Esprinet Group

Interim management report as at 31 December 2018

Approved by the Board of Directors on 13 February 2019

Parent Company:

Esprinet S.p.A.
VAT number: IT 02999990969
Milan, Monza and Brianza, Lodi Companies' Register Tax Code: 05091320159 E&A Index (R.E.A.) number: 1158694
Head Office and Admin.ve Headquarters: Via Energy Park 20 - 20871 Vimercate (MB), Italy
Subscribed and paid-in share capital 31 December 2018: Euro 7,860,651
www.esprinet.com - *info@esprinet.com*

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

Key:
ID: Independent Director
CRC: Member of Control and Risks Committee.
RAC: Member of Remuneration and Appointments 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 Auditing firm:

(Mandate expiring with approval of accounts for the year ending 31 December 2018)

EY S.p.A.

Departure from the obligations to provide information on extraordinary transactions

Pursuant to the matters envisaged by Article 70.8 and Article 71.1 bis, of the Issuers' Regulations issued by Consob, on 21 December 2012 the Board of Directors of Esprinet S.p.A. resolved to avail itself of the faculty to depart from the obligations to publish the information documents laid down at the time of significant transactions relating to mergers, demergers, share capital increases via the contribution of goods in kind, acquisitions and disposals.

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1. Notes on financial performance for the period

(euro/000)	12 months							Q4					
	notes	2018	%	2017	notes	%	*% var. 18/17*	2018	%	2017	notes	%	*% var. 18/17*
Profit & Loss													
Sales		3,571,223	100.0%	3,217,172		100.0%	11%	1,261,422	100.0%	1,089,575		100.0%	16%
Gross profit		162,182	4.5%	167,763		5.2%	-3%	51,048	4.0%	52,333		4.8%	-2%
EBITDA	(1)	28,062	0.8%	39,475	(1)	1.2%	-29%	9,383	0.7%	21,231		1.9%	-56%
Operating income (EBIT)		23,219	0.7%	34,347		1.1%	-32%	8,165	0.6%	19,700		1.8%	-59%
Profit before income tax		18,447	0.5%	33,634		1.0%	-45%	7,041	0.6%	21,967		2.0%	-68%
Net income		12,896	0.4%	26,279		0.8%	-51%	4,558	0.4%	17,355		1.6%	-74%
Financial data													
Cash flow	(2)	17,585		31,033	(2)								
Gross investments		3,064		3,845									
Net working capital	(3)	(4,956)		107,133	(3)								
Operating net working capital	(4)	10,538		104,175	(4)								
Fixed assets	(5)	120,056		122,403	(5)								
Net capital employed	(6)	100,823		215,128	(6)								
Net equity		341,639		338,188									
Tangible net equity	(7)	250,319		246,522	(7)								
Net financial debt	(8)	(240,815)		(123,058)	(8)								
Main indicators													
Net financial debt / Net equity		(0.7)		(0.4)									
Net financial debt / Tangible net equity		(1.0)		(0.5)									
EBIT / Finance costs - net		4.9		45.9									
EBITDA / Finance costs - net		5.9		52.7									
Net financial debt/ EBITDA		(8.6)		(3.1)									
Operational data													
N. of employees at end-period		1,263		1,247									
Avarage number of employees	(9)	1,256		1,288	(9)								
Earnings per share (euro)													
- Basic		0.25		0.51			-51%	0.09		0.33			-73%
- Diluted		0.25		0.50			-50%	0.09		0.33			-73%

(1) EBITDA is equal to the operating profit (EBIT) gross of amortisation, depreciation, write-downs and provisions for risks.
(2) Sum of consolidated net profit and amortisation/depreciation.
(3) Sum of current assets, non-current assets held for sale and current liabilities, gross of short-term net financial payables.
(4) Sum of trade receivables, inventories and trade payables.
(5) Equal to the non-current assets net of the non-current financial assets for derivative instruments.
(6) Equal to the actual capital invested at the end of the period, calculated as the sum of the net working capital plus fixed capital assets net of non-current non-financial liabilities.
(7) Equal to shareholders' equity less goodwill and intangible fixed assets.
(8) Sum of financial payables, cash and cash equivalents, assets/liabilities for derivative instruments and financial receivables from factoring companies.
(9) Calculated as the average between the initial and final balance for the period of the consolidated companies.

The economic and financial results for this period and the comparable periods have been determined in compliance with the International Financial Reporting Standards (IFRS), adopted by the EU in force in the reference period.
In the chart above, in addition to the conventional economic and financial indicators laid down by the IFRS accounting standards, some 'alternative performance indicators' are presented, even if not envisaged by the IFRS. These indicators, consistently presented in other periodic Group reports, are not intended to replace the IFRS indicators; they are used internally by management since they are

deemed particularly significant for measuring and controlling the Group's profitability, performance, capital structure and financial position.
At the bottom of the table, in line with the ESMA/2015/1415 Guidelines of the ESMA (European Securities and Market Authority) issued in accordance with Article 16 of the ESMA Regulation, which up-date the previous recommendation CESR/05-178b of the CESR (Committee of European Securities Regulators) and acknowledged by CONSOB by means of Communication No. 092543 dated 3 December 2015, the calculation method of these indicators is provided.

2. Contents and format of the interim management statement

2.1 Consolidation policies, accounting principles and valuation criteria

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

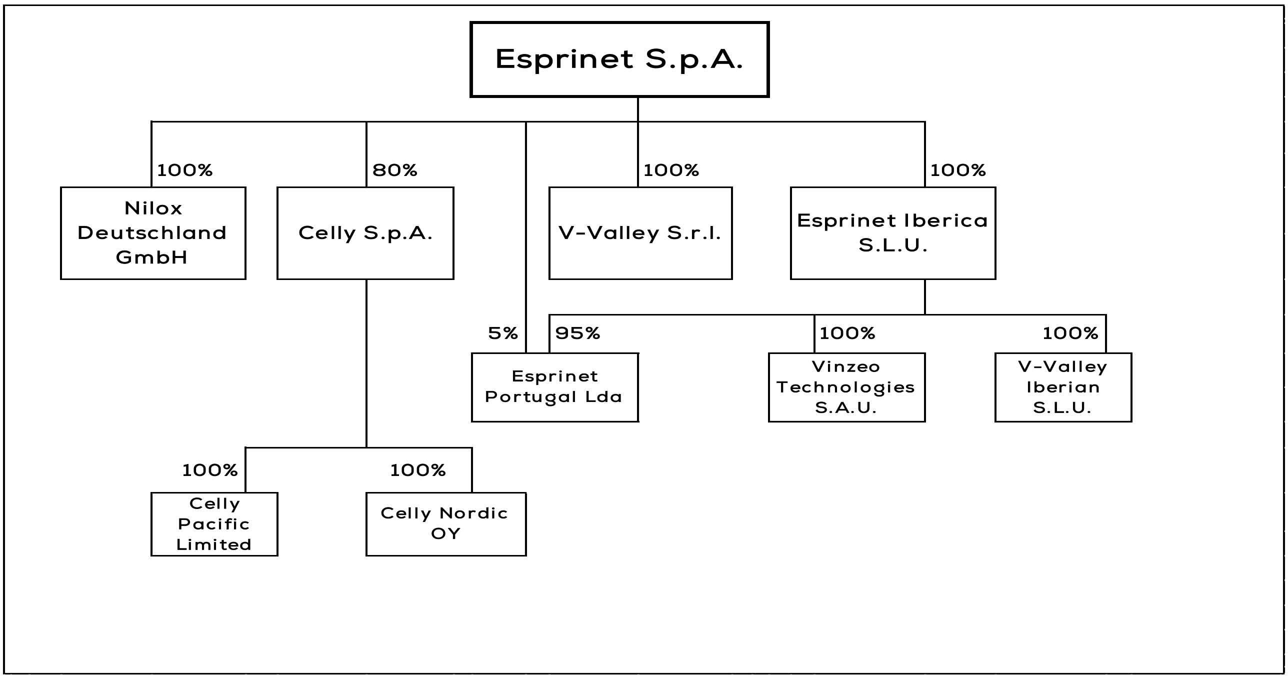
Further to said listing, the interim management report as at 31 December 2018 - not subject to accounts audit - has been drawn up pursuant to Article 2.2.3, section 3 a), of the 'Regulation on markets organised and managed by Borsa Italiana S.p.A.', as well as pursuant to Article 154-ter, section 5, of Legislative Decree No. 58/1998 (T.U.F. – Finance Consolidation Act).

The accounting data presented in this document derives from the application of the same accounting standards (IFRS - International Financial Reporting Standards), consolidation principles and methods, measurement criteria, conventional definitions and accounting estimates adopted for the drafting of the previous consolidated financial statements for interim and annual periods, unless otherwise indicated.

Pursuant to Consob Communication No. DEM/8041082 of 30 April 2008 ('Interim corporate disclosure of the issuers of listed shares whose member nation of origin is Italy'), it is therefore highlighted that the accounting data in this interim management report is comparable with that provided in previous periodic reports and is confirmed in those contained in the financial statements format published in the annual financial report as at 31 December 2017 to which reference should be made for all the additional information required in the annual financial statements.

2.2 General information about the Esprinet Group

The structure of the Esprinet Group as at 31 December 2018 is as follows:



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 from the parent company of micro-electronic components distribution activities and the various business combination transactions and establishment of new companies carried out over the years.

Reference will be made to Subgroup Italy and Subgroup Spain further on in the presentation.
As of the period end date, Subgroup Italy included not only the parent company Esprinet S.p.A., but also the companies it directly controls: V-Valley S.r.l., Celly S.p.A., Nilox Deutschland Gmbh (established on 11 July 2017 and which became operative during the first half of 2018).

For the purpose of representation within the 'Subgroup Italy', the subsidiary Celly S.p.A., a company involved in 'business-to-business' (B2B) distribution of Information Technology (IT) and consumer electronics and in more specifically in the wholesale distribution of accessories for mobile telephones, is understood to be inclusive of its wholly-owned subsidiaries:
- Celly Nordic OY, a company established under Finnish law (dormant since May 2017);
- Celly Pacific LTD, a company established under Chinese law;

both operating in the same operational sector as the holding company.

The Subgroup Spain by contrast, as of the same date, comprised the companies established under Spanish and Portuguese law operating in Spain and in other words Esprinet Iberica S.L.U. and its subsidiaries Esprinet Portugal Lda, Vinzeo Technologies S.A.U. and V-Valley Iberian S.L.U..

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

2.3 Consolidation scope

The consolidated financial statements are taken from the interim accounts of the parent company and the companies over which it has, directly and/or indirectly, control or a significant influence, as approved by their respective Boards of Directors[1].
Wherever necessary, the interim accounts of the subsidiaries have been suitably adjusted to ensure consistency with the accounting standards used by the parent company.

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

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

(*) The figure for the share capital referring to the companies which draw up their financial statements in currency other than the euro is presented at historical values.

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

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

For further information, please see the aspects illustrated in the section '*Significant events during the period*'.

2.4 Principal assumptions, estimates and roundings

Within the sphere of drafting of these consolidated interim financial statements a number of estimates and assumptions have been made which affect the values of sales, costs, assets, liabilities and the disclosure relating to potential assets and liabilities, at the date of the interim financial

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

statements. Unless otherwise stated, they have been applied consistently to all the periods presented in this document.
Should such estimates and assumptions, based upon the best evaluation by management, differ from actual circumstances, they will be modified accordingly during the period in which such circumstances arise.

A detailed description of the assumptions and estimates adopted can be found in the Notes to the consolidated financial statements of the Esprinet Group as at 31 December 2017, to which reference is made.

As permitted by the account standard IAS 34, in this interim period, income taxes have been recognised on the basis of the best estimate of the tax liability expected for the entire financial year. By contrast, in the annual consolidated financial statements, current taxes have been calculated on an item-by-item basis by applying the tax rate in force at the closing date of the annual financial statements.
Prepaid and deferred taxes have by contrast been estimated on the basis of tax rates considered to be in force at the time that the related assets will be realised or liabilities paid off.
The figures presented in this document are expressed in thousands of Euro, unless otherwise indicated.
In some cases the tables presented could highlight rounding off errors due to the representation in thousands.

2.5 Amendments of accounting standards

In this interim management report, no changes took place in the accounting estimates made in previous years in prior periods pursuant to IAS 8, but, further to the first-time application as from 1 January 2018 of the new international standards IFRS 9 and IFRS 15, it was necessary to determine and recognise the effects of these new provisions as of that date.

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

The introduction of IFRS 15 led to a different representation of the Gross profit according to whether the revenues derive from contracts with the customers in which, for the purpose of the accounting standard, the role of 'principal' or 'agent' is covered.
The representation of the sales margin on the basis of 'principal' leads to the separate presentation of the revenues and the cost of sales while presentation as 'agent' requires just the presentation, under the revenues, of the realised margin.
Further to the analysis of the contracts signed and the identification of the contractual obligations in the new standpoint envisaged by the accounting standard, the Esprinet Group has therefore identified the distribution of the hardware and software products, the distribution of the own-brand products, the presentation of services not intermediated as the activities in which is covers the role of 'principal'. The distribution of software under cloud facilities and the intermediation of services have by contrast been identified as business lines to be represented as 'agent' (with the specification that the action in the guise of 'agent' does not represent an agency agreement as understood in the common sense in the legal systems of the countries in which the Group carries out its activities but is assimilated in the mere representation in the financial statements).

The change consequent to the introduction of IFRS 15, if already applied in 2017, would have led to a reduction in the revenues and the cost of sales for 13.6 million euro as at 31 December 2017, without any impact therefore on the Gross profit which would have remained unchanged.

The adjustments determined by the two new afore-mentioned accounting standards are more or less fully attributable to the parent company Esprinet S.p.A..

Below indication is provided of the effects, net of the nominal tax rate of 24%, which would come about on the 2017 financial statements in the event of application in this accounting period of the afore-mentioned amendments (column headed 'pro-forma').

Consolidated statement of financial position

(euro/000)	31/12/2017 pro-forma	31/12/2017 Published	Var.
ASSETS			
Property, plant and equipment	14,634	14,634	-
Goodwill	90,595	90,595	-
Intangible assets	1,070	1,070	-
Deferred income tax assets	11,262	11,262	-
Derivative financial assets	36	36	-
Receivables and other non-current assets	6,705	6,712	(7)
Non-current assets	**124,302**	**124,309**	**(7)**
Inventory	481,551	481,551	-
Trade receivables	313,073	313,073	-
Income tax assets	3,116	3,116	-
Other assets	27,522	27,778	(256)
Cash and cash equivalents	296,969	296,969	-
Current assets	**1,122,231**	**1,122,487**	**(256)**
Total assets	**1,246,533**	**1,246,796**	**(263)**
EQUITY			
Share capital	7,861	7,861	-
Reserves	303,046	303,046	-
Group net income	26,368	26,235	133
Group net equity	**337,275**	**337,142**	**133**
Non-controlling interests	1,046	1,046	-
Total equity	**338,321**	**338,188**	**133**
LIABILITIES			
Borrowings	19,927	19,927	-
Deferred income tax liabilities	7,088	7,088	-
Retirement benefit obligations	4,814	4,814	-
Debts for investments in subsidiaries	1,311	1,311	-
Provisions and other liabilities	2,504	2,504	-
Non-current liabilities	**35,644**	**35,644**	**-**
Trade payables	690,449	690,449	-
Short-term financial liabilities	155,522	155,960	(438)
Income tax liabilities	735	693	42
Derivative financial liabilities	663	663	-
Provisions and other liabilities	25,199	25,199	-
Current liabilities	**872,568**	**872,964**	**(396)**
Total liabilities	**908,212**	**908,608**	**(396)**
Total equity and liabilities	**1,246,533**	**1,246,796**	**(263)**

Consolidated separate income statement

(euro/000)	12 months 2017										
	pro-forma				Published				Var.		
	Italy	Spain	Elim	Group	Italy	Spain	Elim	Group	Italy	Spain	Group
Sales	2,024,104	1,225,517	(46,050)	3,203,571	2,037,574	1,225,648	(46,050)	3,217,172	(13,470)	(131)	(13,601)
Cost of sales	(1,903,438)	(1,178,308)	45,938	(3,035,808)	(1,916,908)	(1,178,439)	45,938	(3,049,409)	13,470	131	13,601
Gross Profit	**120,666**	**47,209**	**(112)**	**167,763**	**120,666**	**47,209**	**(112)**	**167,763**	**-**	**-**	**-**
Sales and marketing costs	(42,871)	(10,872)	(57)	(53,800)	(42,871)	(10,872)	(57)	(53,800)	-	-	-
Overheads and administrative costs	(58,985)	(20,699)	68	(79,616)	(58,985)	(20,699)	68	(79,616)	-	-	-
Operating income (EBIT)	**18,810**	**15,638**	**(101)**	**34,347**	**18,810**	**15,638**	**(101)**	**34,347**	**-**	**-**	**-**
Finance costs - net				(574)				(749)			175
Other investments expenses / (incomes)				36				36			-
Profit before income taxes				**33,809**				**33,634**			**175**
Income tax expenses				(7,397)				(7,355)			(42)
Net Income				**26,412**				**26,279**			**133**

3. Consolidated income statement and notes

3.1 Consolidated separate income statement

The consolidated separate income statement is set out below, showing revenues by '*function*' in accordance with the IFRS accounting standards, and completed with the additional information required under CONSOB decision No. 15519 of 27 July 2006:

(euro/000)	Notes	12 months 2018	non - recurring	related parties*	12 months 2017	non - recurring	related parties*
Sales	33	**3,571,223**	-	11	**3,217,172**	-	16
Cost of sales		(3,409,041)	(8,550)	-	(3,049,409)	-	-
Gross profit	35	**162,182**	**(8,550)**		**167,763**	**-**	
Sales and marketing costs	37	(52,796)	-	-	(53,800)	-	-
Overheads and administrative costs	38	(86,167)	(8,713)	(4,889)	(79,616)	(1,839)	(4,882)
Operating income (EBIT)		**23,219**	**(17,263)**		**34,347**	**(1,839)**	
Finance costs - net	42	(4,772)	-	4	(749)	-	2
Other investments expenses / (incomes)	43	-	-		36	-	
Profit before income taxes		**18,447**	**(17,263)**		**33,634**	**(1,839)**	
Income tax expenses	45	(5,551)	4,477	-	(7,355)	478	-
Net income		**12,896**	**(12,786)**		**26,279**	**(1,361)**	
- of which attributable to non-controlling interests		96			45		
- of which attributable to Group		12,800	(12,786)		26,234	(1,361)	
Earnings per share - basic (euro)	46	0.25			0.51		
Earnings per share - diluted (euro)	46	0.25			0.50		

(euro/000)	Notes	Q4 2018	non - recurring	related parties*	Q4 2017	non - recurring	related parties*
Sales	33	**1,261,422**	-	4	**1,089,575**	-	9
Cost of sales		(1,210,374)	(7,451)	-	(1,037,242)	-	-
Gross profit	35	**51,048**	**(7,451)**		**52,333**	-	
Sales and marketing costs	37	(13,558)	-	-	(12,604)	-	-
Overheads and administrative costs	38	(29,325)	(8,713)	(1,214)	(20,029)	(470)	(1,236)
Operating income (EBIT)		**8,165**	**(16,164)**		**19,700**	**(470)**	
Finance costs - net	42	(1,124)	-	-	2,267	-	-
Other investments expenses / (incomes)	43	-	-		-	-	
Profit before income taxes		**7,041**	**(16,164)**		**21,967**	**(470)**	
Income tax expenses	45	(2,483)	4,213	-	(4,612)	122	-
Net income		**4,558**	**(11,951)**		**17,355**	**(348)**	
- of which attributable to non-controlling interests		(57)	-		87	-	
- of which attributable to Group		4,615	(11,951)		17,268	(348)	
Earnings per share - basic (euro)	46	0.09			0.33		
Earnings per share - diluted (euro)	46	0.09			0.33		

(*) Emoluments to key managers excluded.

3.2 Consolidated statement of comprehensive income

(euro/000)	12 months 2018	12 months 2017	Q4 2018	Q4 2017
Net income	**12,896**	**26,279**	**4,558**	**17,355**
Other comprehensive income:				
- Changes in 'cash flow hedge' equity reserve	78	(194)	(88)	73
- Taxes on changes in 'cash flow hedge' equity reserve	(23)	68	21	(35)
- Changes in translation adjustment reserve	5	(1)	(1)	(3)
Other comprehensive income not to be reclassified in the separate income statement				
- Changes in 'TFR' equity reserve	171	45	11	(68)
- Taxes on changes in 'TFR' equity reserve	(37)	(10)	(2)	15
Other comprehensive income	**194**	**(92)**	**(59)**	**(18)**
Total comprehensive income	**13,090**	**26,187**	**4,499**	**17,337**
- of which attributable to Group	12,989	26,141	4,561	17,252
- of which attributable to non-controlling interests	101	46	(62)	85

3.3 Notes on financial performance of the Group

In Italy during 2018, the Italian technology distribution market rose +10.8% compared with 2017 thanks to an increase in just the fourth quarter of +14.6% (source: company processing on Context data[2]).
All the product categories have shown double-figure growth rates with the sole exception of the 'PC' (desktop and notebook) segment which rose +2% (+6% in the fourth quarter), the 'printing' (printers and consumables) segment which rose +3% both in the year and in just the fourth quarter, and the accessories segment which rose +1% in the year and dropped -9% in the fourth quarter. The 'telephony' segment was once again the driving force with +26% (+25% in the fourth quarter).
In this context Esprinet Italia increased its market share by 1% from the start of the year thanks to the satisfactory performance of all the business lines with the exception of the 'printing' and the 'datacenter' lines where the market shares remained unchanged.
The growth of the Italian market was fuelled to a more prominent extent by the 'retail' client segment, up by around +15% while the professional client sector reported +8%. In the fourth quarter alone, growth was +19% and +11% respectively.
Esprinet obtained the best results of the market in both segments during the year, in particular in the 'retail' segment where it gained 2.3 points of the market share while in the fourth quarter alone it increased its share in the 'retail' segment by 4.9 percentage points losing 0.7 points in the 'business' segment.

In Spain the distribution market grew during 2018 by +9% and the Esprinet Group maintained the market share which in 2017 had gained 1.3 points in the fourth quarter alone.
On average in 2018, all the main commodity categories grew 'mid-single digit' with the exception of the 'PC' (-2%) and 'telephony' segments, which reported +32%.
During the quarter, all the categories reported positive signs except for 'accessories' (-5%) and 'PC' (-3%). The 'datacenter' market in the fourth quarter grew +9% and the 'telephony' market showed itself to still be very lively (+30%).
The business market grew during the year +5% and in the fourth quarter alone by +7%.
Esprinet's market shares in this customer segment decreased by 0.1 points during the year and 0.2 points in the fourth quarter.
The 'retail' performance was very lively (+15% in the year and +16% in the quarter) while Esprinet, despite reporting a significant increase, lost 0.7 points of the market share in the year and achieved a good 2.4 in the fourth quarter alone.

During the year, net of the extraordinary charges attributable to the winding up of the leading supplier of the 'Sport Technology' line, the Group benefited from the reduction in the overheads emerging from the action undertaken above all else in the second half of 2017.
The variable sales, marketing and logistics costs also fell thanks to the streamlining transactions implemented during 2018
With regard to the primary product margin again net of the extraordinary charges mentioned above, the whole of 2018 disclosed a reduction of 0.43% while in just the fourth quarter it came to 0.16%, slowly stabilising.

With regard to the accounting period underway, the market conditions continue to be challenging but the Group is implementing, both in Italy and Spain, a series of structural recovery action for the margins on the main 'product-customer' combinations.
The market in Spain appears energetic when in Italy the sales manifest a slowed down launch being affected, amongst other aspects, by the uncertainties of the macro-economic context as well as the repercussions on the launch of 'e-invoicing'.

[2] The segmentation between 'professional/business' and 'consumer/retail' customers indicated in this section is that used by Context and, in as such, is not perfectly consistent with regard to the segmentation used internally by the Group.

A) Esprinet Group's financial highlights

In 2018, the Esprinet Group achieved a positive performance with regard to growth in revenues (+11%) and recurrent operating profitability (+12%).
The accounting period was however very negatively impacted by non-recurring charges related to the winding-up of the main supplier of the 'Sport Technology' line and the negative product margins recorded between November and December by products of this line (please refer to 'Significant events during the period' - Winding up of the supplier of the 'Sport Technology' line, related extraordinary charges and disputes').
This business area is currently being restructured to ensure a return to a positive contribution to the Group results starting from the current accounting period.

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

The Group's main economic, financial and equity results as at 31 December 2018 are illustrated below:

(euro/000)	12 months 2018	%	12 months 2017	%	Var.	Var. %	12 months 2018 Recurring	%	12 months 2017 Recurring	%	Var.	Var. %
Sales	**3,571,223**	**100.00%**	**3,217,172**	**100.00%**	**354,051**	***11%***	**3,571,223**	**100.00%**	**3,217,172**	**100.00%**	**354,051**	***11%***
Cost of sales	(3,409,041)	-95.46%	(3,049,409)	-94.79%	(359,632)	*12%*	(3,400,491)	-95.22%	(3,049,409)	-94.79%	(351,082)	*12%*
Gross profit	**162,182**	**4.54%**	**167,763**	**5.21%**	**(5,581)**	***-3%***	**170,732**	**4.78%**	**167,763**	**5.21%**	**2,969**	***2%***
Sales and marketing costs	(52,796)	-1.48%	(53,800)	-1.67%	1,004	*-2%*	(52,796)	-1.48%	(53,800)	-1.67%	1,004	*-2%*
Overheads and administrative costs	(86,167)	-2.41%	(79,616)	-2.47%	(6,551)	*8%*	(77,454)	-2.17%	(77,777)	-2.42%	323	*0%*
Operating income (EBIT)	**23,219**	**0.65%**	**34,347**	**1.07%**	**(11,128)**	***-32%***	**40,482**	**1.13%**	**36,186**	**1.12%**	**4,296**	***12%***
Finance costs - net	(4,772)	-0.13%	(749)	-0.02%	(4,023)	*537%*	(4,772)	-0.13%	(749)	-0.02%	(4,023)	*537%*
Other investments expenses / (incomes)	-	0.00%	36	0.00%	(36)	*-100%*	-	0.00%	36	0.00%	(36)	*-100%*
Profit before income taxes	**18,447**	**0.52%**	**33,634**	**1.05%**	**(15,187)**	***-45%***	**35,710**	**1.00%**	**35,473**	**1.10%**	**237**	***1%***
Income tax expenses	(5,551)	-0.16%	(7,355)	-0.23%	1,804	*-25%*	(10,028)	-0.28%	(7,833)	-0.24%	(2,195)	*28%*
Net income	**12,896**	**0.36%**	**26,279**	**0.82%**	**(13,383)**	***-51%***	**25,682**	**0.72%**	**27,640**	**0.86%**	**(1,958)**	***-7%***
Earnings per share - basic (euro)	(0.25)	0.00%	(0.51)		0.26	*-51%*	(0.50)	0.00%	(0.53)	0.00%	0.03	*-6%*

(euro/000)	Q4 2018	%	Q4 2017	%	Var.	Var. %	Q4 2018 Recurring	%	Q4 2017 Recurring	%	Var.	Var. %
Sales	**1,261,422**	**100.00%**	**1,089,575**	**100.00%**	**171,847**	***16%***	**1,261,422**	**100.00%**	**1,089,575**	**100.00%**	**171,847**	***16%***
Cost of sales	(1,210,374)	-95.95%	(1,037,242)	-95.20%	(173,132)	*17%*	(1,202,923)	-95.36%	(1,037,242)	-95.20%	(165,681)	*16%*
Gross profit	**51,048**	**4.05%**	**52,333**	**4.80%**	**(1,285)**	***-2%***	**58,499**	**4.64%**	**52,333**	**4.80%**	**6,166**	***12%***
Sales and marketing costs	(13,558)	-1.07%	(12,604)	-1.16%	(954)	*8%*	(13,558)	-1.07%	(12,604)	-1.16%	(954)	*8%*
Overheads and administrative costs	(29,325)	-2.32%	(20,029)	-1.84%	(9,296)	*46%*	(20,612)	-1.63%	(19,559)	-1.80%	(1,053)	*5%*
Operating income (EBIT)	**8,165**	**0.65%**	**19,700**	**1.81%**	**(11,535)**	***-59%***	**24,329**	**1.93%**	**20,170**	**1.85%**	**4,159**	***21%***
Finance costs - net	(1,124)	-0.09%	2,267	0.21%	(3,391)	*-150%*	(1,124)	-0.09%	2,267	0.21%	(3,391)	*-150%*
Profit before income taxes	**7,041**	**0.56%**	**21,967**	**2.02%**	**(14,926)**	***-68%***	**23,205**	**1.84%**	**22,437**	**2.06%**	**768**	***3%***
Income tax expenses	(2,483)	-0.20%	(4,612)	-0.42%	2,129	*-46%*	(6,696)	-0.53%	(4,734)	-0.43%	(1,962)	*41%*
Net income	**4,558**	**0.36%**	**17,355**	**1.59%**	**(12,797)**	***-74%***	**16,509**	**1.31%**	**17,703**	**1.62%**	**(1,194)**	***-7%***
Earnings per share - basic (euro)	(0.09)	0.00%	(0.33)		0.24	*-73%*	(0.32)	0.00%	(0.34)	0.00%	0.02	*-6%*

(euro/000)	Non -recurring Charge Type	12 months 2018	12 months 2017	Var.	Q4 2018	Q4 2017	Var.
Gross Profit		**(8,550)**	**-**	**(8,550)**	**(7,451)**	**-**	**(7,451)**
Overheads and administrative costs	Value adjustments on receivables from suppliers	(8,713)	-	(8,713)	(8,713)	-	(8,713)
Overheads and administrative costs	Employee termination incentives	-	(1,839)	1,839	-	(470)	470
Total SG&A	**Total SG&A**	**(8,713)**	**(1,839)**	**(6,874)**	**(8,713)**	**(470)**	**(8,243)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(17,263)**	**(1,839)**	**(15,424)**	**(16,164)**	**(470)**	**(15,694)**
Profit before income taxes	**Profit before income taxes**	**(17,263)**	**(1,839)**	**(15,424)**	**(16,164)**	**(470)**	**(15,694)**
Income tax expenses	Non -recurring events impact	4,477	478	3,999	4,213	122	4,091
Net income/(loss)	**Net income/(loss)**	**(12,786)**	**(1,361)**	**(11,425)**	**(11,951)**	**(348)**	**(11,603)**

Consolidated sales amount to 3,571.2 million euro and presented an increase of +11% (354.1 million euro) compared with 3,217.2 million euro achieved as at 31 December 2017.In the fourth quarter, an increase of +16% was seen compared with the same period of the previous year (from 1,089.6 million euro to 1,261.4 million euro).

Consolidated Gross profit, equal to 162.2 million euro, showed a decrease of -3% (increase of +2% if excluding non-recurring cost items) equal to -5.6 million euro compared with 2017 as a consequence of a worsening in the percentage margin from 5.21% to 4.54% (4.78% if excluding non-recurring cost items) not completely offset by the rise in revenues. The non-recurring negative items, equal to 8.6 million euro, derive from an unexpected and rapid fall in end-user prices on some product families of 'Sport Technology' line which, also as a consequence of the lack of price protection provided by the supplier, led to a significant negative impact on gross margins, as well as from estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights. In the fourth quarter, the consolidated gross Gross profit showed a decrease of -2% but, net of the above-mentioned non-recurring charges of 7.5 million euro in the last quarter of 2018, it disclosed a significant improvement (+12%).

Operating income (EBIT) as at 31 December 2018, equal to 23.2 million euro, showed a reduction of -32% compared with 31 December 2017, with an incidence on revenues down to 0.65% from 1.07%, due to a reduction in the percentage margin and non-current negative items, equal to 17.3 million euro, which are attributable to impacts on gross margins for 8.6 million euro and to adjustments with respect to receivables from the supplier of the 'Sport Technology' line in voluntary liquidation for 8.7 million euro (advances on deliveries, repurchase of products under contractual warranty agreements, price repositioning). The fourth quarter disclosed a consolidated EBIT of 8.2 million euro, down -59% (-11.5 million euro) with a decrease in the incidence of revenues from 1.81% to 0.65%.

Excluding the effects of the above-mentioned non-recurring costs, the current EBIT showed an increase of 12% compared with the same period last year, with a stable percentage incidence of revenues (1.13% in 2018 compared with 1.12% in 2017). In the fourth quarter current EBIT increased by +21% with an incidence on revenues up to 1.93% from 1.85% in the fourth quarter 2017.

Consolidated Profit before income taxes equal to 18.5 million euro, disclosed a decrease of -45% compared with 31 December 2017 (increase of +1% excluding non-recurring cost items); this change is more pronounced with respect to the EBIT decrease mainly due to a negative differential of the foreign exchange management with, conversely, an improvement in net interest payable to banks. In the fourth quarter, the pre-tax profit disclosed a deterioration of -68% (-14.9 million euro) to 7.0 million euro (increase of +3% excluding non-recurring cost items).

Consolidated Net income was equal to 12.9 million euro, showing a decrease of -51% (-7% excluding non-recurring costs) compared with 31 December 2017. In the fourth quarter 2018, consolidated net profit amounted to 4.6 million euro compared with 17.4 million euro of the same period of 2017, disclosing a drop of -74% (-7% excluding the above-mentioned non-recurring cost items).

Basic earnings per ordinary share as at 31 December 2018, equal to 0.25 euro, showed a decrease of -51% compared with 0.51 euro as at 31 December 2017 (-7% net of the non-recurring cost items). In the fourth quarter the net profit per ordinary share was 0.09 euro compared with 0.33 euro in the same quarter in 2017 (-73% reduced to -7% excluding non-recurring cost items).

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	120,056	119.07%	122,403	56.90%	(2,347)	*-2%*
Operating net working capital	10,538	10.45%	104,175	48.42%	(93,637)	*-90%*
Other current assets/liabilities	(15,494)	-15.37%	2,958	1.38%	(18,452)	*-624%*
Other non-current assets/liabilities	(14,276)	-14.16%	(14,406)	-6.70%	130	*-1%*
Total uses	**100,825**	**100.00%**	**215,130**	**100.00%**	**(114,306)**	***-53%***
Short-term financial liabilities	138,301	137.17%	155,960	72.50%	(17,659)	*-11%*
Current financial (assets)/liabilities for derivatives	611	0.61%	663	0.31%	(52)	*-8%*
Financial receivables from factoring companies	(232)	-0.23%	(1,534)	-0.71%	1,302	*-85%*
Current debts for investments in subsidiaries	1,311	1.30%	-	0.00%	1,311	*N.S.*
Other current financial receivables	(10,881)	-10.79%	(510)	-0.24%	(10,371)	*2035%*
Cash and cash equivalents	(381,308)	-378.19%	(296,969)	-138.04%	(84,339)	*28%*
Net current financial debt	(252,198)	-250.14%	(142,390)	-66.19%	(109,808)	*77%*
Borrowings	12,804	12.70%	19,927	9.26%	(7,123)	*-36%*
Non - current debts for investments in subsidiaries	-	0.00%	1,311	0.61%	(1,311)	*-100%*
Non-current financial (assets)/liab. for derivatives	(1)	0.00%	(36)	-0.02%	35	*-97%*
Other non - current financial receivables	(1,420)	-1.41%	(1,870)	-0.87%	450	*-24%*
Net financial debt (A)	(240,815)	-238.85%	(123,058)	-57.20%	(117,757)	*96%*
Net equity (B)	341,639	338.85%	338,188	157.20%	3,451	*1%*
Total sources of funds (C=A+B)	**100,825**	**100.00%**	**215,130**	**100.00%**	**(114,306)**	***-53%***

Consolidated net working capital as of 31 December 2018 was 10.5 million euro compared to 104.2 million euro as of 31 December 2017.

Net financial position as at 31 December 2018 presented a positive value of 240.8 million euro, compared with a cash surplus equal to 123.1 million euro at 31 December 2017.

The improvement of the spot net financial position at period end was due to the performance of the level of the spot working capital as at 31 December 2018, which was influenced by seasonal technical events - often not related to the average levels of said working capital - and by the level of utilisation of 'without – recourse' factoring programmes and of the trade receivables securitisation programmes.
These programmes result in the risks and benefits being transferred fully to the assignees and involve, in accordance with IFRS 9, the elimination of the receivables concerned from the balance sheet assets.
The overall impact of the revolving programmes of cash advances, including 'confirming' transactions in Spain, on the level of the consolidated net financial payables at 31 December 2018 was approximately 597 million euro (around 424 million euro as at 31 December 2017).

As at 31 December 2018, the Group's net financial position includes the residual amount of 101.5 million euro referring to a five-year senior loan granted to Esprinet S.p.A. by a pool of banks in February 2017.
As at 31 December 2018 according to the Group preliminary quarterly results, 1 out of 4 covenants supporting the loan expiring in February 2022 is expected to be unmet.

Thus, the entire outstanding amount of the amortised facility - as well as the liability from the 'fair value' of 'IRS-Interest Rate Swap' contracts entered into to hedge the interest rate risk - was booked under current financial liabilities.

Consolidated shareholders' equity as of 31 December 2018 was 341.6 million euro, up 3.5 million euro compared with the 338.2 million euro as of 31 December 2017.

B) Financial highlights by geographical area

B.1) Subgroup Italy

The main economic, financial and equity results of the Subgroup Italy (Esprinet, V-Valley and Celly Group) as at 31 December 2018, as well as the breakdown of the non-recurrent items as of the same date, are illustrated below:

(euro/000)	12 months 2018	%	12 months 2017	%	Var.	Var. %	12 months 2018 Recurring	%	12 months 2017 Recurring	%	Var.	Var. %
Sales to third parties	2,236,865		1,991,524		245,341	*12%*	2,236,865		1,991,524		245,341	*12%*
Intercompany sales	57,103		46,050		11,053	*24%*	57,103		46,050		11,053	*24%*
Sales	**2,293,968**		**2,037,574**		**256,394**	***13%***	**2,293,968**		**2,037,574**		**256,394**	***13%***
Cost of sales	(2,182,064)	-95.12%	(1,916,908)	-94.08%	(265,156)	*14%*	(2,175,431)	-94.83%	(1,916,908)	-94.08%	(258,523)	*13%*
Gross profit	**111,904**	**4.88%**	**120,666**	**5.92%**	**(8,762)**	***-7%***	**118,537**	**5.17%**	**120,666**	**5.92%**	**(2,129)**	***-2%***
Sales and marketing costs	(41,233)	-1.80%	(42,871)	-2.10%	1,638	*-4%*	(41,233)	-1.80%	(42,871)	-2.10%	1,638	*-4%*
Overheads and administrative costs	(66,788)	-2.91%	(58,985)	-2.89%	(7,803)	*13%*	(58,075)	-2.53%	(58,365)	-2.86%	290	*0%*
Operating income (EBIT)	**3,883**	**0.17%**	**18,810**	**0.92%**	**(14,927)**	***-79%***	**19,229**	**0.84%**	**19,430**	**0.95%**	**(201)**	***-1%***

(euro/000)	Q4 2018	%	Q4 2017	%	Var.	Var. %	Q4 2018 Recurring	%	Q4 2017 Recurring	%	Var.	Var. %
Sales to third parties	753,123		645,596		107,527	*17%*	753,123		645,596		107,527	*17%*
Intercompany sales	18,288		12,790		5,498	*43%*	18,288		12,790		5,498	*43%*
Sales	**771,411**		**658,386**		**113,025**	***17%***	**771,411**		**658,386**		**113,025**	***17%***
Cost of sales	(740,826)	-96.04%	(623,485)	-94.70%	(117,341)	*19%*	(735,292)	-95.32%	(623,485)	-94.70%	(111,807)	*18%*
Gross profit	**30,585**	**3.96%**	**34,901**	**5.30%**	**(4,316)**	***-12%***	**36,119**	**4.68%**	**34,901**	**5.30%**	**1,218**	***3%***
Sales and marketing costs	(10,557)	-1.37%	(10,052)	-1.53%	(505)	*5%*	(10,557)	-1.37%	(10,052)	-1.53%	(505)	*5%*
Overheads and administrative costs	(24,237)	-3.14%	(15,182)	-2.31%	(9,055)	*60%*	(15,524)	-2.01%	(15,026)	-2.28%	(498)	*3%*
Operating income (EBIT)	**(4,209)**	**-0.55%**	**9,667**	**1.47%**	**(13,876)**	***-144%***	**10,038**	**1.30%**	**9,823**	**1.49%**	**215**	***2%***

(euro/000)	Non -recurring Charge Type	12 months 2018	12 months 2017	Var.	Q4 2018	Q4 2017	Var.
Gross Profit		**(6,633)**	**-**	**(6,633)**	**(5,534)**	**-**	**(5,534)**
Overheads and administrative costs	Value adjustments on receivables from suppliers	(8,713)	-	(8,713)	(8,713)	-	(8,713)
Overheads and administrative costs	Employee termination incentives	-	(620)	620	-	(156)	156
Total SG&A	**Total SG&A**	**(8,713)**	**(620)**	**(8,093)**	**(8,713)**	**(156)**	**(8,557)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(15,346)**	**(620)**	**(14,726)**	**(14,247)**	**(156)**	**(14,091)**

Sales amount to 2,294.0 million euro and presented an increase of +13% compared with 2,037.6 million euro achieved as at 31 December 2017. In the fourth quarter alone, in terms of percentage change revenues showed an increase of +17% compared with the fourth quarter of 2017.

Gross profit, amounting to 111.9 million euro as of 31 December 2018, disclosed a decrease of -7% (-2% compared with the previous period if the non-recurrent cost items relating to the 'Sport Technology' line are excluded) compared with 120.7 million euro in 2017 and with an incidence on revenues which fell from 5.92% to 4.88% (5.17% net of the non-recurrent cost components). In the fourth quarter of 2018 alone, the Gross profit, equal to 30.6 million euro, decreased by -12% compared with the same period in 2017 (increase of +3% if the non-recurring cost items are excluded), with a drop in the percentage margin from 5.30% to 3.96% (4.68% net of non-recurring cost items).

Operating income (EBIT) came to 3.9 million euro and showed a decrease of -79% compared to 2017, with an incidence on revenues down from 0.92% to 0.17%. Excluding the effects of the non-recurring costs, current EBIT showed a decrease of -1%, with an incidence on revenues down to 0.84% from 0.95%. EBIT for the fourth quarter 2018 alone, period in which 14.3 million euro of non-recurrent charges were concentrated, came to -4.2 million euro compared with 9.7 million euro in 2017 (with an incidence on revenues of -0.55% compared with 1.47% in 2017) but, excluding these non-recurrent items, the current EBIT shows an increase of +2% with an incidence on revenues of 1.30% compared with 1.49% in the same period of 2017.

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	115,445	74.61%	117,075	64.89%	(1,630)	*-1%*
Operating net working capital	48,441	31.31%	55,494	30.76%	(7,053)	*-13%*
Other current assets/liabilities	43	0.03%	17,699	9.81%	(17,656)	*-100%*
Other non-current assets/liabilities	(9,194)	-5.94%	(9,857)	-5.46%	663	*-7%*
Total uses	**154,735**	**100.00%**	**180,411**	**100.00%**	**(25,676)**	***-14%***
Short-term financial liabilities	136,259	88.06%	150,364	83.35%	(14,105)	*-9%*
Current financial (assets)/liabilities for derivatives	612	0.40%	644	0.36%	(32)	*-5%*
Financial receivables from factoring companies	(232)	-0.15%	(1,534)	-0.85%	1,302	*-85%*
Financial (assets)/liab. from/to Group companies	(104,500)	-67.53%	(112,500)	-62.36%	8,000	*-7%*
Other financial receivables	(10,880)	-7.03%	(510)	-0.28%	(10,370)	*2035%*
Cash and cash equivalents	(180,219)	-116.47%	(184,912)	-102.49%	4,693	*-3%*
Net current financial debt	(157,649)	-101.88%	(148,448)	-82.28%	(9,201)	*6%*
Borrowings	12,804	8.27%	18,163	10.07%	(5,359)	*-30%*
Non - current debts for investments in subsidiaries	-	0.00%	1,311	0.73%	(1,311)	*-100%*
Non-current financial (assets)/liab. for derivatives	-	0.00%	-	0.00%	-	*N.S.*
Other financial receivables	(1,420)	-0.92%	(1,870)	-1.04%	450	*-24%*
Net Financial debt (A)	(146,265)	-94.53%	(130,844)	-72.53%	(15,421)	*12%*
Net equity (B)	301,000	194.53%	311,255	172.53%	(10,255)	*-3%*
Total sources of funds (C=A+B)	**154,735**	**100.00%**	**180,411**	**100.00%**	**(25,676)**	***-14%***

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

Net financial position as at 31 December 2018 presented a positive value of 146.3 million euro, compared with a surplus equal to 130.8 million euro at 31 December 2017. The effect as of 31 December 2018 of the recourse to 'without-recourse' factoring and the securitisation of the receivables comes to 320 million euro (around 184 million euro as of 31 December 2017).

B.2) Subgroup Spain

The main earnings, financial and equity results of the Subgroup Spain (Esprinet Iberica, Esprinet Portugal, Vinzeo Technologies e V-Valley Iberian) as at 31 December 2018, as well as the breakdown of the non-recurrent items as of the same date, are illustrated below:

(euro/000)	12 months 2018	%	12 months 2017	%	Var.	Var. %	12 months 2018 Recurring	%	12 months 2017 Recurring	%	Var.	Var. %
Sales to third parties	1,334,358		1,225,648		108,710	*9%*	1,334,358		1,225,648		108,710	*9%*
Intercompany sales	-		-		-	*0%*	-		-		-	*0%*
Sales	**1,334,358**		**1,225,648**		**108,710**	***9%***	**1,334,358**		**1,225,648**		**108,710**	***9%***
Cost of sales	(1,283,897)	-96.22%	(1,178,439)	-96.15%	(105,458)	*9%*	(1,281,980)	-96.07%	(1,178,439)	-96.15%	(103,541)	*9%*
Gross profit	**50,461**	**3.78%**	**47,209**	**3.85%**	**3,252**	***7%***	**52,378**	**3.93%**	**47,209**	**3.85%**	**5,169**	***11%***
Sales and marketing costs	(11,563)	-0.87%	(10,872)	-0.89%	(691)	*6%*	(11,563)	-0.87%	(10,872)	-0.89%	(691)	*6%*
Overheads and administrative costs	(19,397)	-1.45%	(20,699)	-1.69%	1,302	*-6%*	(19,397)	-1.45%	(19,480)	-1.59%	83	*0%*
Operating income (EBIT)	**19,501**	**1.46%**	**15,638**	**1.28%**	**3,863**	***25%***	**21,418**	**1.61%**	**16,857**	**1.38%**	**4,561**	***27%***

(euro/000)	Q4 2018	%	Q4 2017	%	Var.	Var. %	Q4 2018 Recurring	%	Q4 2017 Recurring	%	Var.	Var. %
Sales to third parties	508,299		443,980		64,319	*14%*	508,299		443,980		64,319	*14%*
Intercompany sales	-		-		-	*0%*	-		-		-	*0%*
Sales	**508,299**		**443,980**		**64,319**	***14%***	**508,299**		**443,980**		**64,319**	***14%***
Cost of sales	(487,614)	-95.93%	(426,564)	-96.08%	(61,050)	*14%*	(485,697)	-95.55%	(426,564)	-96.08%	(59,133)	*14%*
Gross profit	**20,685**	**4.07%**	**17,416**	**3.92%**	**3,269**	***19%***	**22,602**	**4.45%**	**17,416**	**3.92%**	**5,186**	***30%***
Sales and marketing costs	(3,001)	-0.59%	(2,550)	-0.57%	(451)	*18%*	(3,001)	-0.59%	(2,550)	-0.57%	(451)	*18%*
Overheads and administrative costs	(5,094)	-1.00%	(4,851)	-1.09%	(243)	*5%*	(5,094)	-1.00%	(4,537)	-1.02%	(557)	*12%*
Operating income (EBIT)	**12,590**	**2.48%**	**10,015**	**2.26%**	**2,575**	***26%***	**14,507**	**2.85%**	**10,329**	**2.33%**	**4,178**	***40%***

(euro/000)	Non -recurring Charge Type	12 months 2018	12 months 2017	Var.	Q4 2018	Q4 2017	Var.
Gross Profit		**(1,917)**	**-**	**(1,917)**	**(1,917)**	**-**	**(1,917)**
Overheads and administrative costs	Employee termination incentives	-	(1,219)	1,219	-	(314)	314
Total SG&A	**Total SG&A**	**-**	**(1,219)**	**1,219**	**-**	**(314)**	**314**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(1,917)**	**(1,219)**	**(698)**	**(1,917)**	**(314)**	**(1,603)**

Sales amount to 1,334.4 million euro and presented growth of +9% compared with 1,225.6 million euro reported as at 31 December 2017. In the fourth quarter alone, sales disclosed an increase of +14% (equal to 64.3 million euro) compared with the same period in the previous year.

Gross profit as of 31 December 2018 amounted to 50.5 million euro, with an increase of +7% (increase of +11% net of the non-recurrent cost items) compared with 47.2 million euro reported in the same period of 2017 and with an incidence on revenues which fell from 3.85% to 3.78% (3.93% if the non-recurrent cost components are excluded). In the fourth quarter alonethe Gross profit increased +19% (increase of +30% if the non-recurrent cost items are excluded) compared with the previous period, disclosing an improvement in the incidence on revenues from 3.92% to 4.07% (4.45% if the non-recurrent cost components are not taken into account).

Operating income (EBIT), equal to € 19.5 million euro, increased 3.9 million euro (+25%) compared with the value posted as at 31 December 2017, with an incidence on revenues which rose to 1.46% from 1.28%. In the fourth quarter of 2018, EBIT was equal to 12.6 million euro and disclosed an increase of +26% compared with 10.0 million euro in the fourth quarter of 2017, with a percentage profitability up from 2.26% to 2.48%. Excluding non-recurring cost effects, these trends are even more pronounced, in fact current EBIT for the year showed an increase of +27% with an incidence on revenues up to 1.61% from 1.38%. While current EBIT for the fourth quarter alone showed an increase of +40%, with an incidence on revenues of 2.85% compared with 2.33% of the same period of 2017.

(euro/000)	31/12/2018	%	31/12/2017	%	Var.	*Var. %*
Fixed assets	79,127	373.39%	80,051	72.87%	(924)	*-1%*
Operating net working capital	(37,317)	-176.09%	49,102	44.69%	(86,419)	*-176%*
Other current assets/liabilities	(15,537)	-73.32%	(14,742)	-13.42%	(795)	*5%*
Other non-current assets/liabilities	(5,082)	-23.98%	(4,549)	-4.14%	(533)	*12%*
Total uses	**21,191**	**100.00%**	**109,862**	**100.00%**	**(88,671)**	***-81%***
Short-term financial liabilities	2,042	9.64%	5,596	5.09%	(3,554)	*-64%*
Current financial (assets)/liabilities for derivatives	(1)	0.00%	19	0.02%	(20)	*-105%*
Financial (assets)/liab. from/to Group companies	104,500	493.12%	112,500	102.40%	(8,000)	*-7%*
Cash and cash equivalents	(201,089)	-948.92%	(112,057)	-102.00%	(89,032)	*79%*
Net current financial debt	(94,549)	-446.16%	6,058	5.51%	(100,607)	*-1661%*
Borrowings	-	0.00%	1,764	1.61%	(1,764)	*-100%*
Non-current financial (assets)/liab. for derivatives	(1)	0.00%	(36)	-0.03%	35	*-97%*
Net Financial debt (A)	(94,550)	-446.17%	7,786	7.09%	(102,336)	*-1314%*
Net equity (B)	115,741	546.17%	102,076	92.91%	13,665	*13%*
Total sources of funds (C=A+B)	**21,191**	**100.00%**	**109,862**	**100.00%**	**(88,671)**	***-81%***

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

Net financial position as at 31 December 2018 presented a positive value of 94.5 million euro, compared with a negative net financial position of -7.8 million euro at 31 December 2017.The effect of the 'without-recourse' factoring and trade receivable financing programmes was approximately 277 million euro (roughly 240 million euro as at 31 December 2017).

C) <u>Income statement by company</u>

The separate income statement showing the contributions of the individual group companies regarded as significant is presented below[3]:

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

(euro/000)	12 months 2018													
	Italy						Iberian Peninsula						Elim. and other	Group
	E.Spa + V-Valley + Nilox GmbH	Mosaico	Celly*	EDSlan	Elim. and other	Total	Esprinet Iberian	Esprinet Portugal	V-Valley Iberian	Vinzeo	Elim. and other	Total		
Sales to third parties	2,211,965	-	24,900	-	-	2,236,865	719,269	29,741	12,504	572,844	-	1,334,358	-	3,571,223
Intersegment sales	55,594	-	2,243	-	(734)	57,103	21,741	1	756	3,342	(25,841)	-	(57,103)	-
Sales	**2,267,559**	**-**	**27,143**	**-**	**(734)**	**2,293,968**	**741,010**	**29,742**	**13,260**	**576,186**	**(25,841)**	**1,334,358**	**(57,103)**	**3,571,223**
Cost of sales	(2,167,061)	-	(15,767)	-	764	(2,182,064)	(715,186)	(29,178)	(12,083)	(553,192)	25,743	(1,283,897)	56,920	(3,409,041)
Gross profit	**100,498**	**-**	**11,376**	**-**	**30**	**111,904**	**25,824**	**564**	**1,177**	**22,994**	**(98)**	**50,461**	**(183)**	**162,182**
Gross Profit %	*4.43%*	*0.00%*	*41.91%*	*0.00%*	*-4.09%*	*4.88%*	*3.48%*	*1.90%*	*8.88%*	*3.99%*		*3.78%*		*4.54%*
Sales and marketing costs	(34,361)	-	(6,872)	-	-	(41,233)	(5,532)	(340)	(1,596)	(4,157)	62	(11,563)	-	(52,796)
Overheads and admin. costs	(63,585)	-	(3,202)	-	(1)	(66,788)	(12,698)	(753)	(228)	(5,753)	35	(19,397)	18	(86,167)
Operating income (Ebit)	**2,552**	**-**	**1,302**	**-**	**29**	**3,883**	**7,594**	**(529)**	**(647)**	**13,084**	**(1)**	**19,501**	**(165)**	**23,219**
EBIT %	*0.11%*	*0.00%*	*4.80%*	*0.00%*	*-3.95%*	*0.17%*	*1.02%*	*-1.78%*	*-4.88%*	*2.27%*		*1.46%*		*0.65%*
Finance costs - net														(4,772)
Share of profits of associates														-
Profit before income tax														**18,447**
Income tax expenses														(5,551)
Net income														**12,896**
- of which attributable to non-controlling interests														96
- of which attributable to Group														12,800

(euro/000)	12 months 2017													
	Italy						Iberian Peninsula						Elim. and other	Group
	E.Spa + V-Valley	Mosaico	Celly*	EDSlan	Elim. and other	Total	Esprinet Iberica	Esprinet Portugal	V-Valley Iberian	Vinzeo + Tape	Elim. and other	Total		
Sales to third parties	1,854,572	53,556	27,911	55,485	-	1,991,524	633,015	28,258	6,195	558,180	-	1,225,648	-	3,217,172
Intersegment sales	62,961	1,129	1,107	1,846	(20,993)	46,050	20,837	12	-	3,447	(24,296)	-	(46,050)	-
Sales	**1,917,533**	**54,685**	**29,018**	**57,331**	**(20,993)**	**2,037,574**	**653,852**	**28,270**	**6,195**	**561,627**	**(24,296)**	**1,225,648**	**(46,050)**	**3,217,172**
Cost of sales	(1,820,245)	(49,689)	(17,218)	(50,745)	20,989	(1,916,908)	(627,090)	(27,452)	(5,614)	(542,504)	24,221	(1,178,439)	45,938	(3,049,409)
Gross profit	**97,288**	**4,996**	**11,800**	**6,586**	**(4)**	**120,666**	**26,762**	**818**	**581**	**19,123**	**(75)**	**47,209**	**(112)**	**167,763**
Gross Profit %	*5.07%*	*9.14%*	*40.66%*	*11.49%*	*0.02%*	*5.92%*	*4.09%*	*2.89%*	*9.38%*	*3.40%*		*3.85%*		*5.21%*
Sales and marketing costs	(28,781)	(1,417)	(8,544)	(4,180)	51	(42,871)	(6,171)	(333)	(855)	(3,599)	85	(10,872)	(57)	(53,800)
Overheads and admin. costs	(52,075)	(864)	(3,070)	(2,990)	14	(58,985)	(13,116)	(543)	(255)	(6,776)	(10)	(20,699)	68	(79,616)
Operating income (Ebit)	**16,432**	**2,715**	**186**	**(584)**	**61**	**18,810**	**7,475**	**(58)**	**(529)**	**8,748**	**-**	**15,638**	**(101)**	**34,347**
EBIT %	*0.86%*	*4.96%*	*0.64%*	*-1.02%*	*-0.29%*	*0.92%*	*1.14%*	*-0.21%*	*-8.54%*	*1.56%*		*1.28%*		*1.07%*
Finance costs - net														(749)
Share of profits of associates														36
Profit before income tax														**33,634**
Income tax expenses														(7,355)
Net income														**26,279**
- of which attributable to non-controlling interests														45
- of which attributable to Group														26,234

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

D) Reclassified income statement

The consolidated separate income statement showing the reclassification within the item relating to financial charges of the costs attributable to the without-recourse revolving factoring carried out in the period (factoring and securitisation transactions) is presented below:

(euro/000)	12 months 2018	%	12 months 2018 reclassified	%	Var.	Var. %
Sales	**3,571,223**	**100.00%**	**3,571,223**	**100.00%**	**-**	***0%***
Cost of sales	(3,409,041)	-95.46%	(3,404,172)	-95.32%	(4,869)	*0%*
Gross Profit	**162,182**	**4.54%**	**167,051**	**4.68%**	**(4,869)**	***-3%***
Sales and marketing costs	(52,796)	-1.48%	(52,796)	-1.48%	-	*0%*
Overheads and administrative costs	(86,167)	-2.41%	(86,167)	-2.41%	-	*0%*
Operating income (EBIT)	**23,219**	**0.65%**	**28,088**	**0.79%**	**(4,869)**	***-17%***
Finance costs - net	(4,772)	-0.13%	(9,641)	-0.27%	4,869	*-51%*
Profit before income taxes	**18,447**	**0.52%**	**18,447**	**0.52%**	**-**	***0%***
Income tax expenses	(5,551)	-0.16%	(5,551)	-0.16%	-	*0%*
Net income	**12,896**	**0.36%**	**12,896**	**0.36%**	**-**	***0%***

(euro/000)	Q4 2018	%	Q4 2018 reclassified	%	Var.	Var. %
Sales	**1,261,422**	**100.00%**	**1,261,422**	**100.00%**	**-**	***0%***
Cost of sales	(1,210,374)	-95.95%	(1,208,882)	-95.83%	(1,492)	*0%*
Gross Profit	**51,048**	**4.05%**	**52,540**	**4.17%**	**(1,492)**	***-3%***
Sales and marketing costs	(13,558)	-1.07%	(13,558)	-1.07%	-	*0%*
Overheads and administrative costs	(29,325)	-2.32%	(29,325)	-2.32%	-	*0%*
Operating income (EBIT)	**8,165**	**0.65%**	**9,657**	**0.77%**	**(1,492)**	***-15%***
Finance costs - net	(1,124)	-0.09%	(2,616)	-0.21%	1,492	*-57%*
Profit before income taxes	**7,041**	**0.56%**	**7,041**	**0.56%**	**-**	***0%***
Income tax expenses	(2,483)	-0.20%	(2,483)	-0.20%	-	*0%*
Net income	**4,558**	**0.36%**	**4,558**	**0.36%**	**-**	***0%***

3.4 Notes to consolidated income statement items

Please note that in this section the paragraph numbers refer to the corresponding 'Note' in the consolidated separate income statement.

33) Sales

The table below shows some breakdowns of the Group's sales performance during the period.

Sales by geographical area

(euro/million)	12 months 2018	%	12 months 2017	%	Var.	*% Var.*	Q4 2018	%	Q4 2017	%	Var.	*% Var.*
Italy	2,214.7	62.0%	1,973.3	61.3%	241.4	12%	744.2	59.0%	639.3	58.7%	104.9	16%
Spain	1,300.2	36.4%	1,193.0	37.1%	107.2	9%	496.8	39.4%	434.6	39.9%	62.2	14%
Other EU countries	47.7	1.3%	45.2	1.4%	2.5	6%	16.5	1.3%	14.4	1.3%	2.1	15%
Extra EU countries	8.6	0.2%	5.7	0.2%	2.9	51%	3.9	0.3%	1.3	0.1%	2.6	200%
Group sales	**3,571.2**	**100.0%**	**3,217.2**	**100.0%**	**354.0**	**11%**	**1,261.4**	**100.0%**	**1,089.6**	**100.0%**	**171.8**	**16%**

Revenues generated in other EU countries mainly refer to sales made by the Spanish affiliated company to customers resident in Portugal (30.2 million euro).

The revenues generated outside the EU mainly refer to sales realised vis-à-vis the customers resident in the Republic of San Marino, the State of Andorra, in Switzerland and Turkey

Sales from products and services

(euro/million)	12 months 2018	%	12 months 2017	%	% *Var.*	Q4 2018	%	Q4 2017	%	% *Var.*
Product sales	2,230.3	62.5%	1,972.1	61.3%	13%	751.2	59.6%	639.8	58.7%	17%
Services sales	6.6	0.2%	19.4	0.6%	*-66%*	1.9	0.2%	5.8	0.5%	*-67%*
Sales - Subgroup Italy	**2,236.9**	**62.6%**	**1,991.5**	**61.9%**	***12%***	**753.1**	**59.7%**	**645.6**	**59.3%**	***17%***
Product sales	1,333.0	37.3%	1,224.0	38.0%	*9%*	508.0	40.3%	443.5	40.7%	*15%*
Services sales	1.3	0.0%	1.7	0.1%	*-24%*	0.3	0.0%	0.5	0.0%	*-40%*
Sales - Subgroup Spain	**1,334.3**	**37.4%**	**1,225.7**	**38.1%**	***9%***	**508.3**	**40.3%**	**444.0**	**40.7%**	***14%***
Group sales	**3,571.2**	**100.0%**	**3,217.2**	**100.0%**	***11%***	**1,261.4**	**100.0%**	**1,089.6**	**100.0%**	***16%***

Sales as 'Principal' or 'Agent'

In accordance as from 1 January 2018 with the new IFRS 15 accounting standard, the Esprinet Group has identified the distribution of the hardware and software products, the distribution of the own-brand products, the presentation of services not intermediated such as the activities in which is covers a role such as to require the representation of the revenues as 'principal'. The distribution of software under cloud facilities and the intermediation of services have by contrast been identified as business lines to be represented as 'agent'.
The following table provides this distinction indicating, with regard to the comparable periods, how the revenues would have been represented if the accounting standard had been applied already in 2017 for the purpose of a reconciliation with the balances previously published.

(euro/million)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Revenues from contracts with customers as 'principal'	3,568.7	99.9%	3,201.9	99.9%	*11%*	1,260.7	99.9%	1,085.0	100.0%	*16%*
Revenues from contracts with customers as 'agent'	2.5	0.1%	1.7	0.1%	*47%*	0.7	0.1%	0.5	0.0%	*40%*
Revenues from contracts with customers	**3,571.2**	**100.0%**	**3,203.6**	**100.0%**	***11%***	**1,261.4**	**100.0%**	**1,085.5**	**100.0%**	***16%***
Revenues - Change as 'agent' in 2017			13.6					4.1		
Group revenues	3,571.2		3,217.2		*11%*	1,261.4		1,089.6		*16%*

Sales by product family and customer type

(euro/million)	12 months 2018	%	12 months 2017	%	% *Var.*	Q4 2018	%	Q4 2017	%	% *Var.*
GDO/GDS	1,261.4	35.3%	1,028.5	32.0%	23%	521.6	41.4%	448.3	41.1%	16%
Dealers	1,052.4	29.5%	862.0	26.8%	22%	376.7	29.9%	292.0	26.8%	29%
Vars	681.6	19.1%	726.9	22.6%	-6%	187.0	14.8%	238.4	21.9%	-22%
Office/Consumables dealers	305.5	8.6%	235.9	7.3%	30%	90.4	7.2%	21.2	1.9%	326%
On-line Shops	188.4	5.3%	257.8	8.0%	-27%	61.5	4.9%	61.4	5.6%	0%
Sub-distribution	81.9	2.3%	106.1	3.3%	-23%	24.2	1.9%	28.3	2.6%	-14%
Group Sales	**3,571.2**	**100%**	**3,217.2**	**100%**	***11%***	**1,261.4**	**100%**	**1,089.6**	**100%**	***16%***

(euro/million)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
TLC	1,004.7	28.1%	811.8	25.2%	*24%*	393.0	31.2%	318.0	29.2%	*24%*
PCs - notebooks	600.0	16.8%	625.7	19.4%	*-4%*	193.7	15.4%	185.0	17.0%	*5%*
PCs - tablets	433.9	12.1%	339.6	10.6%	*28%*	173.2	13.7%	140.3	12.9%	*23%*
Consumer electronics	321.4	9.0%	261.5	8.1%	*23%*	104.8	8.3%	78.1	7.2%	*34%*
PCs - desktops and monitors	245.4	6.9%	217.6	6.8%	*13%*	73.3	5.8%	59.6	5.5%	*23%*
Consumables	210.9	5.9%	211.1	6.6%	*0%*	57.0	4.5%	56.3	5.2%	*1%*
Software	172.7	4.8%	161.8	5.0%	*7%*	66.3	5.3%	52.9	4.9%	*25%*
Printers & Multifunction devices	126.0	3.5%	117.1	3.6%	*8%*	38.1	3.0%	36.1	3.3%	*5%*
Storage	123.2	3.4%	122.8	3.8%	*0%*	39.3	3.1%	39.4	3.6%	*0%*
Networking	110.9	3.1%	94.5	2.9%	*17%*	41.2	3.3%	8.5	0.8%	*384%*
Servers	97.8	2.7%	67.1	2.1%	*46%*	44.3	3.5%	30.1	2.8%	*47%*
Services	7.9	0.2%	25.8	0.8%	*-69%*	(0.2)	0.0%	7.3	0.7%	*-103%*
Other	116.3	3.3%	160.8	5.0%	*-28%*	37.3	3.0%	78.0	7.2%	*-52%*
Group sales	**3,571.2**	**100%**	**3,217.2**	**100%**	***11%***	**1,261.4**	**100%**	**1,089.6**	**100%**	***16%***

The analysis of the sales by type of customer discloses an improvement with respect to 2017 for the channels referable to 'Dealers office/consumables' (+30%), 'GDO/GDS' (+23%) as well as the channel referable to the medium-small business clientele ('Dealer' +22%). The channels referable to the 'Sub-distribution' (-23%), the 'Shop on-line' (-27%) and the large business clientele ('VAR-Value Added Reseller' -6%) by contrast disclosed a decrease.

The fourth quarter alone presents similar trends albeit with different percentage changes.

The breakdown of the sales turnover by product category disclosed widespread growth with the exception of the 'PC - notebook' (-4%), 'Services' (-69%) and 'Other' (-28%) product classes.

Also the analysis of just the fourth quarter disclosed the same trends with the exception of the 'PC - notebook' category which disclosed growth of +5% compared with the decrease achieved overall during the accounting period (-4%).

35) Gross profit

(euro/000)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Sales	3,571,223	100.00%	3,217,172	100.00%	*11%*	1,261,422	100.0%	1,089,575	100.00%	*16%*
Cost of sales	3,409,041	95.46%	3,049,409	94.79%	*12%*	1,210,374	96.0%	1,037,243	95.20%	*17%*
Gross profit	**162,182**	**4.54%**	**167,763**	**5.21%**	***-3%***	**51,048**	**4.05%**	**52,332**	**4.80%**	***-2%***
- of which non recurring	8,550	0.24%	-	0.00%	*0%*	7,451	0.59%	-	0.00%	*0%*
Gross profit "recurrent"	**170,732**	**4.78%**	**167,763**	**5.21%**	***2%***	**58,499**	**4.64%**	**52,332**	**4.80%**	***12%***

The consolidated Gross profit, equal to 162.2 million euro, showed a decrease of -3% (increase of +2% if excluding non-recurring cost items) equal to -5.6 million euro compared with the same period in 2017 as a consequence of a worsening in the percentage margin from 5.21% to 4.54% (4.78% if excluding non-recurring cost items) not completely offset by the rise in sales.
The non-recurring negative items, equal to 8.6 million euro are both from a steep and unexpected fall in end-user prices on some product families of the 'Nilox Sport' line which, also as a consequence of the lack of price protection provided by the supplier, led to a significant negative impact on gross margins, as well as from estimated charges for the Group relating to product returns under warranty and to disputes on mutual contractual rights.
In the fourth quarter alone, the consolidated Gross profit, amounting to 51.1 million euro and down -2% compared with the same period in the previous year, by contrast disclosed an increase of +12% if the afore-mentioned non-recurrent components are excluded.

The sales margin has been reduced by the difference between the amount of receivables transferred 'without-recourse' to factoring companies within the usual revolving programmes and the amounts collected. In 2018 this effect is quantifiable as 4.9 million euro (5.4 million euro in 2017), of which 1.5 million euro in just the fourth quarter (1.8 million euro in the fourth quarter of 2017).

37-38) Operating costs

(euro/000)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Sales	**3,571,223**		**3,217,172**		***11%***	**1,261,422**		**1,089,575**		***16%***
Sales and marketing costs	52,796	1.48%	53,800	1.67%	*-2%*	13,558	1.07%	12,604	1.16%	*8%*
Overheads and administrative costs	86,167	2.41%	79,616	2.47%	*8%*	29,325	2.32%	20,029	1.84%	*46%*
Operating costs	**138,963**	**3.89%**	**133,416**	**4.15%**	***4%***	**42,883**	**3.40%**	**32,633**	**3.00%**	***31%***
- of which non recurring	8,713	0.24%	1,839	0.06%	*374%*	8,713	0.69%	470	0.04%	*1754%*
'Recurring' operating costs	**130,250**	**3.65%**	**131,577**	**4.09%**	***-1%***	**34,170**	**2.71%**	**32,163**	**2.95%**	***6%***

In 2018 the amount of the operating costs, totalling 139.0 million euro, disclose an increase of 5.6 million euro compared with the same period in 2017 (drop of -1.3 million euro net of the non-recurrent items) with an incidence on revenues down to 3.65% from 4.09% in 2017.
Net of the non-recurrent items, relating in 2018 to the value of the receivables due from customers and in 2017 to charges for termination of employment consequent to the reorganisation activities, the operating costs disclosed a containment of -1.3 million euro (-1%).
As a result of these events, the operating costs for just the fourth quarter disclose an increase of +31% which falls to +6% if the non-recurrent items are excluded.

Reclassification by nature of certain categories of operating costs

For the purpose of extending the disclosure provided, steps are taken to reclassify certain categories of cost, by '*nature*', having been allocated by '*intended use*' in the adopted income statement format.

Payroll and related costs and number of employees

(euro/000)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Sales	3,217,170		3,217,172		*0%*	907,369		1,089,575		*-17%*
Wages and salaries	43,844	1.36%	42,292	1.31%	*4%*	11,475	1.26%	9,350	0.86%	*23%*
Social contributions	12,774	0.40%	12,550	0.39%	*2%*	3,249	0.36%	2,841	0.26%	*14%*
Pension obligations	2,355	0.07%	2,293	0.07%	*3%*	562	0.06%	506	0.05%	*11%*
Other personnel costs	961	0.03%	998	0.03%	*-4%*	216	0.02%	225	0.02%	*-4%*
Employee termination incentives	835	0.03%	1,999	0.06%	*-58%*	283	0.03%	551	0.05%	*-49%*
Share incentive plans	357	0.01%	371	0.01%	*-4%*	61	0.01%	(22)	0.00%	*-377%*
Total labour costs (1)	**61,126**	**1.90%**	**60,503**	**1.88%**	***1%***	**15,846**	**1.75%**	**13,451**	**1.23%**	***18%***

(1) Cost of temporary workers excluded.

In the twelve months of 2018, payroll and related costs amounted to 61.1 million euro, up +1% compared with the previous year and in line with the change in the number of employees. In the fourth quarter alone a significant increase (+18%) was reported due to the determination, in the last quarter of 2017, of the failure to achieve the company targets which had led to the release of a significant part of the provisions for productivity bonuses.

The following table shows the change in the number of employees of the Group supplemented by the breakdown by contractual qualification.

	Executives	Clerks and middle manager	Workers	Total	Average*
Esprinet S.p.A.	21	720	1	**742**	
EDSlan S.r.l.	-	-	-	**-**	
Celly S.p.A.	1	45	-	**46**	
Mosaico S.r.l.	-	-	-	**-**	
Celly Pacific LTD	-	3	-	**3**	
Celly Nordic OY	-	-	-	**-**	
Celly Swiss SAGL	-	-	-	**-**	
Nilox Deutschland GmbH	-	1	-	**1**	
V-Valley S.r.l.	-	-	-	**-**	
Subgroup Italy	**22**	**769**	**1**	**792**	**803**
Esprinet Iberica S.L.U.	-	231	81	**312**	
Vinzeo Technologies S.A.U.	-	132	-	**132**	
V-Valley Iberian S.L.U.	-	19	-	**19**	
Esprinet Portugal Lda	-	8	-	**8**	
Tape S.L.U.	-	-	-	**-**	
Subgroup Spain	**-**	**390**	**81**	**471**	**453**
Group as at 31 December 2018	**22**	**1,159**	**82**	**1,263**	**1,256**
Group as at 31 December 2017	**21**	**1,173**	**53**	**1,247**	**1,288**
Var 31/12/2018 - 31/12/2017	1	(14)	29	16	(32)
Var %	5%	-1%	55%	1%	-2%
Group as at 31 December 2017	**21**	**1,173**	**53**	**1,247**	**1,288**
Var 31/12/2018 - 31/12/2017	1	(14)	29	16	(32)
Var %	5%	-1%	55%	1%	-2%

(*) Corresponds to the average between the start and end balances for the period.

Compared with 31 December 2017 the number of employees on the workforce at period end had increased by 16 while, by contrast, the average number of employees was in any event down by 32 due to the reorganisation activities implemented during 2017.

Amortisation, depreciation, write-downs and provisions

(euro/000)	12 months 2018	%	12 months 2017	%	% *Var.*	Q4 2018	%	Q4 2017	%	% *Var.*
Sales	3,571,223		3,217,172		*11%*	1,261,422		1,089,575		*16%*
Depreciation of tangible assets	4,103	0.11%	4,075	0.13%	*1%*	1,025	0.08%	1,080	0.10%	*-5%*
Amortisation of intangible assets	587	0.02%	679	0.02%	*-14%*	142	0.01%	175	0.02%	*-19%*
Amort . & depreciation	**4,690**	**0.13%**	**4,754**	**0.15%**	***-1%***	**1,168**	**0.09%**	**1,255**	**0.12%**	***-7%***
Write-downs of fixed assets	-	0.00%	-	0.00%	*0%*	-	0.00%	-	0.00%	*0%*
Amort. & depr., write-downs (A)	**4,690**	**0.13%**	**4,754**	**0.15%**	***-1%***	**1,168**	**0.09%**	**1,255**	**0.12%**	***-7%***
Accruals for risks and charges (B)	154	0.00%	374	0.01%	*-59%*	51	0.00%	276	0.03%	*-82%*
Amort. & depr., write-downs, accruals for risks (C=A+B)	**4,844**	**0.14%**	**5,128**	**0.16%**	***-6%***	**1,219**	**0.10%**	**1,531**	**0.14%**	***-20%***

42) Financial income

(euro/000)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Sales	**3,571,223**		**3,217,172**		***11%***	**1,261,422**		**1,089,575**		***16%***
Interest expenses on borrowings	2,706	0.08%	3,391	0.11%	*-20%*	574	0.05%	803	0.07%	*-29%*
Interest expenses to banks	381	0.01%	322	0.01%	*18%*	135	0.01%	65	0.01%	*>100%*
Other interest expenses	55	0.00%	16	0.00%	*>100%*	52	0.00%	10	0.00%	*>100%*
Upfront fees amortisation	730	0.02%	670	0.02%	*9%*	167	0.01%	170	0.02%	*-2%*
Financial charges for actualization	-	0.00%	1	0.00%	*NA*	-	0.00%	(2)	0.00%	*NA*
IAS 19 expenses/losses	54	0.00%	63	0.00%	*-14%*	13	0.00%	16	0.00%	*-19%*
Expenses from business combination	-	0.00%	34	0.00%	*NA*	-	0.00%	2	0.00%	*NA*
Derivatives ineffectiveness	115	0.00%	167	0.01%	*-31%*	5	0.00%	(55)	-0.01%	*<-100%*
Total financial expenses (A)	**4,041**	**0.11%**	**4,664**	**0.14%**	***-13%***	**946**	**0.07%**	**1,009**	**0.09%**	***-6%***
Interest income from banks	(34)	0.00%	(82)	0.00%	*-58%*	(12)	0.00%	(18)	0.00%	*-31%*
Interest income from others	(211)	-0.01%	(692)	-0.02%	*-70%*	(99)	-0.01%	(549)	-0.05%	*-82%*
Interest income on business combination	-	0.00%	(2,631)	-0.08%	*NA*	6	0.00%	(2,629)	-0.24%	*<-100%*
Derivatives ineffectiveness	14	0.00%	20	0.00%	*-30%*	7	0.00%	5	0.00%	*27%*
Total financial income(B)	**(231)**	**-0.01%**	**(3,385)**	**-0.11%**	***-93%***	**(99)**	**-0.01%**	**(3,190)**	**-0.29%**	***-97%***
Net financial exp. (C=A+B)	**3,810**	**0.11%**	**1,279**	**0.04%**	***>100%***	**847**	**0.07%**	**(2,181)**	**-0.20%**	***<-100%***
Foreign exchange gains	(1,061)	-0.03%	(1,775)	-0.06%	*-40%*	(218)	-0.02%	(346)	-0.03%	*-37%*
Foreign exchange losses	2,023	0.06%	1,245	0.04%	*62%*	495	0.04%	262	0.02%	*89%*
Net foreign exch. (profit)/losses (D)	**962**	**0.03%**	**(530)**	**-0.02%**	*<-100%*	**278**	**0.02%**	**(84)**	**-0.01%**	*<-100%*
Net financial (income)/costs (E=C+D)	**4,772**	**0.13%**	**749**	**0.02%**	*>100%*	**1,124**	**0.09%**	**(2,265)**	**-0.21%**	*<-100%*

The overall balance between finance income and expense, which is negative for 4.8 million euro, compares with a negative balance of 0.7 million euro in the previous year (-4.1 million euro).
In the fourth quarter, the financial expense presented a negative balance for 1.1 million euro while the fourth quarter of 2017 had reported a positive balance of 2.3 million euro (-3.4 million euro).
These trends are essentially due (i) to the deterioration in the result of the exchange operations caused by the unfavourable trend of the Euro/US dollar exchange rate (-1.5 million euro during the year and -0.4 million euro in just the fourth quarter) and (ii) to the recognition in the last quarter of the year of income for a total of 3.1 million euro due to the downwards review of the estimated purchase value for the residual 20% of the share capital of Celly S.p.A. and the recognition of 0.5 million euro in interest income due to the favourable outcome of a dispute with a credit insurance company.
By contrast, the net bank interest was down by 0.6 million euro (-0.2 million euro in the fourth quarter) due - in the presence of essential stability of the average levels of bank uses - to a reduction in the cost of the debt essentially linked to a mix of less onerous technical forms.

45) Income tax expences

(euro/000)	12 months 2018	%	12 months 2017	%	% Var.	Q4 2018	%	Q4 2017	%	% Var.
Sales	**3,571,223**		**3,217,172**		***11%***	**1,261,422**		**1,089,575**		***16%***
Current and deferred taxes	**5,551**	**0.16%**	**7,355**	**0.23%**	***-25%***	**2,483**	**0.20%**	**4,612**	**0.42%**	***-46%***
Profit before taxes	18,447		33,634			7,041		21,967		
Tax rate	**30%**		**22%**			**35%**		**21%**		

The income taxes, amounting to 5.6 million euro, disclose a decrease of -25% compared with 2017 mainly due to a lower taxable base since, by contrast, the tax rate rose due to the failure to repeat in 2018 the positive permanent differences recognised in the previous year in the subsidiary Vinzeo S.A.U..

46) Net income and earnings per share

(euro/000)	12 months 2018	12 months 2017	Var.	% Var.	Q4 2018	Q4 2017	Var.	% Var.
Net income	**12,896**	**26,279**	**(13,383)**	***-51%***	**4,558**	**17,355**	**(12,797)**	***-74%***
Weighed average no. of shares in circulation: basic	51,605,661	51,757,451			51,266,709	51,757,451		
Weighed average no. of shares in circulation: diluted	52,017,353	52,208,479			51,888,677	52,149,052		
Earnings per share in euro - basic	0.25	0.51	(0.26)	*-51%*	0.09	0.34	-0.25	*-74%*
Earnings per share in euro - diluted	0.25	0.50	(0.25)	*-50%*	0.09	0.33	-0.24	*-73%*

The own shares held in the portfolio have been excluded for the purpose of calculating the basic earnings per share.

For the purpose of calculating the diluted earnings per share, the potential shares serving the stock grant plan approved on 4 May 2018 by Esprinet S.p.A.'s shareholders' meeting, were considered. This plan envisaged the bonus assignment of 1,150,000 shares.

4. Consolidated statement of financial position and notes

4.1 Consolidated statement of financial position

The consolidated statement of financial position drawn up according to IFRS international accounting standards is presented below, together with the information required pursuant to Consob Resolution No. 15519 dated 27 July 2006:

(euro/000)	31/12/2018	related parties *	31/12/2017	related parties *
ASSETS				
Non-current assets				
Property, plant and equipment	13,327		14,634	
Goodwill	90,595		90,595	
Intangible assets	724		1,070	
Investments in associates	-		-	
Deferred income tax assets	13,440		11,262	
Derivative financial assets	1		36	
Receivables and other non-current assets	3,390	1,554	6,712	1,553
	121,477	**1,554**	**124,309**	**1,553**
Current assets				
Inventory	493,541		481,551	
Trade receivables	383,906	-	313,073	11
Income tax assets	3,448		3,116	
Other assets	29,564	1,310	27,778	10
Cash and cash equivalents	381,308		296,969	
	1,291,768	**1,310**	**1,122,487**	**21**
Disposal groups assets	-		-	
Total assets	**1,413,245**	**2,864**	**1,246,796**	**1,574**
EQUITY				
Share capital	7,861		7,861	
Reserves	319,835		303,046	
Group net income	12,799		26,235	
Group net equity	**340,495**		**337,142**	
Non-controlling interests	1,144		1,046	
Total equity	**341,639**		**338,188**	
LIABILITIES				
Non-current liabilities				
Borrowings	12,804		19,927	
Derivative financial liabilities	-		-	
Deferred income tax liabilities	8,102		7,088	
Retirement benefit obligations	4,397		4,814	
Debts for investments in subsidiaries	-		1,311	
Provisions and other liabilities	1,777		2,504	
	27,080		**35,644**	
Current liabilities				
Trade payables	866,909	-	690,449	-
Short-term financial liabilities	138,301		155,960	
Income tax liabilities	1,588		693	
Derivative financial liabilities	612		663	
Debts for investments in subsidiaries	1,311		-	
Provisions and other liabilities	35,805	1,567	25,199	1,510
	1,044,526	**1,567**	**872,964**	**1,510**
Disposal groups liabilities	-		-	
Total liabilities	**1,071,606**	**1,567**	**908,608**	**1,510**
Total equity and liabilities	**1,413,245**	**1,567**	**1,246,796**	**1,510**

* For more details on related-party transactions, see the related section of the 'Interim management report'.

4.2 Notes to the most significant statement of financial position items

4.2.1 Gross investments

(euro/000)	31/12/2018 Esprinet Group	31/12/2018 Subgroup Italy	31/12/2018 Subgroup Iberian	31/12/2017 Esprinet Group
Plant and machinery	424	356	68	1,042
Ind. And comm. Equipment & Other assets	1,377	1,174	203	2,414
Assets under construction and advances	1,018	1,018	-	109
Total Property, plant and equipment	**2,819**	**2,548**	**271**	**3,565**
Industrial patents and intellectual rights	138	94	44	270
Licences, concessions, brand names and similar rights	2	-	2	-
Others	-	-	-	4
Assets under construction and advances	105	105	-	6
Total intangible asstes	**245**	**199**	**46**	**280**
Total gross investments	**3,064**	**2,747**	**317**	**3,845**

2018 investments were mainly made by the Parent Company Esprinet S.p.A. and essentially concerned security, surveillance and air-conditioning systems, as well as equipment for the Cavenago logistics hub (part of these have not yet been commissioned as of the period end date) and electronic machines and furniture of furnishings.
The investments made in Spain relating to the security and surveillance systems installed in the Zaragozza logistics hub and office machinery and equipment.

There are no temporarily unused tangible fixed assets intended for sale.

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

There were no changes in the depreciation rates adopted for each asset category with respect to the previous year.

4.2.2 Net financial position and covenants

(euro/000)	31/12/2018	31/12/2017	Var.
Short-term financial liabilities	138,301	155,960	(17,659)
Current debts for investments in subsidiaries	1,311	-	1,311
Current financial (assets)/liabilities for derivatives	611	663	(52)
Financial receivables from factoring companies	(232)	(1,534)	1,302
Other financial receivables	(10,881)	(510)	(10,371)
Cash and cash equivalents	(381,308)	(296,969)	(84,339)
Net current financial debt	**(252,198)**	**(142,390)**	**(109,808)**
Borrowings	12,804	19,927	(7,123)
Non - current debts for investments in subsidiaries	-	1,311	(1,311)
Non-current financial (assets)/liabilities for derivatives	(1)	(36)	35
Other financial receivables	(1,420)	(1,870)	450
Net financial debt	**(240,815)**	**(123,058)**	**(117,757)**

For the definition of financial payables please see the section 'Main accounting definitions and estimates' in the consolidated financial statements as at 31 December 2017.

The Group's net financial position, negative for 240.8 million euro, corresponds to a net balance between gross financial payables for 151.00 million euro, financial receivables for 12.5 million euro, payables for the purchase of equity investments for 1.3 million euro, cash and cash equivalents for 381.3 million euro and financial liabilities for derivative instruments amounting to 0.7 million euro.

The cash and cash equivalents mainly consist of free and unrestricted bank deposits of a transitory nature as they are formed temporarily at the end of the month as a result of the Group's unusual financial cycle.
This cycle is characterised by a significant concentration of payments received from customers and from factoring companies – the latter as a consequence of the net proceed from the 'without-recourse' transfer of trade receivables - typically at the end of each calendar month, while the payments to suppliers - also disclosing certain concentration at period end - generally are distributed more evenly over the month. Accordingly, the precise figure at the end of any period does not represent the net financial indebtedness and the level of the average treasury balances in said period.

The without-recourse transfer of account receivables revolving programme focusing on the large-scale distribution sector in particular, continued during 2018 both in Italy and in Spain as part of the processes aimed at the structural optimisation of the management of working capital. In addition to this, the securitisation programme also continued during the period, launched in Italy in July 2015 and renewed in July 2018, for additional trade receivables. Given that the programmes mentioned achieve the complete transfer of the risks and the benefits pertaining to the assignees, the receivables subject to transfer are eliminated from the statement of financial position assets in accordance with the IAS 39 accounting standard. The overall impact on the level of the net financial payables as of 30 September 2018 was approximately equal to 597 million euro (roughly 424 million euro as of 31 December 2017).
The Group's financial structure includes, among other aspects, a medium/long-term senior loan granted to Esprinet S.p.A. in February 2017 by a pool of banks, consisting of a 5-year amortising cash facility with an original amount of 145.0 million euro and a 5-year revolving cash facility for 65.0 million euro.
The amortising cash facility was drawn on for 101.5 million euro at 31 December 2018, while the revolving one was unused.

The above-mentioned unsecured loan, maturing in 2022, is supported by 4 financial covenants which if not observed envisages the forfeiture of the benefit of the term and the possibility for the disbursing bodies to exercise the right to request early repayment.
As at 31 December 2018, even though the observance of the financial commitments has to be checked against the consolidated annual financial statements audited by the independent auditing firm, according to the Group's quarterly results, it is estimated that the covenant represented by the ratio between financial indebtedness and EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over an essential interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'current' EBITDA which better reflects the ability of the Group to bear the degree of financial leverage).

Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortising facility - as well as the liability representative of the fair value of 'IRS-Interest Rate Swap' contracts entered into to hedge the interest rate risk - were recognised under current financial payables.

4.2.3 Goodwill

Goodwill amounts to 90.6 million euro coinciding with the balance as at 31 December 2017.

The following table summarises the allocation of the goodwill to the 3 Cash Generating Units ('CGU') identified, on a consistent basis with the combination of the business areas used for the purpose of the Segment Reporting required by the international accounting standards. Furthermore, the same table shows the correlations between business areas and legally autonomous entities belonging to the Group:

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

For further information on the 'Goodwill' and on the procedures for performing the impairment test, see the notes to the consolidated financial statements at 31 December 2017.
The annual impairment test, required by international accounting standard IAS 36, was carried out with reference at 31 December 2017 and did not reveal any impairment loss in relation to the CGUs indicated above and present as of that date.

International accounting standard IAS 36 also requires that the impairment test on the goodwill be carried out more frequently in the presence of indicators of impairment loss (so-called 'triggering events') but, since the presence of these indicators was not acknowledged in the period between the execution of the annual test, in March 2018, and the date of drafting of this interim management report, it was not deemed necessary to carry out any check of the value with reference to the amounts as at 31 December 2018.

On the basis of the above, the values of the goodwill recognised as at 31 December 2017 and present in this interim management report are confirmed.

For such purposes it is hereby specified that during the Board Meeting called for March 2019, so as to examine the draft financial statements for the year ended 31 December 2018, both the 2019-23E forecast plans and the impairment procedures will be formally and separately approved guaranteeing for the latter compliance with the requirements of IAS 36.

For further information on the 'Goodwill' and on the procedure for performing the 'impairment test', see the notes to the consolidated financial statements at 31 December 2017.

5. Consolidated statement of changes in net equity

(euro/000)	Share capital	Reserves	Own shares	Profit for the period	Total net equity	Minority interest	Group net equity
Balance at 31 December 2016	**7,861**	**288,371**	**(5,145)**	**26,870**	**317,957**	**999**	**316,958**
Total comprehensive income/(loss)	**-**	**(92)**	**-**	**26,280**	**26,188**	**46**	**26,142**
Allocation of last year net income/(loss)	-	19,883	-	(19,883)	-	-	**-**
Dividend payment	-	-	-	(6,987)	**(6,987)**	-	**(6,987)**
Transactions with owners	**-**	**19,883**	**-**	**(26,870)**	**(6,987)**	**-**	**(6,987)**
Currently active Share plans	-	1,026	-	-	**1,026**	-	**1,026**
Other variations	-	4	-	-	**4**	1	**3**
Balance at 31 December 2017	**7,861**	**309,192**	**(5,145)**	**26,280**	**338,188**	**1,046**	**337,142**
							-
Balance at 31 December 2017	**7,861**	**309,192**	**(5,145)**	**26,280**	**338,188**	**1,046**	**337,142**
Total comprehensive income/(loss)	**-**	**194**	**-**	**12,895**	**13,089**	**101**	**12,988**
Allocation of last year net income/(loss)	-	19,293	-	(19,293)	**-**	-	**-**
Dividend payment	-	-	-	(6,987)	**(6,987)**	-	**(6,987)**
Purchases of own shares	-	-	(3,929)	-	**(3,929)**	-	**(3,929)**
Transactions with owners	**-**	**19,293**	**(3,929)**	**(26,280)**	**(10,916)**	**-**	**(10,916)**
Grant of share under share plans	-	(3,814)	4,274	-	**460**	-	**460**
Equity plans in progress	-	645	-	-	**645**	-	**645**
FTA New accounting standards IFRS	-	133	-	-	**133**	-	**133**
Other variations	-	40	-	-	40	(3)	**43**
Balance at 31 December 2018	**7,861**	**325,683**	**(4,800)**	**12,895**	**341,639**	**1,144**	**340,495**

6. Consolidated cash flow statement[4]

(euro/000)	12 months 2018	12 months 2017
Cash flow provided by (used in) operating activities (D=A+B+C)	**129,613**	**25,994**
Cash flow generated from operations (A)	**28,002**	**39,225**
Operating income (EBIT)	23,219	34,347
Depreciation, amortisation and other fixed assets write-downs	4,691	4,754
Net changes in provisions for risks and charges	(727)	(516)
Net changes in retirement benefit obligations	(285)	(386)
Stock option/grant costs	1,104	1,026
Cash flow provided by (used in) changes in working capital (B)	**109,821**	**(7,922)**
Inventory	(11,990)	(152,665)
Trade receivables	(70,833)	75,599
Other current assets	6,697	2,328
Trade payables	176,472	75,074
Other current liabilities	9,475	(8,258)
Other cash flow provided by (used in) operating activities (C)	**(8,207)**	**(5,309)**
Interests paid, net	(2,340)	(2,272)
Foreign exchange (losses)/gains	(974)	393
Net results from associated companies	-	75
Income taxes paid	(4,893)	(3,505)
Cash flow provided by (used in) investing activities (E)	**(4,050)**	**(2,263)**
Net investments in property, plant and equipment	(2,797)	(3,425)
Net investments in intangible assets	(241)	(280)
Changes in other non current assets and liabilities	2,916	848
Itway business combination	-	594
Own shares acquisition	(3,928)	-
Cash flow provided by (used in) financing activities (F)	**(41,224)**	**(12,695)**
Medium/long term borrowing	-	165,000
Repayment/renegotiation of medium/long-term borrowings	(38,912)	(112,162)
Net change in financial liabilities	12,728	(59,224)
Net change in financial assets and derivative instruments	(8,650)	5,562
Deferred price Itway acquisition	-	(4,718)
Dividend payments	(6,987)	(6,987)
Increase/(decrease) in 'cash flow edge' equity reserve	74	(214)
Changes in third parties net equity	94	48
Other movements	429	-
Net increase/(decrease) in cash and cash equivalents (G=D+E+F)	**84,339**	**11,036**
Cash and cash equivalents at year-beginning	**296,969**	**285,933**
Net increase/(decrease) in cash and cash equivalents	**84,339**	**11,036**
Cash and cash equivalents at year-end	**381,308**	**296,969**

[4] The effects of related-party transactions have been omitted, as they are not significant.

The table below shows the changes during the period and the reconciliation with the final situation at the end of the same period:

(euro/000)	12 months 2018	12 months 2017
Net financial debt at start of the year	**(123,058)**	**(105,424)**
Cash flow provided by (used in) operating activities	129,613	25,994
Cash flow provided by (used in) investing activities	(4,050)	(2,263)
Cash flow provided by (used in) changes in net equity	(6,391)	(7,153)
Total cash flow	**119,172**	**16,578**
Unpaid interests	(1,415)	1,056
Net financial position at end of year	**(240,815)**	**(123,058)**
Short-term financial liabilities	138,301	155,960
Customers financial receivables	(10,881)	(510)
Current financial (assets)/liabilities for derivatives	611	663
Financial receivables from factoring companies	(232)	(1,534)
Current Debts for investments in subsidiaries	1,311	-
Cash and cash equivalents	(381,308)	(296,969)
Net current financial debt	**(252,198)**	**(142,390)**
Borrowings	12,804	19,927
Non current Debts for investments in subsidiaries	-	1,311
Non-current financial (assets)/liab. for derivatives	(1)	(36)
Customers financial receivables	(1,420)	(1,870)
Net financial debt at start of the year	**(240,815)**	**(123,058)**

7. Relationship with related parties

The transactions carried out by the Group with related parties, as defined by IAS 24, were performed in compliance with current laws and according to mutual economic advantage.
In the event of products sold to individuals, the conditions as applied are equivalent to those usually applied to employees.
Transactions between the parent company Esprinet S.p.A. and its subsidiaries included in the scope of consolidation have been eliminated from the interim consolidated financial statements and therefore do not figure in this section.

During the period, transactions with related parties mainly involved sales of products and services at market conditions (arm's length basis) between the Group companies and companies in which the directors and shareholders of Esprinet S.p.A. cover important positions.
Dealings with executives with strategic responsibilities took on the form of recognition of the remuneration for services rendered by the same.
Sales realised relate to sales of consumer electronics products sold under normal market conditions (arm's length basis) both to private and business clients.

Services received mainly refer to lease agreements entered into under market conditions in periods prior to the interim period in question, with the companies Immobiliare Selene S.r.l., relating to the logistics site in Cambiago (MI) and M.B. Immobiliare S.r.l. regarding the logistics site in Cavenago (MB), respectively.

The total value of the aforementioned transactions is not however significant in respect of the total volume of the Group's activities.

8. Segment information

8.1 Introduction

The Esprinet Group is organised in relation to the geographical business areas (operating sectors), Italy and Spain, where it performs the business-to-business (B2B) distribution activities for Information Technology (IT) and consumer electronics.

The activities carried out in a 'geographical area' are characterised by investments and transactions carried out for the production and marketing of products and services within a particular economic sphere subject to expected risks and returns that are different to those achievable in other geographical areas.
The activities carried out in a 'business area' are characterised by transactions carried out for the production and marketing of products and services that are subject to risks and returns different from those which can be achieved further to the transactions relating to products and services.

Although the organisation by geographical areas represents the main form of managing and analysing the Group's results, for the purpose of a more explicit indication of the business areas in which the Group has operated in Italy, the following tables also show the operating results and the statement of financial position balances of the latter.

8.2 Segment results

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

Separate income statement and other significant information by operating segment

(euro/000)	12 months 2018			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. It & CE B2B		
Sales to third parties	2,236,865	1,334,358	-	3,571,223
Intersegment sales	57,103	-	(57,103)	-
Sales	**2,293,968**	**1,334,358**	**(57,103)**	**3,571,223**
Cost of sales	(2,182,064)	(1,283,897)	56,920	(3,409,041)
Gross profit	**111,904**	**50,461**	**(183)**	**162,182**
Gross Profit %	*4.88%*	*3.78%*		*4.54%*
Sales and marketing costs	(41,233)	(11,563)	-	(52,796)
Overheads and admin. costs	(66,788)	(19,397)	18	(86,167)
Operating income (Ebit)	**3,883**	**19,501**	**(165)**	**23,219**
EBIT %	*0.17%*	*1.46%*		*0.65%*
Finance costs - net				(4,772)
Share of profits of associates				-
Profit before income tax				**18,447**
Income tax expenses				(5,551)
Net income				**12,896**
- of which attributable to non-controlling interests				96
- of which attributable to Group				12,800
Depreciation and amortisation	**3,341**	**821**	529	**4,691**
Other non-cash items	**3,567**	**108**	-	**3,675**
Investments	**2,747**	**317**	-	**3,064**
Total assets	**1,011,216**	**587,622**	(185,593)	**1,413,245**

(euro/000)	12 months 2017			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. IT & CE B2B		
Sales to third parties	1,991,524	1,225,648	-	3,217,172
Intersegment sales	46,050	-	(46,050)	-
Sales	**2,037,574**	**1,225,648**	**(46,050)**	**3,217,172**
Cost of sales	(1,916,908)	(1,178,439)	45,938	(3,049,409)
Gross profit	**120,666**	**47,209**	**(112)**	**167,763**
Gross profit %	*5.92%*	*3.85%*		*5.21%*
Other income	-	-	-	-
Sales and marketing costs	(42,871)	(10,872)	(57)	(53,800)
Overheads and admin. costs	(58,985)	(20,699)	68	(79,616)
Operating income (Ebit)	**18,810**	**15,638**	**(101)**	**34,347**
EBIT %	*0.92%*	*1.28%*		*1.07%*
Finance costs - net				(749)
Share of profits of associates				36
Profit before income tax				**33,634**
Income tax expenses				(7,355)
Net income				**26,279**
- of which attributable to non-controlling interests				45
- of which attributable to Group				26,234
Depreciation and amortisation	**3,578**	**731**	445	**4,754**
Other non-cash items	**3,536**	**219**	-	**3,755**
Investments	**2,476**	**1,367**	-	**3,843**
Total assets	**996,079**	**444,422**	(193,705)	**1,246,796**

(euro/000)	Q4 2018			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. It & CE B2B		
Sales to third parties	753,123	508,299		1,261,422
Intersegment sales	18,288	-	(18,288)	-
Sales	**771,411**	**508,299**	**(18,288)**	**1,261,422**
Cost of sales	(740,826)	(487,614)	18,066	(1,210,374)
Gross profit	**30,585**	**20,685**	**(222)**	**51,048**
Gross Profit %	*3.96%*	*4.07%*		*4.05%*
Sales and marketing costs	(10,557)	(3,001)	-	(13,558)
Overheads and admin. costs	(24,237)	(5,094)	6	(29,325)
Operating income (Ebit)	**(4,209)**	**12,590**	**(216)**	**8,165**
EBIT %	*-0.55%*	*2.48%*		*0.65%*
Finance costs - net				(1,124)
Share of profits of associates				-
Profit before income tax				**7,041**
Income tax expenses				(2,483)
Net income				**4,558**
- of which attributable to non-controlling interests				(57)
- of which attributable to Group				4,615
Depreciation and amortisation	801	**210**	158	**1,169**
Other non-cash items	956	**(9)**	-	**947**
Investments	401	**96**	-	**497**
Total assets	**1,011,216**	**587,622**	(185,593)	**1,413,245**

(euro/000)	Q4 2017			
	Italy	Iberian Pen.	Elim. and other	Group
	Distr. IT & CE B2B	Distr. It & CE B2B		
Sales to third parties	645,595	443,980		1,089,575
Intersegment sales	12,790	-	(12,790)	-
Sales	**658,385**	**443,980**	**(12,790)**	**1,089,575**
Cost of sales	(623,485)	(426,564)	12,807	(1,037,242)
Gross profit	**34,900**	**17,416**	**17**	**52,333**
Gross profit %	*5.30%*	*3.92%*		*4.80%*
Other income	-	-	-	-
Sales and marketing costs	(10,052)	(2,550)	(2)	(12,604)
Overheads and admin. costs	(15,182)	(4,851)	4	(20,029)
Operating income (Ebit)	**9,666**	**10,015**	**19**	**19,700**
EBIT %	*1.47%*	*2.26%*		*1.81%*
Finance costs - net				2,267
Share of profits of associates				-
Profit before income tax				**21,967**
Income tax expenses				(4,612)
Net income				**17,355**
- of which attributable to non-controlling interests				87
- of which attributable to Group				17,268
Depreciation and amortisation	917	**212**	126	**1,255**
Other non-cash items	607	**122**	-	**729**
Investments	123	**100**	-	**223**
Total assets	**996,079**	**444,422**	(193,705)	**1,246,796**

Statement of financial position by operating segment

(euro/000)	31/12/2018			
	Italy	Iberian Pen.		
	Distr. IT & CE B2B	Distr. IT & CE B2B	Elim. and other	Group
ASSETS				
Non-current assets				
Property, plant and equipment	10,127	3,200	-	13,327
Goodwill	21,450	68,106	1,039	90,595
Intangible assets	656	68	-	724
Investments in others	75,731	-	(75,731)	-
Deferred income tax assets	5,807	7,457	176	13,440
Derivative financial assets	-	1	-	1
Receivables and other non-current assets	3,094	296	-	3,390
	116,865	**79,128**	**(74,516)**	**121,477**
Current assets				
Inventory	310,377	183,750	(586)	493,541
Trade receivables	263,520	120,386	-	383,906
Income tax assets	3,004	444	-	3,448
Other assets	137,231	2,824	(110,491)	29,564
Cash and cash equivalents	180,219	201,089	-	381,308
	894,351	**508,494**	**(111,077)**	**1,291,768**
Disposal groups assets	-	-	-	-
Total assets	**1,011,216**	**587,622**	**(185,593)**	**1,413,245**
EQUITY				
Share capital	7,861	54,693	(54,693)	7,861
Reserves	292,848	47,210	(20,223)	319,835
Group net income	(906)	13,845	(140)	12,799
Group net equity	**299,803**	**115,748**	**(75,056)**	**340,495**
Non-controlling interests	1,197	(7)	(46)	1,144
Total equity	**301,000**	**115,741**	**(75,102)**	**341,639**
LIABILITIES				
Non-current liabilities				
Borrowings	12,804	-	-	12,804
Derivative financial liabilities	-	-	-	-
Deferred income tax liabilities	3,049	5,053	-	8,102
Retirement benefit obligations	4,397	-	-	4,397
Provisions and other liabilities	1,748	29	-	1,777
	21,998	**5,082**	**-**	**27,080**
Current liabilities				
Trade payables	525,456	341,453	-	866,909
Short-term financial liabilities	136,259	106,542	(104,500)	138,301
Income tax liabilities	97	1,491	-	1,588
Derivative financial liabilities	612	-	-	612
Debts for investments in subsidiaries	1,311	-	-	1,311
Provisions and other liabilities	24,483	17,313	(5,991)	35,805
	688,218	**466,799**	**(110,491)**	**1,044,526**
Disposal groups liabilities	-	-	-	-
Total liabilities	**710,216**	**471,881**	**(110,491)**	**1,071,606**
Total equity and liabilities	**1,011,216**	**587,622**	**(185,593)**	**1,413,245**

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

9. Atypical and/or unusual transactions

Management does not believe that any atypical and/or unusual transactions according to the definition as per Consob communication No. DEM/6064293 of the 28 July 2006 occurred during the year.

10. Non-recurring significant events and operations

The following were identified during 2018 as non-recurring items:

- the significant and unusual recognition of a negative gross margin, 8.6 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 vis-à-vis the same supplier for amounts originating from advances paid for supplies of goods entrusted to factories in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

During 2017 the following were identified as non-recurrent items: the costs incurred within the sphere of the activities for reorganisation and rationalisation of the resources which had involved a total of 89 employees for an overall value of the indemnities acknowledged amounting to 1.8 million euro.

The following table shows the illustration of said events and transactions in the income statement for the period (before taxes):

(euro/000)	Non - Recurring Charge Type	12 months 2018	12 months 2017	Var.	Q4 2018	Q4 2017	Var.
Gross Profit		**(8,550)**	**-**	**(8,550)**	**(7,451)**	**-**	**(7,451)**
Overheads and administrative costs	Value adjustments on receivables from suppliers	(8,713)	-	(8,713)	(8,713)	-	(8,713)
Overheads and administrative costs	Employee termination incentives	-	(1,839)	1,839	-	(470)	470
Total SG&A	**Total SG&A**	**(8,713)**	**(1,839)**	**(6,874)**	**(8,713)**	**(470)**	**(8,243)**
Operating Income (EBIT)	**Operating Income (EBIT)**	**(17,263)**	**(1,839)**	**(15,424)**	**(16,164)**	**(470)**	**(15,694)**
Profit before income taxes	**Profit before income taxes**	**(17,263)**	**(1,839)**	**(15,424)**	**(16,164)**	**(470)**	**(15,694)**
Income tax expenses	Non -recurring events impact	4,477	478	3,999	4,213	122	4,091
Net income/(loss)	**Net income/(loss)**	**(12,786)**	**(1,361)**	**(11,425)**	**(11,951)**	**(348)**	**(11,603)**

11. Significant events occurred in the period

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

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

On 30 April 2018, Esprinet S.p.A. reached an agreement with the pool of lending banks to get a waiver in relation to the violation, checked against the consolidated financial statements as at 31 December 2017, of one of the financial covenants supporting the five-year senior loan granted to Esprinet S.p.A. in February 2017.
Subsequently, on 2 May 2018 an additional agreement was reached to renegotiate the structure of these covenants, which envisaged the determination of higher threshold values until 2021.

Annual Shareholders' Meeting of the Parent Company Esprinet S.p.A.

On 4 May 2018, Esprinet Shareholders' Meeting approved the annual financial statements for the year ended at 31 December 2017 and the distribution of a unit dividend of 0.135 per ordinary share, corresponding to a pay-out ratio of 27%[5].
The dividend payment was scheduled as from 16 May 2018, with registration of coupon No. 13 on 14 May 2018 and record date on 15 May 2018.

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

The Annual Shareholders' Meeting has also:
- approved the first section of the Report on Remuneration pursuant to Article 123 ter, section 6 of Italian Legislative Decree No. 58/1998;
- authorised the Board of Directors to execute the plans for the purchase and disposal of own shares, within 18 months from the resolution date, up to a maximum of 2,620,217 ordinary shares (5% of the Company's share capital), simultaneously revoking the former authorisation resolved by the Shareholder's Meeting on 4 May 2017 with respect to the unused portion;
- within the sphere of the remuneration polices and in accordance with Article 114 bis of Italian Legislative Decree No. 58/1998, approved a Long Term Incentive Plan, in favour of the members of the Company's Board of Directors and other executives, valid for the three-year period 2018/2019/2020. The objective of the plan is the free allocation of ordinary shares in the Company ('performance stock grant') to beneficiaries, to be identified by the Board of Directors, up to a maximum of 1,150,000 Company's shares;
- authorised the up-dating of the economic conditions of the official audit appointment granted to EY S.p.a. to the extent of (i) 32,110 for each of the financial years 2017 and 2018, for recurring additional activities concerning the consolidated financial statements and of (ii) 22,500 only for the financial year 2017 for activities relating to the first-time application of the new accounting standard IFRS 15.

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

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

[5]Based on the Esprinet Group's consolidated net profit

Share buy-back program

Implementing the resolution of Esprinet S.p.A.'s shareholders' meeting dated 4 May 2018, between 14 June 2018 and 11 October 2018, Esprinet S.p.A. acquired a total of 1,038,245 ordinary Esprinet S.p.A. shares, (corresponding to 1.98% of the share capital), at an average unit price of 3.78 per share net of commission.
Taking into account the above-mentioned purchases, Esprinet S.p.A. owned 1,150,000 own shares (equal to 2.19% of share capital) as at 31 December 2018.

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

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

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

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

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

On 18 July 2018, Esprinet S.p.A. and its wholly owned subsidiary V-Valley S.r.l. renewed a securitisation transaction for trade receivables started in July 2015, in the capacity as originators.
The transaction has been structured by UniCredit Bank AG as arranger and envisages the assignment on a 'non-recourse' revolving basis of trade receivables over an additional period of 3 years to a 'special purpose vehicle' Vatec S.r.l., specifically established as per Italian Law No. 130/99. The total amount of the program was increased to 100.0 million euro from the original 80.0 million euro.
The purchase of the receivables is financed through the issue of different classes of securities: class A (senior), subscribed by a conduit sponsored by the UniCredit Group, class B (mezzanine) and class C (junior) subscribed by specialised investors.
This transaction supplements the unsecured senior loan of 181.0 million euro maturing in February 2022 - consisting of an amortising cash facility for 116 million euro and a revolving facility for 65.0 million euro - whose covenant structure was reviewed in May by setting higher value thresholds, thus allowing the Group to considerably extend the average duration of its financial indebtedness.

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

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

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

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

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

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

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

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

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

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

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

On 18 December 2018, the historical 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 supplier had worked with Esprinet for more than 15 years and since 2008 managed on behalf of the Group, under an exclusive outline agreement, the production (research & development of products, scouting, selection and quality control of the manufacturing factories), the import and the after-sale support process (maintenance, repair, reverse logistics handling, etc.) of a series of products mainly belonging to the 'Sport technology' line.

Esprinet is owed 12.5 million euro in receivables by said supplier for amounts originating from advances paid for supplies of goods entrusted to factories in China as well as for credit notes (withdrawal of products under contractual warranty, repositioning, and hedging from fluctuations in the market prices, etc.).

In addition to the described liquidation procedure of the supplier which led management to estimate a possible reduction in the value of the receivables for 8.7 million euro, during the fourth quarter of 2018 a steep and unexpected fall in end-user prices on some product families of 'Sport Technology' line was seen which, also as a consequence of the lack of price protection provided by the supplier and the failure to supply new generation products, led to a negative impact on gross margins for 8.6 million euro.

In light of the information available to-date, the total impact of the extraordinary charges associated with these events is therefore estimated as 17.3 million euro.

On 6 February 2019, the above-mentioned importer, acting through its Liquidator, and its shareholders, served a writ of summons to start a legal action against Esprinet, for damage compensation amounting to 55 million euro, alleging unlawful conduct in trade relationships between Esprinet and said importer that allegedly led the latter into distress.

With resolution dated 13 February 2019, the Board of Directors of Esprinet resolved to file an appearance and defend by rejecting all claims and requesting compensation of legal expenses from the plaintiff.

The Company - supported by its legal advisories – reaffirms the full fairness and compliance with the laws and articles of association of its conduct and trusts that the court will soon confirm it by establishing the lack of foundation and spuriousness of the legal action taken against Esprinet.

Breach of financial covenants on loans

The Group's financial structure includes, among other aspects, a medium/long-term senior loan granted to Esprinet S.p.A. in February 2017 by a pool of banks, consisting of a 5-year amortising cash

facility with an original amount of 145.0 million euro and a 5-year revolving cash facility for 65.0 million euro.
The amortising cash facility was drawn on for 101.5 million euro at 31 December 2018, while the revolving one was unused.

The above-mentioned 'unsecured' loan, maturing in February 2022, is supported by 4 financial covenants which if not observed envisages the forfeiture of the benefit of the term and the possibility for the disbursing bodies to exercise the right to request early repayment.
As at 31 December 2018, even though the observance of the financial commitments has to be checked against the consolidated annual financial statements audited by the independent auditing firm, according to the Group's quarterly results, it is estimated that the covenant represented by the ratio between financial indebtedness and EBITDA is expected to be unmet if a literal interpretation of the contract should prevail over an essential interpretation when choosing the EBITDA structure to be used (EBITDA 'as reported' instead of 'current' EBITDA which better reflects the ability of the Group to bear the degree of financial leverage).
Thus, pursuant to the accounting standards in force, the entire outstanding amount of the amortising facility - as well as the liability representative of the fair value of 'IRS-Interest Rate Swap' contracts entered into to hedge the interest rate risk - were recognised under current financial payables.

Developments in tax disputes

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

- on 10 January 2018 the Provincial Tax Commission issued an unfavourable first instance decision for the year 2011 in relation to a tax dispute where the Company paid tax advances amounting to 1.9 million euro euro. The appeal hearing was held on 12 February 2019 before the Provincial Tax Commission;
- on 19 March 2018 the Regional Tax Commission issued a favourable appeal judgement for the year 2010. The amounts paid pending judgement are equal to 2.6 million euro, net of the portion for which the Company already received the refund;
- on 18 May 2018, the hearing relating to the year 2012 was held before the Provincial Tax Commission, with a favourable judgement at first instance issued on 9 October 2018;
- on 31 July 2018 the Company was served a notice relating to an assessment for the year 2013, against which an appeal was lodged, that was heard before the Provincial Tax Commission on 29 January 2019;
- On 20 December 2018, the Company was served a further notice relating to an assessment again referring to the 2013 tax year, against which on 5 February 2019 the Company filed a tax settlement proposal pursuant to Article 6.2 of Italian Legislative Decree No. 218/1997.

Some Italian subsidiaries of Esprinet S.p.A. have ongoing court and out-of-court disputes with the Inland Revenue Agency, relating to the amount of registration tax to be paid on some extraordinary transactions implemented in prior years:
The main events which have occurred since 1 January 2018 up until the date of this report are as follows:

- on 12 January 2018, Celly S.p.A. paid an additional 4 thousand euro for registration tax, claimed on the 2015 transfer deed of the business unit Rosso Garibaldi, in lieu of its counterparty that went bankrupt;
- on 15 May 2018, Mosaico S.r.l. appealed against an adjustment and settlement notice for additional registration tax, equal to 48 thousand euro, relating to the 2016 acquisition agreement of a business unit from Itway S.p.A.. On 4 September 2018, the Inland Revenue Agency put

forward a mediation proposal, accepted by the selling company Itway S.p.A., thus settling the dispute;

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

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

On 20 July 2018 the Regional Tax Commission upheld the appeal filed by the Inland Revenue Agency against the first instance judgement issued in favour of Monclick S.r.l. with reference to the 2012 tax period (when this company was still part of the Esprinet Group) in relation to direct tax disputed amounting to 82 thousand euro, plus penalties and interest.
The Company is preparing an appeal before the Supreme Court.

With respect to the audits carried out by the Inland Revenue Agency for the year 2014, Celly S.p.A. settled the tax dispute by accepting the report on finding.
On 14 December 2018, Celly S.p.A. was served two tax assessment notices relating to the same tax audit, one for the year 2015 (referring solely to notification expenses) and one for 2016. Celly S.p.A. settled this dispute by fulling accepting the tax assessed.

12. Significant events occurred in the period

For a better presentation, significant events occurring after the period under review have been disclosed in the section 'Significant events during the period' for each respective event.

Vimercate, 13 February 2019

On behalf of the Board of Directors
The Chairman
Maurizio Rota

13. Declaration of the officer responsible for financial reports

DECLARATION PURSUANT TO ARTICLE 154 bis, section 2 of the Financial Consolidation Act.

RE: Interim management report as at 31 December 2018

The undersigned Pietro Aglianò, the officer responsible for preparing the accounting documents of

ESPRINET S.p.A.

in accordance with the provisions outlined in article 154 bis of the Finance Consolidation Act

HEREBY DECLARES

that the Interim management report as at 31 December 2018 complies with the accounting documents, books and records.

Vimercate, Italy, 13 February 2019

The Officer responsible for preparing
the accounting documents

(Pietro Aglianò)