exist.
In the case of goodwill and other intangible assets with an indefinite useful life, this 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.
Since, according to international accounting standards, goodwill is not an asset in its own right because it cannot generate cash flows independently from other assets or groups of assets, it cannot be subjected to an impairment test separately from the assets to which it is attributable. Consequently, goodwill must be allocated to a 'CGU-Cash Generating Unit', or a group of CGUs, since the maximum aggregation limit coincides with the notion of 'segment' contained in IFRS 8.

Cash Generating Unit: identification and goodwill allocation

The next table provides the values of the individual goodwill items in terms of the business combinations from which they arose and identifies the legal entities that carried out the business combinations from which goodwill was generated:

(euro/000)	Entity	Goodwill original value
Memory Set S.a.u. e UMD S.a.u. [(1)]	Esprinet Iberica	58,561
Esprinet Iberica S.l.u. [(2)]	Esprinet Iberica	1,040
4 Side S.r.l.	Esprinet S.p.A.	121
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		**90,716**
Esprinet Iberica S.L.U.		69,145
Esprinet S.p.A.		17,418
Celly S.p.A.		4,153
Total by entity		**90,716**

(1) Value net of 17.8 million euro write-down carried out in 2011.
(2) 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 and the changes observed during the year:

(euro/000)	31/12/2019	31/12/2018	Var.		
Esprinet S.p.A.	17,418	17,297	121	CGU 1	Distribution B2B of Information Technology and Consumer Electronics (Italy)
Celly S.p.A.	4,153	4,153	-	CGU 2	Distribuion B2B of phone accessories (Italy)
Esprinet Iberica S.l.u.	69,145	69,145	-	CGU 3	Distribution B2B of Information Technology and Consumer Electronics (Iberian Peninsula)
Total	**90,716**	**90,595**	**121**		

This allocation reflects the organisational 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) in Italy and the Iberian Peninsula (Spain and Portugal). 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 responsible for activities that contribute to the ‘core’ of the reseller ‘value chain’ (sales, purchasing, product marketing, logistics).

With respect to the subdivision of the business areas identified for the purposes of the Segment Reporting required by the international accounting standards (so-called 'Segment Information') there is a further CGU operating in the 'business-to-business' production and distribution of mobile phone accessories segment coinciding with the subsidiary Celly S.p.A..

The newly-acquired 4Side, operating in the 'business-to-business' distribution of 'game entertainment' products (video games, merchandising), is considered homogeneous with CGU 1 and therefore the related goodwill is allocated to it.

The process followed in the goodwill impairment test as at 31 December 2019 as described above and the results of this test are described below.

A) Valuation framework

The valuation framework and the main procedural approaches to the notions of value and the criteria and methodologies used in valuation are summarised below.

In determining the recoverable value of the individual CGUs, the term 'value in use' has been used. The recoverable amount thus determined was compared with the carrying amount.
The value in use is defined as 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.
For the purpose of determining value in use, the commonly accepted financial method is the so-called 'DCF-Discounted Cash Flow' which discounts estimated future cash flows by applying an appropriate discount rate. An 'asset side' approach was used which presupposes discounting unlevered cash flows generated by operations gross of financial components, since the cash flows are calculated net of notional taxes by applying an estimated tax rate to the operating result (EBIT).

For the CGU 3 domiciled in Spain, the estimated effective tax rate corresponds to the marginal tax rate of 25%, as the contribution of Portuguese assets to the weighted average 'tax rate' is omitted as irrelevant.
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 the non-deductibility of some relevant costs.

Disclosures required by the international accounting principles regarding the main methods chosen for the calculation of the recoverable amount are as follows.

Basis for estimates of future cash flows

The financial valuations for the purpose of calculating 'value in use' are based on five-year plans, approved by the Board of Directors of the parent company Esprinet on 15 April 2020, constructed starting from a management budget prepared for internal purposes for the year 2020 and extrapolating from it, through the application of forecasting techniques aimed at treating fixed and variable costs differently, the results for the 2021-24 period.
As required by the IAS 36 accounting principle, paragraph 50, estimated cash flows exclude financial expense, as per the 'asset side' approach already described, and are expressed in nominal terms.
The prospective determination of cash flows for each asset is based on the so-called 'unique scenario', which is the most likely scenario based on management's best estimates. The plans therefore do not also represent the expected average flows but identify a 'normal' flow profile as characterised by the highest degree of probability of occurrence (so-called 'probabilistic approach') and therefore are capable of representing management's best estimate of the evolution of the results of each activity.

The introduction of the new standard IFRS 16 ('Leases') required the construction of forecast plans in application of this standard (replacement of operating leases and rentals with depreciation and interest).
From the perspective of determining 'value in use' through a method based on the discounting of cash flows, in order to preserve the principle of 'valuation neutrality' (excluding tax effects), this has led to several adjustments to the forecast cash flows.
In particular, in order to ensure the operational sustainability of the plans, it was assumed that, when the main lease contracts expired, new contracts would be concluded under the same conditions. This resulted in a flow of notional investments corresponding to the 'Right of Use' value of the restored

assets. Thanks to this measure, it has been possible to correctly capture the reinvestment needs required to guarantee the cash generation foreseen by the plan.

Forecasting methods

For the purposes of estimates, strict reference was made to the current conditions of use of each individual CGU, i.e. regardless of the flows obtainable from any incremental investments and/or restructuring that represent a discontinuity with respect to normal business operations.

Flows discounted or weighted for probability

In the preparation of the forecast plans used in the 'DCF-Discounted Cash Flow' models, the expected trends in revenues and gross product margins were defined on the basis of data and information on the distribution sector and consumption of consensus technology from sources commonly considered reliable (EITO, Euromonitor, Net Consulting Cube, GFK, Context), assuming different trends for the CGUs according to competitive positioning, strategies and environmental conditions.
The prospective determination of cash flows for each CGU was based on the so-called 'unique scenario', which is the most likely scenario based on management's best estimates. The plans therefore do not also represent the expected average flows but identify a 'normal' flow profile as characterised by the highest degree of probability of occurrence (so-called 'probabilistic approach') and therefore are capable of representing management's best estimate of the evolution of the results of each activity.
The verification of the operational sustainability of the forecasting plans focused on the maintenance of 'business models' and competitive advantages for each CGU, including on the basis of the best external evidence regarding the prospects of each segment/market and the performance historically achieved.
The financial sustainability of the plans is based on an analysis of the intrinsic consistency between expected cash-flows over the plan timeframe and prospective investment needs in working capital and fixed assets, taking into account cash reserves.

Effects of the Covid-19 pandemic

The effects of the Covid-19 emergency, which occurred after 31 December 2019, do not represent an 'adjusting' event according to the dictates of the international accounting standards and therefore did not have a corrective impact on the financial statement values.
For the same reason, the forecast plans for the purposes of the impairment test do not reflect the effects of this health emergency.

Key critical issues

The impairment test carried out took into account certain critical issues that emerged in application of the related procedure; in particular, the performance of the CGUs was assessed in relation to the deviations between budgeted and actual figures. The quality and completeness of the information base and the degree of verifiability of the plan inputs and the inherent risk of the activities to be assessed were also considered.
In light of the factors listed above, CGU 2 ('B2B distribution of telephone accessory products'), which coincides with the Celly Group (Celly S.p.A. and Celly Pacific), was identified as critical because it is characterised by the following elements:

- an income statement structure characterised by much higher unit margins and a significantly higher incidence of fixed costs than the CGUs operating in 'pure' distribution (CGU 1 and CGU 3), which define a higher degree of operational leverage and exposure to market risk;
- a track record consisting of negative deviations between budget forecasts and income results actually achieved, including in the presence of internal discontinuities in the competitive context (presence of very aggressive competitors in terms of 'trade marketing' and investments in retail outlet spaces);

- a capacity to implement corporate programmes that is not on a par with other CGUs (e.g. switching of revenues from Italy to foreign countries that are not within a time frame consistent with the declared programmes);
- the lack of information on future trends in the sector.

These elements have led to the adoption of a higher degree of intrinsic risk than other CGUs during the annual impairment test, for which:
- the management budget prepared by those responsible for its implementation has been 'stressed' by the Finance Department, particularly with regard to the sales volumes obtainable and product margins;
- a higher discount rate than in the past and compared to the Italian CGU 1 was used in order to reflect a greater dimensional risk than other CGUs.

Discount rate

The discount rate used is representative 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. This rate corresponds to a notion of capital cost in the meaning of 'WACC-Weighted Average Cost of Capital' and is unique for the valuation of the Terminal Value and the discounting of flows over the explicit forecast period.
In particular, for the purpose of determining the Levered Cost of Equity, the median Beta Unlevered Coefficient of a sample of comparable companies, listed on regulated markets, operating internationally, was calculated, which was subsequently "releveraged" on the basis of a target financial structure for each of the CGUs assuming that it coincided with the average financial structure of the sample. In this way the condition of independence of the discount rate from the current financial structure has been achieved. The sample of comparable companies used for the three CGUs consists of the following companies:

Entity	**Country**
Action S.A.	Poland
ALSO Holding AG	Switzerland
Arrow Electronics, Inc.	USA
Avnet, Inc.	USA
SYNNEX Corporation	USA
AB S.A.	Poland
Tech Data Corporation	USA
Digital China Holdings Limited	Hong Kong
Redington (India) Limited	India
Datatec Limited	South Africa
Arena Bilgisayar Sanayi ve Ticaret A.S.	Turkey
ASBISc Enterprises Plc	Cyprus
ScanSource, Inc.	USA

The following table shows the values attributed to the main components of the discount rate (with the differentiations per CGU excluding those involving only CGU 2 and which are detailed in a specific section):

- the risk-free rate is equal to the 10-year BTP 'benchmark' (1 year average) rate of return in 2019, equal to 1.91% for CGUs 1 and 2, and the 10-year Bonos (1 year average) rate of return in 2019, equal to 0.66% for CGU 3;
- the 'Market Risk Premium' is 5.5% (source: Banca IMI, Ibbotson, Duff&Phelps et al.);
- the Beta Levered coefficient is 0.95 (based on a Beta Levered calculated as a 5-year average of the monthly 'adjusted' Beta of the sample);
- the gross marginal cost of the debt was obtained as the sum of two components: the base rate, equal to the 12-month average of the 10-year IRS, and a 'credit spread' estimated on the basis of databases commonly used by analysts and investors;

- the tax rate used is the nominal corporate income tax rate of the countries where the CGUs are domiciled for tax purposes.

IAS 36, para. 55, requires that the discount rate be calculated before tax ('pre-tax'), but allows for the discounting of flows to be carried out using an estimated rate net of the tax effect ('post-tax'), provided that the expected flows are also expressed net of the tax effect.
Nevertheless, the WACC calculated in the post-tax version has also been converted into the equivalent pre-tax WACC defined as the WACC gross of tax that leads to the same result in terms of discounting cash flows before tax.

Terminal Value

The Terminal Value recorded at the end of the explicit forecasting period was calculated on the basis of the 'Perpetuity Method' (last year's unlimited cash flow capitalisation model), assuming long-term sustainable cash flow growth from year 5 onwards at a constant rate ('g').
This rate is equal, hypothetically, to the inflation rate expected for 2024 (source: International Monetary Fund) in Italy (1.50%) and Spain (1.70%) for CGU 1 and 2 and CGU 3.

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	**Italy IT&CE "B2B" CGU 2 Celly**	**Spain IT&CE "B2B" CGU 3**
Future cash flow expected:			
Forecast horizon	5 years	5 years	5 years
"g" (long-term growth rate)	1.50%	1.50%	1.70%
Discount rates:			
Market Risk Premium	5.5%	5.5%	5.5%
Unlevered Beta	0.75	0.75	0.75
Levered Beta	0.95	0.95	0.95
Additional Specific Risk Premium	3.2%	5.0%	3.2%
Target financial structure (D/D+E)	0.26	0.26	0.26
Target financial structure (E/D+E)	0.74	0.74	0.74
Tax rate	24.0%	24.0%	25.0%
WACC post-tax	8.25%	9.60%	7.30%
WACC pre-tax	11.36%	13.28%	9.50%

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:

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

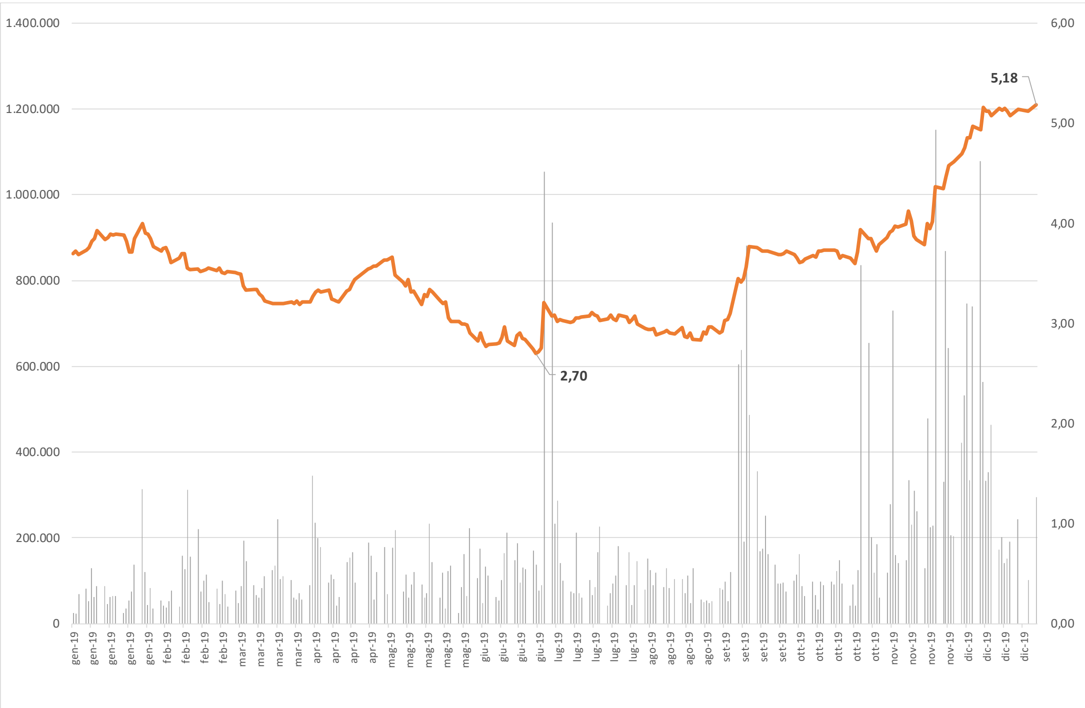
C) External indicators of loss of values and 'impairment test'

The existence of both internal and external triggering events has been assessed.
In particular, the following were examined for each CGU:

- the potential deterioration of macroeconomic and macro-financial conditions;
- the potential deterioration of the economic environment, increase in the degree of competitive tension, changes in the regulatory or legislative framework, technological discontinuations, downward revision of consensus expectations regarding industry performance;
- the existence of discontinuity in cost factors;
- the possible occurrence of negative management events;
- any unfavourable trend in market rates or other rates of return on capital such as to affect the discount rate used in calculating value in use.

It was concluded that none of the indicators analysed could be suggestive of a loss in value of any of the CGUs analysed.

At an aggregate level, evidence of the stock market capitalisation of the parent company Esprinet below book equity was also assessed, while taking into account the positive performance of the Esprinet share (Borsa Italiana: PRT) during 2019 as shown in the graph below:



During the course of the year, the share price fell back to a minimum of 2.70 euro in June and then showed an upward trend, reaching a high of 5.18 euro at the end of the year. The average consolidated shareholders' equity per share during the year was 6.6-6.7 euro. The 'target price' of consensus by analysts was always higher than the 'pro-tempore' price of the share.
As at 31 December 2019, the capitalisation of Esprinet was equal to 271.4 million euro, compared with a consolidated equity value of 359.0 million euro (of which 356.5 million euro attributable to the Group). The average capitalisation in 2019 was equal to 184.6 million euro.
The share performance during the year is even more positive if the timescale is extended to the last two years:

The search for the causes of this deviation led to the following conclusions, which were considered valid reasons for the negative difference between the stock market price and the estimated recoverable value and enabled the reasonableness of the valuations and results of the impairment test to be validated:

- the stock market price refers to minority interests while the recoverable amount refers to the value of net assets for the controlling entity (i.e. different from the 'valuation unit');
- the stock market price and value in use are different value configurations (the 'standard of value' is technically different);
- the market overreacted to the 2017 'profit warnings' and to the delivery of results below expectations throughout 2018, a renewed interest is beginning to manifest for the company and its fundamentals from mid-2019;
- share returns are strongly correlated to the countervalues traded as typical for 'small-mid-sized' companies: the degree of capital turnover is in line with the parameters of the STAR segment, to which Esprinet belongs, but has ample room for improvement.

In conclusion, it is believed that there are factors related to the unit of valuation as well as technical market factors, mostly related to the degree of liquidity of the stock, such as to largely justify the difference between the market capitalisation of Esprinet and the recoverable value of the CGUs into which it is broken down.

D) Value adjustments and 'sensitivity analysis

As a result of the impairment tests carried out, it was not necessary to write down any of the values of goodwill recorded as at 31 December 2019, which are therefore confirmed.
Below are the parameters that the WACC and 'g' variables should have assumed in order for there to be a correspondence between recoverable value and carrying amount:

Key variables for: Enterprise Value = Carrying Amount	Italy IT&CE "B2B" CGU 1	Italy IT&CE "B2B" CGU 2 Celly	Spain IT&CE "B2B" CGU 3
"g" (long-term growth rate)	n.s.	7,11%	n.s.
WACC post-tax	43,95%	9,96%	32,94%

In addition to the average normal flows used to determine value in use, for information purposes only as required by IAS 36 and on the basis of the indications contained in joint Bank of Italy/Consob/ISVAP document No. 4 of 3 March 2010, sensitivity analyses were also carried out on the following key variables:

- 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%.

As a result of these analyses, for CGU 1 and CGU 3 in none of the scenarios arising from the different combinations of key assumptions as shown before, including the 'worst' scenario resulting from the use of a g of 0% (equal to an actual negative 'g' of -1.5% and -1.7% respectively), a WACC increased by +2% and a plan EBITDA reduced by -20%, is the recoverable value lower than the net carrying amount.
In the case of the CGU 2, based on the sensitivity analyses performed, the value in use in some of the scenarios is lower than the carrying amount of goodwill to an extreme of more than 4.0 million euro.
Lastly, a simulation was conducted to estimate the recoverable values of goodwill in a scenario that incorporates the expected negative economic and financial effects of the Covid-19 emergency.
Despite a situation characterised by strong uncertainties in relation to the negative effects of the pandemic and on the timing and ways of resolving the crisis, operating profitability is expected to decrease compared to that hypothesised before the outbreak of the pandemic, due to a revenue growth trend in the next two quarters lower than the annual trend, and a recovery in business in 2021 with a positive leverage effect on EBIT.
As a result of the assumptions made in the Covid-19 scenario, the negative impact on recoverable values is modest and abundantly included in the scenarios assumed for the usual sensitivity analyses previously reported.

3) Intangible assets

Intangible assets amount to 0.4 million euro as at 31 December 2019 (versus 0.7 million euro as at 31 December 2018). The following table highlights the changes occurred during the year:

(euro/000)	Start-up and expansion costs	Industrial and other patent rights	Licences, concessions, brand names and similar rights	Assets under construction and advances	Other intagible assets	Total
Historical cost	3	11,253	35	105	4	**11,400**
Accumulated depreciation	(3)	(10,646)	(23)	-	(4)	**(10,676)**
Balance at 31/12/2018	**-**	**607**	**12**	**105**	**-**	**724**
Business combination acquisitions - historical cost	-	42	-	-	-	**42**
Business combination acquisitions - accumulated depreciation	-	(1)	-	-	-	**(1)**
Historical cost increase	-	162	-	129	-	**291**
Historical cost decrease	-	(35)	-	-	-	**(35)**
Historical cost reclassification	-	105	-	(105)	-	**-**
Increase in accumulated depreciation	-	(577)	(2)	-	-	**(579)**
Decrease in accumulated depreciation	-	38	-	-	-	**38**
Total changes	**-**	**(266)**	**(2)**	**24**	**-**	**(244)**
Historical cost	3	11,527	35	129	4	11,698
Accumulated depreciation	(3)	(11,186)	(25)	-	(4)	(11,218)
Balance at 31/12/2019	**-**	**341**	**10**	**129**	**-**	**480**

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 mainly attributable to the Parent Company Esprinet S.p.A. and to the first-time consolidation of 4Side S.r.l.

The item '*Business combination acquisition*', refers to the contribution generated by the first consolidation of 4Side S.r.l., of which 51% was purchased by the parent company Esprinet S.p.A. on 20 March 2019.

The depreciation rates applied to each asset category are unchanged relative to the fiscal year closed as at 31 December 2018.

This item is amortised in three years.

6) Deferred income tax assets

(euro/000)	31/12/2019	31/12/2018	Var.
Deferred income tax assets	13,469	11,884	1,585

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.

In this respect, the recoverability is supported by the estimated net income based on the forecast plans derived from the Group 2020-24E financial projections approved by the Board of Directors on 15 April 2019.

The following table shows the composition of the abovementioned item:

(euro/000)	31/12/2019			31/12/2018		
	Temporary differences	Fiscal effect (taxe rate %)	Amount	Temporary differences	Fiscal effect (taxe rate %)	Amount
Deferred income tax:						
Tax losses carried forward	23,879	24%-25%-21%	5,831	19,983	25%-21%	4,942
Derivates instruments	25	24%-25%	6	523	24%-25%	126
Exceeding amortisation	330	27.90%	51	459	27.90%	78
Bad debt provision	4,855	24%-25%	1,167	12,670	24.00%	3,042
IFRS 16 - Leases	630	24%-25%	153	-	27.90%	-
Inventory obsolescence provision	5,285	27.9%-22.5%	1,469	6,142	27.90%	1,714
Change in inventory/deletion of intercompany marg	514	27.90%	143	683	27.90%	191
Director's fees not paid	1,725	27,9%-25%	412	1,115	27.9%-25%	276
Agent suppl. indemnity provision	634	27.90%	177	634	27.90%	177
Double dividend tax	-	25.00%	-	1,733	25.00%	433
Provision sales returns	1,254	27.9%-25%-22.5%	339	1,746	27.9%-25%-22.5%	469
Other	16,229	24%-25%-27.9%	3,721	1,702	24%-25%-27.9%	437
Deferred income tax assets			**13,469**			**11,884**

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	31/12/2019	4,687	5,470	3,312	13,469
	31/12/2018	4,773	3,948	3,163	11,884

9) Receivables and other non-current assets

(euro/000)	31/12/2019	31/12/2018	Var.
Guarantee deposits receivables	2,208	1,972	236
Trade receivables	969	1,420	(451)
Receivables and other non-current assets	**3,177**	**3,392**	**(215)**

The item '*Guarantee deposits receivables*' mainly refer to guarantee deposits for utilities for existing lease contracts.

The *trade receivables* refer to the portion of credit toward the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF) with an expiring date after one year and arose from a delivery of goods from Esprinet S.p.A. toward the GdF in 2011.
This receivable provides for an annual payment plan that extends until January 2022 and in relation to which in 2013 Esprinet S.p.A. has taken out a loan with Intesa Sanpaolo whose fees will be paid directly by the customer. Since the counterparties of the two transactions are different, it is

necessary, until they are completely repaid, to keep the receivable from the customer and the payable from the credit institution separate.
The change compared with 31 December 2018 is due to the allocation to current receivables of the portion expiring within the next fiscal year.

Current assets

10) Inventory

(euro/000)	31/12/2019	31/12/2018	Var.
Finished products and goods	504,266	503,102	1,164
Provision for obsolescence	(7,046)	(8,658)	1,612
Inventory	**497,220**	**494,444**	**2,776**

Inventory totalled 497.2 million euro, up 2.8 million euro compared with existing stock as at 31 December 2018, while inventory turnover improved by 5 days. For further information on changes in this item and the Working Capital in general please refer to the developments in the paragraph '*Operating net working capital* in the *Directors' Report on Operations*.

The 7.0 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)	31/12/2019	31/12/2018	Var.
Provision for obsolescence: year beginning	**8,658**	**6,682**	**1,976**
Uses/Releases	(6,197)	(3,634)	(2,563)
Accruals	4,585	5,610	(1,025)
Provision for obsolescence: period-end	**7,046**	**8,658**	**(1,612)**

The item 'Provisions' is the managements best estimate of the recoverability of the inventory value as at 31 December 2019. In 2018, this item also included the non-recurring write-down (3.7 million euro) on some product classes of the 'Sport Technology' range consequent to 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.

11) Trade receivables

(euro/000)	31/12/2019	31/12/2018	Var.
Trade receivables - gross	477,658	389,085	88,573
Bad debt provision	(6,659)	(5,220)	(1,439)
Trade receivables - net	**470,999**	**383,865**	**87,134**

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 66.0 million euro at the end of 2019 and 68.3 million euro at the end of 2018.

The increase in gross receivables is due both to higher sales volumes and a slight increase in average collection times from customers. There was also less use, compared with 2018, of the technical methods used to dispose of trade receivables (i.e. approximately 480.1 million euro at the end of 2019 compared with 596.7 million in 2018). 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 (further information can be found under '*Disclosure on risks and financial instruments*'), whose incidence on gross receivables is substantially stable. The movement in this provision during the period was as follows:

(euro/000)	31/12/2019	31/12/2018	Var.
Bad debt provision: year-beginning	**5,220**	**7,099**	**(1,879)**
Uses/Releases	(1,611)	(2,702)	1,091
Accruals	1,389	823	566
Acquisition in business combination	1,661	-	1,661
Bad debt provision: period-end	**6,659**	**5,220**	**1,439**

The item 'Business combination acquisitions' entirely refers to the contribution generated by the first consolidation of 4Side S.r.l., 51% of which was purchased by the parent company Esprinet S.p.A. on 20 March 2019.

The *Trade receivables* balance includes 35.4 million euro (7.7 million euro in 2018) of receivables transferred to factoring firms under 'with-recourse' factoring agreements.

12) Income tax assets (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Income tax assets	1,514	3,421	(1,907)

Income tax assets (current) mainly result from the higher tax advances paid compared with the current taxes accrued in 2019. 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 (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Receivables from associates companies (A)	**-**	**-**	**-**
VAT receivables	2,219	2,539	(320)
Other tax assets	8,907	4,653	4,254
Other receivables from Tax authorities (B)	**11,126**	**7,192**	**3,934**
Receivables from factoring companies	3,526	242	3,284
Other financial receivables	9,719	10,881	(1,162)
Receivables from insurance companies	414	673	(259)
Receivables from suppliers	10,244	5,752	4,492
Receivables from employees	-	2	(2)
Receivables from others	136	76	60
Other receivables (C)	**24,039**	**17,626**	**6,413**
Prepayments (D)	**5,791**	**4,792**	**999**
Other assets (E= A+B+C+D)	**40,956**	**29,610**	**11,346**

'*VAT receivables*' refer to VAT receivables accrued by the subsidiaries V-Valley S.r.l., Celly S.p.A., Nilox Deutschland GmbH and Vinzeo Technologies S.A.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 '*Other tax assets*' figure refers almost entirely to the receivable of the parent company Esprinet S.p.A. from the tax authorities following the partial payment, made on a provisional basis, of tax collection files relating to indirect taxes in relation to which disputes are in progress, details of which are provided in the section 'Development of the disputes involving Esprinet S.p.A. and the Group' under the notes to item '26) Non-current provisions and other liabilities'.

Receivables from factoring companies, referring to the parent company for 3.5 million euro, relate to the residual amount still unpaid of the trade receivables sold 'without recourse' at the end of December 2019. At the time this report was drafted, the receivables due had been almost entirely paid.
The sensible increase compared with the previous year-end balance, is mainly due to the temporary differences in the collection of transferred receivables, compared with 31 December 2018.

Other financial receivables includes 9.2 million euro for a guarantee deposit provided to the buyer of the receivables assigned in the securitisation transaction executed by the Group to cover any dilution that may occur in the course of this activity or in the months following the transaction closing. 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 – recognised 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 2019, *receivables from suppliers* include 2.5 million euro due to the net receivable from the supplier of the 'Sport Technology' line that at the end of 2018 ceased operation and entered into a voluntary liquidation process.
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
2019 financial year	8,823	-	-	8,823
2018 financial year	-	8,823	-	8,823

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 assets (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Derivate financial assets	-	3	(3)
Derivate financial assets	**-**	**3**	**(3)**

The amount as at 31 December 2018 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. These contracts, which were aimed at hedging interest rate increases applied to a series of short-term credit lines obtained by financial institutions, were terminated early in 2019.

For further information, please refer to the '*Non-hedging derivatives*' section in the '*Disclosure on risks and financial instruments*' paragraph to which reference should be made.

17) Cash and cash equivalents

(euro/000)	31/12/2019	31/12/2018	Var.
Bank and postal deposit	463,747	380,759	82,988
Cash	29	19	10
Cheques	1	530	(529)
Total cash and cash equivalents	**463,777**	**381,308**	**82,469**

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)	31/12/2019	31/12/2018	Var.
Share Capital (A)	**7,861**	**7,861**	**-**
Reserves and profit carried over (B)	334,200	324,631	9,569
Own shares (C)	(8,646)	(4,800)	(3,846)
Total reserves (D=B+C)	**325,554**	**319,831**	**5,723**
Net income for the year (E)	**23,099**	**14,031**	**9,068**
Net equity (F=A+D+E)	**356,514**	**341,723**	**14,791**
Non-controlling interests (G)	2,508	1,175	1,332
Total equity (H=F+G)	**359,022**	**342,898**	**16,123**

Items composing the 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 value of *Reserves and profit carried over* increased by 9.5 million euro due to the combined effect of the allocation of profits from previous years (14.0 million euro) net of the payment of dividends for 6.9 million euro (0.135 euro for each ordinary share), which took place through the distribution of available reserves, the succession of share incentive plans implemented by the Parent Company (1.3 million euro) in addition to the waiver by the shareholders of the Parent Company Esprinet S.p.A. to exercise the option to purchase the residual capital of the shares of the subsidiary Celly S.p.A. (1.1 million euro).

Own shares in portfolio

The amount refers to the total purchase price of 2,295,008 Esprinet S.p.A. shares owned by the Company as at 31 December 2019.
The increase compared to the 1,150,000 shares held as at 31 December 2018 is the result of the purchase between 1 July 2019 and 31 December 2019 of 1,145,008 shares, in implementation of the resolution of the Shareholders' Meeting of Esprinet S.p.A. of 8 May 2019, at an average price per share net of fees of 3.36 euro.

21) Net income

The year's Group profits amount to 23.1 million euro, increased compared with the previous year's 14.0 million euro.

Non-current liabilities

22) Financial debt (non current)

(euro/000)	31/12/2019	31/12/2018	Var.
Borrowings	61,045	12,804	48,241

Payables to banks are represented by the valuation at the amortised cost of the portion of the medium-long term loans granted by the Group companies falling due beyond next year.

The balance as at 31 December 2019 includes a loan of 15.0 million euro signed by the Parent Company in October 2019, in addition to the long-term portions of two loans signed in March 2017 (6.4 million euro), as well as the portion not yet due of the loan granted by the 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 (1.0 million euro), as described under paragraph 9 'Receivables and other non-current assets'.
The balance also includes the portion due beyond the year of 9 unsecured medium-term loans signed in 2019 by Esprinet Iberica S.L.U. (20.2 million euro) and Vinzeo SAU (18.6 million euro) as part of a plan to exploit the Spanish companies' debt capacity.

The change compared with previous year is due to the combined effect of the signing of new loans during the year and 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*'.

31) Lease liabilities (non current)

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities (non-current)	100,212	-	100,212

The value of the non-current financial liability referring to the right-of-use assets as at 31 December 2019, equal to 100.2 million euro, was initially entered for 106.4 million euro as at 1 January 2019 and subsequently changed as better described below:

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities	-	-	-
Initial book value: 01/01/2019	106,385	-	106,385
Increase from subscribed contracts	2,593	-	2,593
Termination/modification of contracts	(236)	-	(236)
Reclassification in current liabilities	(8,530)	-	(8,530)
Lease liabilities	**100,212**	-	**100,212**

The following table analyses the maturing dates of the financial liabilities booked as at 31 December 2019:

(euro/000)	Within 5 year	After 5 year	31/12/2019
Lease liabilities (non-current)	30,929	69,283	100,212

For further information on the adoption of the new IFRS 16, please refer to section 2.8 'Recently issued accounting standards'.

24) Deferred income tax liabilities

(euro/000)	31/12/2019	31/12/2018	Var.
Deferred income tax liabilities	9,712	8,138	1,574

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)	31/12/2019			31/12/2018		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Deferred income tax liabilities						
Goodwills' amortisation	35,867	27.90%	9,260	29,376	27.90%	7,618
TFR' variation	-	24.00%	-	159	24.00%	38
Foreign exchange estimate	456	24.00%	109	276	24.00%	66
Change in inventory	1,261	27.9%-25%	340	1,158	27.9%-25%	311
Other	8	24.00%	2	437	24.00%	105
Total deferred income tax liabilities			**9,712**			**8,138**

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	31/12/2019	452	-	9,259	9,712
	31/12/2018	521	-	7,617	8,138

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 entirely 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.
The new contributions can therefore be directed to selected pension schemes or maintained in the company, in which case it is the company itself that pays contributions to a treasury account set up with INPS.

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

(euro/000)	31/12/2019	31/12/2018	Var.
Balance at year-beginning	**4,397**	**4,814**	**(417)**
Business combination acquisition	326	-	326
Service cost	163	140	23
Interest cost	68	57	11
Actuarial (gain)/loss	195	(185)	380
Pensions paid	(480)	(429)	(51)
Changes	**272**	**(417)**	**689**
Balance at year-end	**4,669**	**4,397**	**272**

Values recognised in the separate income statement are as follows:

(euro/000)	31/12/2019	31/12/2018	Var.
Amounts booked under personnel costs	163	140	23
Amounts booked under financial costs	68	57	11
Total	**231**	**197**	**34**

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 2018 valuation and the actual development of the provision as at 31 December 2019 (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)[3].

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:

[3] Please note that, the iBoxx Eurozone Corporates AA10+ index was used as parameter for the above mention calculation.

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, with the exception of the subsidiary 4 Side S.r.l. for which an annual frequency of 10% was considered;
- probability of anticipating: an annual rate of 3% has been assumed.

b) Economic-financial assumptions

	31/12/2019	31/12/2018
Cost of living increase	1.00%	1.50%
Discouting rate [2]	0.77%	1.57%
Remuneration increase	2.50%	3,00% [1]
Staff severance indemnity (TFR) - annual rate increase	2.25%	2.63%

[1] The assumption relating to a remuneration increase refers solely to Celly S.p.A.
[1] 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.
The scenario described in the previous paragraphs was considered as the baseline scenario and from that the most significant assumptions were increased and decreased, i.e. the average annual discount rate, the average inflation rate and the turnover rate, respectively, by one quarter and two percentage points. The outputs thus obtained are summarised as follows:

(euro)		Sensitivity analysis
		Esprinet Group
Past Service Liability		
Annual discount rate	*+0,50%*	4,462,387
	-0.50%	4,891,231
Annual inflation rate	*+0,25%*	4,726,248
	-0.25%	4,612,783
Annual turnover rate	*+2,00%*	4,595,241
	-2.00%	4,766,282

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	337,551
1 - 2	298,920
2 - 3	327,106
3 - 4	315,340
4 - 5	320,766
5 - 6	264,200
6 - 7	299,472
7 - 8	351,234
8 - 9	298,200
9 - 10	376,838
Over 10	3,918,963

26) Non-current provisions and other liabilities

(euro/000)	31/12/2019	31/12/2018	Var.
Long-term liabilities for cash incentives	710	105	605
Provisions for pensions and similar obligations	1,661	1,678	(17)
Other provisions	127	106	21
Non-current provisions and other liabilities	**2,498**	**1,889**	**609**

The item *Liabilities for monetary incentives* refers to the cash incentives maturing by the beneficiaries of the 'Long-term Incentive Plan' (LTIP) 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)	31/12/2019	31/12/2018	Var.
Provisions for pensions: year-beginning	**1,678**	**1,915**	**(237)**
Uses/Releases	(155)	(318)	163
Accruals	138	81	57
Total variation	**(17)**	**(237)**	**220**
Provisions for pensions: period-end	**1,661**	**1,678**	**(17)**

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)	31/12/2019	31/12/2018	Var.
Other provisions: year-beginning	**106**	**589**	**(483)**
Uses/Releases	(84)	(584)	500
Accruals	105	101	4
Subtotal	**21**	**(483)**	**504**
Other provisions: period-end	**127**	**106**	**21**

Group legal disputes

The main disputes involving the Group are provided below, along with developments in 2019 (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, recognised the ensuing allocations to the provision for risks.

The main legal disputes, for which no provision has been deemed to exist since the risk has been assessed as possible, are as follows:

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.
This entity has been supplying products 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) filed a further civil action against Esprinet S.p.A. requesting the cancellation or declaration of invalidity and ineffectiveness of a letter of guarantee issued by this shareholder in favour of Esprinet S.p.A. and in the interest of its subsidiary.
The Board of Directors of Esprinet - also following advisors' opinion - resolved to make an appearance and defend itself in court 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.
On 21 May 2019, the Liquidator of the aforementioned supplier filed an application for composition proceedings with the Court of Milan pursuant to Article 161, paragraph 6, of the Italian Bankruptcy Law. In relation to this procedure, it has become known that the original deadline granted for the filing of the final proposal for composition, the composition plan and the additional documentation required by Article 161 of the Italian Bankruptcy Law had been extended by the Court until 4 October 2019. Despite the constant checks carried out at the Companies' Register, it has not so far been

possible to obtain any further information on this concordat procedure, which may also have been delayed as a result of the 'Covid-19' emergency.

The following list summarises the evolution of the main tax disputes in progress for which it has not been considered that the elements for making provisions exist, since the risk of each is assessed as 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 trial on 11 June 2019 (and subsequently on 5 August 2019) were fully reimbursed.

the Italian Revenue Office waived its right to appeal with the Supreme Court against the ruling of the Court of Appeal which thus became final.

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.
On 8 May 2019 a judgement was issued that rejected the Company's claim, condemning the Company to pay legal costs.
The Company filed an appeal before the Supreme Court.

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 the 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.
On 1 April 2019, the Office appealed and on 31 May 2019 the Company filed its counter-arguments.

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 judgment rejecting the claim.
The Company filed an appeal with the Regional Tax Commission on 10 June 2019. The hearing was held on 29 January 2020 and the judgment is pending.

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 Legislative Decree No. 218/1997, the procedure for which has not been defined.
Thus, the Company appealed on 30 May 2019.
On 4 June 2019, the Chairperson of the Provincial Tax Commission granted the request for suspension of payment relating to the assessment until the competent section delivers a collective ruling on the request. On 11 November 2019, as provided for by the administrative procedure, the Company paid an advance of 6.2 million euro in relation to the litigation for 2013 (contested tax of 14.5 million euro). The first instance hearing, set for 25 March 2020, has been postponed to a later date due to measures for combating the Covid-19 epidemiological emergency.

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.
On 16 July 2019 the Company lodged an appeal before the Supreme Court against the appeal decision handed down by the Regional Tax Commission, which overturned the first instance judgement in relation to disputed direct taxes for 2012 in the amount of 0.1 million euro.

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 on 18 September 2018 a judgement was issued that upheld the appeal condemning the Tax Authority to pay legal costs.
On 18 March 2019, the appeal from the Office was served and on 17 May 2019 the Company filed its counter-arguments. The Regional Tax Commission met on 22 January 2020 and is awaiting the ruling.

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 recovery of 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 No. 3801/2014 rendered by the Regional Tax Commission of Milan on 9 July 2014. The company filed a cross-appeal on 20 February 2015.
On 31 May 2019, the Company filed an application for facilitated settlement of the pending tax disputes (Art. 6 and 7 Decree Law No. 119/2018).

Mosaico S.r.l. Direct and indirect taxes for the year 2016

On 23 July 2019 an overall tax inspection was started against the Company relating to tax year for direct taxes, IRAP and VAT for 2016 with respect to Mosaico S.r.l., which was merged into Esprinet S.p.A. on 1 November 2018 followed by a tax audit report. In consideration of the findings and of the small amounts involved, Mosaico S.r.l. filed a voluntary correction return and at the same time paid the small amount of 10 thousand euro.

Following the spread of Covid-19, as a result of the various measures issued by government bodies that provide for measures to curb the movement of persons and the performance of activities, including judicial activities, all hearings were suspended and postponed until a date to be set.

Current liabilities

27) Trade payables

(euro/000)	31/12/2019	31/12/2018	Var.
Trade payables - gross	1,217,536	1,011,802	205,734
Credit notes to be received	(128,290)	(143,936)	15,646
Trade payables	**1,089,246**	**867,866**	**221,380**

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 (+11 days) toward vendors. For further information on this item trend and more generally on the Working Capital please refer to the ‘*Operating net working capital*’ section in the ‘*Directors’ Report on Operations*’.

28) Financial debt (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Bank loans and overdrafts	19,830	112,495	(92,665)
Other financing payables	16,032	25,816	(9,784)
Short - term financial liabilities	**35,862**	**138,311**	**(102,449)**

Payables to banks are mainly represented by the valuation at amortised cost of the portion due within one year of the medium/long-term loans taken out by Group companies, more specifically the portions due within 12 months of the 9 unsecured loans entered into in 2019 by the Spanish companies Vinzeo Technologies SAU (3.6 million euro) and Esprinet Iberica S.L.U. (7.9 million euro), in addition to the portions due within 12 months of two minor loans signed by the parent company Esprinet S.p.A. in March 2017 (5.0 million euro). This adds to the portion falling due within the year (0.4 million euro) of the loan taken by the parent company relating to a delivery of goods to the customer 'Guardia di finanza - GdF'.

From the aforementioned loans, there are two, both granted to Esprinet Iberica for an original amount of 20.0 million euro, which are backed by covenants regarding the maximum ratio between financial position and EBITDA and a ceiling on the total value of medium/long-term loans obtainable from the banking system.

The balance as at 31 December 2018 also included the valuation at amortised cost of 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 a 5-year revolving facility for 65.0 million euro (undrawn in the year).
This senior loan was fully repaid in advance on 26 September 2019.

On 30 September, the Company signed a 3-year unsecured RCF-Revolving Credit Facility with a pool of Italian and international banks for a total amount of 152.5 million euro. This transaction was closed after the full repayment of the previous pool loan, which was outstanding for 72.5 million euro, being undrawn the relative revolving credit line of 65.0 million euro.
This loan is supported by a set of financial covenants, which are ordinary for this kind of transaction. As at 31 December 2019 the line was not drawn. During the year there was a temporary use of 20.0 million euro.

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 change in debt is closely correlated to the volume and timing of the receivables factored.

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

36) Lease liabilities (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities (current)	8,597	-	8,597

The value of the current financial liability referring to the right-of-use assets as at 31 December 2019, equal to 8.6 million euro, was initially entered for 8.5 million euro as at 1 January 2019 and subsequently changed as better described below:

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities	-	-	-
Initial book value: 01/01/2019	8,539	-	8,539
Increase from subscribed contracts	313	-	313
Reclassification from non-current liabilities	8,530	-	8,530
Lease interest expenses	3,540	-	3,540
Payments	(12,325)	-	(12,325)
Lease liabilities	**8,597**	**-**	**8,597**

For further information on the adoption of the new IFRS 16, please refer to the section 2.8 'Recently issued accounting standards'.

29) Current income tax liabilities

(euro/000)	31/12/2019	31/12/2018	Var.
Income tax liabilities	27	103	(76)

Current income tax liabilities amounting to 27 thousand euro mainly refer to the prevalence of current taxes accrued by Esprinet Portugal Lda (4 thousand euro), Celly Pacific LTD (18 thousand euro) and V-Valley S.r.l. (5 thousand euro) with reference to the 2019 tax year with respect to the advances paid.

30) Derivative financial liabilities (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Derivative financial liabilities	-	613	(613)

This item, which as at 31 December 2018 referred to the fair value of 6 IRS-Interest Rate Swap contracts signed in April 2017 by Esprinet S.p.A. with six of the eight banks providing the pre-existing senior loan, was reduced to zero during the year due to the early repayment on 26 September 2019 of the underlying loan.
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) Payables for equity investments (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Debts for investments in subsidiaries	-	1,082	(1,082)

Payables for equity investments, that entirely consisted of the discounted fair value as at 31 December 2018 of the expected conditional consideration relating to the acquisition of the residual 20% of Celly S.p.A., were zeroed as at 31 December 2019 following the shareholders' waiver to exercise the aforementioned option as shown in the 'Significant events occurring in the period' section of the management report.

32) Provisions and other liabilities

Provisions and other liabilities solely includes payables whose maturity is within the following 12 months.

(euro/000)	31/12/2019	31/12/2018	Var.
Social security liabilities (A)	**4,237**	**3,886**	**351**
Associates companies liabilities (B)	**-**	**-**	**-**
VAT payables	9,116	14,240	(5,124)
Withholding tax liabilities	301	321	(20)
Other tax liabilities	1,731	1,320	411
Other payables to Tax authorities (C)	**11,148**	**15,881**	**(4,733)**
Payables to personnel	6,832	6,764	68
Payables to customers	6,146	6,602	(456)
Payables to others	1,926	1,064	862
Total other creditors (D)	**14,904**	**14,430**	**474**
Accrued expenses and deferred income related to:			
- Accrued expenses for insurance costs	250	267	(17)
- Other deferred income	13	8	5
Accrued expenses and deferred income (E)	**263**	**275**	**(12)**
Provisions and other liabilities (F=A+B+C+D+E)	**30,552**	**34,472**	**(3,920)**

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 change in the balance compared to the previous year is strictly influenced by the ratio of sales made to purchases from suppliers for the parent company Esprinet S.p.A. and the Spanish subsidiaries.

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 2019.

Payables to customers mainly refer to credit notes not yet paid relating to current trading relationships.

Payables to others mainly include payables amounting to 1.2 million euro to Directors relating to emoluments accrued during this year (0.5 million euro in 2018), 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)	31/12/2019	31/12/2018	Var.
Third-party assets on consignment to the Group	51,948	40,333	11,615
Bank guarantees issued in favour of other companies	14,730	8,280	6,450
Total guarantees issued	**66,678**	**48,613**	**18,065**

Third-party assets

This amount mainly refers to the value of goods owned by third parties deposited at the Esprinet S.p.A. warehouses (43.5 million euro) and at the Esprinet Iberica S.L.U. warehouses (4.5 million euro) and at the Vinzeo Technologies S.A.U warehouses (3.9 million euro).

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)	2019	%	2018	%		*% Var.*
Product sales	2,513.6	63.7%	2,230.2	62.4%	283.4	*13%*
Services sales	5.8	0.1%	6.6	0.2%	(0.8)	*-12%*
Sales - Subgroup Italy	**2,519.4**	**63.9%**	**2,236.8**	**62.6%**	**282.6**	***13%***
Product sales	1,424.9	36.1%	1,333.1	37.3%	91.8	*7%*
Services sales	1.1	0.0%	1.3	0.0%	(0.2)	*-15%*
Sales - Subgroup Spain	**1,426.0**	**36.1%**	**1,334.4**	**37.4%**	**91.6**	***7%***
Sales from contracts with customers	**3,945.4**	**100.0%**	**3,571.2**	**100.0%**	**374.2**	***10%***

Sales by geographical segment

(euro/million)	2019	%	2018	%	Var.	% Var.
Italy	2,494.7	63.2%	2,214.7	62.0%	280.0	13%
Spain	1,378.0	34.9%	1,300.2	36.4%	77.8	6%
Portugal	38.5	1.0%	30.2	0.8%	8.3	27%
Other EU countries	20.1	0.5%	17.5	0.5%	2.6	15%
Extra EU countries	14.1	0.4%	8.6	0.2%	5.5	64%
Sales from contracts with customers	**3,945.4**	**100.0%**	**3,571.2**	**100.0%**	**374.2**	**10%**

Sales from customer contracts amounted to 3,945.4 million euro, up 10% from 3,571.2 million euro in 2018. In 2019 the Group's reference markets recorded significant growth: according to Context data, the market in Italy is estimated at 8,022 million euro (+8% compared to 2018), while Spain is worth 15,561 million euro (+6% compared to 2018). Esprinet outperforms the market and confirms its leadership in Southern Europe, with a market share of over 26%, marking an increase in Sales both in Italy (2,494.7 million euro, +13% compared to 2018) and Spain (1,378.0 million euro, +6% compared to 2018).

Sales as 'Principal' or 'Agent'

In accordance with the IFRS 15 accounting standard, the Esprinet Group has identified the distribution of the hardware and software products, the distribution of its own-brand products and the provision of non-intermediated services as the activities in which its role requires it to represent the sales as 'principal'. Conversely, the distribution of cloud software and the brokerage of services were detected as business lines to be disclosed as 'agent'. The following table illustrates this distinction.

(euro/million)	2019	%	2018	%	Var.	% Var.
Revenues from contracts with customers as 'principal'	3,941.1	*99.9%*	3,568.7	*99.9%*	372.4	*10%*
Revenues from contracts with customers as 'agent'	4.3	*0.1%*	2.5	*0.1%*	1.8	*74%*
Sales from contracts with customers	**3,945.4**	**100.0%**	**3,571.2**	**100.0%**	**374.2**	***10%***

35) Gross profit

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	3,945,371	100.00%	3,571,190	100.00%	374,181	*10%*
Cost of sales	3,770,027	95.56%	3,408,918	95.46%	361,109	*11%*
Gross profit	**175,344**	**4.44%**	**162,272**	**4.54%**	**13,072**	***8%***
- of which non recurring	-	0.00%	8,417	0.24%	(8,417)	*-100%*
Gross profit "recurrent"	**175,344**	**4.44%**	**170,689**	**4.78%**	**4,655**	***3%***

The consolidated gross profit totalled 175.3 million euro and showed an increase of +8% compared with 2018 (+1% excluding the 2018 result of 8.4 million euro in non-recurring charges, and the 2019 result of the positive contribution of 3.0 million euro by 4Side S.r.l., since the effect of the first-time adoption of IFRS 16 had no impact) as a consequence of higher sales, counterbalanced by a contraction in gross profit margin.

As is common practice in the sectors where the Group operates, the cost of sales is adjusted downwards to take into account the premiums/rebates for the achievement of targets, development and co-marketing provisions, cash discounts (so-called 'prompt payment discount' or 'cash discount') 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. In 2019 such effect amounts to 4.4 million euro (4.9 million euro in 2018).

37-38-39) Operating costs

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Sales and marketing costs	50,820	1.29%	52,792	1.48%	(1,972)	*-4%*
Overheads and administrative costs	83,086	2.11%	76,287	2.14%	6,799	*9%*
Impairment loss/reversal of financial assets	370	0.01%	9,473	0.27%	(9,103)	*-96%*
Operating costs	**134,276**	**3.40%**	**138,552**	**3.88%**	**(4,276)**	***-3%***
- of which non recurring	-	0.00%	8,823	0.25%	(8,823)	*-100%*
'Recurring' operating costs	**134,276**	**3.40%**	**129,729**	**3.63%**	**4,547**	***4%***

In 2019, operating costs, amounting to 134.3 million euro, decreased by 4.3 million euro with a margin of 3.40% compared to 3.88% in the previous year.
Net of non-recurring items, relating to the reduction in the value of receivables from the long-standing supplier of the 'Sport Technology' range that emerged in the last quarter of 2018, operating costs increased by 4.6 million euro.

Operating costs in 2019 include the positive effect of 1.9 million euro generated by the first time adoption of IFRS 16, which provides for the recognition of depreciation charges of the right-of-use assets instead of the higher rentals for the leased assets to which they refer.
Equally, as a first recognition, operating costs include 1.4 million euro of fees from the newly-acquired subsidiary 4Side S.r.l., purchased on 20 March 2019.

The following table shows a detailed breakdown of consolidated operating costs and their performance:

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Sales & marketing personnel costs	44,091	*1.12%*	43,372	*1.21%*	719	*2%*
Other sales & marketing costs	6,729	*0.17%*	9,420	*0.26%*	(2,691)	*-29%*
Sales & marketing costs	**50,820**	***1.29%***	**52,792**	***1.48%***	**(1,972)**	***-4%***
Administr., IT, HR and general service personnel costs	26,845	*0.68%*	26,171	*0.73%*	674	*3%*
Directors' compensation	4,634	*0.12%*	4,288	*0.12%*	346	*8%*
Consulting services	5,829	*0.15%*	5,613	*0.16%*	216	*4%*
Logistics services	13,915	*0.35%*	18,754	*0.53%*	(4,839)	*-26%*
Amortisation, depreciation and provisions	13,977	*0.35%*	3,771	*0.11%*	10,206	*271%*
Other overheads and administrative costs	17,886	*0.45%*	17,690	*0.50%*	196	*1%*
Overheads and administrative costs	**83,086**	***2.11%***	**76,287**	***2.14%***	**6,799**	***9%***
Impairment loss/reversal of financial assets	370	*0.01%*	9,473	*0.27%*	(9,103)	*-96%*
Total SG&A	**134,276**	***3.40%***	**138,552**	***3.88%***	**(4,276)**	***-3%***

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 utilities, bank charges and fees, insurance, data connection and telephone costs.

The item '*Impairment loss/reversal of financial assets*' includes the adjustment of the nominal value of receivables to their estimated realisable value, the item in 2018 mainly included the non-recurring write-down of 8.8 million euro relating 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)	**2019**	%	**2018**	%	**Var.**	***% Var.***
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Wages and salaries	46,026	1.17%	43,841	1.23%	2,185	*5%*
Social contributions	13,819	0.35%	12,777	0.36%	1,042	*8%*
Pension obligations	2,412	0.06%	2,355	0.07%	57	*2%*
Other personnel costs	922	0.02%	961	0.03%	(39)	*-4%*
Employee termination incentives	735	0.02%	835	0.02%	(100)	*-12%*
Share incentive plans	289	0.01%	357	0.01%	(68)	*-19%*
Total labour costs [(1)]	**64,203**	1.63%	**61,126**	1.71%	**3,077**	***5%***

[(1)] Cost of temporary workers excluded.

In 2019 personnel costs amounted to 64.2 million euro and showed an increase (+5%) slightly higher than the growth in resources employed in the previous year mainly due to the acquisition of the Italian subsidiary 4Side S.r.l. on 20 March 2019 as well as salary increases pursuant to collective labour agreements. For further details, reference should be made to the table showing the evolution of the number of Group employees integrated with the breakdown by contractual qualification indicated in the '*Human Resources*' section of the '*Directors' Report on Operations*'.

Share incentive plans

On 25 June 2018 the rights to free assignment of the ordinary shares of Esprinet S.p.A. provided for in the "Long Term Incentive Plan" approved by the Shareholders' Meeting of the same on 4 May 2018 were assigned.
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.

The plan was 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 assignment date.

The main elements of information and parameters used for the purposes of valuing the free allotment rights of the shares for the aforementioned Plan are summarised in the following table.

	2018-2020 Plan	
Allocation date	25/06/18	
Vesting date	30/04/21	
Expiry date	30/06/21	
Total number of stock grant	1.150.000	
Total number of stock grant allocated	1.150.000	
Total number of stock grant allowed	1.120.000	(1)
Unit fair value (euro)	3,20	
Total fair value (euro)	3.584.000	
Risk free interest rate (BTP 3 years)	1,1%	(2)
Implied volatility (260 days)	36,5%	(2)
Duration (years)	3	
Spot price (3)	3,58	
"Dividend yield"	3,8%	

(1) Decrease due to employment termination of several beneficiaries.
(2) Source: Bloomberg, 22 June 2018
(3) Official price of Esprinet S.p.A. shares at grant date.

Costs in the current income statement relating to the share incentive plans with a contra entry in the 'Reserve' item in the statement of financial position, totalled 289 thousand euro with reference to employees (357 thousand euro in 2018) and 962 thousand euro with reference to directors (747 thousand euro in 2018).

Amortisation, depreciation, write-downs and provisions

(euro/000)	2019	%	2018	%		% Var.
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Depreciation of tangible assets	4,109	0.10%	4,104	0.11%	5	*0%*
Amortisation of intangible assets	579	0.01%	587	0.02%	(8)	*-1%*
Depreciation of right-of-use assets	9,974	0.25%	-	0.00%	9,974	0%
Amort . & depreciation	**14,662**	**0.37%**	**4,691**	**0.13%**	**9,971**	***213%***
Write-downs of fixed assets	-	0.00%	-	0.00%	-	0%
Amort. & depr., write-downs (A)	**14,662**	**0.37%**	**4,691**	**0.13%**	**9,971**	***213%***
Accruals for risks and charges (B)	243	0.01%	182	0.01%	61	*34%*
Amort. & depr., write-downs, accruals for risks (C=A+B)	**14,905**	**0.38%**	**4,873**	**0.14%**	**10,032**	***206%***

(euro/000)	2019	2018	Var.
Depreciation of tangible assets increasing the accumulated deprec.	4,109	4,104	5
Other recharges	-	-	-
Depreciation of tangible assets	**4,109**	**4,104**	**5**
Amortisation of intangible assets increasing the accumulated deprec.	579	587	(8)
Other recharges	-	-	-
Amortisation of intangible assets	**579**	**587**	**(8)**

Depreciation and amortisation of fixed assets, both property, plant and equipment and intangible assets, reflect the adjustments shown in the second table, which allow for reconciliation with the respective tables.

Leases and multi-year services contracts

The costs relating to leases of modest value and those with a duration of less than 12 months, for which the Company availed itself of the exclusion from the application of IFRS 16, amount to 117 thousand euro and 40 thousand euro respectively.

The table below provides details of the costs related to contracts for services with a multi-year duration:

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**3.945.371**		**3.571.190**		**374.181**	***10%***
Equipment	533	0,01%	440	0,01%	93	*21%*
Data connection lines	153	0,00%	2.045	0,06%	(1.892)	*-93%*
Cost Housing CED	110	0,00%	186	0,01%	(76)	*-41%*
Total multi-year services costs	**796**	**0,02%**	**2.671**	**0,07%**	**(1.875)**	***-70%***

(euro/000)	2020	2021	2022	2023	2024	Over	Total
Equipment	640	458	411	276	3	-	1.788
Data connection lines	210	210	143	-	-	-	563
Cost Housing CED	149	149	87	-	-	-	385
Multi-year services commitments	**999**	**817**	**641**	**276**	**3**	**-**	**2.736**

42) Financial income and expenses

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Interest expenses on borrowings	2,068	0.05%	2,706	0.08%	(638)	*-24%*
Interest expenses to banks	375	0.01%	381	0.01%	(6)	*-2%*
Other interest expenses	19	0.00%	52	0.00%	(33)	*-63%*
Upfront fees amortisation	1,398	0.04%	730	0.02%	668	*92%*
IAS 19 expenses/losses	68	0.00%	57	0.00%	11	*19%*
IFRS financial lease interest expenses	3,540	0.09%	-	0.00%	3,540	*-100%*
Charges from fair value changes	531	0.01%	113	0.00%	418	*>100%*
Total financial expenses (A)	**7,999**	**0.20%**	**4,039**	**0.11%**	**3,960**	***98%***
Interest income from banks	(70)	0.00%	(34)	0.00%	(36)	*>100%*
Interest income from others	(175)	0.00%	(195)	-0.01%	20	*-10%*
Income from payables for business combinations	-	0.00%	(229)	-0.01%	229	*-100%*
Income from fair value changes	(8)	0.00%	(2)	0.00%	(6)	*>100%*
Total financial income(B)	**(253)**	**-0.01%**	**(460)**	**-0.01%**	**207**	***-45%***
Net financial exp. (C=A+B)	**7,746**	**0.20%**	**3,579**	**0.10%**	**4,167**	***>100%***
Foreign exchange gains	(726)	-0.02%	(1,061)	-0.03%	335	*-32%*
Foreign exchange losses	2,391	0.06%	2,023	0.06%	368	*18%*
Net foreign exch. (profit)/losses (D)	**1,665**	**0.04%**	**962**	**0.03%**	**703**	***73%***
Net financial (income)/costs (E=C+D)	**9,411**	**0.24%**	**4,541**	**0.13%**	**4,870**	***>100%***

The total balance between financial income and expense, negative for 9.4 million euro, shows a worsening of 4.9 million euro compared to the same period of the previous year (4.5 million euro) due to (i) 3.5 million euro for the recognition of interest expense on leases recognised as a result of the application of the new IFRS 16 standard from 1 January 2019, (ii) 0.8 million euro to the residual value of the arrangement fees of the pre-existing medium/long-term senior loan repaid in advance on 26 September, (iii) 0.5 million euro to the early redemption price of the "IRS-Interest Rate Swap" contracts that covered the interest rate risk on the pre-existing "senior" loan and (iv) 0.7 million euro to higher net foreign exchange losses compared to the previous year.

On the other hand, net bank interest expense shows an improvement of 0.7 million euro, from 3.1 to 2.3 million euro, due to a lower average use of bank funding sources, at the same average cost of debt.

Net financial expense, amounting to 7.7 million euro, shows a net balance of 6.1 million euro (2.3 million euro in 2018) in respect only of the amounts that resulted in financial movements as represented in the *Consolidated statement of cash flows*, to which reference should be made. This net balance is the result of financial expense paid of 6.3 million euro (2.6 million euro in 2018) and financial income received of 0.2 million euro as in the previous year.

45) Income tax expenses

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**3,945,371**		**3,571,190**		**374,181**	***10%***
Current income taxes	6,398	0.16%	6,756	0.19%	(358)	***-5%***
Deferred income taxes	1,707	0.04%	(1,735)	-0.05%	3,442	***-198%***
Taxes	**8,104**	**0.21%**	**5,021**	**0.14%**	**3,084**	***61%***

The following table illustrates the reconciliation between the theoretical and the effective tax rate.

(euro/000)	31/12/2019			31/12/2018		
	Group	Subgroup Italy	Subgroup Iberica	Group	Subgroup Italy	Subgroup Iberica
Profit before income taxes [A]	**31,477**	**13,016**	**18,461**	**19,180**	**904**	**18,276**
Operating profit (EBIT)	**41,069**	**20,777**	**20,292**	**23,720**	**4,385**	**19,335**
(+) bad debt provision	1,137	1,137	-	9,410	9,410	-
(+) provision for risks and charges	184	184	-	153	153	-
Taxable am out for IRAP [B]	**42,390**	**22,098**	**20,292**	**33,283**	**13,948**	**19,335**
Theoretical taxation IRES Subgroup Italy (= A*24%)	3,236	3,236	-	376	376	-
Theoretical taxation IRAP Subgroup Italy (= B*3,9%)	880	880	-	570	570	-
Theoretical taxation on Subgroup Spain's income [A*25,0%-21,0%]	4,646	-	4,646	4,710	-	4,710
Total theoretical taxation [C]	**8,762**	**4,116**	**4,646**	**5,656**	**946**	**4,710**
Theoretical tax rate [C/A]	***27.8%***	***31.6%***	***25.2%***	***29.5%***	***>100%***	***25.8%***
(-) Tax relief - ACE - Aiuto alla crescita economica (*)	(322)	(322)	-	(405)	(405)	-
Other permanent differenced	(336)	475	(811)	(231)	396	(627)
Total effective taxation [D]	**8,104**	**4,269**	**3,835**	**5,021**	**937**	**4,083**
Effective tax rate [D/A]	***25.7%***	***32.8%***	***20.8%***	***26.2%***	***>100%***	***22.3%***

*The Ires/Irap theoretical taxes are calculated excluding Nilox Deutschland GmbH, a German-law company.

46) Net profit and earnings per share

(euro/000)	2019	2018	Var.	% Var.
Net income	**23,553**	**14,158**	**9,395**	***66%***
Weighed average no. of shares in circulation: basic	50,513,190	51,605,661		
Weighed average no. of shares in circulation: diluted	51,184,041	52,017,353		
Earnings per share in euro: basic	**0.46**	**0.27**	**0.19**	***70%***
Earnings per share in euro: diluted	**0.45**	**0.27**	**0.18**	***67%***

For the purpose of calculating the 'basic' earnings per share, own shares on hand (2,295,008 units) and the residual potential callable shares (325,209 units), as per the maximum limit defined by the Board of Directors of Esprinet S.p.A. on 27 June 2019, were excluded.
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 1,120,000 free shares due to the employment termination of some beneficiaries.

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 (9)	Other emoluments	Total
Board of directors							
Maurizio Rota	Chairman	2018/21 (1)	450	248	5	-	703
Alessandro Cattani	Chief Executive Officer	2018/21 (1)	450	248	4	-	702
Valerio Casari	Director	2018/21 (1)	349	199	4	-	552
Marco Monti (2)	Director	2018/21 (1)	30	-	-	18	48
Matteo Stefanelli (3)	Director	2018/21 (1)	30	-	-	41	71
Tommaso Stefanelli (4)	Director	2018/21 (1)	30	-	-	41	71
Mario Massari (5)	Director	2018/21 (1)	30	-	-	47	77
Chiara Mauri (6)	Director	2018/21 (1)	30	-	-	18	48
Cristina Galbusera (5)	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)	30	-	-	18	48
			1,519	**695**	**13**	**220**	**2,447**
Board of Statutory Auditors							
Bettina Solimando	Chairman	04.05.18/21 (1)	45	-	-	-	45
Patrizia Paleologo Oriundi	Standing Statutory Auditor	2018/21 (1)	40	-	-	-	40
Franco Aldo Abbate	Standing Statutory Auditor	04.05.18/21 (1)	40				40
			125	**-**	**-**	**-**	**125**
(I) Payments in company preparing financial statements			**1,644**	**695**	**13**	**220**	**2,572**
Franco Aldo Abbate	Standing Statutory Auditor 4Side S.r.l.	20.03.19/22 (8)	8				8
(II) Payments from subsidiaries and affiliates			**8**	**-**	**-**	**-**	**8**
(III) Total			**1,652**	**695**	**13**	**220**	**2,580**

(1) At the date of approval of the financial statements for the year ending 31 December 2020.
(2) Marco Monti – compensation for participation in the Strategy Committee.
(3) Matteo Stefanelli – compensation for participation in the Strategy Committee of 18 thousand euro and in the Competitiveness and Sustainability Committee of 23 thousand euro.
(4) Tommaso Stefanelli – compensation for participation in the Strategy Committee of 23 thousand euro and in the Competitiveness and Sustainability Committee of 18 thousand euro.

(5) 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.
(6) Chiara Mauri – compensation for participation in the Remuneration and Nomination Committee.
(7) Renata Maria Ricotti - compensation for participation in the Control and Risk Committee.
(8) Franco Aldo Abbate - date of approval of the financial statements for the year ending 31 December 2021.
(9) 'Fringe Benefit' represented by the use of the company car.

The tables below detail non-equity variable compensation for members of the Board and other key management personnel (in thousands of euro):

Beneficiaries	Bonus of the year			Bonus from previous year		
	Due for payment/Paid	**Deferred**	**Period**	**No longer eligible fro payment**	**Pyable/ Paid**	**Still deferred**
Maurizio Rota	200	48	2019	-	90	-
Alessandro Cattani	200	48	2019	-	30	-
Valerio Casari (1)	160	39	2019	-	24	-
Totale	**560**	**135**		**-**	**144**	**-**

(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 2019.
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'.

No advances have been made and no loans have been granted to the directors and statutory auditors of Esprinet S.p.A. for the performance of these functions, including in companies within the scope of consolidation.

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.

Beneficiaries	Options held at 1° January 2019		Options held in 2019	Options assigned (taken up) in 2019	Options assigned in 2019	Options held at 31 december 2019		
	Quantity	**Average strike price**	**Quantity**	**Quantity**	**Quantity**	**Quantity**	**Average strike price**	**Average due date**
Maurizio Rota	264,343	free	-	-	-	264,343		from 25/06/2018 to 30/04/2021
Alessandro Cattani	264,343	free	-	-	-	264,343		
Valerio Casari (1)	242,314	free	-	-	-	242,314		

(1) Director.

8.2 Relationships with related parties

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-recognised 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)	Type	2019 Sales	2019 Cost	2019 Receiv.	2019 Payab.	2018 Sales	2018 Cost	2018 Receiv.	2018 Payab.
Sales									
Infoklix S.p.A.	Sales of goods	-	-	-	-	-	-	-	-
Key managers e familiari	Sales of goods	8	-	1	-	11	-	-	-
Subtotal		**8**	**-**	**1**	**-**	**11**	**-**	**-**	**-**
Overheads and administrative costs									
Immobiliare Selene S.r.l.	Lease - premises	-	-	-	-	-	1,477	350	427
M.B. Immobiliare S.r.l.	Lease - premises	-	-	-	-	-	3,405	925	1,130
Immobiliare Selene S.r.l.	Overheads	-	2	-	-	-	-	9	4
M.B. Immobiliare S.r.l.	Overheads	-	7	-	-	-	(2)	26	6
M.B. Immobiliare S.r.l.	Overheads	-	-	-	-	-	2	-	-
M.B. Immobiliare S.r.l.	Overheads	-	5	-	-	-	7	-	-
Immobiliare Selene S.r.l.	Guarantee deposits	-	-	-	-	-	-	717	-
M.B. Immobiliare S.r.l.	Guarantee deposits	-	-	-	-	-	-	833	-
Subtotal		**-**	**14**	**-**	**-**	**-**	**4,889**	**2,860**	**1,567**
Finance costs - net									
Immobiliare Selene S.r.l.	Interests on guar. Deposits	5	-	-	-	2	-	2	-
M.B. Immobiliare S.r.l.	Interests on guar. Deposits	6	-	-	-	2	-	2	-
Subtotal		**11**	**-**	**-**	**-**	**4**	**-**	**4**	**-**
Total		**19**	**14**	**1**	**-**	**15**	**4,889**	**2,864**	**1,567**

As a result of the application of IFRS 16, in 2019, 4.1 million euro in property rentals to related parties for lease contracts concluded at market conditions and signed in the periods prior to the year under review, respectively with Immobiliare Selene S.r.l. in relation to 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, 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 2019 the Esprinet Group posted a 272.3 million euro cash surplus, versus a 241.0 million euro cash surplus as at 31 December 2018.

(euro/000)	**2019**	**2018**
Net financial debt at year-beginning	**(241,044)**	**(123,058)**
Cash flow provided by (used in) operating activities	159,869	127,577
Cash flow provided by (used in) investing activities	(2,938)	1,901
Cash flow provided by (used in) changes in net equity	(10,619)	(10,786)
Total cash flow	**146,312**	**118,692**
Unpaid interests	(1,619)	(1,187)
Lease liabilities posting	(114,924)	-
20% Celly Call Option deletion	1,082	-
Increase/(decrease) in 'cash flow edge' equity reserve	380	52
Transaction fee and financial receivables adjustment ex FTA IFRS9	-	429
Net financial debt at year-end	**(272,275)**	**(241,044)**
Short-term financial liabilities	35,862	138,311
Lease liabilities	8,597	-
Customers financial receivables	(9,719)	(10,881)
Current financial (assets)/liabilities for derivatives		610
Financial receivables from factoring companies	(3,526)	(242)
Current Debts for investments in subsidiaries	-	1,082
Cash and cash equivalents	(463,777)	(381,308)
Net current financial debt	**(432,563)**	**(252,428)**
Borrowings	61,045	12,804
Lease liabilities	100,212	-
Customers financial receivables	(969)	(1,420)
Net financial debt at year-beginning	**(272,275)**	**(241,044)**

8.4 Net financial indebtedness and financial debt 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)	31/12/2019	31/12/2018
A. Bank deposits and cash on hand	463,776	380,778
B. Cheques	1	530
C. Trading securities	-	-
D. Liquidity (A+B+C)	463,777	381,308
Financial assets for derivatives	*-*	*3*
Other current financial receivables	*9,719*	*10,881*
Financial receivables from factoring companies	*3,526*	*242*
E. Current financial receivables	13,245	11,126
F. Current bank debt	2,879	3,845
G. Current portion of non current debt	16,951	108,650
H. Other current financial debt and financial liability for derivatives	24,629	26,429
I. Current financial debt (F+G+H)	44,459	138,924
J. Net current financial indebtedness (I-E-D)	**(432,563)**	**(253,510)**
K. Non-current bank loans	61,045	12,804
L. Other non - current financial receivables	(969)	(1,420)
M. Other financial debt & non-current financial liabilities for derivatives	100,212	1,082
N. Non-current financial indebtedness (K+L+M)	**160,288**	**12,466**
O. Net financial indebtedness (J+N)	**(272,275)**	**(241,044)**
Breakdown of net financial indebtedness:		
Short-term financial liabilities	35,862	138,311
Lease liabilities	8,597	-
Current debts for investments in subsidiaries	-	1,082
Current financial (assets)/liabilities for derivatives	-	610
Other current financial receivables	(9,719)	(10,881)
Financial receivables from factoring companies	(3,526)	(242)
Cash and cash equivalents	(463,777)	(381,308)
Net current financial debt	**(432,563)**	**(252,428)**
Non-current financial (assets)/liabilities for derivatives	-	-
Other non - current financial receivables	(969)	(1,420)
Borrowings	61,045	12,804
Lease liabilities	100,212	-
Net financial debt	**(272,275)**	**(241,044)**

The Group's net financial position, positive in the amount of 272.3 million euro, corresponds to a net balance of gross financial debts of 96.9 million euro, financial receivables equal to 14.2 million euro, financial liabilities for leases equal to 108.8 million euro, cash and cash equivalents equal to 463.8 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.

During 2019, as part of the working capital management policies, the programme of non-recourse assignment of receivables without recourse on a revolving basis to selected segments of customers in Italy and Spain, mostly belonging to the large-scale retail sector, continued. 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-recognised in the statement of financial position according to IFRS 9. The overall effect on the levels of financial debt as at 31 December 2019 is approx. 480.1 million euro (approx. 596.7 million euro as at 31 December 2018).

With regard to medium/long-term financial debt, the table below shows, separately for each lender, the principal amount of loans due within and beyond the next financial year, broken down into 'Subgroup Italy' and 'Subgroup Iberica'. It should be noted that the amounts shown may differ from the individual carrying amounts because the latter are representative of the amortised cost calculated by applying the effective interest rate method.

(euro/000)	31/12/2019			31/12/2018			Var.		
	Current	Non current	Tot.	Current	Non current	Tot.	Current	Non current	Tot.
Pool loan 2017(ag: Banca IMI)	-	-	-	101,500	-	101,500	(101,500)	-	(101,500)
Carige	2,521	2,564	5,085	2,478	5,085	7,563	43	(2,521)	(2,478)
BCC Carate	2,499	3,809	6,308	2,469	6,308	8,777	30	(2,499)	(2,469)
Intesa Sanpaolo (GdF loan)	458	973	1,431	439	1,431	1,870	19	(458)	(439)
Banca Pop. di Sondrio	-	15,000	15,000	-	-	-	-	15,000	15,000
Total Subgroup Italy	**5,478**	**22,346**	**27,824**	**106,886**	**12,824**	**119,710**	**(101,408)**	**9,522**	**(91,886)**
Banco Sabadell	1,803	7,468	9,271	1,764	-	1,764	39	7,468	7,507
Bankia	1,966	6,577	8,543	-	-	-	1,966	6,577	8,543
Ibercaja	1,978	11,554	13,532	-	-	-	1,978	11,554	13,532
Bankinter	2,994	3,776	6,770	-	-	-	2,994	3,776	6,770
La Caixa	1,000	3,500	4,500	-	-	-	1,000	3,500	4,500
Kutxabank	750	1,875	2,625	-	-	-	750	1,875	2,625
Cajamar	982	4,018	5,000	-	-	-	982	4,018	5,000
Total Subgroup Iberica	**11,473**	**38,768**	**50,241**	**1,764**	**-**	**1,764**	**9,709**	**38,768**	**48,477**
Total Group	**16,951**	**61,114**	**78,065**	**108,650**	**12,824**	**121,474**	**(91,699)**	**48,290**	**(43,409)**

8.5 Loans and loan covenants

The carrying amount of principals of the loans granted to the Group is as follows:

(euro/000)	31/12/2019	31/12/2018	Var.
Unsecured pool loan to Esprinet S.p.A. repayable in six-monthly instalments by February 2022	-	101,500	(101,500)
Pool loan 'GdF' (agent: Intesa Sanpaolo) to Esprinet S.p.A. repayable in yearly instalments by January 2022	1,431	1,870	(439)
Unsecured loan (agent: Carige) to Esprinet S.p.A. repayable in six-monthly instalments by December 2021	5,085	7,563	(2,478)
Unsecured loan (agent: BCC Carate) to Esprinet S.p.A. repayable in six-monthly instalments by March 2022	6,308	8,777	(2,469)
Unsecured loan (agent: Banca Popolare di Sondrio) to Esprinet S.pA repayable in quarterly instalments by November 2023	15,000	-	15,000
Unsecured loan (agent: Banco Sabadell) to Esprinet Iberica repayable in quarterly instalments by March 2024	4,271	-	4,271
Unsecured loan (agent: Bankia) to Esprinet Iberica repayable in quarterly instalments by February 2024	8,543	-	8,543
Unsecured loan (agent: Ibercaja) to Esprinet Iberica repayable in quarterly instalments by February 2024	8,532	-	8,532
Unsecured loan (agent: Bankinter) to Esprinet Iberica repayable in quarterly instalments by February 2022	6,770	-	6,770
Unsecured loan (agent: Banco Sabadell) to Vinzeo S.A.U repayable in six-monthly instalments by December 2019	-	1,764	(1,764)
Unsecured loan (agent: Cajamar) to Vinzeo S.A.U repayable in yearly instalments by December 2024	5,000	-	5,000
Unsecured loan (agent: Ibercaja) to Vinzeo S.A.U repayable in six-monthly instalments by November 2024	5,000	-	5,000
Unsecured loan (agent: Banco Sabadell) to Vinzeo S.A.U repayable in six-monthly instalments by June 2023	5,000	-	5,000
Unsecured loan (agent: La Caixa) to Vinzeo S.A.U repayable in quarterly instalments by May 2024	4,500	-	4,500
Unsecured loan (agent: Banco Kutxabanka) to Vinzeo S.A.U repayable in six-monthly instalments by March 2023	2,625	-	2,625
Total book value	**78,065**	**121,474**	**(43,409)**

The weighted average rate charged in 2019 on the aforementioned loans was 1.5% (1.7% in 2018) or 1.7% (1.9% in 2018) considering the cost of the IRS entered into on the Senior Loan to cover the risk of interest rate variability.

In addition to the medium/long-term loans indicated above, on 30 September 2019 the Company signed a 3-year unsecured RCF-Revolving Credit Facility with a pool of domestic and international banks for a total amount of 152.5 million euro (not used at the balance sheet date). This transaction was closed after the full repayment of the previous pool loan, which was outstanding for 72.5 million euro, being undrawn the relative revolving credit line of 65.0 million euro.
This loan is supported by a set of financial covenants, which are ordinary for this kind of transaction, determined as follows:

- ratio of net financial indebtedness' to EBITDA;
- ratio of 'extended net financial indebtedness' to Equity;
- ratio of EBITDA to net financial expense;
- amount of 'gross net financial indebtedness'.

In February 2019, the subsidiary Esprinet Iberica signed separately with the lending banks Bankia and Ibercaja two 5-year unsecured amortising term loans of original 10.0 million euro each (8.5 million euro carrying amount in principal as at 31 December 2019), with a company guarantee granted by the parent company Esprinet S.p.A.

Both loans, maturing in February 2025 in quarterly instalments on a straight-line basis, provide for the commitment to meet the following requirements each year: (i) a defined ratio of 'extended net financial indebtedness' to EBITDA at consolidated level and (ii) a maximum limit to the value of medium-long term loans taken out by Esprinet Iberica.

As at 31 December 2019 all covenants to which the various loans are subject, according to management's estimates (as the same must be verified in the consolidated financial statements and certified by the independent auditors), were respected.

Loan agreements, including those that do not contain financial covenants and the Revolving Credit Facility mentioned above, 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 1,306 million euro (1,281 million in cash) at its disposal in bank credit lines as at 31 December 2019, broken down as follows:

(euro/000)	Group	Subgroup Italy	Subgroup Iberica
Credit unblocking / import financing / credit lines	275,490	172,590	102,900
Medium/long-term borrowings	78,064	27,824	50,240
Endorsement credit	23,658	23,658	-
Factoring (trasferor) [1]	772,805	435,300	337,505
Bank overdrafts	1,634	1,457	177
Credit cards	832	700	132
Derivatives / forward currency transactions	550	550	-
Line revolving	152,500	152,500	-
Total	**1,305,533**	**814,579**	**490,954**

[1] Includes both with-recourse and without-recourse maximums.

The financial situation as at 31 December 2019, 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 15% (24% 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%	-	275,490
Medium/long-term borrowings	100%	78,064	78,064
Line revolving	0%	-	152,500
Bank overdrafts	11%	177	1,634
Factoring (trasferor) - with recourse	6%	334	5,300
Other	0%	33	25,040
Total Group	**15%**	**78,608**	**538,028**

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 calendar quarter in the years 2019 and 2018:

	2019			2018		
	Group	Italy	Iberica	Group	Italy	Iberica
Sales Q1	22.2%	23.3%	20.4%	21.9%	23.3%	19.4%
Sales Q2	21.3%	21.6%	21.0%	21.2%	21.7%	20.4%
Sales H1	**43.5%**	**44.8%**	**41.4%**	**43.1%**	**45.1%**	**39.8%**
Sales Q3	22.6%	22.6%	22.6%	21.6%	21.3%	22.1%
Sales Q4	33.8%	32.5%	35.9%	35.3%	33.6%	38.1%
Sales H2	**56.5%**	**55.2%**	**58.6%**	**56.9%**	**54.9%**	**60.2%**
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 by 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

In 2019 no non-recurring items were identified.

The following were identified during the corresponding period of 2018 as non-recurring items:

- the significant and unusual recognition of a negative gross margin, 8.6 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 8.7 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.).

The following table shows the impact of the above events and transactions on the income statement (including the related tax effects):

(euro/000)	Non -recurri ng Charge Type	2019	2018	Var.
Cost of sales	Value adjustments for contractual rights disputes	-	(8,417)	8,417
Gross Profit		**-**	**(8,417)**	**8,417**
Overheads and administrative costs	Value adjustments on receivables from suppliers	-	(8,823)	8,823
Total SG&A	**Total SG&A**	**-**	**(8,823)**	**8,823**
Operating Income (EBIT)	**Operating Income (EBIT)**	**-**	**(17,240)**	**17,240**
Profit before income taxes	**Profit before income taxes**	**-**	**(17,240)**	**17,240**
Income tax expenses	Non -recurring events impact		4,401	(4,401)
Net income/(loss)	**Net income/(loss)**	**-**	**(12,839)**	**12,839**

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 Subsequent events

As already reported in the '*Subsequent events*' section of the Report on Operations in more detail, the Covid-19 pandemic caused a global economic crisis whose overall medium/long-term effects are currently undergoing a complex assessment. The extent and duration of this pandemic remains uncertain but an impact on our business is expected.

This event, which occurred after the balance sheet date, does not imply an adjustment to the carrying amounts as at 31 December 2019 as required by IAS 10. However, it could have significant impacts in the 2020 financial year, without, however, affecting the company's ability to continue as a going concern, also in light of the actions taken.

8.12 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 2019 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	Entity	Fees (euro/000)	
			2019	2018 [(1)]
Auditing services				
	PwC S.p.A.	Esprinet S.p.A.	220.0	240.9
	PwC S.p.A.	Subsidiaries	91.0	19.2
	PwC network	Subsidiaries	216.2	221.3
Other services				
	PwC S.p.A.	Esprinet S.p.A.	30.0	36.0
	PwC network	Subsidiaries	80.4	3.4
Total			**637.6**	**520.8**

(1) Compensation referred to the previous Auditor EY S.p.A.

In addition to the compensation shown in the table, there is a 36 thousand euro supplement to the 2018 statutory audit fees of the previous auditor EY S.p.A.

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 15 April 2020, which also authorised the Chairperson 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, 15 April 2020

Of behalf of the Board of Directors
The Chairman
Maurizio Rota

Esprinet S.p.A. Separate Financial Statements 2019

CONTENTS of the Esprinet S.p.A. Financial Statements

ESPRINET S.p.A.: Financial Statements (Separate financial statements[1])

[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[1] requirements:

(euro)	Note	31/12/2019	31/12/2018
ASSETS			
Non-current assets			
Property, plant and equipment	1	9,052,686	10,039,117
Right-of-use assets	4	86,941,000	-
Goodwill	2	16,429,107	16,429,107
Intangible assets	3	292,270	649,480
Investments in others	5	86,412,829	86,085,930
Deferred income tax assets	6	4,972,414	4,970,191
Receivables and other non-current assets	9	2,712,431	3,094,384
		206,812,737	**121,268,209**
Current assets			
Inventory	10	335,188,290	304,236,797
Trade receivables	11	272,957,255	199,870,976
Income tax assets	12	1,318,529	2,944,270
Other assets	13	100,710,012	195,363,057
Derivative financial assets	14	-	375,420
Cash and cash equivalents	17	289,641,766	173,680,800
		999,815,852	**876,471,320**
Total assets		**1,206,628,589**	**997,739,529**
EQUITY			
Share capital	19	7,860,651	7,860,651
Reserves	20	282,947,632	293,182,393
Net result for the period	21	4,603,878	(1,030,313)
Total equity		**295,412,161**	**300,012,731**
LIABILITIES			
Non-current liabilities			
Borrowings	22	22,293,756	12,803,943
Lease liabilities	31	81,742,000	-
Deferred income tax liabilities	24	2,929,561	2,841,983
Retirement benefit obligations	25	3,721,068	3,792,658
Provisions and other liabilities	26	2,284,989	1,400,305
		112,971,374	**20,838,889**
Current liabilities			
Trade payables	27	743,962,689	521,202,619
Short-term financial liabilities	28	30,732,740	132,744,200
Lease liabilities	34	6,374,000	-
Derivative financial liabilities	30	-	613,039
Provisions and other liabilities	32	17,175,625	22,328,051
		798,245,054	**676,887,909**
Total liabilities		**911,216,428**	**697,726,798**
Total equity and liabilities		**1,206,628,589**	**997,739,529**

[1] Pursuant to CONSOB Resolution No.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

Below is the income statement by '*function*' of the company Esprinet S.p.A. prepared in accordance with IFRS[2]:

(euro)	Note	2019	2018
Sales from contracts with customers	33	**2,524,171,014**	**2,267,796,526**
Cost of sales		(2,414,385,268)	(2,166,520,891)
Gross profit	35	**109,785,746**	**101,275,635**
Sales and marketing costs	37	(33,743,406)	(36,418,943)
Overheads and administrative costs	38	(58,326,246)	(53,027,900)
Impairment loss/reversal of financial assets	39	(570,129)	(9,265,630)
Operating income (EBIT)		**17,145,965**	**2,563,162**
Finance costs - net	42	(7,928,700)	(3,457,632)
Investments expenses/(incomes)	43	(1,600,000)	-
Result before income taxes		**7,617,265**	**(894,470)**
Income tax expenses	45	(3,013,387)	(135,843)
Net result		**4,603,878**	**(1,030,313)**
- of which attributable to non-controlling interests		-	-
- of which attributable to Group		4,603,878	(1,030,313)

Statement of comprehensive income

(euro)	2019	2018
Net result	**4,603,878**	**(1,030,313)**
Other comprehensive income:		
- Changes in 'cash flow hedge' equity reserve	500,575	96,121
- Taxes on changes in 'cash flow hedge' equity reserve	(119,736)	(23,471)
Other comprehensive income not to be reclassified in the separate income statement		
- Changes in 'TFR' equity reserve	(150,108)	221,162
- Taxes on changes in 'TFR' equity reserve	36,026	(61,704)
Other comprehensive income	**266,758**	**232,108**
Total comprehensive income	**4,870,636**	**(798,205)**
- of which attributable to Group	4,870,636	(798,205)
- of which attributable to non-controlling interests	-	-

[2] Pursuant to the CONSOB Resolution No.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 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)**
Purchases of own shares	-	-	(3,929)	-	**(3,929)**
Transactions with owners	-	**3,623**	**(3,929)**	**(10,610)**	**(10,916)**
Grant of share under share plans	-	(3,814)	4,274	**-**	**460**
Equity plans in progress	-	645	-	-	**645**
Change for merge operations	-	4,828	-	-	**4,828**
FTA Accounting Standard IFRS	-	133	-	-	**133**
Other movements	-	(18)	-	-	**(18)**
Balance at 31 December 2018	**7,861**	**297,982**	**(4,800)**	**(1,030)**	**300,013**
Total comprehensive income/(loss)	**-**	**267**	**-**	**4,604**	**4,871**
Allocation of last year net income/(loss)	-	(1,030)	-	1,030	**-**
Dividend payment	-	(6,919)	-	-	**(6,919)**
Purchases of own shares	-	-	(3,847)	-	**(3,847)**
Transactions with owners	-	**(7,949)**	**(3,847)**	**1,030**	**(10,766)**
Grant of share under share plans	-	1,251	-	-	**1,251**
Other movements	-	43	-	-	**43**
Balance at 31 December 2019	**7,861**	**291,594**	**(8,647)**	**4,604**	**295,412**

Statement of cash flows[3]

(euro/000)	2019	2018
Cash flow provided by (used in) operating activities (D=A+B+C)	**129,046**	**24,329**
Cash flow generated from operations (A)	**29,533**	**14,773**
Operating income (EBIT)	17,146	2,563
Depreciation, amortisation and other fixed assets write-downs	10,621	3,182
Net changes in provisions for risks and charges	884	8,629
Net changes in retirement benefit obligations	(278)	(626)
Stock option/grant costs	1,160	1,025
Cash flow provided by (used in) changes in working capital (B)	**106,937**	**14,838**
Inventory	(30,951)	15,486
Trade receivables	(73,086)	(12,612)
Other current assets	(5,100)	(29,641)
Trade payables	223,030	35,364
Other current liabilities	(6,956)	6,241
Other cash flow provided by (used in) operating activities (C)	**(7,424)**	**(5,282)**
Interests paid, net	(4,730)	(1,576)
Foreign exchange (losses)/gains	(1,529)	(559)
Income taxes paid	(1,165)	(3,147)
Cash flow provided by (used in) investing activities (E)	**(4,905)**	**(26,373)**
Net investments in property, plant and equipment	(3,187)	(2,147)
Net investments in intangible assets	66	27
Changes in other non current assets and liabilities	52	2,825
Celly change shareholding	(458)	-
'Esprinet Portugal change shareholding	(30)	-
4Side business combination	(1,348)	-
Nilox Deutschland change shareholding	-	(300)
Reimbursement from 'stock grant' to subsidiaries	-	238
Edslan and Mosaico merge	-	(27,016)
Cash flow provided by (used in) financing activities (F)	**(8,180)**	**10,357**
Medium/long term borrowing	15,000	-
Repayment/renegotiation of medium/long-term borrowings	(106,886)	(33,676)
Leasing liabilities remboursement	(4,982)	-
Net change in financial liabilities	(2,519)	10,873
Borrowed due within 12 months received/(granted)	103,500	53,000
Net change in financial assets and derivative instruments	(1,527)	(8,925)
Dividend payments	(6,919)	(6,987)
Share buyback	(3,847)	(3,928)
Net increase/(decrease) in cash and cash equivalents (G=D+E+F)	**115,961**	**8,313**
Cash and cash equivalents at year-beginning	**173,681**	**165,368**
Net increase/(decrease) in cash and cash equivalents	**115,961**	**8,313**
Cash and cash equivalents at year-end	**289,642**	**173,681**

[3] Effects of relationships with related parties were omitted as deemed non-significant.

Statement of financial position (Pursuant to Consob Resolution No. 15519 of 27 July 2006)

(euro/000)	31/12/2019	related parties	31/12/2018	related parties
ASSETS				
Non-current assets				
Property, plant and equipment	9,053		10,039	
Right-of-use assets	86,941		-	
Goodwill	16,429		16,429	
Intangible assets	292		649	
Investments in others	86,413		86,086	
Deferred income tax assets	4,972		4,970	
Receivables and other non-current assets	2,712	-	3,095	1,554
	206,812	**-**	**121,268**	**1,554**
Current assets				
Inventory	335,188		304,237	
Trade receivables	272,957	1	199,871	-
Income tax assets	1,319		2,945	
Other assets	100,710	63,911	195,363	171,791
Derivative financial assets	-		375	
Cash and cash equivalents	289,642		173,681	
	999,816	**63,912**	**876,472**	**171,791**
Total assets	**1,206,628**	**63,912**	**997,740**	**173,345**
EQUITY				
Share capital	7,861		7,861	
Reserves	282,947		293,182	
Net result for the period	4,604		(1,030)	
Total equity	**295,412**		**300,013**	
LIABILITIES				
Non-current liabilities				
Borrowings	22,294		12,804	
Lease liabilities	81,742		-	
Deferred income tax liabilities	2,930		2,842	
Retirement benefit obligations	3,721		3,793	
Provisions and other liabilities	2,284		1,400	
	112,971		**20,839**	
Current liabilities				
Trade payables	743,963	-	521,203	-
Short-term financial liabilities	30,733	7,921	132,744	
Lease liabilities	6,374		-	
Derivative financial liabilities	-		613	
Provisions and other liabilities	17,175	1,079	22,328	1,822
	798,245	**9,000**	**676,888**	**1,822**
Total liabilities	**911,216**	**9,000**	**697,727**	**1,822**
Total equity and liabilities	**1,206,628**	**9,000**	**997,740**	**1,822**

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)	2019	non-recurring	related parties*	2018	non-recurring	related parties*
Sales from contracts with customers	**2,524,171**	-	42,113	**2,267,797**	-	56,765
Cost of sales	(2,414,385)	-	(1,377)	(2,166,521)	(6,080)	(692)
Gross profit	**109,786**	-		**101,276**	(6,080)	
Sales and marketing costs	(33,744)	-	(2,362)	(36,419)	-	(2,264)
Overheads and administrative costs	(58,326)	-	2,395	(53,028)	-	(2,495)
Impairment loss/reversal of financial assets	(570)	-		(9,266)	(8,823)	
Operating income (EBIT)	**17,146**	-		**2,563**	(14,903)	
Finance costs - net	(7,929)	-	327	(3,457)	-	634
Investments expenses/(incomes)	(1,600)	-	-	-	-	-
Result before income tax	**7,617**	-		**(894)**	(14,903)	
Income tax expenses	(3,013)	-	-	(136)	3,814	-
Net result	**4,604**	-		**(1,030)**	(11,089)	
- of which attributable to non-controlling interests	-			-		
- of which attributable to Group	4,604	-		(1,030)	(11,089)	

(*) Emoluments to key managers excluded.

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 27 July 2001.
The parent company Esprinet S.p.A. drafted the Esprinet Group consolidated financial statements as at 31 December 2019.

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 2019 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 Legislative Decree No. 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 convention, except for the assessment of a number of financial instruments, where the fair value criteria are applied, and also the going concern presumption, for details of which reference should be made to the section of the same name in the '*Main risks and uncertainties facing the Group and Esprinet S.p.A.*' in the *'Directors' Report on Operations*'.

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 have been 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 has been 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 entity. 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 amortised 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 book value 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 recognised 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 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. Reversals of impairment losses may not exceed the book value that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised in previous 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 leases are recognised in accordance with IFRS 16, among fixed assets through the recognition of an asset representing the right of use of the underlying asset for the

duration of the contract (Right of Use), recording a corresponding liability for future lease payments under 'Lease liabilities'.
Subsequent to initial recognition, the right of use is amortised in accordance with IAS 16, while the carrying amount of the lease liability increases due to the interest accrued in each period and decreases due to payments made.
Interest expenses on the lease liability and amortisation of the right to use the asset are recognised separately in the income statement. Future lease payments contractually due are discounted using the interest rate implicit in the relevant contract; where this is not easily and reliably determinable, the lessee's incremental borrowing rate is used.
The standard also requires that on the occurrence of specified events (for example, a change in the terms of the lease contract, a change in future lease payments resulting from a change in an index or rate used to determine such payments) the financial liability for the lease shall be remeasured with an adjustment for the right to use the asset.
The standard also establishes two exemptions for application in relation to assets considered to be of 'low value' and short-term leasing contracts whose revenues/costs are recognised on a straight-line basis in the income statement over the term 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, 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 the carrying amount recorded in the financial statements with the greater of fair value net of disposal costs, when there is an active market, and the value in use of the asset. 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. Expected future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the cost of money in relation to the investment period and the risks specific to the asset. An impairment loss is recognised in the income statement when the carrying value of the asset, or of the related CGU to which it is allocated, is higher than its recoverable value. 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.

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.
The cost of impairment losses and any reversal are recognised in the separate income statement under '*Investment income and charges*'.
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 (non-current and current)

Financial assets are classified on the basis of the business model adopted by the Group in managing their cash flows and on the basis of the contractual characteristics of the cash flows obtainable from the asset. The business models identified are as follows:

- Hold to collect: In this category financial assets are classified for which the following requirements are met, (i) the asset is held under a business model whose objective is to hold the asset for the purpose of collecting contractual cash flows; and (ii) the contractual terms of the asset provide for cash flows represented only by payments of principal and interest on the amount of principal to be returned.
  These assets fall within the category of assets measured at amortised cost. These are mainly trade and other receivables, as described in the 'Trade and other receivables' section. Receivables, with the exception of trade receivables that do not contain a significant financial component, are initially recognised in the financial statements at their fair value; when subsequently measured, they are measured at amortised cost using the effective interest rate. Trade receivables that do not contain a significant financial component are instead recognised at the price defined for the related transaction (determined in accordance with IFRS 15 Revenue from Contracts with Customers). At subsequent measurement, assets in this category are measured at amortised cost, using the effective interest rate. The effects of this measurement are recognised among the financial components of income. These assets are also subject to the impairment model as defined in the 'Trade and other receivables' section.
- Hold to collect and sell: this category includes financial assets whose business model provides both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal. These assets fall under the category of assets measured at fair value with the effects attributed to OCI. In this case, changes in the fair value of the asset are recognised in equity as other components of comprehensive income. The cumulative amount of changes in fair value, recognised in the equity reserve which includes the other components of comprehensive income, is reversed to the income statement when the asset is derecognised. Interest income calculated using the effective interest rate, exchange rate differences and impairments is recorded in the income statement. It should be noted that as at 31 December 2019 there were no financial assets recognised at fair value through OCI.
- Hold to sell: this category includes financial assets that are not classified in any of the above categories (i.e. residual category). These assets are recognised at fair value both at initial recognition and at subsequent measurement. Profits and losses arising from changes in fair value are recognised in the consolidated income statement in the period in which they are recognised. This category mainly includes receivables subject to mass and recurring selling.

See also the 'Trade and other receivables' section.

Purchases and disposals of financial assets are accounted for on the settlement date.

In the case of financial assets measured at fair value, if they are traded on an active market, the fair value is defined, at each reporting date, in terms of the quoted market price or 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.

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 accounted for using the amortised cost method. On initial recognition they are measured at fair value, except for trade receivables that do not include a significant financial component as described in the 'Financial assets (non-current and current)' section.
The value of receivables is reduced, where impairment losses occur, to their realisable value.
Impairments are carried out on the basis of expected loss ('Expected Credit Loss model'). In particular, the same 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.
Transactions involving the assignment of receivables without recourse, for which substantially all risks and benefits are transferred to the assignee, result in the derecognition of receivables from the balance sheet, since the requirements of IFRS 9 are met.
On the other hand, transactions involving the assignment of receivables with recourse continue to be recorded as assets since not all risks and benefits have been transferred to the assignee.

The need to manage credit risk, working capital and, consequently, cash flow also requires the systematic execution of operations such as the assignment of such receivables to financial operators either definitively (without recourse) or temporarily (with recourse). For the Company, these transactions take the form of contractually agreed revolving factoring programmes to factoring companies or banks, and securitisation programmes for loans.
The receivables that are the subject of the aforementioned factoring programs are measured as defined in the Financial assets section at fair value through profit and loss'.
Impairments carried out in accordance with IFRS9 are recognised in the consolidated income statement and are represented under the '*Impairment loss/reversal of financial assets*' item.

Tax assets

Tax 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'.

Cash and cash equivalents

Cash and cash equivalents 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 deducted from equity. In the case of any subsequent sale, the difference between the cost of own shares and the selling price is recognised 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 debt is stated at the amortised 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 carrying amount of the financial liability which is paid off or transferred to another party and the sum paid is reported in the income statement.

In the case of financial liabilities measured at fair value, if they are traded on an active market, the fair value is defined, at each reporting date, in terms of the quoted market price or 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 '*Financial income and charges*'.

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, resulted in 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.
Subsequently, they are recorded at amortised cost, which, since it is not considered necessary to carry out any discounting and separate entry in the income statement of the explicit or unbundled interest expense as it is not material in view of the expected payment time, coincides with the face value.

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.

Income statement

Revenues and expenses

On the basis of the five-stage model introduced by IFRS 15, the Company proceeds with the recognition of revenues after identifying the contracts with its customers and the related services to be satisfied (transfer of goods/services), determining the consideration to which it believes it is entitled in exchange for the satisfaction of each of these services, and evaluating the manner in which these services are satisfied (performance at a given time versus fulfilment over time).
Specifically, revenues are recognised only if the following requirements are met:

a) the parties to the contract have approved the contract and have undertaken to fulfil their respective obligations; there is therefore an agreement between the parties which creates rights and obligations due irrespective of the form in which such an agreement is expressed;
b) the Company may identify the rights of each party with respect to the goods or services to be transferred;
c) the Company can identify the terms of payment for the goods or services to be transferred;
d) the contract has commercial substance; and
e) it is likely that the Company will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When the above requirements are met, the Company recognises revenues as described below.

Revenues from sales are recognised when control of the goods subject to the transaction is transferred to the buyer or when the goods are delivered and the customer acquires the ability to decide on the use of the goods and to substantially reap all of the benefits.
Revenues are stated net of returns, discount, allowances and bonuses treated as variable components of the agreed consideration.
Revenues from the provision of services are recognised on completion of the service.

It should be noted that the payment times granted to the Company's customers do not exceed 12 months, therefore the Company does not record adjustments to the transaction price to consider components of a financial nature.

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 Shareholder's Meeting.

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 Company operates (the functional currency).
The 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.

Exchange rate	31.12.2019	Average 2019
US Dollar (USD)	1.12	1.12

Derivative instruments

Derivative instruments are accounted for in accordance with IFRS 9. At the date of execution they are initially recorded at fair value as 'fair value through profit and loss' financial assets when the fair value is positive or as 'fair value through profit and loss' financial liabilities when the fair value is negative.
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 subsequently reversed to the separate income statement when the economic effects of the hedged item manifest.
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, when it is reversed in the income statement.

If derivatives hedge the risk of changes in the fair value of assets and liabilities recorded in the balance sheet ('fair value hedge'), both changes in the fair value of the hedging instrument and changes in the hedged item are recognised in the income statement.

Variations of fair value derivatives that do not fulfil the requirements necessary to be defined as hedging instruments are stated in the 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 Main accounting estimates

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.
These specificities relate in particular to the conditions and procedures for the formation of the commercial margin for the part known as the 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 (so-called 'prompt payment discount' or 'cash discount').

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. 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 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 characterised by uncertainties. This means that different results - obviously neither estimable nor foreseeable, today – which might even cause significant adjustments to the carrying amounts 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, goodwill, rights of use and related lease liabilities.

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

Right of use and financial liabilities for leasing

The initial recognition of a right of use and the related lease liabilities in relation to leasing contracts of assets depends on various elements of estimation relating, mainly, to the duration of the non-cancellable period of the contract, the interest rate implicit in the lease, the costs of dismantling/replacement/restoration of the asset at the end of the contract.

At the effective date the lessee shall measure the lease liability at the current value of lease payments due in the non-cancellable period.
The non-cancellable period is in turn dependent on assessments of the probability of the lessee exercising the renewal or interruption options and, if the right to early termination is also under the control of the lessor, in relation to the possible costs for that party too resulting from the interruption.

Payments due for the lease shall be discounted using the interest rate implicit in the lease if this can be easily determined. If this is not possible, the lessee must use their marginal borrowing rate.
The interest rate that causes the current value of the lease payments due and the unsecured residual value to be equal to the sum of the fair value of the underlying asset and any initial direct costs of the lessor.
The marginal borrowing rate is the interest rate that the lessee would have to pay for a loan, with a similar duration and with similar security, necessary to obtain a value similar to the right-of-use asset in a similar economic environment.

In order to determine the non-cancellable period of each contract, particularly with regard to real estate, the contractual terms were analysed and assumptions were made in relation to possible renewal periods connected with the location of the same, the possibility of moving to other areas, the costs associated with such transactions.
The leasing contracts in place do not show the implicit borrowing rate for which the marginal loan rate applicable to the Company has been determined, separately for clusters of contracts with a similar duration. In order to quantify the marginal lending rate, assessments were made in relation to the spread applicable to the Company based on its rating, the free risk lending rates applicable in the countries where the Company operates, the guarantees from which these loans would be supported and the materiality with respect to the Company's level of debt.

The above assessments are based on assumptions and analyses that are by their nature complex and changeable over time, which could therefore lead to subsequent amendments, in the event of a change in the non-cancellable period of the contract, or to the quantification of different rates in subsequent periods for new contracts to which they apply.

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.
The so-called 'Discounted Cash Flow Model' (DCF) has been used for this purpose, 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 2020-2024E and beyond the period.

'Fair value' of derivatives

During the year it became 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'. Such contracts, settled by the closing date of these financial statements, have been accounted for using the hedge accounting technique.

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, insignificant effect of the credit risk of both counterparties in relation to the derivative value, constant hedge ratio over time) and as a consequence, the derivative contracts were subject to such 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 Company 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.

Esprinet S.p.A. 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

Property, plant and equipment 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 Esprinet S.p.A.. This revision may result in variations to the periods of depreciation and amortisation quotas in future accounting periods.

Bad debt provision

For purposes of calculating the presumed degree of encashment of receivables, Esprinet S.p.A. makes forecasts concerning the expected degree of solvency of the other parties ('Expected Credit Loss model') taking into account available information, collateral to contain credit risk and considering accumulated historical experience.
For loans that are planned to be transferred to third parties as part of securitisation programmes or to be sold to factoring companies or banks, the '*fair value through profit and loss*' is measured.
The actual realisable 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 Company 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 current economic and financial climate 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 and contingent liabilities

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.
This estimate is the result of a complex process involving legal and tax consultants as well as subjective judgement 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. If a financial outlay becomes possible but the amount cannot be determined, this fact is disclosed in the notes to the financial statements.

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

New or revised accounting standards and interpretations adopted by the Company

The accounting standards adopted in the preparation of the consolidated financial statements as at 31 December 2019 are consistent with those used in the consolidated financial statements as at 31 December 2018, except for the accounting standards and amendments described below and obligatorily applied with effect from 1 January 2019 after being endorsed by the competent authorities.

The main changes are as follows:

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 and short-term leases. At the commencement date of a lease, a lessee recognises 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 are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are 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 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 accounting under IAS 17. Lessors 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 to make more extensive disclosures than under IAS 17. IFRS 16 came into force for financial years beginning on or after 1 January 2019. A lessee may choose to apply the standard using either a full retrospective or a simplified retrospective approach. The latter option was chosen by the Company. Thus, it was not necessary to retrospectively reflect the effects of these new provisions in the comparative data of the statement of financial position as at 31 December 2018, the separate and comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement. Application of the standard on 1 January 2019 resulted in the recognition by the Company of a 'right to use' the assets and a corresponding financial liability of approximately 93.1 million euro. In particular, the Company with respect to leasing contracts previously classified as operating leases, accounted for a financial liability and a right-of-use equal to the discounted value of the residual future payments at the transition date.
Based on the analysis carried out, the identified contracts, where the Company acts as a lessee, refer mainly to the lease of office and operating buildings, to company vehicles and to industrial and commercial equipment and other assets.
In the adoption of IFRS 16, the Company benefited from the exemption granted by the standard with respect to the short-term leases for each class of assets. At the same time, the Company also benefited from the exemption referred to low value leases. Payments linked to those leases were booked as charges on a straight-line basis in the income statement. Low-value assets include IT appliances, small office supplies and warehouse equipment. Costs relating to low-value leases and short-term leases in 2019 totalled 0.1 million euro, the same such as income for sub-leasing of right of use assets.
As permitted by the standard, the Company has not applied IFRS 16 to leases of intangible assets.

In addition, the above-mentioned standard required some professional judgement. In particular, the Company analysed the lease contracts with regards to the lease term, defining the 'non-cancellable' period for each of them, together with the effects of extension and early termination clauses whose exercise was deemed reasonably certain. Specifically, for real estate, this valuation considered the specific facts and circumstances of each activity. With regard to the other categories of assets, mainly company cars, the Company generally considered it unlikely that any extension or early termination clauses would be exercised in view of the Company's usual practice.

With respect to the discount rate, the Company adopted the expected marginal borrowing rate applicable to loans having a similar term and similar security which would be necessary to obtain a value similar to the right-of-use asset in a similar economic environment. The above-mentioned rate is between 2.5% and 3.3% as at 1 January 2019.

Lease liabilities as at 1 January 2019 can be reconciled with the commitments resulting from operating leases as at 31 December 2018 as follows:

(euro/000)	**1° January 2019 Esprinet SpA**
Pledges for operation lease under IFRS 16 scope as at 31 December 2018	**78,384**
Non-discounted Liabilities for non - operational lease as at 1 January 2019	*38,988*
Discounting effects	(24,274)
Pledges for operational lease from the transition to IFRS 16 as at 1 January 2019	**93,098**

The effects on the balance sheet as at 1 January 2019 of the application of IFRS 16 are summarised in these financial statements in the subsequent notes.

The following table indicates the impacts from adoption of IFRS 16 on the Esprinet S.p.A. separate financial statements as at 31 December 2019:

(euro/000)	31.12.2019 Published	31.12.2019 Pre-IFRS 16	IFRS 16 effects
ASSETS			
Non-current assets			
Property, plant and equipment	9,053	9,053	-
Right-of-use assets	86,941	-	86,941
Goodwill	16,429	16,429	-
Intangible assets	292	292	-
Investments in other	86,413	86,413	-
Deferred income tax assets	4,972	4,902	70
Receivables and other non-current assets	2,712	2,712	-
	206,812	**119,801**	**87,011**
Current assets			
Inventory	335,188	335,188	-
Trade receivables	272,957	272,957	-
Income tax assets	1,319	1,153	166
Other assets	100,710	100,858	(148)
Cash and cash equivalents	289,642	289,642	-
	999,816	**999,798**	**18**
Total assets	**1,206,628**	**1,119,599**	**87,029**
EQUITY			
Share capital	7,861	7,861	-
Reserves	282,947	282,947	-
Net result for the period	4,604	5,644	(1,040)
	295,412	**296,452**	**(1,040)**
			-
Total equity	**295,412**	**296,452**	**(1,040)**
LIABILITIES			
Non-current liabilities			
Borrowings	22,294	22,294	-
Lease liabilities	81,742	-	81,742
Deferred income tax liabilities	2,930	2,930	-
Retirement benefit obligations	3,721	3,721	-
Provisions and other liabilities	2,284	2,284	-
	112,971	**31,229**	**81,742**
Current liabilities			
Trade payables	743,963	744,010	(47)
Short-term financial liabilities	30,733	30,733	-
Lease liabilities	6,374	-	6,374
Provisions and other liabilities	17,175	17,175	-
	798,245	**791,918**	**6,327**
Total liabilities	**911,216**	**823,147**	**88,069**
Total equity and liabilities	**1,206,628**	**1,119,599**	**87,029**

(euro/000)	2019 Published	2019 Pre-IFRS 16	IFRS 16 effects
Sales from contracts with customers	**2,524,171**	**2,524,171**	**-**
Cost of sales	(2,414,385)	(2,414,385)	-
Gross Profit	**109,786**	**109,786**	**-**
Sales and marketing costs	(33,744)	(35,787)	2,043
Overheads and administrative costs	(58,326)	(57,885)	(441)
Impairment loss/reversal of financial assets	(570)	(570)	-
Operating income (EBIT)	**17,146**	**15,544**	**1,602**
Finance costs - net	(7,929)	(5,051)	(2,878)
Investments expenses/(incomes)	(1,600)	(1,600)	-
Profit before income taxes	**7,617**	**8,893**	**(1,276)**
Income tax expenses	(3,013)	(3,249)	236
Net income	**4,604**	**5,644**	**(1,040)**

The breakdown of the effects of the application of IFRS 16 between '*Sales and marketing costs*' and '*Overheads and administrative costs*' is due to the different classification, given the representation by destination, of the lease payments of Cash & Carry within '*Sales and marketing costs*' and amortisation and depreciation within '*Overheads and administrative costs*'.

The new standard's adoption to the contracts identified therefore determined:

• in the Statement of Financial position: the initial recognition of an asset representative of the right of use pursuant to IFRS 16, which will then be depreciated over the residual contractual term and a financial liability equivalent to the present value of future minimum non-cancellable lease instalments which the lessee will have to pay as from 1 January 2019, which will subsequently be reduced as the lease payments are made, as well as a decrease in receivables and current assets following the reclassification of rentals paid in advance as rights of use and a decrease in trade payables following the reversal of the operating lease rentals;
• in the Income Statement: a worsening of the net profit due to the elimination of the rental charges replaced with the recognition of (i) the depreciation of the right-of-use assets and (ii) the financial expense on the recorded payable, as well as the related tax effects.
The estimate of the effects of first-time adoption of IFRS 16 takes into account any guidance provided by IFRIC in view of the first application of the standard in 2019 financial reports.

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. The amendments, applicable from 1 January 2019, had no significant impacts, for the Company, on the Financial Statements as at 31 December 2019.

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 amendments, applicable from 1 January 2019, had no significant impacts, for the Company, on the Financial Statements as at 31 December 2019.

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. The amendments, applicable from 1 January 2019, had no significant impacts, for the Company, on the Financial Statements as at 31 December 2019.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement - published on 14 March 2019 and aims to clarify that in the event of changes to the defined contribution plan, companies are required to recalculate the cost of the service for the portion remaining after the plan is amended using actuarial assumptions that reflect the benefits offered by the plan and the plan's 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). The amendments, applicable from 1 January 2019, had no significant impacts, for the Company, on the Financial Statements as at 31 December 2019.

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*. The amendments, applicable from 1 January 2019, had no significant impacts, for the Company, on the Financial Statements as at 31 December 2019.

The following are the standards and interpretations issued but not yet in force and/or approved at the date of this report. The Company 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 by the Company

Amendment to the references of the Conceptual framework in the IFRS: issued in March 2018, the amendment was issued in order to update the references and citations of several IFRSs to recall the new version of the conceptual framework and no longer, with exceptions, the one approved in 2010.

Amendments to IAS 1 and IAS 2018 – in October 8, the IASB published several amendments to IAS 8 and IAS 1 that provide clarifications on the definition of 'materiality'. These amendments will apply from 1 January 2020.

Amendment to IFRS 9, IAS 39 and IFRS 7: In September 2019, the IASB published amendments relating to the reform of reference interest rates. The amendments to IFRS 9, IAS 39 and IFRS 7 aim to mitigate the effects of the interest rate reform (known as the IBOR reform) on financial reporting. The amendments should ensure that hedge accounting continues to exist or can be designated despite the uncertainties related to the expected replacement of different interest rates. These amendments will apply from 1 January 2020.

The Company will adopt these new standards, amendments and interpretations, based on the application date indicated; the potential impacts are not expected to be significant.

Standards issued but not yet endorsed by the European Union

IFRS 17 – Insurance Contracts - Issued in May 2017 by IASB, the new standard will replace IFRS 4 and will be effective from 1 January 2021.

Amendments to IFRS 3 – in October 2018, the IASB published some amendments to IFRS 3 that amend the definition of 'business'. These amendments will apply from 1 January 2020.

The Company will adopt these new standards, amendments and interpretations, based on the application date indicated, and will evaluate potential impact, when they are endorsed.

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 these financial statements.

Reclassifications in income statement

No reclassifications in income statement regarding previous periods, have been made in these financial statements.

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	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**
Historical cost increase	376	1,955	115	**2,446**
Historical cost decrease	(23)	(1,120)	-	**(1,143)**
Historical cost reclassification	34	984	(1,018)	**-**
Increase in accumulated depreciation	(763)	(2,464)	-	**(3,227)**
Decrease in accumulated depreciation	23	915	-	**938**
Total changes	**(353)**	**270**	**(903)**	**(986)**
Historical cost	11,498	27,567	115	39,180
Accumulated depreciation	(9,564)	(20,563)	-	(30,127)
Balance at 31/12/2019	**1,934**	**7,004**	**115**	**9,053**

Property, plant and equipment as at 31 December 2019 amounts to 9.1 million euro, showing a decrease of approximately 1 million euro compared with the value as at 31 December 2018.

As of 31 December 2019, investments essentially concerned security, surveillance and energy efficiency 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 following is the breakdown of the item '*Industrial and commercial equipment and other assets*':

(euro/000)	31/12/2019	31/12/2018	Var.
Electronic machines	4,015	3,472	543
Furniture and fittings	1,247	1,545	(298)
Industrial and commercial equipment	1,099	1,019	80
Other assets	643	698	(55)
Total	**7,004**	**6,734**	**270**

The useful life related to the various asset categories remained unchanged compared to the previous year.

It should also be noted that there are no temporarily unused tangible fixed assets held for sale and that the supply contracts entered into by the end of the year, but not recognised in the financial statements, are not significant.

4) Right-of-use assets

Essential information, together with a summary of impacts emerging from the IFRS 16 (Leases) adoption from 1 January 2019, is displayed below.

(euro/000)	31/12/2019	31/12/2018	Var.
Right-of-use assets	86,941	-	86,941

Pursuant to IFRS 16, the accounting treatment of lease contracts as lessee (which are not a provision of services) provides for booking a financial liability in the statement of financial position, which is represented by the discounted lease payments, against the entry of the right to use the leased assets under assets.

(euro/000)	Rental Property	Cars	Total
Balance at 31/12/2018	-	-	-
Initial book value 01/01/2019 - historical amount	91,864	1,234	**93,098**
Initial book value 01/01/2019 - provision for depreciation	-	-	**-**
Historical cost increase	455	1,000	**1,455**
Historical cost decrease	(97)	-	**(97)**
Increase in accumulated depreciation	(6,774)	(758)	**(7,532)**
Decrease in accumulated depreciation	17	-	**17**
Total changes	**(6,399)**	**242**	**(6,157)**
Historical cost	92,222	2,234	94,456
Accumulated depreciation	(6,757)	(758)	(7,515)
Balance at 31/12/2019	**85,465**	**1,476**	**86,941**

The contracts that fall within the scope of IFRS 16 mainly refer to:

- office and operating buildings;
- company vehicles;

The right-of-use assets and the financial liabilities relating to lease contracts are booked in specific entries in the statement of financial position.

Changes during the year, considering the initial book value as at 1 January 2019 as the starting value, are mainly attributable to the signing of new contracts for buildings for operating use for 0.5 million euro and new company car rental contracts for 1.0 million euro, in addition to depreciation for the period determined on the basis of the residual duration of the contract.

For further information on the adoption of the new IFRS 16, please refer to the section 2.5 'Recently issued accounting standards'.

2) Goodwill

The total goodwill recorded in the financial statements amounts to 16.4 million euro and is perfectly in line with the value recorded as at 31 December 2018.
The following table summarises the values of the single goodwill items in terms of the business combinations from which they arose:

(euro/000)	31/12/2019	31/12/2018	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**	**16,429**	**-**

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. in 2018.
Assotrade S.p.A. represents the acquisition of the 'IT Distribution' business unit, while the Pisani S.p.A. and EspriLog S.r.l. designated goodwills represent the deficit resulting from the mergers of Pisani S.p.A. and EspriLog S.r.l. into Esprinet S.p.A., respectively.

Information on impairment testing of assets: goodwill

IAS 36 requires that the existence of impairment losses on property, plant and equipment and intangible assets with a finite useful life be assessed when there are indications that such a problem may exist.
In the case of goodwill and other intangible assets with an indefinite useful life, this 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.
Since, under international accounting standards, goodwill is not an asset in its own right because it is unable to generate cash flows independently from other assets or groups of assets, it cannot be subject to impairment testing separately from the assets to which it is attributable but must be allocated to a 'CGU-Cash Generating Unit' or a group of CGUs, since the maximum limit of aggregation coincides with the notion of 'segment' contained in IFRS 8.
In this case it was only possible to consider the Esprinet S.p.A. as a whole, since there are no smaller CGU-Cash Generating Units generating independent cash flows to which to allocate all or part of the

goodwill highlighted.
The assessment process of goodwill and the assessment system adopted are described in detail in the corresponding section of the Consolidated Financial Statements and in the following comment to the item 'Equity investments', to which reference should be made.

As a result of the impairment tests carried out, it was not necessary to write down any of the values of goodwill recorded as at 31 December 2019, which are therefore confirmed.
Below are the parameters that the WACC and 'g' variables should have assumed in order for there to be a correspondence between recoverable value and carrying amount:

Key variables for: Enterprise Value = Carrying Amount	**Italy IT&CE "B2B" CGU 1**
"g" (long-term growth rate)	n.s.
WACC post-tax	43.95%

In addition to the average normal flows used to determine value in use, for information purposes only as required by IAS 36 and on the basis of the indications contained in joint Bank of Italy/Consob/ISVAP document No. 4 of 3 March 2010, sensitivity analyses were also carried out on the following key variables:

- 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%.

As a result of these analyses, in none of the scenarios arising from the different combinations of key assumptions as shown before, including the 'worst' scenario resulting from the use of a 'g' of 0% (equal to an actual negative 'g' of -1.5%), a WACC increased by +2% and a plan EBITDA reduced by -20%, the recoverable value is lower than the net carrying amount.

3) Intangible assets

(euro/000)	**Industrial and other patent rights**	**Assets under construction and advances**	**Total**
Historical cost	7,150	105	**7,255**
Accumulated amortisation	(6,606)	-	**(6,606)**
Balance at 31/12/2018	**544**	**105**	**649**
Historical cost increase	17	129	**146**
Historical cost decrease	-	-	**-**
Historical cost reclassification	105	(105)	**-**
Increase in accumulated amortisation	(503)	-	**(503)**
Decrease in accumulated amortisation	-	-	**-**
Total changes	**(381)**	**24**	**(357)**
Historical cost	7,272	129	**7,401**
Accumulated amortisation	(7,109)	-	**(7,109)**
Balance at 31/12/2019	**163**	**129**	**292**

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.

This item is amortised in three years.

5) Investments in subsidiaries and other companies

(euro/000)	31/12/2019	31/12/2018	Var.
Investments in others	86,413	86,086	327

The following information concerns the Company's investments in associates.
Data concerning net equity and net profit refer to the draft financial statements as at 31 December 2019 approved by the respective Boards of Directors.

(euro)	Headquarter	Net equity [1]	Profit/(loss) [1]	% possession	Cost	Value
Celly S.p.A.	Vimercate	5,307,282	(95,114)	85%	9,191,940	9,191,940
V-Valley S.r.l.	Vimercate	3,745,034	1,160,323	100%	20,000	20,000
4Side S.r.l	Legnano	2,735,576	951,473	51%	1,348,143	1,348,143
Nilox Deutschland GmbH	Düsseldorf (Germany)	(742,993)	(466,986)	100%	-	-
Esprinet Iberica S.L.U.	Saragozza (Spain)	107,750,702	(125,727)	100%	75,772,746	75,772,746
Esprinet Portugal Lda	Porto (Portugal)	(31,140)	(549,263)	5%	80,000	80,000
Total		**118,764,462**	**874,706**		**86,412,829**	**86,412,829**

[1] Data from draft financial statements as at 31 December 2019 drawn up in compliance with the respective local accounting standards.

The following table details the changes in the item '*Equity investments*':

(euro/000)	Amount at 31/12/2018	Increase	Decrease	Amount at 31/12/2019
Celly S.p.A.	9,935	457	1,200	9,192
V-Valley S.r.l.	20	-	-	20
4Side S.r.l.	-	1,348	-	1,348
Nilox Deutschland GmbH	400	-	400	-
Esprinet Iberica S.L.U.	75,681	92	-	75,773
Esprinet Portugal Lda	50	30	-	80
Total	**86,086**	**1,927**	**1,600**	**86,413**

The main increases in the year refer to the following:

- the acquisition of 51% of the shares of 4Side S.r.l., a company specialising in the distribution in Italy of Activision Blizzard brand products, for 1.3 million euro;
- the acquisition of a further 5% of the shares of Celly S.p.A. free of charge (from 80% to 85%) by the minority shareholder against the waiver of the European call option on 20% of the share capital.

The reductions are related to:

- the write-off of the holding in Nilox Deutschland GmbH in liquidation and with negative equity;
- the impairment loss of 1.2 million euro of the investment in Celly S.p.A.

The subsidiary Nilox Deutschland GmbH, the organisational unit dedicated to the distribution on the German market of 'Nilox' own brand products placed in voluntary liquidation in September 2019, in addition to being written down in full, a provision has also been made for future losses in order to meet the subsidiary's current obligations and the charges connected with the liquidation proceedings.
The total equity investment in V-Valley S.r.l., given its contractual nature as a 'commission agent' for the sale of the parent company Esprinet S.p.A. and its irrelevant value with respect to the equity of the latter, was not subject to specific verification.
The investment in Esprinet Portugal is shown as residual and not relevant (5%).

Information concerning impairment testing of assets: equity investments

As required by IAS 36, the Company has verified the recoverability of the book value of investments in subsidiaries in order to determine whether these assets may have suffered a loss in value, through a comparison between value in use and carrying amount.
The value verification process and the valuation system adopted are described analytically in the corresponding section of the consolidated financial statements.

A) Valuation Framework

The valuation framework and the main procedural approaches to the notions of value and the criteria and methodologies used in valuation are summarised below.

In determining the recoverable value of the individual CGUs, the term 'value in use' has been used. The recoverable amount thus determined was compared with the carrying amount.
The recoverable amount of the individual investments was determined as the higher between value in use and fair value, the latter estimated using the income statement method. The recoverable amount thus determined was compared with the carrying amount.

The value in use is defined as 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.
For the purpose of determining value in use, the commonly accepted financial method is the so-called 'DCF-Discounted Cash Flow' which discounts estimated future cash flows by applying an appropriate discount rate. The variant used is of the 'asset side' type and assumes the discounting of cash flows generated by operating activities gross of financial components, since the cash flows are calculated net of notional taxes by applying an estimated tax rate to the operating result (EBIT).

Disclosures required by the international accounting principles regarding the main methods chosen for the calculation of the recoverable amount are as follows.

Basis for estimates of future cash flows

The financial valuations for the purpose of calculating 'value in use' are based on five-year plans, approved by the Board of Directors of the parent company Esprinet on 15 April 2020, constructed starting from a management budget prepared for internal purposes for the year 2020 and extrapolating from it, through the application of forecasting techniques aimed at treating fixed and variable costs differently, the results for the 2021-24 period.
As required by the IAS 36 accounting principle, paragraph 50, estimated cash flows exclude financial expense, as per the 'asset side' approach already described, and are expressed in nominal terms.
The prospective determination of cash flows for each asset is based on the so-called 'unique scenario', which is the most likely scenario based on management's best estimates. The plans

therefore do not also represent the expected average flows but identify a 'normal' flow profile as characterised by the highest degree of probability of occurrence (so-called 'probabilistic approach') and therefore are capable of representing management's best estimate of the evolution of the results of each activity.

The introduction of the new standard IFRS 16 ('Leases') required the construction of forecast plans in application of this standard (replacement of operating leases and rentals with depreciation and interest).
From the perspective of determining 'value in use' through a method based on the discounting of cash flows, in order to preserve the principle of 'valuation neutrality' (excluding tax effects), this has led to several adjustments to the forecast cash flows.
In particular, in order to ensure the operational sustainability of the plans, it was assumed that, when the main lease contracts expired, new contracts would be signed under the same conditions, which would result in a flow of notional investments corresponding to the 'Right of Use' value of the restored assets. Thanks to this measure, it has been possible to correctly capture the reinvestment needs required to guarantee the cash generation foreseen by the plan.

Forecasting methods

For the purposes of estimates, strict reference was made to the current conditions of use, i.e. regardless of the flows obtainable from any incremental investments and/or restructuring that represent a discontinuity with respect to normal business operations.

Flows discounted or weighted for probability

In the preparation of the forecast plans used in the 'DCF-Discounted Cash Flow' models, the expected trends in revenues and gross product margins were defined on the basis of data and information on the distribution sector and consumption of consensus technology from sources commonly considered reliable (EITO, Euromonitor, Net Consulting Cube, GFK, Context), assuming different trends for the subsidiaries according to competitive positioning, strategies and environmental conditions.
The prospective determination of cash flows for each investee company was based on the so-called 'unique scenario', which is the most likely scenario based on management's best estimates. The plans therefore do not also represent the expected average flows but identify a 'normal' flow profile as characterised by the highest degree of probability of occurrence (so-called 'probabilistic approach') and therefore are capable of representing management's best estimate of the evolution of the results of each activity.
The verification of the operational sustainability of the forecasting plans focused on the maintenance of 'business models' and competitive advantages for each investee company, including on the basis of the best external evidence regarding the prospects of each segment/market and the performance historically achieved.
The financial sustainability of the plans is based on an analysis of the intrinsic consistency between expected cash-flows over the plan timeframe and prospective investment needs in working capital and fixed assets, taking into account cash reserves.

Effects of the Covid-19 pandemic

The effects of the Covid-19 emergency, which occurred after 31 December 2019, do not represent an 'adjusting' event according to the dictates of the international accounting standards and therefore did not have a corrective impact on the financial statement values.
For the same reason, the forecast plans for the purposes of the impairment test do not reflect the effects of this health emergency.

Key critical issues

The impairment test carried out took into account certain critical issues that emerged in application of the related procedure; in particular, any deviations between budget and actual figures were

assessed. The quality and completeness of the information base and the degree of verifiability of the plan inputs and the inherent risk of the activities to be assessed were also considered.
In light of the factors listed above, the following elements emerged for Celly S.p.A.:

- an income statement structure characterised by more profitable unit margins and a significantly higher incidence of fixed costs than the legal entities operating in 'pure' distribution, which define a higher degree of operational leverage and exposure to market risk;
- a track record consisting of negative deviations between budget forecasts and income results actually achieved, including in the presence of internal discontinuities in the competitive context (presence of very aggressive competitors in terms of 'trade marketing' and investments in retail outlet spaces);
- a reduced capacity to implement corporate programmes (e.g. switching of revenues from Italy to foreign countries that are not within a time frame consistent with the declared programmes);
- the lack of information on future trends in the sector.

These elements have led to the adoption of a higher level of intrinsic risk for the investee company during the annual impairment test, for which:
- the management budget prepared by those responsible for its implementation has been 'stressed' by the Finance Department, particularly with regard to the sales volumes obtainable and product margins;
- a higher discount rate was used than in the past and with respect to that used to verify the value of the goodwill of Esprinet S.p.A. itself, in order to reflect a greater dimensional risk.

Discount rate

The discount rate used is representative 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 investee company.
This rate corresponds to a notion of capital cost in the meaning of 'WACC-Weighted Average Cost of Capital' and is unique for the valuation of the Terminal Value and the discounting of flows over the explicit forecast period.
In particular, for the purpose of determining the Levered Cost of Equity, the median Beta Unlevered Coefficient of a sample of comparable companies, listed on regulated markets, operating internationally, was calculated, which was subsequently 'releveraged' on the basis of a target financial structure for each of the investee companies, assuming that it coincided with the average financial structure of the sample. In this way the condition of independence of the discount rate from the current financial structure has been achieved.
The sample of comparable companies used is composed of the following companies:

Entity	**Country**
Action S.A.	Poland
ALSO Holding AG	Switzerland
Arrow Electronics, Inc.	USA
Avnet, Inc.	USA
SYNNEX Corporation	USA
AB S.A.	Poland
Tech Data Corporation	USA
Digital China Holdings Limited	Hong Kong
Redington (India) Limited	India
Datatec Limited	South Africa
Arena Bilgisayar Sanayi ve Ticaret A.S.	Turkey
ASBISc Enterprises Plc	Cyprus
ScanSource, Inc.	USA

The values attributed to the main components of the discount rate are as follows:

- the 'Risk Free Rate' is equal to the average rate of return on the 10-year BTP 'benchmark' in 2019 (1.91%);
- the 'Market Risk Premium' is 5.5% (source: Banca IMI, Ibbotson, Duff&Phelps et al.);
- the Beta Levered coefficient is 0.95 (based on a Beta Levered calculated as a 5-year average of the monthly 'adjusted' Beta of the sample);
- the gross marginal cost of the debt was obtained as the sum of two components: the base rate, equal to the 12-month average of the 10-year IRS, and a 'credit spread' estimated on the basis of databases commonly used by analysts and investors;
- the tax rate used is the nominal corporate income tax rate.

IAS 36, para. 55, requires that the discount rate be calculated before tax ('pre-tax'), but allows for the discounting of flows to be carried out using an estimated rate net of the tax effect ('post-tax'), provided that the expected flows are also expressed net of the tax effect.
Nevertheless, the WACC calculated in the post-tax version has also been converted into the equivalent pre-tax WACC defined as the WACC gross of tax that leads to the same result in terms of discounting cash flows before tax.

Terminal Value

The Terminal Value recorded at the end of the explicit forecasting period was calculated on the basis of the 'Perpetuity Method' (last year's unlimited cash flow capitalisation model), assuming long-term sustainable cash flow growth from year 5 onwards at a constant rate ('g').
This rate is equal, hypothetically, to the inflation rate expected for 2024 in Italy (1.50% source: International Monetary Fund).

B) Basic assumption / critical variables

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

	Celly S.pA.	4Side S.r.l.
Future cash flow expected:		
Forecast horizon	5 years	5 years
"g" (long-term growth rate)	1.50%	1.50%
Discount rates:		
Market Risk Premium	5.5%	5.5%
Unlevered Beta	0.75	0.75
Levered Beta	0.95	0.95
Additional Specific Risk Premium	5.0%	5.0%
Target financial structure (D/D+E)	0.26	0.26
Target financial structure (E/D+E)	0.74	0.74
Tax rate	24.0%	24.0%
WACC post-tax	9.60%	9.60%
WACC pre-tax	13.28%	9.92%

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

- revenue growth rates;
- gross product margin / fixed costs contribution margin;
- operating leverage;

- cash flow discounted rates;
- growth rate 'g' applied to the cash flow of the last defined year utilized for the Terminal Value calculation.

C) Value adjustments and 'sensitivity analysis'

As a result of the impairment tests it was necessary to write down the 85% stake in Celly S.p.A. by 1.2 million euro.

In addition to the average normal flows used to determine value in use, sensitivity analyses were also carried out on the following key variables for information purposes only, as required by IAS 36:

- 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%.

As a result of these analyses it has emerged that some of the scenarios arising from the different combinations of the key assumptions varied as above, including the 'worst' scenario characterised by the use of a 'g' equal to 0% (equal to a real negative 'g' of -1.5%), a WACC increased by +2% and a plan EBITDA reduced by -20%, lead to a value in use lower than the carrying amount of the investment in Celly S.p.A. up to an extreme value of over 5.0 million euro.
However, taking into account the specific methodological customisations adopted to determine the 'value in use' of the equity investment, these results are not considered particularly evocative of critical elements such as to lead to such further devaluation as they are amplifying the already conservative base scenario.
Lastly, a simulation was conducted to estimate the recoverable values in a scenario that incorporates the negative economic and financial effects expected from the Covid-19 emergency.
Despite a situation characterised by strong uncertainties in relation to the negative effects of the pandemic and on the timing and ways of resolving the crisis, operating profitability is expected to decrease compared to that hypothesised before the outbreak of the pandemic, due to a revenue growth trend in the next two quarters lower than the annual trend, and a recovery in business in 2021 with a positive leverage effect on EBIT.

As a result of the assumptions made in the Covid-19 scenario, the negative impact on recoverable values is modest and included in the scenarios assumed for the usual sensitivity analyses previously reported.

6) Deferred income tax assets

(euro/000)	31/12/2019	31/12/2018	Var.
Deferred income tax assets	4,972	4,970	2

The balance of this item is represented by taxed provisions and other temporary differences between carrying amounts and other values recognised for tax purposes that the Company expects to recover in future years following the realisation of taxable profits.

(euro/000)	31/12/2019 Temporary differences	Fiscal effect (taxe rate %)	Amount	31/12/2018 Temporary differences	Fiscal effect (taxe rate %)	Amount
Bad debt provision	3,251	24.00%	780	11,976	24.00%	2,874
Director's fees not paid	938	27.90%	215	252	24.00%	60
Inventory obsolescence provision	4,132	27.90%	1,153	4,607	27.90%	1,285
IFRS 16 - Leases	295	24.00%	71	-	24.00%	-
Agent suppl. indemnity provision	634	27.90%	177	634	27.90%	177
Provision sales returns	890	27.90%	248	855	27.90%	239
Provision risk	8,921	24.00%	2,141	92	24.00%	16
Other	711	24%-27.9%	187	1,228	24%-27.9%	319
Deferred income tax assets			**4,972**			**4,970**

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)		Within 1 year	1-5 year	After 5 year	Total
Deferred income tax assets	31/12/2019	3,269	1,703	-	4,972
	31/12/2018	2,991	1,835	144	4,970

9) Receivables and other non-current assets

(euro/000)	31/12/2019	31/12/2018	Var.
Guarantee deposits receivables	1,743	1,675	68
Trade receivables	969	1,420	(451)
Receivables and other non-current assets	**2,712**	**3,095**	**(383)**

The *trade receivables* refer to the portion of credit toward the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF) with an expiring date after one year and arose from a delivery of goods from Esprinet S.p.A. toward the GdF in 2011.
This receivable provides for an annual payment plan that extends until January 2022 and in relation to which in 2013 Esprinet S.p.A. has taken out a loan with Intesa Sanpaolo whose fees will be paid directly by the customer. Since the counterparties of the two transactions are different, it is necessary, until they are completely repaid, to keep the receivable from the customer and the payable from the credit institution separate.
The change compared with 31 December 2018 is due to the allocation to current receivables of the portion expiring within the next fiscal year.

The item '*Guarantee deposits receivables*' mainly refer to guarantee deposits for utilities for existing lease contracts.

Current assets

10) Inventory

(euro/000)	31/12/2019	31/12/2018	Var.
Finished products and goods	339,320	308,844	30,476
Provision for obsolescence	(4,132)	(4,607)	475
Inventory	**335,188**	**304,237**	**30,951**

Inventory totalling 335.2 million euro increased by 10% due to the increase in average days of stock rotation compared to the previous year, as better shown in the '*Operating net working capital* section in the *Directors' Report on Operations*.

The 4.1 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)	31/12/2019	31/12/2018	Var.
Provision for obsolescence: year-beginning	**4,607**	**2,093**	**2,514**
Uses/Releases	(4,046)	(1,363)	(2,683)
Accruals	3,571	3,344	227
Merger changes	-	533	(533)
Provision for obsolescence: year-end	**4,132**	**4,607**	**(475)**

11) Trade receivables

(euro/000)	31/12/2019	31/12/2018	Var.
Trade receivables - gross	277,038	203,770	73,268
Bad debt provison	(4,081)	(3,899)	(182)
Trade recevables - net	**272,957**	**199,871**	**73,086**

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 29.0 million euro at the end of 2019 and 24.6 million euro at the end of 2018.

There was an increase in gross receivables of 73.0 million euro substantially due to an increase in business volumes (2.5 million euro in 2019 against sales for 2.3 million in 2018), offset by a lower use compared to 2018 of technical forms of receivables finance (i.e. approx. 258.3 million euro at the end of 2019 vs 309 million in 2018).

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 34.2 million euro of receivables transferred to factoring firms under the 'with-recourse' factoring agreement (3.6 million euro in 2018).

The provision for doubtful receivables, which is used to adjust receivables to their estimated realisable value, is replenished by provisions determined on the basis of an analytical evaluation process for each individual customer in relation to the related past due receivables and outstanding commercial disputes, taking into account insurance coverage (for further information, please refer to the '*Disclosure on risks and financial instruments*' section). The table below illustrates its movements:

(euro/000)	31/12/2019	31/12/2018	Var.
Bad debt provision: year-beginning	**3,899**	**4,381**	**(482)**
Uses/Releases	(893)	(2,234)	1,341
Accruals	1,075	525	550
Merger changes	-	1,227	(1,227)
Bad debt provision: year-end	**4,081**	**3,899**	**182**

12) Income tax assets (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Income tax assets	1,319	2,945	(1,626)

The *Income tax assets (current)* mainly result from the higher tax advances paid compared with the current taxes accrued in 2019. On the other hand, 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 (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Receivables from subsidiaries (A)	**63,911**	**170,481**	**(106,570)**
VAT receivables	19	19	-
Other tax assets	8,875	4,620	4,255
Other receivables from Tax authorities (C)	**8,894**	**4,639**	**4,255**
Receivables from factoring companies	3,526	242	3,284
Other financial receivables	9,717	10,880	(1,163)
Receivables from insurance companies	377	573	(196)
Receivables from suppliers	9,929	4,680	5,249
Receivables from employees	-	2	(2)
Receivables from others	130	72	58
Other receivables (D)	**23,679**	**16,449**	**7,230**
Prepayments (E)	**4,226**	**3,794**	**432**
Other assets (F= A+B+C+D+E)	**100,710**	**195,363**	**(94,653)**

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)	31/12/2019	31/12/2018	Var.
Celly S.p.A.	1,653	2,004	(351)
V-Valley S.r.l.	53,795	56,227	(2,432)
Nilox Deutschland GmbH	1,564	1,826	(262)
4Side S.r.l.	60	-	60
Esprinet Iberica S.L.U.	4,192	5,510	(1,318)
Esprinet Portugal Lda	1,547	41	1,506
Vinzeo Technologies SAU	90	41	49
V-Valley Iberian S.L.U.	7	2	5
Trade receivables (a)	**62,908**	**65,651**	**(2,743)**
Celly S.p.A.	-	330	(330)
V-Valley S.r.l.	3	-	3
Receivables as per national cons. tax regime (b)	**3**	**330**	**(327)**
4Side S.r.l.	1,000	-	1,000
Esprinet Iberica S.L.U.	-	90,000	(90,000)
Esprinet Portugal Lda	-	7,500	(7,500)
V-Valley Iberian S.L.U.	-	7,000	(7,000)
Financial receivables (c)	**1,000**	**104,500**	**(103,500)**
Total receivables from subsidiaries (a+b+c)	**63,911**	**170,481**	**(106,570)**

(euro/000)	31/12/2019	31/12/2018	Var.
Celly S.p.A.	1,653	2,334	(681)
V-Valley S.r.l.	53,798	56,227	(2,429)
Nilox Deutschland GmbH	1,564	1,826	(262)
4Side S.r.l.	1,060	-	1,060
Esprinet Iberica S.L.U.	4,192	95,510	(91,318)
Esprinet Portugal Lda	1,547	7,541	(5,994)
Vinzeo Technologies SAU	90	41	49
V-Valley Iberian S.L.U.	7	7,002	(6,995)
Total receivables from subsidiaries	**63,911**	**170,481**	**(106,570)**

VAT receivables refer to refund claims which cannot be offset against operating tax liabilities.

The '*Other 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' in the notes to item '26) Non-current provisions and other liabilities'.

Receivables from factoring companies include sums owed to the Company as a result of 'without recourse' factoring operations effected. The increase 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, all the receivables payable had been paid.

Customer financial receivables includes 9.2 million euro for a guarantee deposit provided to the buyer of the receivables assigned in the securitisation transaction executed by the company to cover any dilution that may occur in the course of this activity or in the months following the transaction closing. 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 – recognised 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 2019, *receivables from suppliers* include 2.5 million euro due to the net receivable from the supplier of the 'Sport Technology' line that at the end of the previous year 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
2019 financial year	8,823	-	-	8,823
2018 financial year	-	8,823	-	8,823

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 assets (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Derivate financial assets	-	375	(375)
Derivate financial assets	**-**	**375**	**(375)**

The value recorded in the item '*Derivative financial assets*' in the financial statements as at 31 December 2018 referred to the difference between the economic valuation, made by management, of the portion of Celly S.p.A. shares, at the date of possible exercise of a purchase and sale option (to be exercised in a period between the 5th and 7th year following the date of the acquisition of the

Celly Group which took place on 12 May 2014) relating to 20% of the shares of Celly S.p.A. owned by the minority shareholder and the valuation at the same date of the same portion of shares of the subsidiary based on that established in the contract for the reciprocal granting of options.

This value was zeroed as at 31 December 2019 following the waiver in June 2019 to exercise the European 'call option' on the 20% of the share capital of Celly S.p.A. by accepting as consideration a 5% share in Celly's equity.

For further information please refer to the '*Significant events occurring in the period* section in the '*Directors' Report on Operations*'.

17) Cash and cash equivalents

(euro/000)	31/12/2019	31/12/2018	Var.
Bank and postal deposit	289,620	173,668	115,952
Cash	21	13	8
Cheques	1	-	1
Total cash and cash equivalents	**289,642**	**173,681**	**115,961**

Cash and cash equivalents are almost entirely made up of bank balances, all immediately available. These cash balances are in part temporary in nature as they arise as a result of the normal short-term financial cycle of collections/payments, which involves in particular a concentration of collections from customers in the middle and at the end of the month, where financial outgoings related to 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 increase 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 equity are explained in the following notes:

(euro/000)	31/12/2019	31/12/2018	Var.
Share Capital (A)	**7,861**	**7,861**	**-**
Reserves and profit carried over (B)	291,593	297,982	(6,389)
Own shares (C)	(8,646)	(4,800)	(3,846)
Total reserves (D=B+C)	**282,947**	**293,182**	**(10,235)**
Net income for the year (E)	**4,604**	**(1,030)**	**5,634**
Net equity (F=A+D+E)	**295,412**	**300,013**	**(4,601)**
Non-controlling interests (G)	-	-	-
Total equity (H=F+G)	**295,412**	**300,013**	**(4,601)**

19) Share capital

The Company *Share capital*, fully subscribed and paid-in as at 31 December 2019, 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

The value of *Reserves and profit carried over* decreased by 6.4 million euro due to the combined effect of the previous year loss coverage (1.0 million euro), the payment of dividends for 6.9 million euro (0.135 euro for each ordinary share), which took place through the distribution of available reserves as defined by the Shareholders' Meeting of 8 May 2019, the succession of share incentive plans implemented by the Parent Company (1.3 million euro).

Own shares in portfolio

The amount refers to the total purchase price of 2,295,008 Esprinet S.p.A. shares owned by the Company as at 31 December 2019.

The increase compared to the 1,150,000 shares held as at 31 December 2018 is the result of the purchase between 1 July 2019 and 31 December 2019 of 1,145,008 shares, in implementation of the resolution of the Shareholders' Meeting of Esprinet S.p.A. of 8 May 2019, at an average price per share net of fees of 3.36 euro.

In accordance with the requirements of Article 2427, No. 7-bis of the Italian Civil Code, the following table illustrates the availability and distributability of reserves forming part of shareholders' equity, as well as their use in previous years.

(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:					
Share premium reserve (*)	11,683	A,B,C	11,683		
Revaluation reserve	30	A,B,C	30		
Legal reserve	1,572	B	-		
Merger surplus	9,855	A,B,C	9,855		
Extraordinary reserve	251,642	A,B,C	251,642		
Extraordinary reserve (**)	8,646	---	-		
Net profit from exchange operations reserve	60	---	-		
IFRS reserve	8,069	---	-		-
Total Reserves	**291,557**		**273,210**	-	-
Total share capital and reserves	**299,418**		**273,210**		
Non-distributable quota (***)			-		
Residual distributable quota			**273,210**		

(*) Pursuant to Art. 2431 of the Italian 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 Italian Civil Code, including through the transfer of the share premium reserve. This limit had been reached as at 31 December 2019.
(**) Pursuant to Art. 2358 of the Italian Civil Code, it represents the non-distributable portion corresponding to own shares on hand.
(***) Pursuant to Article 2426, 5), this is the non-distributable quota allocated to cover long-term costs not yet amortised.

Notes: A: share capital increase. B: cover of losses. C: distribution to shareholders.

The main changes in net equity during 2019 can be found in the '*Statement of changes in equity*'.

21) Net income

The year's net result amounts to 4.6 million euro, increasing by 5.6 million euro from previous year's negative net income of -1.0 million euro.

Non-current liabilities

22) Financial debt (non current)

(euro/000)	31/12/2019	31/12/2018	Var.
Borrowings	22,294	12,804	9,490

The borrowings value refers to the valuation at the amortised cost of the portion of the medium-long term loans falling due beyond the following year.

The balance as at 31 December 2019 includes a loan of 15.0 million euro signed by the Company in October 2019, in addition to the long-term portions of two loans signed in March 2017 (6.4 million euro), as well as the portion not yet due of the loan granted by the 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 (1.0 million euro), as described under section 9 of 'Receivables and other non-current assets'.

The change compared with previous year is due to the combined effect of the signing of new loans during the year and 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*'.

31) Lease liabilities (non current)

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities (non-current)	81,742	-	81,742

The value of the non-current financial liability referring to the right-of-use assets as at 31 December 2019, equal to 81.7 million euro, was initially entered for 86.7 million euro as at 1 January 2019 and subsequently changed as better described below:

(euro/000)	31/12/2019	31/12/2018	Var.
Passività finanziarie per leasing	-	-	-
Valore iniziale di iscrizione 01/01/2019	86.736	-	86.736
Incremento valore contratti sottoscritti	1.323	-	1.323
Risoluzione/modifiche contratti	(80)	-	(80)
Riclassifica debito non corrente	(6.237)	-	(6.237)
Passività finanziarie per leasing	**81.742**	-	**81.742**

The following table analyses the maturing dates of the financial liabilities booked as at 31 December 2019:

(euro/000)	Within 5 year	After 5 year	31/12/2019
Lease liabilities (non-current)	23,282	58,460	81,742

For further information on the adoption of the new IFRS 16, please refer to the section 2.5 'Recently issued accounting standards'.

24) Deferred income tax liabilities

(euro/000)	31/12/2019	31/12/2018	Var.
Deferred income tax liabilities	2,930	2,842	88

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)	31/12/2019			31/12/2018		
	Temporary differences	Fiscal effect (tax rate)	Amount	Temporary differences	Fiscal effect (tax rate)	Amount
Deferred income tax liabilities						
Goodwills' amortisation	10,128	27.90%	2,826	9,460	27.90%	2,639
TFR' variation	-	24.00%	-	159	24.00%	38
Foreign exchange estimate	432	24.00%	104	247	24.00%	59
Other	-	24.00%	-	437	24.00%	105
Total deferred income tax liabilities			**2,930**			**2,842**

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	31/12/2019	104	-	2,827	2,930
	31/12/2018	203	-	2,639	2,842

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.

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.
The new contributions can therefore be directed to selected pension schemes or maintained in the company, in which case it is the company itself that pays contributions to a treasury account set up with INPS.

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

(euro/000)	31/12/2019	31/12/2018	Var.
Balance at year-beginning	**3,793**	**3,474**	**319**
Service cost	-	9	(9)
Interest cost	55	50	5
Actuarial (gain)/loss	150	(162)	312
Merger changes	-	737	(737)
Pensions paid	(277)	(315)	38
Changes	**(72)**	**319**	**(391)**
Balance at year-end	**3,721**	**3,793**	**(72)**

Values recognised in the separate income statement are as follows:

(euro/000)	31/12/2019	31/12/2018	Var.
Amounts booked under personnel costs	-	9	(9)
Amounts booked under financial costs	55	50	5
Total	**55**	**59**	**(4)**

The Company, which has more than 50 employees as of 1 January 2017, transfers the staff severance indemnity quotas to third parties.

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 2018 valuation and the actual development of the provision as at 31 December 2019 (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)[4].

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, with the exception of the subsidiary 4 Side S.r.l. for which an annual frequency of 10% was considered;
- probability of anticipating: an annual rate of 3% has been assumed.

b) Economic-financial assumptions

	31/12/2019	31/12/2018
Cost of living increase	1.0%	1.5%
Discounting rate	0.8%	1.6%
Remuneration increase	n/a	n/a
Staff severance indemnity (TFR) - annual rate increase	2.3%	2.6%

Sensitivity analyses

Pursuant to IAS 19R, a sensitivity analysis of changes in main actuarial hypothesis used in the calculation model is required.
The scenario described in the previous paragraphs was considered as the baseline scenario and from that the most significant assumptions were increased and decreased, i.e. the average annual discount rate, the average inflation rate and the turnover rate, respectively, by one quarter and two percentage points. The outputs thus obtained are summarised as follows:

[4] Please note that, the iBoxx Eurozone Corporates AA10+ index was used as parameter for the above mention calculation.

(euro)		Senstivity analisys
		Esprinet S.p.A.
Past Service Liability		
Annual discount rate	*+0,50%*	3,563,003
	-0.50%	3,890,333
Annual inflation rate	*+0,25%*	3,768,990
	-0.25%	3,673,982
Annual turnover rate	*+2,00%*	3,680,880
	-2.00%	3,771,090

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 S.p.A.*
0 - 1	274,765
1 - 2	233,367
2 - 3	253,660
3 - 4	238,529
4 - 5	227,788
5 - 6	179,543
6 - 7	199,075
7 - 8	258,080
8 - 9	201,893
9 - 10	285,233
Over 10	1,634,804

26) Non-current provisions and other liabilities

(euro/000)	31/12/2019	31/12/2018	Var.
Long-term liabilities for cash incentives	260	105	155
Provisions for pensions and similar obligations	1,171	1,218	(47)
Other provisions	853	77	776
Non-current provisions and other liabilities	**2,284**	**1,400**	**884**

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)	31/12/2019	31/12/2018	Var.
Provisions for pensions: year - beginning	**1,218**	**1,409**	**(191)**
Uses/Releases	(126)	(282)	156
Accruals	79	56	23
Merger changes	-	35	(35)
Total changes	**(47)**	**(191)**	**144**
Provisions for pensions: year - end	**1,171**	**1,218**	**(47)**

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)	31/12/2019	31/12/2018	Var.
Other provisions: year-beginning	**77**	**185**	**(108)**
Uses/Releases	(72)	(180)	108
Accruals	848	72	776
Other provisions: year-end	**853**	**77**	**776**

The provisions under '*Other provisions*' refer for 743 thousand euro to the valuation of the risk coverage referring to the subsidiary Nilox Deutschland Gmbh, in liquidation at 31 December 2019, whose equity was negative at the date of preparation of the financial statements.

Development of disputes involving Esprinet S.p.A.

The main disputes involving the Company are provided below, along with developments in 2019 (and thereafter, until the date this financial report was drafted), for which the Company has conducted the pertinent risk assessments, with the support of its legal and/or tax consultants, and, where deemed appropriate, recognised the ensuing allocations to the provision for risks.

The main legal disputes, for which no provision has been deemed to exist since the risk has been assessed as possible, are as follows:

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.
This entity has been supplying products to Esprinet for the last 15 years and since 2008 was managing, on behalf of the Company 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 12.6 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) filed a further civil action against Esprinet S.p.A. requesting the cancellation or declaration of invalidity and ineffectiveness of a letter of guarantee issued by this shareholder in favour of Esprinet S.p.A. and in the interest of its subsidiary.
The Board of Directors of Esprinet S.p.A., also following advisors' opinion, resolved to make an appearance and defend itself in court 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.
On 21 May 2019, the Liquidator of the aforementioned supplier filed an application for composition proceedings with the Court of Milan pursuant to Article 161, paragraph 6, of the Italian Bankruptcy Law. In relation to this procedure, it has become known that the original deadline granted for the filing of the final proposal for composition, the composition plan and the additional documentation required by Article 161 of the Italian Bankruptcy Law had been extended by the Court until 4 October 2019. Despite the constant checks carried out at the Companies' Register, it has not so far been possible to obtain any further information on this concordat procedure, which may also have been delayed as a result of the 'Covid-19' emergency.

The following list summarises the evolution of the main tax disputes in progress for which it has not been considered that the elements for making provisions exist, since the risk of each is assessed as 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 trial on 11 June 2019 (and subsequently on 5 August 2019) were fully reimbursed.
the Italian Revenue Office waived its right to appeal with the Supreme Court against the ruling of the Court of Appeal which thus became final.

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.
On 8 May 2019 a judgement was issued that rejected the Company's claim, condemning the Company to pay legal costs.
The Company filed an appeal before the Supreme Court.

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 the 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.
On 1 April 2019, the Office appealed and on 31 May 2019 the Company filed its counter-arguments.

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 judgment rejecting the claim.
The Company filed an appeal with the Regional Tax Commission on 10 June 2019. The hearing was held on 29 January 2020 and the judgment is pending.

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 Legislative Decree No. 218/1997, the procedure for which has not been defined.
Thus, the Company appealed on 30 May 2019.
On 4 June 2019, the Chairperson of the Provincial Tax Commission granted the request for suspension of payment relating to the assessment until the competent section delivers a collective ruling on the request. On 11 November 2019, as provided for by the administrative procedure, the Company paid an advance of 6.2 million euro in relation to the litigation for 2013 (contested tax of 14.5 million euro). The first instance hearing, set for 25 March 2020, has been postponed to a later date due to measures for combating the Covid-19 epidemiological emergency.

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.

On 16 July 2019 the Company lodged an appeal before the Supreme Court against the appeal decision handed down by the Regional Tax Commission, which overturned the first instance judgement in relation to disputed direct taxes for 2012 in the amount of 0.1 million euro.

<u>Edslan S.r.l. Registration fees for the year 2016</u>

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 on 18 September 2018 a judgement was issued that upheld the appeal condemning the Tax Authority to pay legal costs.
On 18 March 2019, the appeal from the Office was served and on 17 May 2019 the Company filed its counter-arguments. The Regional Tax Commission met on 22 January 2020 and is awaiting the ruling.

<u>Comprel S.r.l. Direct and indirect taxes for the year 2006</u>

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 recovery of 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 No. 3801/2014 rendered by the Regional Tax Commission of Milan on 9 July 2014. The company filed a cross-appeal on 20 February 2015.
On 31 May 2019, the Company filed an application for facilitated settlement of the pending tax disputes (Art. 6 and 7 Decree Law No. 119/2018).

<u>Mosaico S.r.l. Direct and indirect taxes for the year 2016</u>

On 23 July 2019 an overall tax inspection was started against the Company relating to tax year for direct taxes, IRAP and VAT for 2016 with respect to Mosaico S.r.l., which was merged into Esprinet S.p.A. on 1 November 2018 followed by a tax audit report. In consideration of the findings and of the small amounts involved, Mosaico S.r.l. filed a voluntary correction return and at the same time paid the small amount of 10 thousand euro.

Following the spread of Covid-19, as a result of the various measures issued by government bodies that provide for measures to curb the movement of persons and the performance of activities, including judicial activities, all hearings were suspended and postponed until a date to be set.

Current liabilities

27) Trade payables

(euro/000)	31/12/2019	31/12/2018	Var.
Trade payables	835,298	630,641	204,657
Receivables - credit notes	(91,335)	(109,438)	18,103
Total trade payables	**743,963**	**521,203**	**222,760**

Trade payables increased by 43% compared with the previous year 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) Financial debt (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Bank loans and overdrafts	6,818	108,220	(101,402)
Other financing payables	15,994	24,524	(8,530)
Financial payables to subsidiaries	7,921	-	7,921
Short - term financial liabilities	**30,733**	**132,744**	**(102,011)**

Payables to banks are mainly represented by the valuation at amortised cost of the portion of medium/long-term loans falling due within one year, plus two loans signed in March 2017 (5.0 million euro) and the portion falling due within one year (0.4 million euro) of the loan taken out by the Company for a supply to the customer 'Revenue Guard Corps' (so called Guardia di Finanza – GdF).

The balance as at 31 December 2018 also included the valuation at amortised cost of 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 a 5-year revolving facility for 65.0 million euro (undrawn in the year).
This senior loan was fully repaid in advance on 26 September 2019.
On 30 September, the Company signed a 3-year unsecured RCF-Revolving Credit Facility with a pool of Italian and international banks for a total amount of 152.5 million euro. This transaction was closed after the full repayment of the previous pool loan, which was outstanding for 72.5 million euro, being undrawn the relative revolving credit line of 65.0 million euro.
This loan is supported by a set of financial covenants, which are ordinary for this kind of transaction.
As at 31 December 2019 the line was not drawn. During the year there was a temporary use of 20.0 million euro.
For further information about all loans please refer to the '*Loans and loan covenants*' section.

Payables to other lenders 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 decrease compared with 31 December 2018 is due to lower volumes of receivables factored.

Financial debt to subsidiaries refer to the relationship with the subsidiary V-Valley S.r.l. under the cash pooling contract signed during the year for centralised treasury management.

34) Lease liabilities (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities (current)	6,374	-	6,374

The value of the current financial liability referring to the right-of-use assets as at 31 December 2019, equal to 6.4 million euro, was initially entered for 6.4 million euro as at 1 January 2019 and subsequently changed as better described below:

(euro/000)	31/12/2019	31/12/2018	Var.
Lease liabilities	**-**	**-**	**-**
Initial book value: 01/01/2019	6,361	-	6,361
Increase from subscribed contracts	133	-	133
Reclassification from non-current liabilities	6,237	-	6,237
Lease interests expenses	2,878	-	2,878
Payments	(9,235)	-	(9,235)
Lease liabilities	**6,374**	**-**	**6,374**

For further information on the adoption of the new IFRS 16, please refer to the section 2.5 'Recently issued accounting standards'.

30) Derivative financial liabilities (current)

(euro/000)	31/12/2019	31/12/2018	Var.
Derivative financial liabilities	-	613	(613)

The balance outstanding as of 31 December 2018 referred to the fair value of six IRS-Interest Rate Swap contracts signed in April 2017 to hedge the risk of changes in the variable interest rate applied on the Term Loan Facility signed by the Company in February 2017 with a pool of eight banks and fully repaid on 26 September 2019.

The zeroing of the balance as at 31 December 2019 is a direct consequence of the early termination during the year of the aforementioned contracts and the repayment of the pre-existing 'senior loan'. For further details regarding transactions please refer to the section '*Loans and loan covenants*' below and the section '*Hedge accounting*' under '*Disclosure on risks and financial instruments*'.

32) Provisions and other liabilities

Provisions and other liabilities solely includes payables whose maturity is within the following 12 months.

(euro/000)	31/12/2019	31/12/2018	Var.
Payables to subsidiary and associated companies (A)	**1,079**	**255**	**824**
Social security liabilities (B)	**3,388**	**3,164**	**224**
VAT payables	1,330	7,350	(6,020)
Withholding tax liabilities	24	64	(40)
Other tax liabilities	1,176	1,193	(17)
Other payables to Tax authorities (C)	**2,530**	**8,607**	**(6,077)**
Payables to personnel	4,257	4,088	169
Payables to customers	4,072	5,041	(969)
Payables to others	1,586	898	688
Total other creditors (D)	**9,915**	**10,027**	**(112)**
Accrued expenses and deferred income related to:			
- Accrued expenses for insurance costs	250	267	(17)
- Other deferred income	13	8	5
Accrued expenses and deferred income (E)	**263**	**275**	**(12)**
Provisions and other liabilities (F=A+B+C+D+E)	**17,175**	**22,328**	**(5,153)**

The amount of *Payables to subsidiaries* and associated companies and the breakdown by nature, specifying that in the two years under comparison the values relate exclusively to transactions with subsidiary companies, are summarised in the tables below:

(euro/000)	31/12/2019	31/12/2018	Var.
Celly S.p.A.	186	75	111
V-Valley S.r.l.	1	95	(94)
4Side S.r.l.	118	-	118
Esprinet Iberica S.L.U.	145	85	60
Vinzeo Technologies S.A.U.	35	-	35
Trade payables (a)	**485**	**255**	**230**
Celly S.p.A.	594	-	594
Payables due to the national cons. tax regime (b)	**594**	**-**	**594**
Financial payables (c)	**-**	**-**	**-**
Total payables to subsidiary and associated companies (a+b+c)	**1,079**	**255**	**824**

(euro/000)	31/12/2019	31/12/2018	Var.
Celly S.p.A.	780	75	705
V-Valley S.r.l.	1	95	(94)
4Side S.r.l.	118	-	118
Esprinet Iberica S.L.U.	145	85	60
Vinzeo Technologies S.A.U.	35	-	35
Total payables to subsidiary and associated companies	**1,079**	**255**	**824**

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.

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 1.2 million euro to Directors for fees accrued and unpaid relating to the year (0.5 million in 2018), 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)	31/12/2019	31/12/2018	Var.
Third-party assets on consignment to the Company	43,506	36,501	7,005
Bank guarantees issued in favour of subsidiaries	309,129	258,862	50,267
Bank guarantees issued in favour of other companies	10,831	6,152	4,679
Total guarantees issued	**363,466**	**301,515**	**61,951**

Third-party assets

This refers to the value of goods owned by third parties deposited at the Esprinet S.p.A. warehouses.

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 (14.8 million euro), Vinzeo Technologies S.A.U. (34.1 million euro) and the subsidiaries Esprinet Portugal (10.0 million euro) and 4Side S.r.l. (16.0 million euro). On the other hand, guarantees in favour of other group companies for 24.7 million euro were cancelled during 2019.

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

It should be noted that in the Directors' Report on Operations, after comments on the Group's performance, some analyses of the economic results of Esprinet S.p.A. have been provided, completing the information provided in the following section.

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)	2019	%	2018	%		*% Var.*
Product sales	2,518.4	99.8%	2,261.2	99.7%	257.3	*11%*
Services Sales	5.8	0.2%	6.6	0.3%	(0.9)	*-13%*
Sales from contracts with customers	**2,524.2**	**100.0%**	**2,267.8**	**100.0%**	**256.4**	***11%***

Sales by geographical segment

(euro/million)	2019	%	2018	%	Var.	*% Var.*
Italy	2,468.3	97.8%	2,201.7	97.1%	266.6	12%
Spain	38.3	1.5%	54.4	2.4%	(16.1)	-30%
Portugal	2.9	0.1%	-	0.0%	2.9	>100%
Other EU countries	6.1	0.2%	5.8	0.3%	0.3	5%
Extra EU countries	8.5	0.3%	5.9	0.3%	2.6	45%
Sales from contracts with clients	**2,524.2**	**100.0%**	**2,267.8**	**100.0%**	**256.4**	**11%**

Sales of which 'Principal' or 'Agent'

In accordance with the IFRS 15 accounting standard, the Company has identified the distribution of the hardware and software products, the distribution of its own-brand products and the provision of non-intermediated services as the activities in which its role requires it to represent the sales as 'principal'. Conversely, the distribution of cloud software and the brokerage of services were detected as business lines to be disclosed as 'agent'. The following table illustrates this distinction.

(euro/million)	2019	%	2018	%	Var.	% Var.
Revenues from contracts with customers as 'principal'	2,520.7	*99.9%*	2,265.3	*99.9%*	255.4	*11%*
Revenues from contracts with customers as 'agent'	3.5	*0.1%*	2.5	*0.1%*	1.0	*40%*
Sales from contracts with customers	**2,524.2**	**100.0%**	**2,267.8**	**100.0%**	**256.4**	***11%***

35) Gross profit

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	2,524,171	100.00%	2,267,797	100.00%	256,374	*11%*
Cost of sales	2,414,385	95.65%	2,166,521	95.53%	247,864	*11%*
Gross profit	**109,786**	**4.35%**	**101,276**	**4.47%**	**8,510**	***8%***
- of which non recurring	-	0.00%	6,080	0.27%	(6,080)	*-100%*
Gross profit "recurrent"	**109,786**	**4.35%**	**107,356**	**4.73%**	**2,430**	***2%***

Gross profit is equal to 109.8 million euro and shows an increase of +8% (+2% if non-recurring cost items are excluded, as the effect of the first-time application of IFRS 16 is nil) equal to 8.5 million euro compared to the same period of 2018, due to a decrease in the percentage margin from 4.47% to 4.35%. In 2018, the non-recurring negative items, equal to 6.1 million euro, were due to the unexpected rapid fall in end-user prices on some product classes in 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, in addition to the estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights.

As is common practice in the sectors where the Company operates, the cost of sales is adjusted downwards to take into account the premiums/rebates for the achievement of targets, development and co-marketing provisions, cash discounts (so-called 'prompt payment discount' or 'cash discount') 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. In 2019 such effect amounts to 2.5 million euro (3.0 million euro in 2018).

37-38-39) Operating costs

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Sales and marketing costs	33,744	1.34%	36,419	1.61%	(2,675)	*-7%*
Overheads and administrative costs	58,326	2.31%	53,028	2.34%	5,298	*10%*
Impairment loss/reversal of financial assets	570	0.02%	9,266	0.41%	(8,696)	*-94%*
Operating costs	**92,640**	**3.67%**	**98,713**	**4.35%**	**(6,073)**	***-6%***
- of which non recurring	-	0.00%	8,823	0.39%	(8,823)	*-100%*
'Recurring' operating costs	**92,640**	**3.67%**	**89,890**	**3.96%**	**2,750**	***3%***

2019 operating costs of 92.6 million euro increased by -6% (+3% if excluding non-recurring cost items), with an operating costs margin down from 4.35% in 2018 to 3.67% in 2019 (down from 3.96% to 3.67% if excluding non-recurring costs).
In 2019 no non-recurring items were identified.
During 2018, the estimated impairment of 8.8 million euro in the value of receivables from the importing supplier of the 'Sport Technology' product range was identified as non-recurring items, for amounts deriving from advances paid for the supply of goods entrusted to factories mainly located in China and from credit notes (withdrawal of products under warranty, repositioning and hedging

from fluctuations in the market prices, etc.).

The following table gives a detailed breakdown of operating costs and their performance in the two years compared:

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Sales & marketing personnel costs	31,210	*1.24%*	31,382	*1.38%*	(172)	*-1%*
Other sales & marketing costs	2,534	*0.10%*	5,037	*0.22%*	(2,503)	*-50%*
Sales & marketing personnel costs	**33,744**	***1.34%***	**36,419**	***1.61%***	**(2,675)**	***-7%***
Administr., IT, HR and general service personnel costs	16,046	*0.64%*	16,177	*0.71%*	(131)	*-1%*
Directors' compensation	3,383	*0.13%*	3,062	*0.14%*	321	*10%*
Consulting services	3,993	*0.16%*	4,018	*0.18%*	(25)	*-1%*
Logistics services	11,263	*0.45%*	15,018	*0.66%*	(3,755)	*-25%*
Amortisation, depreciation and provisions	10,741	*0.43%*	2,482	*0.11%*	8,259	*>100%*
Other overheads and administrative costs	12,900	*0.51%*	12,271	*0.54%*	629	*5%*
Overheads and administrative costs	**58,326**	***2.31%***	**53,028**	***2.34%***	**5,298**	***10%***
Impairment loss/reversal of financial assets	570	*0.02%*	9,266	*0.41%*	(8,696)	*-94%*
Total SG&A	**92,640**	***3.67%***	**98,713**	***4.35%***	**(6,073)**	***-6%***

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 provisions

(euro/000)	2019	%	2018	%		% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Depreciation of tangible assets	2,798	0.11%	2,849	0.13%	(51)	*-2%*
Amortisation of intangible assets	291	0.01%	333	0.01%	(42)	*-13%*
Depreciation of right-of-use assets	7,532	0.30%	-	0.00%	7,532	*100%*
Amort . & depreciation	**10,621**	**0.42%**	**3,182**	**0.14%**	**7,439**	***234%***
Write-downs of fixed assets	-	0.00%	-	0.00%	-	*0%*
Amort. & depr., write-downs (A)	**10,621**	**0.42%**	**3,182**	**0.14%**	**7,439**	***234%***
Accruals for risks and charges (B)	927	0.04%	128	0.01%	799	*624%*
Amort. & depr., write-downs, accruals for risks (C=A+B)	**11,548**	**0.46%**	**3,310**	**0.15%**	**8,238**	***249%***

(euro/000)	2019	2018	Var.
Depreciation of tangible assets increasing the accumulated deprec.	3,227	3,228	(1)
Debited to subsidiaries	(429)	(379)	(50)
Depreciation of tangible assets	**2,798**	**2,849**	**(51)**
Amortisation of intangible assets increasing the accumulated deprec.	503	557	(54)
Debited to subsidiaries	(212)	(224)	12
Amortisation of intangible assets	**291**	**333**	**(42)**

Depreciation and amortisation of fixed assets, both property, plant and equipment and intangible assets, reflect the adjustments shown in the second table, which allow for reconciliation with the respective tables.

Personnel cost

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Wages and salaries	28,970	1.15%	28,365	1.25%	605	*2%*
Social contributions	8,871	0.35%	8,664	0.38%	207	*2%*
Pension obligations	2,191	0.09%	2,174	0.10%	17	*1%*
Other personnel costs	819	0.03%	865	0.04%	(46)	*-5%*
Employee termination incentives	187	0.01%	229	0.01%	(42)	*-18%*
Share incentive plans	289	0.01%	323	0.01%	(34)	*-11%*
Total labour costs [(1)]	**41,327**	**1.64%**	**40,620**	**1.79%**	**707**	***2%***

(1) Costs of temporary workers excluded.

Personnel costs, amounting to 41.3 million euro in 2019, increased by +2% compared with 2018, less than proportional to the increase in the average number of resources employed during the year (+ 5%) depending on the different work experience profiles.

Details of the Company's employees as at 31 December 2019, broken down by qualification, can be found under '*Human Resources*' in the '*Directors' Report on Operations*'.

<u>Share incentive plans</u>

On 25 June 2018 the rights to free assignment of the ordinary shares of Esprinet S.p.A. provided for in the "Long Term Incentive Plan" approved by the Shareholders' Meeting of the same on 4 May 2018 were assigned.
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.

The plan was 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 assignment date.

The main elements of information and parameters used for the purposes of valuing the free allotment rights of the shares for the aforementioned Plan are summarised in the following table.

	2018-2020 Plan	
Allocation date	25/06/18	
Vesting date	30/04/21	
Expiry date	30/06/21	
Total number of stock grant	1,070,000	
Total number of stock grant allocated	1,070,000	
Total number of stock grant allowed	1,040,000	(1)
Unit fair value (euro)	3.20	
Total fair value (euro)	3,328,000	
Risk free interest rate (BTP 3 years)	1.1%	(2)
Duration (years)	3	
Spot price [(3)]	3.58	
"Dividend yield"	3.8%	

(1) Decrease due to employment termination of several beneficiaries.
(2) Source: Bloomberg, 22 June 2018
(3) Official price of Esprinet S.p.A. shares at grant date.

Costs in the current income statement relating to the share incentive plans with a contra entry in the 'Reserve' item in the statement of financial position, totalled 289 thousand euro with reference to employees (323 thousand euro in 2018) and 871 thousand euro with reference to directors (703 thousand euro in 2018).

Leases and contracts for services of multi-year duration

The costs relating to leases of modest value and those with a duration of less than 12 months, for which the Company availed itself of the exclusion from the application of IFRS 16, amount to 117 thousand euro and 40 thousand euro respectively.

The table below provides details of the costs related to contracts for services with a multi-year duration:

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Equipment	101	0.00%	67	0.00%	34	*51%*
Data connection lines	144	0.01%	115	0.01%	29	*25%*
Cost Housing CED	102	0.00%	149	0.01%	(47)	*-32%*
Total multi-year services costs	**347**	**0.01%**	**331**	**0.01%**	**16**	***5%***

Below are the commitments for future payments for service contracts with a multi-year duration:

(euro/000)	2020	2021	2022	2023	2024	Over	Total
Equipment	60	27	2	2	2	-	93
Data connection lines	210	210	143	-	-	-	563
Cost Housing CED	149	149	87	-	-	-	385
Multi-year services commitments	**419**	**386**	**233**	**2**	**2**	**-**	**1,042**

42) Finance costs-net

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Interest expenses on borrowings	1,625	0.06%	2,629	0.12%	(1,004)	*-38%*
Interest expenses to banks	327	0.01%	304	0.01%	23	*8%*
Other interest expenses	3	0.00%	14	0.00%	(11)	*-79%*
Upfront fees amortisation	1,389	0.06%	730	0.03%	659	*90%*
IAS 19 expenses/losses	56	0.00%	50	0.00%	6	*12%*
IFRS financial lease interest expenses	2,878	0.11%	-	0.00%	2,878	*-100%*
Derivatives ineffectiveness	907	0.04%	116	0.01%	791	*>100%*
Intercompany interest expenses	19	0.00%	-	0.00%	19	*-100%*
Total financial expenses (A)	**7,204**	**0.29%**	**3,843**	**0.17%**	**3,361**	***87%***
Interest income from banks	(59)	0.00%	(25)	0.00%	(34)	*>100%*
Interest income from others	(130)	-0.01%	(200)	-0.01%	70	*-35%*
Interest incomes from intercompany	(335)	-0.01%	(630)	-0.03%	295	*-47%*
Derivatives ineffectiveness	(9)	0.00%	(3)	0.00%	(6)	*>100%*
Total financial income(B)	**(533)**	**-0.02%**	**(858)**	**-0.04%**	**325**	***-38%***
Net financial exp. (C=A+B)	**6,671**	**0.26%**	**2,985**	**0.13%**	**3,686**	***>100%***
Foreign exchange gains	(581)	-0.02%	(830)	-0.04%	249	*-30%*
Foreign exchange losses	1,840	0.07%	1,302	0.06%	538	*41%*
Net foreign exch. (profit)/losses (D)	**1,259**	**0.05%**	**472**	**0.02%**	**787**	***>100%***
Net financial (income)/costs (E=C+D)	**7,929**	**0.31%**	**3,457**	**0.15%**	**4,472**	***>100%***

The total balance between financial income and expense, negative for 7.9 million euro, shows a worsening of 4.4 million euro compared to the same period of the previous year (3.5 million euro) due to (i) 2.9 million euro for the recognition of interest expense on leases recognised as a result of the application of the new IFRS 16 standard from 1 January 2019, (ii) 0.8 million euro for the residual value of the arrangement fees of the pre-existing medium/long-term senior loan repaid in advance on 26 September, (iii) 0.5 million euro for the early redemption price of the 'IRS-Interest Rate Swap' contracts that covered the interest rate risk on the pre-existing 'senior' loan and (iv) 0.8 million euro for higher net foreign exchange losses compared to the previous year.

On the other hand, net bank interest expense shows an improvement of 1.0 million euro, from 2.9 to 1.9 million euro, due to a lower average use of bank funding sources, at the same average cost of debt.

Net financial expense, amounting to 6.7 million euro, shows a net balance of 4.6 million euro (1.6 million euro in 2018) in respect only of the amounts that resulted in financial movements as represented in the *Consolidated statement of cash flows*, to which reference should be made. This net balance is the result of financial expense paid of 5.2 million euro (2.4 million euro in 2018) and financial income received of 0.5 million euro (0.8 million euro in the previous year).

43) Investment income and charges

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Investments expenses / (incomes)	(1,600)	-0.06%	-	0.00%	(1,600)	*0%*

The item as at 31 December 2019 includes the write-downs made during the year on the equity investments of the subsidiaries Celly S.p.A. (1.2 million euro) and Nilox Deutschland GmbH (0.4 million euro).

For further details, please refer to item '5) *Equity investments in subsidiaries and other companies*'.

45) Income tax expenses

(euro/000)	2019	%	2018	%	Var.	% Var.
Sales from contracts with customers	**2,524,171**		**2,267,797**		**256,374**	***11%***
Current tax - IRES (Corporation income tax)	2,011	0.08%	1,747	0.08%	264	*15%*
Current tax - IRAP (Regional tax on productive activities)	922	0.04%	725	0.03%	197	*27%*
income taxes previous years	34	0.00%	-	0.00%	34	*-100%*
Current income taxes	**2,967**	**0.12%**	**2,472**	**0.11%**	**495**	***20%***
Deferred tax - IRES (Corporation income tax)	7	0.00%	(2,255)	-0.10%	2,262	*<-100%*
Deferred tax - IRAP (Regional tax on productive activities)	39	0.00%	(81)	0.00%	120	*<-100%*
Deferred income taxes	**46**	**0.00%**	**(2,336)**	**-0.10%**	**2,382**	***<-100%***
Total tax - IRES (Corporation income tax)	2,052	0.08%	(508)	-0.02%	2,560	*<-100%*
Total tax - IRAP (Regional tax on productive activities)	961	0.04%	644	0.03%	317	*49%*
Total taxes	**3,013**	**0.12%**	**136**	**0.01%**	**2,877**	***2115%***

Income taxes, amounting to 3.0 thousand euro, increased by 2.9 million euro compared with last year.

The following table illustrates the reconciliation between the theoretical and the effective tax rate:

(euro/000)	2019	2018
Result before taxes [A]	**7,617**	**(894)**
Operating profit (EBIT)	**17,146**	**2,563**
(+) bad debt provision	1,075	9,348
(+) provision for risks and charges	184	128
Taxable amout for IRAP [B]	**18,405**	**12,039**
Theoretical taxation IRES (= A*24%)	1,828	(215)
Theoretical taxation IRAP (= B*3,90%)	718	470
Total theoretical taxation [C]	**2,546**	**255**
Theoretical tax rate [C/A]	***33.4%***	***-28.5%***
(-) tax relief - ACE (Aiuto alla Crescita Economica)	(298)	(379)
Other permanent differences	765	260
Total effective taxation [D]	**3,013**	**136**
Effective tax rate [D/A]	***39.6%***	***-15.2%***

6. Other significant information

6.1 Emoluments paid to the board members, statutory auditors and key managers

Disclosure in accordance with CONSOB Resolution No. 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 section of the same name in the '*Notes to the consolidated financial statements*'.

6.2 Net financial indebtedness and financial debt 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)	31/12/2019	31/12/2018
A. Bank deposits and cash on hand	289,641	173,681
B. Cheques	1	-
C. Trading securities	-	-
D. Liquidity (A+B+C)	289,642	173,681
Financial assets for derivatives	-	*375*
Other current financial receivables	*9,718*	*10,880*
Financial receivables from factoring companies	*3,526*	*241*
Financial receivables/(loan) from Group companies	*(6,921)*	*104,500*
E. Current financial receivables	6,323	115,996
F. Current bank debt	1,340	1,334
G. Current portion of non current debt	5,478	106,886
H. Other current financial debt and financial liability for derivatives	22,368	25,137
I. Current financial debt (F+G+H)	29,186	133,357
J. Net current financial indebtedness (I-E-D)	**(266,779)**	**(156,320)**
K. Non-current bank loans	22,294	12,804
L. Other non - current financial receivables	(969)	(1,420)
M. Other financial debt & non-current financial liabilities for derivatives	81,742	-
N. Non-current financial indebtedness (K+L+M)	**103,067**	**11,384**
O. Net financial indebtedness (J+N)	**(163,712)**	**(144,936)**
Breakdown of net financial indebtedness:		
Short-term financial liabilities	22,812	132,744
Lease liabilities	6,374	-
Current financial (assets)/liabilities for derivatives	-	238
Other current financial receivables	(9,718)	(10,880)
Financial receivables from factoring companies	(3,526)	(241)
Financial receivables/liabilities from/to Group companies	6,921	(104,500)
Cash and cash equivalents	(289,642)	(173,681)
Net current financial debt	**(266,779)**	**(156,320)**
Other non - current financial receivables	(969)	(1,420)
Borrowings	22,294	12,804
Lease liabilities	81,742	-
Net financial debt	**(163,712)**	**(144,936)**

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'.

The net financial debt, showing a surplus of 163.7 million euro, results from the balance between gross financial debt of 45.1 million euro, financial payables to Group companies for 6.9 million euro, financial receivables for 14.2 million euro, financial liabilities for leasing for 88.1 million euro, cash and cash equivalents for 289.6 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 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.

During 2019, as part of the working capital management policies, the programme of non-recourse assignment of receivables without recourse on a revolving basis to selected segments of customers in Italy and Spain, mostly belonging to the large-scale retail sector, continued. 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-recognised in the statement of financial position according to IFRS 9. The overall effect on the levels of financial debt as at 31 December 2019 is approx. 480.1 million euro (approx. 596.7 million euro as at 31 December 2018).

With regard to medium/long-term financial debt, the table below shows, separately for each lender, the principal amount of loans due within and beyond the next financial year. It should be noted that the amounts shown may differ from the individual carrying amounts because the latter are representative of the amortised cost calculated by applying the effective interest rate method.

(euro/000)	31/12/2019			31/12/2018			Var.		
	Current	Non current	Tot.	Current	Non current	Tot.	Current	Non current	Tot.
Pool loan 2017(ag: Banca IMI)	-	-	-	101,500	-	101,500	(101,500)	-	(101,500)
Carige	2,521	2,564	5,085	2,478	5,085	7,563	43	(2,521)	(2,478)
BCC Carate	2,499	3,809	6,308	2,469	6,308	8,777	30	(2,499)	(2,469)
Intesa Sanpaolo (GdF loan)	458	973	1,431	439	1,431	1,870	19	(458)	(439)
Banca Pop. di Sondrio	-	15,000	15,000	-	-	-	-	15,000	15,000
Total loan	**5,478**	**22,346**	**27,824**	**106,886**	**12,824**	**119,710**	**(101,408)**	**9,522**	**(91,886)**

6.3 Loans and loan covenants

The carrying amount of principals of the loans granted to the Company is as in the following table. The weighted average rate charged in 2019 on the aforementioned loans was 1.6% (1.7% in 2018) or 1.9% (1.9% in 2018) considering the cost of the IRS entered into on the Senior Loan to cover the risk of interest rate variability.

(euro/000)	31/12/2019	31/12/2018	Var.
Unsecured pool loan repayable in six-monthly instalments by February 2022	-	101,500	(101,500)
Pool loan 'GdF' (agent: Intesa Sanpaolo) repayable in yearly instalments by January 2022	1,431	1,870	(439)
Unsecured loan (agent: Carige) repayable in six-monthly instalments by December 2021	5,085	7,563	(2,478)
Unsecured loan (agent: BCC Carate) repayable in six-monthly instalments by March 2022	6,308	8,777	(2,469)
Unsecured loan (agent: Banca Popolare di Sondrio) repayable in quarterly instalments by November 2023	15,000	-	15,000
Total book value	**27,824**	**119,710**	**(91,886)**

In addition to the medium/long-term loans indicated above, on 30 September 2019 the Company signed a 3-year unsecured RCF-Revolving Credit Facility with a pool of domestic and international banks for a total amount of 152.5 million euro (not used at the balance sheet date). This transaction was closed after the full repayment of the previous pool loan, which was outstanding for 72.5 million euro, being undrawn the relative revolving credit line of 65.0 million euro.
This loan is supported by a set of financial covenants, which are ordinary for this kind of transaction, determined as follows:

- ratio of net financial indebtedness' to EBITDA;
- ratio of 'extended net financial indebtedness' to Equity;
- ratio of EBITDA to net financial expense;
- amount of 'gross net financial indebtedness';

which according to management's estimates (as the same must be verified in the consolidated financial statements and certified by the independent auditors), were respected as at 31 December 2019,

Loan agreements, including those that do not contain financial covenants and the Revolving Credit Facility mentioned above, 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)	2019	2018
Net financial debt at year-beginning	**(144,936)**	**(158,757)**
Cash flow provided by (used in) operating activities	129,046	24,329
Cash flow provided by (used in) investing activities	(4,905)	(26,373)
Cash flow provided by (used in) changes in net equity	(10,765)	(10,915)
Total cash flow	**113,376**	**(12,959)**
Unpaid interests	(1,882)	(1,364)
Lease liabilities posting	(93,099)	-
Increase/(decrease) in 'cash flow edge' equity reserve	381	73
Transaction fee and financial receivables adjustment ex FTA IFRS9	-	429
Net financial debt at year-end	**(163,712)**	**(144,936)**
Short-term financial liabilities	22,812	132,744
Lease liabilities	6,374	-
Other current financial receivables	(9,718)	(10,880)
Current financial (assets)/liabilities for derivatives	-	238
Financial receivables from factoring companies	(3,526)	(241)
Financial (assets)/liab. From/to Group companies	6,921	(104,500)
Cash and cash equivalents	(289,642)	(173,681)
Net current financial debt	**(266,779)**	**(156,320)**
Borrowings	22,294	12,804
Lease liabilities	81,742	-
Other non - current financial receivables	(969)	(1,420)
Net financial debt at year-beginning	**(163,712)**	**(144,936)**

As highlighted in the table, due to the cash flow development illustrated in the *Statement of cash flows*, as at 31 December 2019 Esprinet S.p.A. posted a 163.7 million euro cash surplus, versus a 144.9 million euro cash surplus as at 31 December 2018.

6.5 Shareholdings

Below is the *Shareholding schedule*, which provides data relating to the investee companies obtained from the respective 'reporting packages' for the year ended 31 December 2019 prepared in accordance with IFRS accounting standards:

Subsidiaries:

N.	Name	Headquarters	Interest held	Group interest held
1	Celly S.p.A.	Vimercate (MB) - Italy	85.00%	85.00%
2	V-Valley S.r.l.	Vimercate (MB) - Italy	100.00%	100.00%
3	4Side S.r.l.	Legnano (MI) - Italy	51.00%	51.00%
4	Nilox Deutschland GmbH	Düsseldorf - Germany	100.00%	100.00%
5	Esprinet Iberica S.L.U.	Saragozza - Spain	100.00%	100.00%
6	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	5,820,045	225,004	9,191,940
2	V-Valley S.r.l.	EUR	20,000	3,702,459	1,117,748	20,000
3	4Side S.r.l.	EUR	100,000	3,354,575	956,503	1,348,143
4	Nilox Deutschland GmbH	EUR	400,000	(742,993)	(466,986)	-
5	Esprinet Iberica S.L.U.	EUR	54,692,844	125,330,367	4,030,015	75,772,746
6	Esprinet Portugal Lda	EUR	1,000,000	(59,864)	(527,661)	80,000

Compared to 31 December 2018, the acquisition of a 51% stake in the capital of the company 4Side S.r.l., which took place in March 2019 should be noted. It should also be noted that on 13 September 2019 a further 5% stake in Celly S.p.A. was purchased, a transaction that increased the shareholding from 80% to 85%.

For further information please refer to the paragraph 'Significant events occurring 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 2019 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.	4 Side s.r.l.	Esprinet Iberica S.L.U.
Sales from contracts with customers	24,274	506	159,809	15,560	717,376
Cost of sales	(14,563)	(685)	(157,582)	(12,591)	(690,145)
Gross profit	**9,711**	**(179)**	**2,227**	**2,969**	**27,232**
Sales and marketing costs	(6,926)	(234)	-	(712)	(5,223)
Overheads and administrative costs	(2,946)	(54)	(841)	(912)	(19,285)
Impairment loss/reversal of financial assets	(62)	-	226	180	(110)
Operating income (EBIT)	**(222)**	**(467)**	**1,613**	**1,524**	**2,614**
Finance costs - net	(157)	(0)	(14)	(4)	(772)
Investments expenses / (incomes)	270	-	-	-	(1,520)
Result before income taxes	**(109)**	**(467)**	**1,598**	**1,520**	**322**
Income tax expenses	14	-	(438)	(569)	(447)
Net result before non-controlling interests	**(95)**	**(467)**	**1,160**	**951**	**(126)**
Net result	**(95)**	**(467)**	**1,160**	**951**	**(126)**

(euro/000)	Celly S.p.A.	Nilox Deutschland GmbH	V-Valley S.r.l.	4 Side s.r.l.	Esprinet Iberica S.L.U.
ASSETS					
Non-current assets					
Property, plant and equipment	49	-	-	144	2,411
Right of use assets	-	-	-	-	-
Goodwill	-	-	-	-	35,136
Intangible assets	6	-	-	34	81
Investments in associates	-	-	-	-	-
Investments in others	3	-	-	-	57,654
Deferred income tax assets	541	-	9	1,356	4,710
Receivables and other non-current assets	-	161	-	2	320
	600	**161**	**9**	**1,536**	**100,312**
Current assets					
Inventory	6,106	-	-	1,057	74,190
Trade receivables	5,088	64	48,416	5,981	38,614
Income tax assets	99	-	-	-	0
Other assets	1,583	79	9,483	180	21,546
Cash and cash equivalents	531	633	2	3,954	61,376
	13,407	**776**	**57,901**	**11,172**	**195,726**
Total assets	**14,007**	**937**	**57,910**	**12,708**	**296,038**
EQUITY					
Share capital	1,250	400	20	100	55,203
Reserves	4,152	(676)	2,565	1,684	52,673
Net income for the period	(95)	(467)	1,160	951	(126)
	5,307	**(743)**	**3,745**	**2,735**	**107,751**
Non-controlling interests					
Total equity	**5,307**	**(743)**	**3,745**	**2,735**	**107,751**
LIABILITIES					
Non-current liabilities					
Borrowings	-	-	-	-	20,187
Lease liabilities	-	-	-	-	-
Deferred income tax liabilities	6	-	-	-	-
Retirement benefit obligations	509	-	-	227	-
Provisions and other liabilities	1,048	-	-	157	258
	1,563	**-**	**-**	**384**	**20,445**
Current liabilities	-				
Trade payables	3,263	74	62	7,994	116,097
Short-term financial liabilities	1,263	-	104	1,000	38,066
Lease liabilities	-	-	-	-	-
Income tax liabilities	-	-	5	-	-
Provisions and other liabilities	2,610	1,606	53,994	595	13,679
	7,136	**1,680**	**54,165**	**9,589**	**167,842**
Total liabilities	**8,699**	**1,680**	**54,165**	**9,973**	**188,288**
Total equity and liabilities	**14,007**	**937**	**57,910**	**12,708**	**296,038**

6.7 Relationships with related parties

The following sections provide details of the statement of financial position and the separate income statement arising from transactions with related parties, identified in accordance with IAS 24, with the exception of transactions with members of the key management highlighted in the section of the same name to which reference should be made.

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	2019		2018	
		Sales	Cost	Sales	Cost
Sales					
Nilox Deutschland GmbH	Sales of goods	560	-	1,793	-
Esprinet Iberica S.L.U.	Sales of goods	38,563	-	54,445	-
Vinzeo SAU	Sales of goods	(237)	-	-	-
Esprinet Portugal Lda	Sales of goods	2,889	-	-	-
Celly S.p.A.	Sales of goods	329	-	517	-
Subtotal		**42,105**	**-**	**56,754**	**-**
Cost of sales					
4Side s.r.l.	Purchase of goods	-	352	-	-
4Side s.r.l.	Transport costs	-	(6)	-	-
Nilox Deutschland GmbH	Transport costs		(45)		(110)
Esprinet Iberica S.L.U.	Purchase of goods	-	836	-	602
Celly S.p.A.	Transport costs	-	(6)	-	(7)
Celly S.p.A.	Purchase of goods	-	246	-	207
Subtotal		**-**	**1,377**	**-**	**692**
Sales and marketing costs					
V-Valley S.r.l.	Fees on sales	-	2,362	-	2,264
Subtotal		**-**	**2,362**	**-**	**2,264**
Overheads and administrative costs					
4Side s.r.l.	Administrative services	-	152	-	-
V-Valley S.r.l.	Hardware and software support costs	-	(68)	-	(93)
V-Valley S.r.l.	Administrative services	-	(98)	-	(90)
Esprinet Iberica S.L.U.	Hardware and software support costs	-	(1,238)	-	(1,129)
Esprinet Iberica S.L.U.	Administrative services	-	(79)	-	(58)
Vinzeo SAU	Hardware and software support costs	-	(71)	-	(58)
Vinzeo SAU	Administrative services	-	(49)	-	(53)
V-Valley Iberian S.L.U.	Administrative services	-	(5)	-	(1)
V-Valley Iberian S.L.U.	Hardware and software support costs	-	(6)	-	(5)
Esprinet Portugal Lda	Hardware and software support costs	-	(100)	-	(24)
Esprinet Portugal Lda	Administrative services	-	(58)	-	(53)
Celly S.p.A.	Hardware and software support costs	-	(124)	-	(170)
Celly S.p.A.	Administrative services	-	(666)	-	(658)
Subtotal		**-**	**(2,409)**	**-**	**(2,394)**
Finance costs - net					
Celly S.p.A.	Interests income	-	-	9	-
4Side s.r.l.	Interests income	4	-	-	-
Esprinet Portugal Lda	Interests income	43	-	39	-
Vinzeo SAU	Interessi expenses	-	18	-	-
V-Valley Iberian S.l.u.	Interests income	46	-	38	-
V-Valley S.r.l.	Interessi expenses		1		
Esprinet Iberica S.L.U.	Interests income	243	-	544	-
Subtotal		**335**	**19**	**630**	**-**
Total		**42,440**	**1,349**	**57,385**	**561**

6.7.2 Relationships with subsidiaries

The following is a summary of 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 section.
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 Management Organisational Model pursuant to Legislative Decree No. 231/01;
- the System Security Planning Paper (SSPP) pursuant to Legislative Decree No. 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 et seq. of Presidential Decree No. 917/86 (TUIR) in 2018 for the three-year period 2018-2020.
In 2016 V-Valley opted again for the 'National consolidated tax regime' for the 2019-2021 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 on the basis of the estimated positive and negative taxable amounts of the subsidiaries that participated in the national tax consolidation, net of advances paid, withholding taxes withheld and tax credits attributable to the companies themselves; as a contra-entry to the tax liability, the corresponding receivables of the consolidating company from Group companies for the current tax corresponding to the positive taxable amounts transferred under the national tax consolidation are recorded.
Payables for compensations due to subsidiaries with negative taxable amounts are reported under the item '*Payables to subsidiaries*'.

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 0.3 million euro and also sold products to Esprinet S.p.A. totalling 0.3 million euro.
Moreover, Celly S.p.A. 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.

V-Valley S.r.l.

As a result of the commission agreement signed on 20 October 2010, in 2019, 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 158 million euro (151 million euro in 2018), against which commission on sales accrued for 2.4 million euro (2.3 million euro in 2018).
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 2019 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 2011, Esprinet S.p.A. resolved in favour of V-Valley, a letter of credit (granted to Aosta Factor and still outstanding in 2019) for 20 million euro, in 2013 a letter of credit (granted to IFI Italia S.p.A.) was approved and still outstanding in 2019) for 18 million euro, as well as a letter of credit granted to Ubi Factor S.p.A. in 2018 for 5 million euro through which Esprinet acts as guarantor for the company's use of the same.
On the other hand, the letter of credit granted in 2010 to Intesa San Paolo for approximately 1 million euro and the letter of credit granted to MBFacta (formerly Creditech) in 2016 for 5 million euro, with which Esprinet acts as guarantor for the company's use of the same, were terminated in 2019.

4 Side S.r.l.

During the year 4Side S.r.l. purchased goods from the parent company for 0.4 million euro.
4Side S.r.l. also paid approximately 0.2 million euro to the company mainly for administrative activities related to the corporate purpose.

Nilox Deutschland GmbH

During the year Nilox Deutschland GmbH purchased goods from the parent company for 0.6 million euro.
4Side S.r.l. also paid approximately 45 thousand euro to the same mainly for the recharging of transport costs.

Esprinet Iberica S.L.U.

During the year Esprinet Iberica purchased goods from Esprinet S.p.A. totalling 38.6 million euro and also sold products to Esprinet S.p.A. totalling 0.8 million euro.

Esprinet Iberica also paid approx. 1.3 million euro according to a service agreement to lease equipment, for the use of data lines and administrative services and interest income on the loan settled during the year for 0.2 million euro.

Vinzeo Technologies S.A.U.

During the year, Vinzeo issued credit notes in relation to the parent company for 0.2 million euro as well as paying the parent company approximately 0.1 million euro for the use of data lines and administrative services and interest expense for 18 thousand euro.

Esprinet Portugal Lda

In 2019 Esprinet Portugal paid approx. 0.2 million euro to the parent company, mainly for the recharge of EDP consultancy and administrative services and interest income on the loan settled during the year of 43 thousand euro.

V-Valley Iberian S.L.U.

In 2019 V-Valley Iberian S.L.U. paid approx. 11 thousand euro to the parent company, mainly for the recharge of EDP consultancy and administrative services as well as for interest income amounting to 46 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	2019				2018			
		Sales	Cost	Receiv.	Payab.	Sales	Cost	Receiv.	Payab.
Sales									
Infoklix S.p.A.	Sales of goods	-	-	-	-	-	-	-	-
Key managers e familiari	Sales of goods	8	-	1	-	11	-	-	-
Subtotal		**8**	**-**	**1**	**-**	**11**	**-**	**-**	**-**
Overheads and administrative costs									
Immobiliare Selene S.r.l.	Lease - premises	-	-	-	-	-	1,477	350	427
M.B. Immobiliare S.r.l.	Lease - premises	-	-	-	-	-	3,405	925	1,130
Immobiliare Selene S.r.l.	Overheads	-	2	-	-	-	-	9	4
M.B. Immobiliare S.r.l.	Overheads	-	7	-	-	-	(2)	26	6
M.B. Immobiliare S.r.l.	Maintenance of third-party assets	-	-	-	-	-	2	-	-
M.B. Immobiliare S.r.l.	Maintenance and logistic fees	-	5	-	-	-	7	-	-
Immobiliare Selene S.r.l.	Deposits	-	-	-	-	-	-	717	-
M.B. Immobiliare S.r.l.	Deposits	-	-	-	-	-	-	833	-
Subtotal		**-**	**14**	**-**	**-**	**-**	**4,889**	**2,860**	**1,567**
Finance costs-net									
Immobiliare Selene S.r.l.	Interest on deposits	5	-	-	-	2	-	2	-
M.B. Immobiliare S.r.l.	Interest on deposits	6	-	-	-	2	-	2	-
Subtotal		**11**	**-**	**-**	**-**	**4**	**-**	**4**	**-**
Total		**19**	**14**	**1**	**-**	**15**	**4,889**	**2,864**	**1,567**

As a result of the application of IFRS 16, in 2019, 4.1 million euro in property rentals to related parties for lease contracts concluded at market conditions and signed in the periods prior to the year under review, respectively with Immobiliare Selene S.r.l. in relation to the Cambiago (MI) logistics site and M.B. Immobiliare S.r.l. in the case of Cavenago (MB) logistics site.

As shown in the table above, the total value of the above transactions is not significant in relation to the total volume of Esprinet S.p.A.'s activities.

6.8 Non-recurring significant events and operations

In 2019 no non-recurring items were identified.

The following were identified during the corresponding period of 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.).

The following table shows the impact of the above events and transactions on the income statement (including the related tax effects):

(euro/000)	**Non -recurri ng Charge Type**	**2019**	**2018**	**Var.**
Cost of sales	Value adjustments for contractual rights disputes	-	(6,080)	6,080
Gross Profit	**Gross Profit**	**-**	**(6,080)**	**6,080**
Overheads and administrative costs	Value adjustments on receivables from suppliers	-	(8,823)	8,823
Total SG&A	**Total SG&A**	**-**	**(8,823)**	**8,823**
Operating Income (EBIT)	**Operating Income (EBIT)**	**-**	**(14,903)**	**14,903**
Profit before income taxes	**Profit before income taxes**	**-**	**(14,903)**	**14,903**
Income tax expenses	Non -recurring events impact		3,814	(3,814)
Net income/(loss)	**Net income/(loss)**	**-**	**(11,089)**	**11,089**

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*'. 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

6.10.1 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:
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*'.

Assets	31/12/2019				31/12/2018			
(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
Customer financial receivables	*969*		*969*		*1,420*		*1,420*	
Guarantee deposits	*1,743*		*1,743*		*1,675*		*1,675*	
Receiv and other non-curr. Assets	2,712		2,712	-	3,095		3,095	-
Non-current assets	**2,712**	**-**	**2,712**	**-**	**3,095**	**-**	**3,095**	**-**
Trade receivables	272,957	130,230	142,727		199,871	77,043	122,828	
Receivables from subsidiaries	*63,911*		*63,911*		*170,481*		*170,481*	
Other tax receivables	*8,894*			*8,894*	*4,639*			*4,639*
Receivables from factors	*3,526*		*3,526*		*242*		*242*	
Customer financial receivables	*9,717*		*9,717*		*10,880*		*10,880*	
Receivables from insurances	*377*		*377*		*573*		*573*	
Receivables from suppliers	*9,929*		*9,929*		*4,680*		*4,680*	
Receivables from employees	-		-		*2*		*2*	
Receivables from others	*130*		*130*		*72*		*72*	
Pre-payments	*4,226*			*4,226*	*3,794*			*3,794*
Receiv and other curr. Assets	100,710		87,590	13,120	195,363		186,930	8,433
Derivative financial assets	-	-			375	375		
Cash and cash equivalents	289,642		289,642		173,681		173,681	
Current assets	**663,309**	**130,230**	**519,959**	**13,120**	**569,290**	**77,418**	**483,439**	**8,433**

Liabilities	31/12/2019				31/12/2018			
(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	22,294		22,294		12,804		12,804	
Lease liabilities	81,742		81,742		-		-	
Provisions for pensions	*1,171*			*1,171*	*1,218*			*1,218*
Other provisions	*853*			*853*	*77*			*77*
Cash incentive liabilities	*260*		*260*		*105*		*105*	
Provis. and other non-curr. liab.	2,284		260	2,024	1,400		105	1,295
Non-current liabilities	**106,320**	**-**	**104,296**	**2,024**	**14,204**	**-**	**12,909**	**1,295**
Trade payables	743,963		743,963		521,203		521,203	
Short-term financial liabilities	30,733		30,733		132,744		132,744	
Lease liabilities	6,374		6,374		-		-	
Derivative financial liabilities	-	-			613	613		
Payables to assoc. and subsidiar.	*1,079*		*1,079*		*255*		*255*	
Social security liabilities	*3,388*		*3,388*		*3,164*		*3,164*	
Other tax liabilities	*2,530*			*2,530*	*8,607*			*8,607*
Payables to others	*9,915*		*9,915*		*10,027*		*10,027*	
Accrued expenses (insurance)	*250*		*250*		*267*		*267*	
Deferred income	*13*			*13*	*8*			*8*
Provisions and other liabilities	17,175		14,632	2,543	22,328		13,713	8,615
Current liabilites	**798,245**	**-**	**795,702**	**2,543**	**676,888**	**613**	**667,660**	**8,615**

[1] 'FVTPL': Fair Value Through Profit and Loss includes derivatives at 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 debt;
- lease liabilities;
- intercompany payables;
- other debts (current and non-current).

- financial instruments measured at 'fair value' since initial recognition:
  - derivative financial assets;
  - derivative financial liabilities.

The fair value of the assets and liabilities recorded in the financial statements at fair value, as specified in greater detail below, corresponds to a level 2 in the hierarchy with the exception of 'Debt for acquisition of investments' which, also deriving from estimates made by management, corresponds to level 3.

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	31/12/2019						31/12/2018					
		Fair value						Fair value				
(euro/000)	Carrying amount	Trade receiv	Financial receiv	Receiv. from insurers	Receiv. from Group	Other Receiv.	Carrying amount	Trade receiv	Financial receiv	Receiv. from insurers	Receiv. from Group	Other Receiv.
Customer financial receiv	*969*		*1,036*				*1,420*		*1,516*			
Guarantee deposits	*1,743*	*1,831*	-				*1,675*	*1,760*				
Other non-curr. Assets	2,712	1,831	1,036		-		3,095	1,760	1,516		-	
Non-current assets	**2,712**	**1,831**	**1,036**	**-**	**-**	**-**	**3,095**	**1,760**	**1,516**	**-**	**-**	**-**
Trade receivables	272,957	272,957					199,871	199,871				
Receivables from subsid.	*63,911*				*63,911*		*170,481*				*170,481*	
Receiv. from factors	*3,526*		*3,526*				*242*		*242*			
Customer financial receiv	*9,717*		*9,717*				*10,880*		*10,880*			
Receiv. from insurances	*377*			*377*			*573*			*573*		
Receiv. from employees	-					-	*2*					*2*
Receiv. from suppliers	*9,929*					*9,929*	*4,680*					*4,680*
Receiv. From others	*130*					*130*	*72*					*72*
Other curr. assets	87,590	-	13,243	377	63,911	10,059	186,930	-	11,122	573	170,481	4,754
Derivative financial asset	-		-				375		375			
Cash and cash equival.	289,642		289,642				173,681		173,681			
Current assets	**650,189**	**272,957**	**302,885**	**377**	**63,911**	**10,059**	**560,857**	**199,871**	**185,178**	**573**	**170,481**	**4,754**

Liabilities	31/12/2019						31/12/2018					
		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	22,294		22,319				12,804		12,740			
Cash incentive liab	*260*				*260*		*105*				*105*	
Provisions and other liabilities	260				260		105				105	
Non-current liabilites	**22,554**	**-**	**22,319**	**-**	**260**	**-**	**12,909**	**-**	**12,740**	**-**	**105**	**-**
Trade payables	743,963	743,963					521,203	521,203				
Short-term financial liab	30,733		31,039				132,744		133,377			
Financial derivatives	-			-			613			613		
Intercompany payables	*1,079*					*1,079*	*255*					*255*
Social security liabilities	*3,388*				*3,388*		*3,164*				*3,164*	
Payables to others	*9,915*				*9,915*		*10,027*				*10,027*	
Accrued exp. (insurance)	*250*				*250*		*267*				*267*	
Provis. and other liabil.	14,632				13,553	1,079	13,713				13,458	255
Current liabilities	**789,328**	**743,963**	**31,039**	**-**	**13,553**	**1,079**	**668,273**	**521,203**	**133,377**	**613**	**13,458**	**255**

IFRS 13 identifies a hierarchy of assessment techniques based on three levels:

- Level 1: the data used in the assessments is represented by prices quoted on markets where assets and liabilities identical to those being assessed are traded;
- Level 2: the data used in the assessments, other than the quoted prices referred to in Level 1, are observable for the financial asset or liability, both directly (prices) and indirectly (derived from prices);
- Level 3: non-observable data; where observable data is not available and, therefore, there is little or no market activity for the assets and liabilities being assessed.

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

The 'fair value' of non-current assets and financial debt 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 as 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 accounted in 2018 shows the difference between the valuation of the residual 20% in Celly's share capital and the forward price valuation payable under the option contract entered with the non-controlling shareholder that could be executed since 12 may 2019 but that the parties agreed not to execute and that was therefore extinguished.

The fair value thus measured corresponds to a level 3 in the fair value hierarchy being based also on management estimates about future financial performance of the subsidiary whose main assumptions on which this value was determined were consistent with those used in the 'DCF Model' relating to CGU 2 Celly; for detailes reference has to be made to the paragraph *'B) Basic assumptions / critical variables'* in '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 provided in the table dedicated to finance costs under '*42) Financial income and expense*'.

Impairments of financial assets, estimated following a precise assessment of the solvency of each debtor, are shown under the item 'Impairment loss/reversal of financial assets' in the separate income statement. These impairments totalled 0.6 million euro in 2019 (9.3 million euro in 2018 including 8.8 million euro relating to the non-recurring event represented by the assessment of the receivable due from the long-standing supplier of the 'Sport Technology' line, which at the end of 2018 started a voluntary liquidation process).

6.10.2 Additional information about financial assets

During the year, as in the previous year, it was not necessary to make any changes in the method of accounting for financial assets (not recognising the initial recognition at fair value and subsequent recognition at cost of certain balance sheet items, as required by international accounting standards).
As already highlighted in the section '*Trade and other receivables*' the value of receivables is constantly reduced by the established impairment losses. This transaction is effected by specially allocating a bad debt provision that directly reduces the carrying amount of the devaluated financial asset.
In the year closed at 31 December 2018, 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
2019 financial year	3,899	1,075	(893)	-	4,081
2018 financial year	4,381	525	(2,234)	1,227	3,899

Esprinet S.p.A. usually transfers financial assets.
These operations involve giving factoring companies trade receivables, for both with-recourse 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 2019, 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 with-recourse factoring and advances under usual reserves, this operation not qualifying for derecognition, the Company 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 2019 the receivables sold with-recourse against which advances were obtained subject to collection amounted to 0.6 million euro (2.4 million euro as at 31 December 2018); while 'with recourse' advances of trade bills amount to 1.3 million euro (0.2 million euro as at 31 December 2018).
The financial assets' gross carrying amount is the Company's maximum exposure to credit risk.

Below is an analysis of the status of trade receivables due from customers and the seniority of those that have not suffered lasting losses in value:

(euro/000)	31/12/2019	Receivables impaired	Receivables past due not impaired	Receivables not past due not impaired
Gross trade receivables	277,038	137,066	72,676	67,296
Bad debt provision	(4,081)	(4,081)	-	-
Net trade receivables	**272,957**	**132,985**	**72,676**	**67,296**

(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)	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 31/12/2019	72,676	993	1,447	591	69,645
Receiv. past due not impaired at 31/12/2018	48,499	812	1,391	5,642	40,654

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 premises for allocating provisions for doubtful receivables for amounts not yet overdue exist with the exception of receivables falling within the 'hold to collect' cluster. This cluster concerns receivables assigned to third parties on the basis of binding programmes for which the cashable value has been taken into account by such third parties.

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 as at 31 December 2019):

- 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. 20% 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 non-significant amounts.

No financial or non-financial assets were obtained during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees). Nor did the Company 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.

With regard to the other financial assets governed by IFRS 7 and IFRS 13, apart from the adjustment of the value of the receivable due from the long-standing supplier of the 'Sport Technology' line in voluntary liquidation, made in the previous year, they have not suffered permanent losses in value, either in the current year or in the previous year . The changes in the related bad debt provision are shown below, together with two summary tables providing information on their status and the seniority of receivables overdue:

(euro/000)	Starting provision	Additions	Uses	Final provision
2019 financial year	8,823	-	-	8,823
2018 financial year	-	8,823	-	8,823

	31/12/2019				31/12/2018			
(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
Customer financial receiv	*696*			*696*	*1,420*			*1,420*
Guarantee deposits	*1,743*			*1,743*	*1,675*			*1,675*
Other non-current assets	2,439			2,439	3,095			3,095
Non-current assets	**2,439**	**-**	**-**	**2,439**	**3,095**	**-**	**-**	**3,095**
Receivables from subsidiar.	*63,911*		*2,387*	*61,524*	*170,481*		*876*	*169,605*
Receivables from factors	*3,526*		*192*	*3,334*	*242*		*13*	*239*
Customer financial receiv	*9,717*			*9,717*	*10,880*			*10,880*
Receivables from insurances	*377*		*377*		*573*		*573*	
Receivables from suppliers	*18,752*	*11,448*	*7,304*		*13,503*	*11,657*	*1,846*	
Receivables from employees	*-*			*-*	*2*			*2*
Receivables from others	*130*		*130*		*72*		*72*	
Other current assets	96,413	11,448	10,390	74,575	195,753	11,657	3,380	180,726
Derivate Financial Assets	-			-	375			375
Cash and cash equivalents	289,642		289,642		173,681		173,681	
Gross Current assets	**386,055**	**11,448**	**300,032**	**74,575**	**369,809**	**11,657**	**177,061**	**181,101**
Bad debts provision	(8,823)	(8,823)			(8,823)	(8,823)		
Net Current assets	**377,232**	**2,625**	**300,032**	**74,575**	**360,986**	**2,834**	**177,061**	**181,101**

(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	2,387	1,969	20	(69)	467
Receivables from factoring companies	192	-	-	-	192
Receivables from insurance companies	377	204	21	31	121
Receivables from others	130	130	-	-	-
Receiv. past due not impaired at 31/12/2019	**3,086**	**2,303**	**41**	**(38)**	**780**
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 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 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.

6.10.3 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 31/12/2019	Future cash flow	in 6 months	6-12 months	1-2 years	2-5 years	after 5 years
Financial liabilities	22,294	23,269	216	168	10,819	12,066	-
Lease liabilities	81,742	103,306	1,294	1,254	8,646	23,670	68,442
Cash incentive liabilities	*260*	*260*	-	-	*178*	*82*	-
Provisions and other non-corr. Liabilities	260	260	-	-	178	82	-
Non-current liabilities	**104,296**	**126,835**	**1,510**	**1,422**	**19,643**	**35,818**	**68,442**
Trade payables	743,963	745,005	744,173	595	235	2	-
Short-term financial liabilities	30,733	30,726	28,187	2,539	-	-	-
Lease liabilities	6,374	6,312	3,117	3,195	-	-	-
Payables to assoc. and subsidiaries	*1,079*	*1,079*	*1,079*	-	-	-	-
Social security liabilities	*3,388*	*3,388*	*3,388*	-	-	-	-
Payables to others	*9,915*	*9,915*	*9,915*	-	-	-	-
Accrued expenses (insurance)	*250*	*250*	*250*	-	-	-	-
Provisions and other liabilities	14,632	14,632	14,632	-	-	-	-
Current liabilites	**795,702**	**796,675**	**790,109**	**6,329**	**235**	**2**	**-**

(euro/000)	Carrying amount 31/12/2018	Future cash flow	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 liab	*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	13,713	-	-	-	-
Current liabilites	**668,273**	**751,812**	**674,510**	**7,439**	**9,426**	**24,438**	**35,999**

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 Company 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).

As at 31 December 2018, one of the covenants relating to a *Term Loan Facility* and a *Revolving Facility* subscribed by the Company with a pool of domestic and international banks, and with a total residual capital value of 101.5 million euro, had not been met. 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 debt and the relevant contractual cash flows were assumed to take place within 6 months after the financial statements date.
The *Revolving Facility*, with a value of 65.0 million euro, had not been used as at 31 December 2018 and was not used during 2019, while repayments of the *Term Loan Facility* continued regularly, according to the initial amortisation plan, during the year until the early repayment on 26 September 2019 of its residual principal amount of 72.5 million euro.
On 30 September, the Company signed a 3-year 'unsecured' RCF-Revolving Credit Facility with almost the same pool of banks for a total amount of 152.5 million euro, which is also subject to the verification of a structure of typical financial covenants for transactions of this nature.

With the exception of what has just been described and the failure to comply, again without producing any consequences, both as at 31 December 2017 and 31 December 2016 with part of the financial ratios provided for in the loan agreements, the Company has never been in a default situation with regard to the clauses concerning the nominal principal, interest, amortisation plan or repayment of loans payable.

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

The Company also has other minor loans not subject to financial covenants (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 1.4 million euro and registered at an almost identical value 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 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, both in terms of value and maturity, to the repayment plan of the loan, which for this reason does not contain any agreements providing for the possible forfeiture of the benefit of the repayment terms.

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

6.10.4 Hedging derivatives analysis

Introduction

Esprinet S.p.A. enters into derivative contracts in order to hedge certain loan agreements against fluctuating interest rates by means of a cash flow hedging strategy (so-called '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 instructions 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 the end of the year, the Company did not have any hedging derivatives in place.

Instruments terminated during the year

In 2019 Esprinet S.p.A., as a result of the early repayment, on 26 September 2019, of the medium-term pool loan called the *Term Loan Facility*, originally amounting to 145.0 million euro (reduced at the repayment date to 72.5 million euro in principal due to the repayments provided for in the amortisation plan, and replaced by a 3-year unsecured RCF-Revolving Credit Facility of 152.5 million euro, also signed with a pool of domestic and international banks), terminated the six 'IRS-Interest Rate Swap' ('IRS') contracts signed on 7 April 2017 with six of the eight banks providing this loan and with the purpose of 'hedging', through the collection of the variable interest rate against payment of the fixed rate, an 81% share of the aforementioned Term Loan Facility.
IRSs were settled at an aggregate amount of 0.5 million euro, substantially equal to their fair value at the termination date.

The main features of the six settled contracts are summarised below:

Trade date	7 April 2017
Effective date	31 August 2017
Termination date	28 February 2022
Notional amount	105.6 million euro amortising; 58.7 million euro as at 26 September 2019
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 player	Esprinet S.p.A.
Floating rate	Euribor 6M, act/360, fixed two days before the interest calculation period
Floating rate player	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.

At 31 December 2018, one covenant relating to the Term Loan Facility, whose cash flows had been hedged by the six above-mentioned derivatives, had not been met. As from that date, the liability representing the fair values of derivatives was entirely booked under current financial liabilities together with the amount of the hedged loan.

For IRSs extinguished during 2019, the conditions set out in IFRS 9 for the application of hedge accounting were fully met until 25 September 2019, the date immediately prior to the extinction of the loan 'hedged' by the same: 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.
The accounting technique of the 'cash flow hedge' which provides for the recognition of the related fair value (limited to the effective portion) and subsequently of changes in fair value resulting from movements in the interest rate curve, all within the limits of the effective portion of the hedge and therefore recognised in the statement of comprehensive income, is to be recognised in the shareholders' equity reserve at the date the contract was entered into.
The changes in the fair value of the IRSs occurring up to 25 September 2019 have therefore been recognised in the equity reserve, while later changes were booked under 'financial income and expense' directly in the income statement till the derivative termination date, as the hedging relationship no longer applied.

As of 31 December 2018, a further 16 thousand euro had been recognised in the 'cash flow hedge' reserve as part of shareholders' equity, generated by changes in the fair value of previous hedging derivatives, subscribed in 2014 and settled in 2017 when the hedged loan was replaced with the Term Loan Facility repaid during the year. This reserve was gradually reversed to the separate income statement according to the maturities of the loan originally hedged (which ended on 31 July 2019) due to the fact that the relevant interest rate risk still existed, even if 'shifted' to the subsequent loan.

The table below illustrate the following information regarding derivative contracts with reference to the cash flow hedge accounting technique (until 25 September 2019):
- the notional amount as at 25 September 2019 and as at 31 December 2018 shared into portions maturing within or beyond a 12-months period;
- the amount recognised in the statement of financial position as at 25 September 2019 and 31 December 2018 representing the 'fair value' of the contracts at the date of the 'highly 'effective hedge termination;
- the ineffective portion recognised or reversed in the income statement under '*Finance expense*' from inception to 25 September 2019 and 31 December 2018 with reference to the instalments still outstanding at the same date;
- the change in the fair value from the inception date to 25 September 2019 and 31 December 2018.

	Financial year	Notional amount		FV 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	2019	58,690	-	577	28	(132)	(417)
- Esprinet IRS 2014 cash flow hedge on derivatives	2019	-	-	-	-	-	-
- Vinzeo cash flow hedge on derivatives	2019	-		-	-	-	-
	2019	**58,690**	**-**	**577**	**28**	**(132)**	**(417)**
- 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)**

[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.

Below are details of the events that gave rise to the changes that occurred during the year in the shareholders' equity reserve relating to derivative instruments accounted for using the cash flow hedge technique:

(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	2019	(317)	246	(59)	-	76	(54)
- Equity reserve on derivatives 2014	2019	-	21	(5)	-	-	16
	2018	**(317)**	**267**	**(64)**	**-**	**76**	**(38)**
- 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**

[1] Accounted as increase/(decrease) in Financial expense.

(euro/'000)	2018					
	Change in fair value of derivatives	Transfer to P&L [1]	Taxes effect on P&L	Ineffective portion of (gain)/loss	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 expense.

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:	31/12/2019	Cash flow	-	-	-	-	-	-
		Impact on P&L	-	-	-	-	-	-
	31/12/2018	Cash flow	2,736	2,736	-	-	-	-
		Impact on P&L	2,307	2,307	-	-	-	-

Finally, the derivative instrument changes referring to the fair value variations recorded in the Income Statement resulting from the termination of the hedging relationship are reported below:

(euro/000)			Total	0-6 months	6-12 months	1-2 years	2-5 years	after 5 years
Loans:	31/12/2019	Cash flows	-	-	-	-	-	-
		Impact on P&L	-	-	-	-	-	-
	31/12/2018	Cash flows	2,736	2,736	-	-	-	-
		Impact on P&L	2,307	2,307	-	-	-	-

(1) Previous year, that for the 2019 fiscal year refers to 25 September 2019, when the hedging relationship no longer applied due to repayment of the underlying loan.
(2) Including the portion accrued within the period of high effectiveness of the cover.
(3) Current year

6.10.5 Sensitivity analyses

Since the Company 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 the Company 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 2019 market interest rate trend was taken into account together with the Company'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

	31/12/2019		31/12/2018	
(euro/000)	Net equity	Profit/(loss)	Net equity	Profit/(loss)
Derivative financial assets	-	-	(1)	(1)
Financial assets	500	500	914	914
Cash and cash equivalents	554	554	340	340
Borrowings (1)	(1,260)	(1,260)	(1,217)	(1,217)
Derivative financial liabilities	600	600	1,015	-
Total	**394**	**394**	**1,051**	**36**

(1) Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

Scenario 2: -100 basis points

	31/12/2019		31/12/2018	
(euro/000)	**Net equity**	**Profit/(loss)**	**Net equity**	**Profit/(loss)**
Derivative financial assets	-	-	1	1
Financial assets	(316)	(316)	(479)	(479)
Cash and cash equivalents	(59)	(59)	(19)	(19)
Borrowing [1]	270	270	145	145
Derivative financial liabilities	(612)	(612)	(1,040)	-
Total	**(717)**	**(717)**	**(1,392)**	**(352)**

(1) Impact on the loans hedged by IRS regards solely the uncovered portion of the loans.

6.11 Subsequent events

As already reported in the '*Subsequent events*' section of the Report on Operations in more detail, the Covid-19 pandemic caused a global economic crisis whose overall medium/long-term effects are currently undergoing a complex assessment. The extent and duration of this pandemic remains uncertain but an impact on our business is expected.

This event, which occurred after the balance sheet date, does not imply an adjustment to the carrying amounts as at 31 December 2019 as required by IAS 10. However, it could have significant impacts in the 2020 financial year, without, however, affecting the company's ability to continue as a going concern, also in light of the actions taken.

6.12 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 2019 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**	**Entity**	**Fees (euro/000)**	
			2019	**2018 [1]**
Auditing services				
	PwC S.p.A.	Esprinet S.p.A.	220.0	240.9
Other services				
	PwC S.p.A.	Esprinet S.p.A.	30.0	36.0
Total			**250.0**	**276.9**

(1) Compensation referred to the previous Auditor EY S.p.A.

In addition to the compensation shown in the table, there is a 36 thousand euro supplement to the 2018 statutory audit fees of the previous auditor EY S.p.A.

7. 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 15 April 2020, which also authorised the Chairperson 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, 15 April 2020

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 2019 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 consolidated financial statements at 31 December 2019 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 2019:

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, 15 April 2020

Chief Executive Officer
.

(Ing. Alessandro Cattani)

Executive charged with
financial reports
.

(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 separate financial statements relating to the year 2019 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 2019 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 2019:

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.

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Vimercate, 15 April 2020

Chief Executive Officer	Executive charged with financial reports
.	.
(Ing. Alessandro Cattani)	(Pietro Aglianò)