Emak®

our **power**, your **passion**

2018 Annual Report

Annual report at
31 December 2018

These financial statements were approved by the Board of Directors on 14 March 2019.

This report is available on the Internet at the address www.emakgroup.com our **power**, your **passion**

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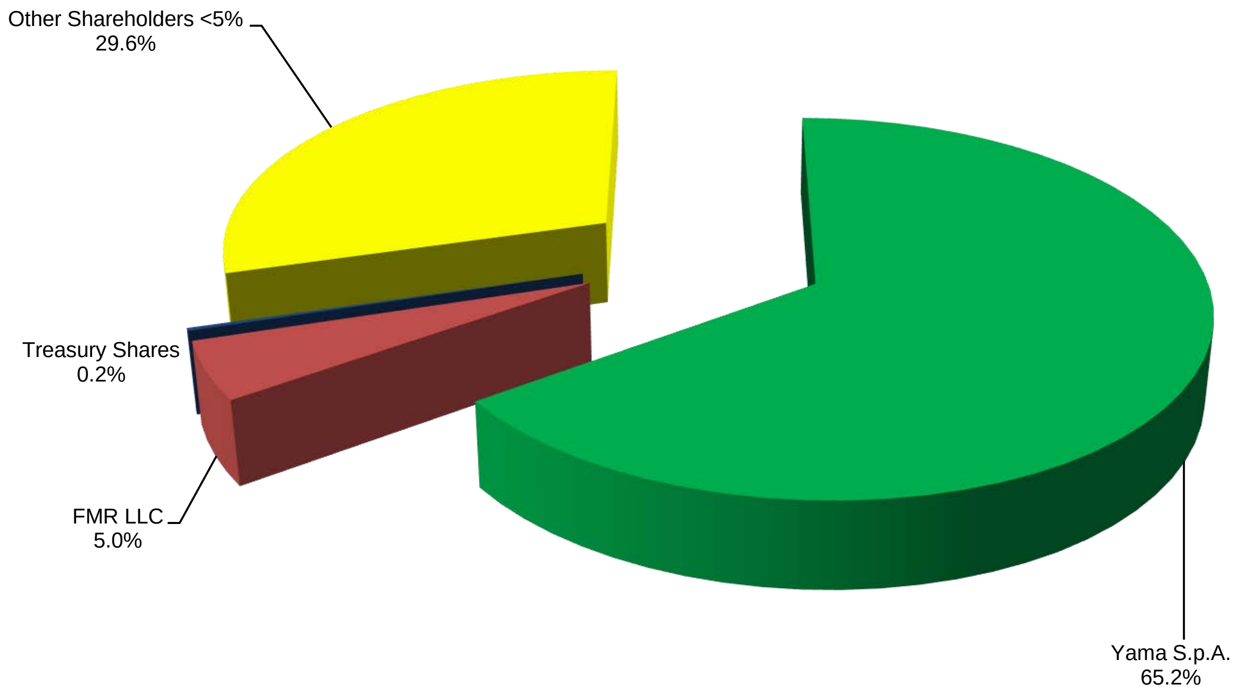
Organizational chart of Emak Group as at 31 December 2018

1. Valley Industries LLP is consolidated at 100% as a results of the "Put and Call Option Agreement" that governs the purchase of the remaining 10%.
2. Lemasa is consolidated at 100% as a results of the "Put and Call Option Agreement" that governs the purchase of the remaining 30%.
3. Comet do Brasil Investimentos Ltda is owned for 99.63% by Comet S.p.A .and 0.37% by P.T.C. S.r.l.
4. Lavorwash S.p.A is consolidated at 98.40% as a results of the "Put and Call Option Agreement" that governs the purchase of the 14.67% remaining
5. Emak do Brasil is owned for 99.98% by Emak S.p.A. and 0.02% by Comet do Brasil.
6. Lavorwash Brasil Ind. Ltda is owned for 99.99% by Lavorwash S.p.A. and 0.01% by Comet do Brasil.

Main shareholders of Emak S.p.A.

The share capital of Emak S.p.A. consists of 163,934,835 shares with a par value of 0.26 euros per share. The Company has been listed on the Milan Stock Exchange since June 25, 1998. Since September 2001 the stock has been included in the Segment of Equities with High Requirements (STAR).

At the time of publication of this report, on the basis of notifications received pursuant to Article 120 of Legislative Decree 58/1998, the shareholder structure of the Company is as follows.



Corporate Bodies of Emak S.p.A.

The Ordinary General Meeting of the Shareholders of the Parent Company, Emak S.p.A. on 22 April 2016 appointed the Board of Directors and the Board of Statutory Auditors for the financial years 2016-2018 and conferred also the engagement for the independent audit for the financial years 2016-2024.

Board of Directors	
Chairman and Chief Executive Officer	Fausto Bellamico
Deputy Chairman	Aimone Burani
Executive Director	Stefano Slanzi
Lead Independent Director	Massimo Livatino
Independent Director	Alessandra Lanza
	Elena Iotti
Directors	Francesca Baldi
	Ariello Bartoli
	Luigi Bartoli (*)
	Paola Becchi
	Giuliano Ferrari
	Vilmo Spaggiari
	Guerrino Zambelli
	Marzia Salsapariglia
Audit Committee, Remuneration Committee, Related Party Transactions Committee, Nomination Committee	
Chairman	Massimo Livatino
Components	Alessandra Lanza
	Elena Iotti
Financial Reporting Officer	Aimone Burani
Supervisory Body as per Legislative Decree 231/01	
Chairman	Sara Mandelli
Acting member	Roberto Bertuzzi
Board of Statutory Auditors	
Chairman	Paolo Caselli
Acting auditors	Gianluca Bartoli
	Francesca Benassi
Alternate auditor	Maria Cristina Mescoli
	Federico Cattini
Independent Auditor	Deloitte & Touche S.p.A.

(*) Appointed executive director from 1 January 2019

Emak Group Profile

The Emak Group operates on the global market with a direct presence in 14 countries and a distribution network covering 5 continents.

The Group offers a wide range of products with recognised trademarks and refers to a target clientele highly diversified into three business segments:

- **Outdoor Power Equipment** (OPE): Emak S.p.A. and its commercial and productive subsidiaries operates in this segment;
- **Pumps and High Pressure Water Jetting** (PWJ): this segment is managed by Comet S.p.A. and its subsidiaries, including Lavorwash S.p.A. and its subsidiaries;
- **Components and Accessories** (C&A): this segment is managed by Tecomec S.r.l. and its subsidiaries, Sabart S.r.l.. Raico S.r.l. had been part of the Group until March 30, 2018.

The **Outdoor Power Equipment** segment includes activities for the development, manufacture and marketing of products for gardening and forestry activities and small machines for agriculture, such as brush cutters, lawnmowers, garden tractors, chainsaws, motor hoes and walking tractors. The Group distributes its own products with the main trademarks: Oleo-Mac, Efco, Bertolini, Nibbi and Staub (the latter only to the French market). The Group's offer is directed to professionals and to private users with high expectations. The Group mainly operates in the specialised dealer channel, distributing its products through its own sales branches and, where not present directly, through a network of 150 distributors in more than 100 countries throughout the world.

The Group's reference market (considered as the channel of specialised dealers, excluding the large-scale retail trade) has an estimated value of 7-8 billion Euros. In mature markets such as North America and Western Europe, demand is predominantly relates to replacement: the main driver is the trend of the economy and of the "gardening" culture. In emerging markets, such as the Far East, Eastern Europe and South America, demand is predominantly for the "first buy": the main driver in these areas is economic growth, the evolution of agricultural mechanisation and the relative policies of support. A further factor that influences demand is the price of commodities: the trend in the price of oil can influence the demand for alternative energy sources, such as wood for heating and consequently a demand for chainsaws; the trend in the price of agricultural commodities influences investments in agricultural machinery.

Weather conditions are a factor that can influence the trend in demand for products in the segment (brush-cutters, lawnmowers and garden tractors in spring-summer and chainsaws in autumn-winter).

The **Pumps and High Pressure Water Jetting** line brings together activities for the development, manufacture and marketing of products (i) for agriculture, such as centrifugal and diaphragm pumps for spraying and weeding; (ii) for industry, including industrial pumps, high-pressure systems and machines for urban cleaning; (iii) for cleaning, that is, professional and semi-professional pressure washers, floor washing-drying machines and vacuum cleaners. The Group distributes its own products with the Comet, HPP, Lemasa, PTC Waterjetting Equipment, PTC Urban Cleaning Equipment and Lavor brand names. Customers of the Group include producers of spraying and weeding machines with regards to pumps for agriculture; builders and contractors in the industrial sector; specialised dealers and the large-scale retail trade for washing products.
The market has a global value estimated at between 3.5 and 4.5 billion Euros.
The pumps market for agriculture is mainly composed of Italian operators. The demand is strongly driven by the trend of the economic cycle, demographic growth and the consequent increase in the demand for agricultural products; in developing countries demand is linked to the development of agricultural mechanisation and relative policies of support.
The market of products for the industrial sector is continuously growing and demand is linked to the trend of several sectors/fields of application in which the systems are used, such as: hydro-demolition; water-washing and ship repairs; refineries; mines and quarries; the petroleum industry; underwater washing; the iron and steel industry; foundries; chemical processing plant; energy production; paper mills; transport; municipalities; food; automobile and engine manufacturing.
The demand for cleaning products is mainly linked to the economic cycle trend, the increase in hygienic standards, especially in emerging countries, and the development of the “do-it-yourself” culture in mature markets.

The **Components and Accessories** segment includes activities for the development, manufacture and marketing of products the most representative of which are line and heads for brush-cutters, accessories for chainsaws (e.g. sharpeners), pistols, valves and nozzles for high pressure cleaners and for agricultural applications, precision farming (sensors and computers), seats and technical parts for tractors. In this segment the Group operates partly through its own brands, Tecomec, Geoline, Mecline, Sabart (Raico for the first quarter 2018), and partly distributing products for third party brands. The main customers of the Group are producers in the Outdoor Power Equipment segment, of spraying and weeding machines, of high pressure cleaners, high pressure washing systems and specialised distributors.
The demand for components and accessories is linked to the economic cycle (business OEM) and the intensity of use of machines (aftermarket). The high pressure water jetting segment is linked to the economic cycle, to investments in the end markets for applications and hydrodynamic units. For products intended for the agricultural sector, demand is strongly linked to the growth of the economic cycle and in particular to the trend of agricultural commodity prices, demographic growth and the consequent increase in demand for agricultural products.

In general, the Group’s activity is influenced by seasonal fluctuations in demand. Products for gardening follow the end customer’s purchase model: most sales are concentrated in spring-summer, the period in which gardening activities are concentrated. The demand for forestry products is higher in the second part of the year while the demand for products in the Pumps and High Pressure Water Jetting segment is concentrated in the first half-year (marked seasonality in the demand for pumps for agriculture). The demand for products for industry and cleaning, on the other hand, is evenly distributed throughout the year.

Productive structure

The Group concentrates its investments on phases of high added value in the manufacture of its products. From the point of view of economic efficiency and value creation, the Group focuses on Research and Development, engineering, industrialization and assembly activities. The supply chain is strongly integrated and involved in the development of its products according to the principles of the extended factory.
The production plants have been subject to specific rationalization projects over the years, with a revision of the production layouts based on a "lean manufacturing" approach, and the involvement of all the employees taking part in various ways in the product creation process, from development to manufacture.

Outdoor Power Equipment
The Group utilises four production sites: two in Italy and two in China. The parent company plant in Bagnolo in Piano deals with the production of portable products, such as semi-professional and professional brush-cutters and chainsaws. The production model is focused on assembly: the products are entirely developed and designed internally; the components are produced according to the technical specifications provided by the Group and are assembled internally in the Group's facilities. The Pozzilli factory is dedicated to the production of wheel-based products such as lawnmowers and small tractors. The production model for this range of products provides for the purchase of the motor from leading world producers and its assembly inside the machine. With particular reference to the lawn-mower range, the shell is produced internally with a vertical process that goes from the processing of the sheet metal to the painting. The Chinese production facility of Jiangmen replicates that of the parent company, making products intended mainly for price-sensitive markets such as the Far East, South-East Asia and South America. The second Chinese factory, in Zuhai, is specialised in the production of cylinders for the two-stroke motors of the Group's portable products.

Pump and High Pressure Water Jetting
The manufacture of products in this segment is carried out in three Italian factories: one Chinese, two Brazilian and one in the United States. Pumps for the agricultural sectors, those for industrial applications up to 1,200 bars, machines in the cleaning sector such as semi-professional and professional high-pressure water jet machines and urban cleaning equipment are manufactured in Italy. The Chinese plant is dedicated to the production of low-pressure industrial pumps and machines in the cleaning segment such as high-pressure water jet machines and extractors aimed at serving the Asian and South American markets. The Brazilian factories are dedicated, one to the production of very high pressure pumps (up to 2,800 bars) and plant for various sectors such as the oil & gas, sugar cane, shipbuilding and automotive sectors, and the other to the manufacture of machines in the cleaning segment (such as high-pressure water jet machines) for the South American market. The American plant assembles (on a small scale) products for agriculture intended for the local market.

Components and Accessories
The Group has a total of eight factories for manufacturing the products of this segment, located in different countries, focused on specific products and with different production processes. The internal manufacture of a number of products is not cost-effective, due to the type of processing required, and so they are manufactured and assembled by specific suppliers on the basis of the designs developed by the Group's R&D department.
Most of the facilities (France, USA, Chile, Morocco, South Africa) are dedicated to the production of nylon thread for the brush-cutters. The reason for localised facilities is the need to have production near the end markets, considering the production process followed. This product, in fact, follows an entirely vertical process, from the purchase of the raw material to processing to the packaging of the final product.
The Chinese factory is dedicated to the production of heads for brush-cutters and pistols for high-pressure water jet machines. These products require the internal production of plastic moulds, followed by the assembly of the mechanical components.
The precision farming line is produced in Italy, with the design of electric parts and the development of software, the added value parts of the products, all carried out internally, as well as the final assembly. The most important products of the forestry line are designed and developed by the Group, which assembles the externally manufactured components in Italy.

Overall, the production volumes can be easily adjusted to match fluctuations in demand through flexible management of the plants, so that seasonal peaks can be accommodated through overtime or additional shifts, without requiring additional investments.

Segment	Company	Location	Output
OPE	Emak	Bagnolo in Piano (RE) – Italy	Chaisaws, brushcutters, power cutters, cultivators, flailmowers, transporters
		Pozzilli (IS) - Italy	Lawnmowers and rotary tillers
	Emak Tailong	Zhuhai - China	Cylinders for internal combustion engine
	Emak Jiangmen	Jiangmen - China	Chainsaws, bruscutters for price sensitive segment
PWJ	Comet	Reggio Emilia - Italy	Pumps, motor pumps and control units for agriculture and industry and pressure washers for the cleaning sector
	Valley	Paynesville, Minnesota - USA	Components and accessories for industrial and agricultural sector
	P.T.C.	Rubiera (RE) - Italy	High and ultra high pressure units and machines for urban cleaning
	Lemasa	Indaiatuba - Brazil	High pressure pumps
	Lavorwash	Pegognaga (MN) – Italy	High pressure washers, vacuum cleaners, industrial and professional cleaning systems
	Yong Kang Lavorwash Equipment	Yongkang – China	High pressure washers and vacuum cleaners for price sensitive segment
	Lavorwash Brasil	Ribeirao Preto - Brazil	High pressure washers for cleaning sector
C&A	Tecomec	Reggio Emilia - Italy	Accessories for agricultural machinery for spraying and weeding and accessories and components for pressure washers
	Speed France	Arnas - France	Nylon line and heads for brushcutters
	Speed North America	Wooster, Ohio - USA	Nylon line for brushcutters
	Speed Line South Africa	Pietermaritzburg - South Africa	Nylon line for brushcutters
	Speed Industrie	Mohammedia - Morocco	Nylon line for brushcutters
	Speed South America	Providencia, Santiago - Chile	Nylon line for brushcutters
	Ningbo	Ningbo - China	Accessories and components for high pressure washing and chain saws and brushcutters
	Geoline Electronic	Poggio Rusco (MN) - Italy	Computers, control units and electronic control systems for agricultural machines for spraying and weeding

2018 Annual Directors’report

Main strategic lines of action

The main goal of the Emak Group is the creation of value for its stakeholders.

In order to achieve this objective, the Group focuses on:

1. Innovation, with continuous investments in research and development, focused on new technologies, safety, comfort and emission control, in order to create new products that meet customer needs;
2. Distribution, to consolidate the Group's position in the market where it has a direct presence and to further expand distribution by entering new markets with high growth potential;
3. Efficiency, by implementing the lean manufacturing approach in its plants, exploiting synergies with the supply chain;
4. Acquisitions, with the aim of entering new markets, improving its competitive position, completing the product range and accessing strategic technologies that take a long time for internal development.

Policy of analysis and management of risks related to the Group's business

Group believes that an effective management of risks is a key factor for the maintenance of value over time. For the purpose of achieving its strategic objectives, the Group establishes guidelines for its risk management policy through its governance structure and Internal Control System.

As part of its industrial activity, Emak Group is exposed to a series of risks, the identification, assessment and management of which are assigned to Managing Directors, also in the role of Executives Directors appointed pursuant to the self-regulatory Code of *Borsa Italiana S.p.A.*, to business area managers and the Audit Committee.

The Directors responsible for the internal control system oversee the risk management process by implementing the guidelines defined by the Board of Directors in relation to risk management and by verifying their adequacy.

With the aim of preventing and managing more significant risks, the Group has a risk classification model, subdividing them on the basis of the company department from which that may derive or from which they can be managed, which provides for an assessment of the risks on the basis of an estimate of economic-financial impacts and the probability of occurrence.

The Board of Directors attributes the Committee the tasks of assisting it, giving advice and making proposals, in the performance of its takes regarding the internal control system and risk management and, in particular, in the definition of the guidelines for the internal control system and the periodic evaluation of its suitability, efficiency and effective functioning. The Committee supervises Internal Audit activities and examines, more generally, problems relating to the internal control system and risk management.

In addition to the above activities are those performed by the Internal Audit department, which evaluates the suitability of the internal control system and risk management, of which it is an integral part, with respect to the reference context in which the Group operates. In this sense, in the exercise of their role, Internal Audit checks the functioning and appropriateness of the risk management system, with particular attention to continuous improvement and management policies.

As part of this process, different types of risk are classified on the basis of the assessment of their impact on the achievement of the strategic objectives, that is to say, on the basis of the consequences that the occurrence of the risk may have in terms of compromised operating or financial performance, or of compliance with laws and/or regulations.

The main strategic-operating risks to which the Emak Group is subject are:

Competition and market trends
The Group operates on a global scale, in a sector characterized by a high level of competition and in which sales are concentrated mainly in mature markets with moderate or low rates of growth in demand.
Performances are closely correlated to factors such as the level of prices, product quality, trademarks and technology, which define the competitive positioning of operators on the market. The competitive position of the Group. which compares with global players that often have greater financial resources as well as greater diversification in terms of geography, makes particularly significant the exposure to risks typically associated with market competitiveness.
The Group mitigates the country risk by adopting a business diversification policy by product and geographic area, such as to allow risk balancing. The Group also constantly monitors the positioning of its competitors in order to intercept any impacts on its commercial offer. In order to reduce the risk of saturation of the segments / markets in which it operates, the Group is progressively expanding its product range, also paying attention to "price sensitive" segments.

International expansion
The Group adopts international expansion strategy, and this exposes it to a number of risks related to economic conditions and local policies of individual countries and by fluctuations in exchange rates. These risks may impact on consumption trends in the different markets and may be relevant in emerging economies, characterized by greater socio- political volatility and instability than mature economies.
Investments made in a number of countries, therefore, could be influenced by substantial changes in the local macro-economic context, which could generate changes in the economic conditions that were present at the time of making the investment. The Group’s performances are therefore more heavily influenced by this type of risk than in the past. The Group coordinates all the M&A activity profiles for the purpose of mitigating the risks. In addition, the management of the Group has set up constant monitoring in order be able to intercept possible socio-political or economic changes in such countries so as to minimize any consequent impact.

Weather conditions
Weather conditions may impact on the sales of certain product families. Generally, weather conditions characterized by drought can cause contractions in the sale of gardening products such as lawnmowers and garden tractors, while winters with mild climate adversely affect sales of chainsaws.
The Group is able to respond quickly to changes in demand by leveraging on flexible production.

Product innovation
The Group operates in an industry where product development in terms of quality and functionality is an important driver for the maintenance and growth of its market share.
The Group responds to this risk with continuous investment in research and development in order to continue to offer innovative and competitive products compared to those of its main competitors in terms of price, quality, and functionality.

Environment, Health and Safety
The Group is exposed to risks associated with health and safety at work and the environment, which could involve the occurrence work-related accidents and illness, environmental pollution phenomena or the failed compliance of specific legal regulations. The risks associated with such phenomena may lead to penal or administrative sanctions against the Group. The Group manages these types of risks through a system of procedures aimed the systematic control of risk factors as well as to their reduction within acceptable limits. All this is organized by implementing different management systems required by the standards of different countries and international standards of reference.

Customers
The Group’s results are influenced by the actions of a number of large customers, with which there are no agreements involving minimum purchase quantities. As a result, the demand of such customers for fixed volumes of products cannot be guaranteed and it is impossible to rule out that a loss of important customers or the reduction of orders made by them could have negative effects on the Group’s economic and financial results.
Over the last few years, the Group has increasingly implemented a policy of diversifying customers, including through acquisitions.

Raw material components
The Group's economic results are influenced by the trend in the price of raw materials and components. The main raw materials used are copper, steel, aluminum and plastic materials. Their prices can fluctuate significantly during the year since they are linked to official commodity prices on the reference markets.
The Group does not use raw material price hedging instruments but mitigates risk through supply contracts. The Group has also created a system for monitoring the economic-financial performance of suppliers in order to mitigate the risks inherent in possible supply disruptions and has set up a management relationship with suppliers that guarantees flexibility of supply and quality in line with the policies of the Group.

Liability to customers and third parties
The Group is exposed to potential liability risks towards customers or third parties in relation to product liability due to possible design and/or manufacturing defects in the Group's products, also attributable to third parties such as suppliers and assemblers. Moreover, in the event that products are defective or do not meet technical and legal specifications, the Group, also by order of control authorities, could be obliged to withdraw such products from the market. In order to manage and reduce these risks, the Group has entered into a master group insurance coverage that minimizes risks only to insurance deductibles.

Risks associated with the recoverability of intangible assets, in particular goodwill
As part of the development strategy, the Group has implemented acquisitions of companies that have enabled it to increase its presence on the market and seize growth opportunities. With reference to these investments, specified in the financial statements as goodwill, there is no guarantee that the Group will be able to reach the benefits initially expected from these operations. The Group continuously monitors the performance against the expected plans, putting in place the necessary corrective actions if there are unfavourable trends which, when assessing the congruity of the values recorded in the financial statements, lead to significant changes in the expected cash flows used for the impairment tests.

Risks associated with the application of import tariffs
In 2018 the United States government introduced a number of legislative measures to impose a series of customs tariffs on the importation of steel and aluminium originating from Europe and on a number of categories of "made in China" finished products.
An initial analysis (with the situation still evolving) has not revealed critical elements that could affect the Group's performance.

Financial risks
In the ordinary performance of its operating activities, the Emak Group is exposed to various risks of a financial nature. For detailed analysis, reference should be made to the appropriate section of the Notes to Annual Financial Statements in which the disclosures as per IFRS no. 7 are set out.

Risk management process
With the aim of reducing the financial impact of any harmful event, Emak has arranged to transfer residual risks to the insurance market, when insurable.
In this sense, Emak, as part of its risk management, has taken steps to customize insurance coverage in order to significantly reduce exposure, particularly with regard to possible damages arising from the manufacturing and marketing of products.
All companies of the Emak Group are today insured against major risks considered as strategic, such as: product liability and product recall, general civil liability and property all risks. Other insurance coverage has been taken out at the local level in order to respond to regulatory requirements or specific regulations.
The analysis and insurance transfer of the risks to which the Group is exposed is carried out in collaboration with an insurance broker who, through an international network, is also able to assess the adequacy of the management of the Group's insurance programs on a global scale.

1. Main economic and financial figures for the Group

Income statement (€/000)

	Y 2018	Y 2017
Revenues from sales	452,825	422,155
EBITDA before non ordinary expenses (*)	50,763	45,612
EBITDA (*)	49,449	43,932
EBIT	33,976	29,977
Net profit	25,647	16,435

Investment and free cash flow (€/000)

	Y 2018	Y 2017
Investment in property, plant and equipment	14,699	14,802
Investment in intangible assets	3,495	2,626
Free cash flow from operations (*)	41,120	30,390

Statement of financial position (€/000)

	31.12.2018	31.12.2017
Net capital employed (*)	323,247	312,799
Net debt	(117,427)	(125,294)
Total equity	205,820	187,505

Other statistics

	Y 2018	Y 2017
EBITDA / Net sales (%)	10.9%	10.4%
EBIT / Net sales (%)	7.5%	7.1%
Net profit / Net sales (%)	5.7%	3.9%
EBIT / Net capital employed (%)	10.5%	9.6%
Debt / Equity	0.57	0.67
Number of employees at period end	1,999	2,029

Share information and prices

	31.12.2018	31.12.2017
Earnings per share (€)	0.155	0.099
Equity per share (€) (*)	1.25	1.13
Official price (€)	1.25	1.44
Maximum share price in period (€)	1.64	2.08
Minimum share price in period (€)	1.16	0.90
Stockmarket capitalization (€ / million)	205	236
Average number of outstanding shares	163,537,602	163,537,602
Number of shares comprising share capital	163,934,835	163,934,835
Cash flow per share: net profit + amortization/depreciation (€) (*)	0.251	0.186
Dividend per share (€)	0.045	0.035

(*) See section "Definitions of alternative performance indicators"

2. Scope of consolidation

Compared to December 31, 2017, only the economic results of Raico S.r.l. for the first quarter have been consolidated, following its dismissal on March 30, 2018.
Starting from August 1, 2018, the Brasilian company Spraycom S.A. has entered into the scope of consolidation, as a consequence of the subscription of a 51% stake of the share capital by the subsidiary Tecomec S.r.l..
2017 annual report included only the last six month of the income statement of Lavorwash Group, acquired on July 3, 2017.
There are also changes in the percentage of shares held in Epicenter (from 61% to 100%) and Lavorwash S.p.A. (from 97.78% to 98.40% following the purchase of shares by minority shareholders).

3. Economic and financial resutls of Emak Group

Comments on economic figures

Revenues from sales

Emak Group achieved a consolidated turnover of € 452,825 thousand, compared to € 422,155 thousand of last year, an increase of 7.3%. This improvement is due to the contribution of the change in the scope of consolidation by 7.1%, to the negative effect of the exchange rate by 1.4% and to an organic growth of 1.6%.

The effect of the change in scope of consolidation is determined by the contribution of Lavorwash Group in the first half 2018 for € 39,252 thousand and the exit of Raico S.r.l. (dismissed on March 30, 2018) from the scope of consolidation, which in the period April – December 2017 had a turnover of € 9,450 thousand.

EBITDA

Ebitda for the period reached € 49,449 thousand (an incidence of 10.9% on sales) compared to € 43,932 thousand in 2017 (an incidence of 10.4% on sales), with an increase of 12.6%.

The increase in the result was positively influenced for € 7,425 thousand by the consolidation of the Lavorwash Group in the first half of 2018, while it has had a negative impact the deconsolidation of Raico S.r.l. which had contributed € 331 thousand in the period April-December 2017.

The result was affected by a general increase in the cost of raw materials.

Personnel costs increased due to the inclusion in the consolidation area for the entire year of the Lavorwash group. Overall, the Group employed on an average 2,154 resources (2,047 in 2017). The increase in other operating costs is mainly due to the expansion of the consolidation area.

During the year, non-ordinary revenues were recorded for 1,182 thousand euros (150 thousand euros in 2017) and non-ordinary expenses for 2,496 thousand euros (1,830 thousand euros in 2017) mainly related to personnel reorganization charges of Emak S.p.A. (for more details, see note 7 of these consolidated financial statements).

Adjusting the figure for both periods of non-ordinary values, Ebitda would amount to € 50,763 thousand, equal to 11.2% of revenues, compared to € 45,612 thousand in the previous year, with an incidence on revenues of the 10.8%.

Operating result

The operating result for 2018 amounted to € 33,976 thousand, with a margin on revenues of 7.5%, compared to € 29,977 thousand (7.1% of revenues) in 2017, up by 13.3%.

The figure “Amortization and depreciation” amount to € 15,473 thousand against € 13,955 thousand in the previous year.

The figure for the year 2018 includes the devaluation of the goodwill value of the company Geoline Electronic for a total of € 597 thousand (already subject to partial reduction of € 590 thousand in 2017).

The ratio of operating profit to net capital employed is 10.5% (10.9% excluding the above mentioned non ordinary charges) compared to 9.6% of 2017 (10.1% excluding the non-ordinary charges).

Net result

The net profit for the year is € 25,647 thousand against € 16,435 thousand for the previous financial year.

The item "Financial income" amounts to € 5,316 thousand, compared to € 1,807 thousand for the same period. The amount for the 2018 financial year benefited from the capital gain of € 2,472 thousand, realized for the sale of the subsidiary Raico Srl, and the income deriving from the recording of the adjustment of the estimate of the debt for the commitment to purchase the residual stake of Lemasa for a total of € 2,074 thousand (€ 281 thousand in 2017).

The item "Financial charges" amounts to € 4,784 thousand, in line with the 2017 figure of € 4,820 thousand.

The 2018 currency management is positive for 86 thousand of Euro against a negative value of 4,218 thousand of Euro of last year. The result is related to the trend of the currencies, mainly the US dollar, the Chinese Renmimbi and the Brazilian real, in which the relative flows are denominated.

The tax rate for the year is 26.4% compared to 29.0% in the previous year.
The tax effect is positively affected by the recognition of untaxed income deriving from the recognition of the capital gain from the deconsolidation of the company Raico S.r.l. and the adjustment of the estimate of commitments for the purchase of the remaining quota of Lemasa.
On the other hand, it was adversely affected by the failure by some Group companies to record deferred tax assets on tax losses for an amount of € 846 thousand.

Comment to consolidated statement of financial position

€/000	31.12.2018	31.12.2017
Net non-current assets (*)	154,926	150,962
Net working capital (*)	168,321	161,837
Total net capital employed (*)	**323,247**	**312,799**
Equity attributable to the Group	203,744	184,783
Equity attributable to non controlling interests	2,076	2,722
Net debt	(117,427)	(125,294)

(*) See section "Definitions of alternative performance indicators"

Net non-current assets

Net non-current assets at December 31, 2018 amount to € 154,926 thousand compared to € 150,962 thousand at December 31, 2017.

During 2018 Emak Group invested € 18,194 thousand in property, plant and equipment and intangible assets, as follows:

- € 5,789 thousand for product innovation and development;
- € 5,396 thousand for adjustment of production capacity and for process innovation;
- € 2,896 thousand for upgrading the computer network system and ongoing activities for implementation of the new ERP management system;
- € 1,884 thousand for ongoing works for the construction of the new parent company's R&D center and modernization of industrial buildings;
- € 2,229 thousand for other investments in operating activities.

Investments broken down by geographical area are as follows:
- € 11,922 thousand in Italy;
- € 993 thousand in Europe;
- € 2,617 thousand in the Americas;
- € 2,662 thousand in Asia, Africa and Oceania.

Net working capital

Net working capital moves from € 161,837 thousand at December 31, 2017 to € 168,321 thousand at December 31, 2018, an increase of € 6,484 thousand. The ratio of net working capital to turnover is 37.2% compared to 38.3% of last year.

The following table reports the change in net working capital in 2018 compared with the previous year:

€/000	Y 2018	Y 2017
Opening Net working capital	**161,837**	**145,623**
Increase/(decrease) in inventories	4,501	10,264
Increase/(decrease) in trade receivables	1,053	(6,323)
(Increase)/decrease in trade payables	6,412	(7,685)
Change in scope of consolidation (acquisition)	(4,016)	16,829
Other changes	(1,466)	3,129
Closing Net working capital	**168,321**	**161,837**

The increase in net working capital is linked to the decrease in trade payables following the lower purchases of raw materials and components made by the group in the last part of the year compared to the same period.

Net financial position

Net financial position is € 117,427 thousand at December 31, 2018 against € 125,294 thousand at December 31, 2017.

The following table shows the movements in the net financial position of 2018:

€/000	2018	2017
Opening NFP	**(125,294)**	**(80,083)**
Ebitda	49,449	43,932
Financial income and expenses	(1,940)	(3,013)
Income from/(expenses on) equity investment	266	389
Exchange gains and losses	86	(4,218)
Income taxes	(9,213)	(6,700)
Cash flow from operations, excluding changes in operating assets and liabilities	**38,648**	**30,390**
Changes in operating assets and liabilities	(12,728)	(4,348)
Cash flow from operations	**25,920**	**26,042**
Changes in tangible and intangible assets	**(18,058)**	**(16,308)**
Dividends cash out	**(5,942)**	**(5,815)**
Other equity changes	**(519)**	**(611)**
Changes from exchange rates and translation reserve	**608**	**3,301**
Change in scope of consolidation	**5,858**	**(51,820)**
Closing NFP	**(117,427)**	**(125,294)**

"Financial income and charges" do not include the capital gain realized on the sale of Raico S.r.l. which is included in the item "change in the scope of consolidation"
Operating cash flow, net of Raico capital gains, amounted to € 38,648 thousand compared to € 30,390 thousand in the previous year. Cash flow from operating activities, net of the change in the area, is in line with the result of the previous year, and was mainly influenced by the increase in net working capital.

Details of the net financial position is analyzed as follows:

	Thousand of Euro	31/12/2018	31/12/2017
A.	Cash	62,602	40,812
B.	Other cash at bank and on hand (held-to-maturity investments)	-	-
C.	Financial instruments held for trading	-	-
D.	**Liquidity funds (A+B+C)**	**62,602**	**40,812**
E.	**Current financial receivables**	**837**	**7,549**
F.	Current payables to banks	(18,086)	(36,570)
G.	Current portion of non current indebtedness	(46,152)	(31,956)
H.	Other current financial debts	(5,764)	(10,151)
I.	**Current financial indebtedness (F+G+H)**	**(70,002)**	**(78,677)**
J.	**Current financial indebtedness, net (I+E+D)**	**(6,563)**	**(30,316)**
K.	Non-current payables to banks	(99,817)	(80,084)
L.	Bonds issued	-	-
M.	Other non-current financial debts	(13,511)	(15,646)
N.	**Non-current financial indebtedness (K+L+M)**	**(113,328)**	**(95,730)**
O.	**Net indebtedness (ESMA) (J+N)**	**(119,891)**	**(126,046)**
P.	Non current financial receivables	2,464	752
Q.	**Net financial position (O+P)**	**(117,427)**	**(125,294)**

Short-term debt mainly includes:
- Bank overdrafts;
- Mortgage repayments due by December 31, 2019;
- Debts to other financial institutions due by December 31, 2019;
- Payables for acquisition of investments in the amount of € 4,448 thousand.

The other net non-current payables include, for an amount of € 12,808 thousand, payables for the purchase of the remaining minority shares.

Actualized financial liabilities (short term and medium-long term) for the purchase of the remaining minority shares and for the regulation of acquisition operations with deferred price subject to contractual constraints, in the amount of € 17,256 thousand related to the following companies:
- Lemasa for € 5,447 thousand;
- Lavorwash for € 10,301 thousand;
- Valley LLP for € 1,508 thousand;

Current and non-current financial receivables mainly include deposits guaranteeing potential liabilities, escrow accounts related to equity acquisition contracts and other forms of temporary liquidity investment.

Equity

Equity at December 31, 2018 is € 205.820 thousand against € 187,505 thousand at December 31, 2017.

Summary of annual consolidated figures broken down by operating segment

	OUTDOOR POWER EQUIPMENT		PUMPS AND HIGH PRESSURE WATER JETTING		COMPONENTS AND ACCESSORIES		Other not allocated / Netting		Consolidated	
€/000	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Sales to third parties	165,770	168,402	183,111	138,770	103,944	114,983			**452,825**	**422,155**
Intersegment sales	1,694	1,851	1,649	1,456	7,988	7,767	(11,331)	(11,074)		
Revenues from sales	167,464	170,253	184,760	140,226	111,932	122,750	(11,331)	(11,074)	**452,825**	**422,155**
Ebitda	11,859	9,400	25,356	19,546	13,550	17,372	(1,316)	(2,386)	**49,449**	**43,932**
Ebitda/Total Revenues %	*7.1%*	*5.5%*	*13.7%*	*13.9%*	*12.1%*	*14.2%*			***10.9%***	***10.4%***
Ebitda before non ordinary expenses	13,599	9,840	25,855	20,804	13,748	17,354	(2,439)	(2,386)	**50,763**	**45,612**
Ebitda before non ordinary expenses/Total Revenues %	*8.2%*	*5.8%*	*14.1%*	*15.0%*	*13.2%*	*15.1%*			***11.2%***	***10.8%***
Operating result	5,882	3,787	20,255	15,503	9,155	13,073	(1,316)	(2,386)	**33,976**	**29,977**
Operating result/Total Revenues %	*3.5%*	*2.2%*	*11.0%*	*11.1%*	*8.2%*	*10.7%*			***7.5%***	***7.1%***
Net financial expenses (1)									**884**	**(6,842)**
Profit befor taxes									**34,860**	**23,135**

(1) Net financial expenses includes the amount of Financial income and expenses, Exchange gains and losses and the amount of the Income from equity investment

Comment on results by operating segment

The table below shows the breakdown of “sales to third parties” in 2018 by business segment and geographic area, compared with the same period last year.

	OUTDOOR POWER EQUIPMENT			PUMPS AND HIGH PRESSURE WATER JETTING			COMPONENTS AND ACCESSORIES			CONSOLIDATED		
€/000	**Y 2018**	**Y 2017**	**Var. %**	**Y 2018**	**Y 2017**	**Var. %**	**Y 2018**	**Y 2017**	**Var. %**	**Y 2018**	**Y 2017**	**Var. %**
Europe	139,893	140,968	(0.8)	96,315	64,766	48.7	64,619	76,500	(15.5)	300,827	282,234	6.6
Americas	6,495	8,104	(19.9)	62,640	57,086	9.7	24,968	25,829	(3.3)	94,103	91,019	3.4
Asia, Africa and Oceania	19,382	19,330	0.3	24,156	16,918	42.8	14,357	12,654	13.5	57,895	48,902	18.4
Total	**165,770**	**168,402**	**(1.6)**	**183,111**	**138,770**	**32.0**	**103,944**	**114,983**	**(9.6)**	**452,825**	**422,155**	**7.3**

Outdoor Power Equipment

In 2018, sales of the *Outdoor Power Equipment* segment decreased by 1.6% compared to the previous year. The result on the European market was influenced by a negative season for gardening products due to unfavorable weather conditions. Sales in the Americas were affected by the decline recorded in some Latin American countries. Sales in the Asia, Africa and Oceania area were stable compared to last year, benefiting from the good results achieved in the Middle East markets in the first part of the year.

EBITDA of the segment benefited from a favorable product/market mix and the results obtained from the initiatives undertaken to reduce operating and personnel costs. During the period, non-ordinary costs were incurred for a total of € 1,740 thousand, of which € 1,299 thousand for reorganization costs.

Pumps and High Pressure Water Jetting

Segment sales increased both due to the contribution of € 39,252 thousand linked to the consolidation area and to the organic growth of 3.7%.
Sales on the European market grew both due to the contribution of Lavorwash and the positive trend on a like-for-like basis, especially in the Italian and Western European markets. Sales in the Americas saw slight organic growth in the main markets, especially in Latin America, to which is added the effect of the consolidation area. The substantial growth in sales in the Asia, Africa and Oceania area was determined by a good organic performance, mainly in the Far East and Oceania markets, and by the expansion of the consolidation perimeter.

EBITDA benefited from the expansion of the consolidation perimeter for a total of € 7,425 thousand, against a negative effect deriving from the lower sales recorded in the last quarter.
The figure for the period includes non-ordinary charges amounting to € 1,372 thousand and non-ordinary revenues for € 873 thousand.

Components and Accessories

Segment revenues reported an overall decline of 9.6%. Excluding the turnover of the April-December 2017 period of Raico S.r.l. (€ 9,450 thousand concentrated in Europe), the decrease would have been 1.5%. It should be noted that during the fourth quarter the turnover on an equal consolidation basis increased by 6.9%. The decline on the European market is mainly due to the lack of contribution of Raico starting from the second quarter. At organic level, sales growth was recorded in Italy and Eastern European countries and a slowdown in those of Western Europe, due to the negative season for gardening products. In the Americas there was a significant increase in turnover in Latin American markets, thanks to the growth of the Chilean branch and the contribution of Spraycom company starting in August. The decline in the North American market is attributable in part to lower sales of gardening products and partly to the revision of the logistics model for distribution to some customers. Sales growth in the Asia, Africa and Oceania area benefited from the aforementioned new distribution model and the positive results achieved on the Far East markets.

Segment EBITDA was negatively impacted by lower sales volumes, an unfavourable product mix and higher raw material costs. The exit from the scope of consolidation of Raico S.r.l. impacted € 331 thousand. During the period, non-ordinary revenues were recorded for € 309 thousand and non-ordinary costs for € 507 thousand.

4. Results of Group companies

4.1 Emak S.p.A. – Parent company

The Parent Company achieved net revenues of € 124,240 thousand against € 125,426 thousand in 2017, a decrease of 0.9%.
Sales were penalized mainly by lower sales in Central Europe and Latin America. The trend registered on the Italian and, overall, South European markets was positive.

Ebitda of the year amounts to € 5,787 thousand, compared to € 3,812 thousand of last year. The result benefited from the cost containment policy and the improvement in the contribution margin. The company incurred costs for a reorganization plan for € 1,134 thousand.

The operating result for the year is positive for € 629 thousand compared to a loss of €1,133 thousand in 2017. 2018 result includes the revaluation of the participation of the Ukrainian company Epicenter for a total of € 1,020 thousand and the allocation to the provision to cover future losses for the subsidiaries Emak do Brasil and Emak Deutschland for a total of € 1,620 thousand; 2017 figure included the impairment of the investment in the Brazilian company Emak do Brasil for € 780 thousand.

The company ended the year with a net profit of € 5,832 thousand compared to € 2,759 thousand in 2017. The result benefited from positive currency management for € 874 thousand, compared to a negative value of € 2,288 thousand in 2017.

The net negative financial position is in line with 31 December 2017, rising from € 18,689 thousand to € 18,967 thousand. The figure had a positive impact, in addition to the cash flow from operations, from the sale of the equity investment in the subsidiary Raico S.r.l. for € 5,500 thousand; negative impacts came from the change in tangible and intangible assets for € 7,259 thousand, the increase in net working capital (for € 3,330 thousand), the liquidation of employee reorganization plans for € 1,497 thousand.

4.2 Subsidiaries

At 31 December 2018 the Emak Group was organized in a structure with Emak S.p.A. at the top, possessing direct and indirect controlling interests in the equity of 36 companies.

The economic figures of the subsidiary companies, drawn up in compliance with IAS/IFRS international accounting standards, are shown below:

Company	Head office	31/12/2018 Net sales	Net profit	31/12/2017 Net sales	Net profit	
Parent company						
Emak S.p.A.	Bagnolo in Piano (Italy)	124,240	5,832	125,426	2,759	
Fully consolidated companies						
Emak France Sas	Rixheim (France)	25,363	108	27,712	55	
Jiangmen Emak Outdoor Power Equipment Co. Ltd	Jiangmen City (China)	23,439	881	24,532	549	
Victus Emak Sp. Z o.o.	Poznam (Poland)	13,561	381	14,248	388	
Emak Deutschland GmbH	Fellbach-Oeffingen (Germany)	9,108	(802)	10,340	(711)	
Emak Suministros Espana SA	Madrid (Spain)	8,947	636	8,532	558	
Emak U.K. LTD	Burntwood (UK)	3,624	(118)	3,828	4	
Tailong (Zhuhai) Machinery Equipment Ltd.	Zhuhai (China)	3,973	334	4,113	319	
Epicenter LLC	Kiev (Ukraine)	3,612	301	4,032	168	
Emak Do Brasil Industria LTDA	Curitiba (Brazil)	1,280	(1,115)	1,939	(539)	
Tecomec Srl	Reggio Emilia (Italy)	49,708	3,373	50,522	3,355	
Speed France Sas	Arnax (France)	16,998	1,560	20,833	2,557	
Speed North America Inc.	Wooster, Ohio (USA)	11,955	225	11,458	944	
Speed Line South Africa (Pty) Ltd.	Pietermaritzburg (South Africa)	1,421	148	1,481	233	
Ningbo Tecomec Manufacturing Co. Ltd.	Ningbo City (China)	10,838	113	11,628	434	
Geoline Electronic S.r.l.	Poggio Rusco, Mantova (Italy)	822	(219)	877	(225)	
Speed Industrie Sarl	Mohammedia (Marocco)	2,188	(9)	2,144	39	
Speed Line South America	Providencia (RCH)	2,224	(64)	1,506	(146)	
Comet Spa	Reggio Emilia (Italy)	63,010	6,871	60,220	2,709	
Comet France Sas	Wolfisheim (France)	6,206	307	5,723	229	
Comet USA	Burnsville, Minnesota (USA)	1,405	1,424	9,354	2,351	*
Valley Industries LLP	Paynesville, Minnesota (USA)	29,630	2,672	22,272	2,186	*
Ptc Waterblasting	Burnsville - Minnesota (USA)	612	(40)	53	(217)	
PTC Srl	Rubiera, Reggio Emilia (Italy)	10,669	337	10,660	408	
S.I. Agro Mexico	Guadalajara (Mexico)	5,481	34	5,230	453	
Comet do Brasil Investimentos LTDA	Indaiatuba (Brazil)	-	1,292		(1,531)	
Lemasa S.A.	Indaiatuba (Brazil)	12,237	1,561	12,645	2,246	
Sabart Srl	Reggio Emilia (Italy)	24,505	1,919	22,879	1,673	
Raico Srl	Reggio Emilia (Italy)	3,111	102	12,798	226	
Lavorwash S.p.a	Pegognaga, Mantova (Italy)	56,867	7,743	24,085	3,681	1
Lavorwash France S.a.r.l.	La Courneuve (France)	8,221	263	1,316	(140)	2
Lavorwash GB Ltd	St. Helens Merseyside (UK)	908	1	372	(0)	2
Lavorwash Iberica S.l.	Tarragona (Spain)	1,750	220	710	75	2
Lavorwash Polska SP ZOO	Bydgoszcz (Poland)	3,741	315	946	4	2
Lavorwash Brasil Ind. E Com. Ltda	Ribeirao Preto (Brazil)	1,861	(577)	702	(359)	2
Yong Kang Lavorwash Equipment Co. Ltd	Yongkang City (China)	21,595	2,476	7,351	832	2
Yongkang Lavor Trading Co. Ltd.	Yongkang City (China)	1,631	85	637	51	2
Spraycom S.A.	Catanduva, San Paolo (Brazil)	989	150			3

1 On March 30, 2018, the parent company Emak S.p.A. concluded the total sale of the company Raico S.r.l.

2 On July 3, 2017 the subsidiary Comet S.p.A. has completed the acquisition of the Lavorwash Group, consequently the income statement of the companies entered the scope of consolidation from that date and the results shown for these companies refer exclusively to the second half of 2017

3 On 20 July 2018 the subsidiary Tecomec S.r.l. has completed the acquisition of 51% of the Brazilian company Spraycom, consequently the income statement of the company has entered the area of consolidation starting from 1 August 2018.

** It should be noted that the net result of Comet Usa includes income tax calculated on the result of its subsidiary, Valley Industries LLP. The latter company is, in fact, subject to a tax regime that provides for taxation of profits to be directly imposed on the shareholders.*

It should also be noted that the net profit of the individual companies includes any dividends received during each year, as well as any write-downs of intercompany investments.

The following elements are disclosed with reference to some companies in the Group.

The company **Emak Deutschland** has achieved a decrease in turnover compared to the previous year, also determined by the ongoing operational logistics reorganization process, which will presumably begin to give the first results starting from the 2019 financial year.

The company **Emak do Brasil** closed the year 2017 with a loss. It should be noted that the transfer of the registered office, the change in management and the result of currency management had a negative impact on the performance of 2018.

The company **Emak UK** achieved sales below the levels of last year, also due to the slowdown in the reference market, resulting in a negative result.

The company **Geoline Electronic S.r.l.** recorded a turnover and a negative net result substantially in line with last year.

The company **Speed South America S.p.A.** has developed sales higher than the previous year, achieving a positive result up to EBIT, losses are solely caused by exchange rate differences from valuations.

Comet do Brasil was incorporated as a financial holding company for the acquisition of the Lemasa company. The profit for the year was positively influenced by the recognition of financial income of 2,074 thousand euros following the adjustment of the debt for the purchase of the remaining shares of the company Lemasa (for more information, see note 15 of the explanatory notes).

The negative result of **Ptc Waterblasting** is related to its start-up phase.

Lavorwash Brasil records an increase in turnover compared to the previous year, but not yet sufficient to generate margins able to cover fixed structural costs.

4.3 2018 consolidated income statement compared with pro-forma 2017 income statement

In order to make the 2018 financial year comparable with the same period, a pro-forma consolidated report was prepared for 2017 that included the first six months of the Lavorwash group and excluded the last 9 months of the company Raico S.r.l.
In any case, it should be pointed out that if the profit and loss account of the acquired companies had been included within the Emak Group, in these periods, they would not necessarily have had the same economic results shown below.

Thousand of Euro	**Year 2018**	**Year 2017**
Revenues from sales	452,825	452,314
Other operating incomes	5,465	3,950
Change in inventories	4,621	14,320
Raw materials, consumable and goods	(243,182)	(248,983)
Personnel expenses	(83,310)	(83,708)
Other operating costs	(86,970)	(87,822)
Ebitda (*)	**49,449**	**50,071**
Amortization, depreciation and impairment losses	(15,473)	(14,265)
Operating result	**33,976**	**35,806**
Financial income and expenses	532	(2,969)
Exchange gains and losses	86	(4,010)
Income from equity investments	266	389
Profit before taxes	**34,860**	**29,216**
Income taxes	(9,213)	(8,721)
Net Profit	**25,647**	**20,495**
Ebitda % (*)	**10.9%**	**11.1%**
EBITDA before non ordinary expenses (*)	**50,763**	**52,176**
EBITDA before non ordinary expenses % (*)	**11.2%**	**11.5%**

(*) For more details, please refer to the "definitions of alternative performance indicators" paragraph.

5. Research and development

Research and development is a fundamental activity underpinning the Group's strategy for continuous growth and success. The Group, in fact, considers that investing in research as a tool for obtaining a competitive advantage in national and international markets to be of strategic importance. Whenever possible, the Group covers its products with international patents.
The activity focuses on product innovation, understood as the development of new, more efficient technologies in terms of improved performance, lower energy consumption and environmental impact. In addition, the Group for some years has set up partnerships with the academic world with the objective of an exchange of know-how with a view to continuous improvement of its products and performances.
In 2018 the Group allocated a total of 18.5 million Euros to Research and Development, of which 11.2 million in investments in tangible and intangible fixed assets and 7.3 million for research costs.

The main activities carried out by the Group companies in 2018, broken down by business lines, are described below.

Outdoor Power Equipment

2018 saw consolidation of the sales of the products launched in the second half of 2017; these products include a new professional 35 cc top handle chainsaw (developed for the precise pruning of olive and fruit trees and characterised by an excellent weight/power ratio), new 21 cc brush-cutters with the best weight/power ratio on the market, a 40 cc brush-cutter for the professional sector, and another 40 cc brush-cutter for private use. Over the year there was also (i) the launch of 35, 40 and 44 cc chainsaws which, compared to the previous models, besides a number of new features, have an improved weight/power ratio; (ii) a new hedge-cutter for professional use and (iii) the complete renewal of the range of metal lawnmowers. Significant efforts were dedicated to the renewal of the design of the new machines, making a break with the past, developing, through an external partnership, completely new and distinctive lines compared to what was currently available on the market. Specifically regarding the new battery-powered range, while composed of very different products, a common "line" was developed for all the machines, allowing for the creation of a strong brand identity.

The development of important technologies for the future continued during the year, such as:

- **Motor technologies**
  RTS (*Rotary Transfer Scavenge*) is a new technology for two-stroke motors, for which the Group has filed a patent, aimed at reducing the polluting emissions of the motors through the introduction of fresh charge into the combustion chamber with suitably phased disc valves. This technology is currently in the experimental phase on a 45 cc motor in order to understand the level of emission reduction.
  EGR (*Exhaust Gas Recirculation*) which, through the recirculation of exhaust gases, permits reductions in consumption and emissions. This technology, for which the Group has filed a patent, was launched on the market on a new 44 cc chainsaw. A 50 cc chainsaw and a 50 cc brush-cutter for professional use will be launched on the market in 2019 and will have this new technical solution. The Group has received a double recognition for the development and application of this technology from EIMA, the most important trade fair for the sector in Italy, for technology innovation and as a solution for reducing environmental impact.
- **"Engine Management" electronic control system for motors**: self-adapting motors able to stabilise on optimal efficiency conditions, reducing energy consumption and, therefore, emissions. The reasons leading to the development of this technology are the following:
  - reduction of emissions (estimated reduction - 5%);
  - elimination of any manual correction of the carburation;
  - simplicity of use;
  - optimisation of performance in all conditions.
- **electric battery technology** for the reduction of emissions generated by combustion engines. In 2018 production started on the first three models and a further three machines fitted with this technology will be launched on the market in 2019. The Group has developed specific algorithms that allow for machine performance to always stay at maximum level also when the battery is low.
- **IoT:** development of IoT started in 2018 in order to be able to apply it to all the products in the OPE segment. The project will also allow for a retrofit of current machines. This technology will make it possible to offer advantages to the final user but also for the Group, opening up new possibilities for new business models. It will be possible, in fact, to monitor machines in the field, on the one hand providing useful information to the customer regarding maintenance of the equipment, and on the other hand, collecting

data useful to the Group for the improvement and further future development of the products. It's a multi-year project, for which the Group has also obtained funding from the MISE (Ministry for Economic Development) which will lead to the introduction of the first products on the market in three years' time.
- **methodological activity** (based on numerical simulations) with the aim of creating cutting-edge tools in research, design and product development. In 2018, a mono-dimensional code for the simulation of motors was carried together with the University of Bologna, and an optimisation methodology based on experimental calculations and measurements for reducing machine vibrations was implemented with the support of the University of Ferrara. This latter activity led to the development of an ant-vibration system for the new 25 cc blower and a new backpack for the 50 cc brush-cutter for professional use.

Pumps and High Pressure Water Jetting

With regards to the range of products for **agriculture**, different versions, connections and accessories of membrane pumps and centrifuges have been developed. These developments have offered the customer improvements in the machine which is, therefore, able to work better and in a more efficient way in the field. In addition, two high pressure command units have been launched on the market, improved in terms of duration, precision and ergonomics. Their regulation is therefore further enhanced, reducing, therefore, the dispersion of the product into the environment to a minimum.
With regards to **industrial products,** the process of continuous improvement and optimisation of the pumps in the range continued, using the latest structural and fluid-dynamics simulation software. Two new pump models, one axial and one triplex, intended for the United States washing market, were also developed with the same tools. Besides the high level of performance, they are characterized by high efficiency and compactness. These results have been achieved thanks to an innovative heads and valves system, which is protected by an international industrial patent. A new robotised system has also been developed for the cleaning of industrial plant, which offers the operator the possibility of working away from the water jet and the high pressure tubes. This robot focuses on safety and ergonomics for the operator.
With regards to **washing products**, two new cold-water high pressure water jet machines have been developed for amateur use fitted with the WPS (*washing program system*), an electronic system to regulate the speed of the motor which, through a 3-position rotating selector, makes it possible to select the washing programme and, in this way, limit energy consumption and water wastage. A high pressure cold water jet machine with an innovative patented digital control system (DIGIT), a technical evolution of the WPS system, for complete control of the machine, was also launched on the market: the user accesses the washing program selection and the control function menu using the digital control keyboard. The system integrates, moreover, a series of safety measures to protect the machine and the consumer. Three new high pressure cold water jet machines in the professional range have been launched on the market, characterised by new solutions that improve the efficiency of the machine while ensuring the same performance levels as the previous models. A new 15l-capacity professional washer/dryer, ideal for small/medium areas, developed with the aim of extending the product range, was also launched on the market in the year. The development of a new range of nebulizers continued, planned for launch in 2019, designed to clean mould and mildew from roofs and the coverings of commercial and residential buildings. A partnership with a chemical company was set up to supply equipment that can apply a chemical compound to be sprayed on foundation walls (and in many other applications) to stop water penetration.

Components and accessories

The development and implementation of cutting systems for brush-cutters, electric and battery trimmers continued during the year, in partnership with major world manufacturers. Efforts were mainly focused on the search for solutions for reducing energy consumption, noise and vibrations in the use of plastic wire-heads, blades and discs, as requested by new international standards. With regards to machines and accessories dedicated to the maintenance of chainsaws, the completion of new range of professional products renews and integrates the current offer for OEMs and distributors.

Research and development of the line of accessories intended for the agricultural sector was further directed towards projects to strengthen the offer of electronic control systems for spraying and weeding, besides the completion of the range of flowmeters and sensors. In addition, cooperation with specialised partners and universities for the development of IoT applications on cloud platforms continued. The range of the main plastic components (filters, covers and nozzle supports) was updated and revised.

With regards to the development of products for the industrial washing sector, further investments were made in research aimed at improving performances and at extending the range of pressure regulation valves. The activity was again this year carried out in cooperation with the University of Modena and Reggio Emilia, which advised and supported internal technical staff in the study and experimentation phases. A number of the technical solutions identified have been registered with industrial patents. Moreover, activities for the implementation of the professional range continued in 2018 with the introduction of a catalogue of new products for high pressure and high capacity industrial uses; specifically, the new line of heads and rotating nozzles, regulation valves and pistols.

6. Human resources

The breakdown of personnel by country as at 31 December 2018, compared with the previous year, is shown in the following table:

Employees at	31.12.2017	Ch. in scope of consolidation	Other movements	31.12.2018
Italy	1,046	(49)	(8)	989
France	143	-	(5)	138
UK	16	-	(3)	13
Spain	24	-	(1)	23
Germany	25	-	(6)	19
Poland	35	-	0	35
China	401	-	14	415
Usa	100	-	18	118
Ukraine	33	-	(3)	30
South Africa	10	-	0	10
Brasil	134	8	4	146
Mexico	14	-	3	17
Morocco	32	-	(1)	31
Chile	16	-	(1)	15
Total	**2,029**	**(41)**	**11**	**1,999**

Further information on staff management policies and training can be found in the appropriate sections of the "Consolidated Non-financial report" available on the website www.emakgroup.it, in the "Sustainability" section.

7. Dealings with related parties

Emak S.p.A. is controlled by Yama S.p.A., which holds 65.181% of its share capital and which, as a non-operating holding company, is at the head of a larger group of companies operating mainly in the production of machinery and equipment for agriculture and gardening and of components for motors, and in real estate. The Emak Group has limited supply and industrial service dealings with such companies, as well as dealings of a financial nature deriving from the equity investment of a number of Italian companies in the Emak Group, including Emak S.p.A., in the tax consolidation headed by Yama S.p.A..
Professional services of legal and fiscal nature, provided by entities subject to significant influence of certain directors, are another type of related party transactions.

All of the above dealings carried out in the period by the Emak Group with related parties are of a normal and recurring nature, falling within the ordinary exercise of industrial activity. The above transactions are all regulated under current market conditions, in compliance with framework resolutions approved periodically by the Board of Directors. Reference can be made to the notes to the accounts at paragraph 38.

During the year, no extraordinary operations with related parties have not been carried out. If transactions of this nature had taken place, enforcement procedures approved by the Board of Directors in implementation to art. 4, Reg. Consob. 17221/2010, published on the company website at https://www.emakgroup.it/it-it/investor-relations/corporate-governance/altre-informazioni/ would be applied.

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The determination of the remuneration of Directors and Auditors and Managers with strategic responsibility in the Parent company occurs as part of the governance framework illustrated to the Shareholders and to the public through the report as per art. 123-ter of Leg. Dec. 58/98, available on the site www.emak. The remuneration of Directors and Auditors and Managers with strategic responsibility in the subsidiary companies is also regulated by suitable protection procedures that provide for the Parent Company to perform control and harmonization activities.

8. Plan to purchase Emak S.p.A. shares

At December 31, 2018, the Company held 397,233 treasury shares in portfolio for an equivalent value of € 2,029 thousand.

On April 27, 2018, the Shareholders' Meeting renewed the authorization to purchase and dispose of treasury shares for the purposes laid down by it. During 2018 there were no purchases or sales of own shares, leaving the balances at beginning of year unchanged.
Even after the end of the period and until the date of approval by the Board of Directors of this report are no changes in the consistency of the portfolio of treasury shares.

9. Corporate governance and other information required by Issuers Regulations

Emak S.p.A. adopted the Code of Conduct, approved by the Committee established at the Italian Stock Exchange as reformulated in July 2018 and available on the website www.borsaitaliana.it. Details of Emak's compliance with the Code's provisions are set out in the "Report on corporate governance and ownership structures", provided for by arts. 123-bis of Legislative Decree 58/98, according to the "comply or explain" scheme.
As already mentioned, the "Remuneration Report" prepared pursuant to art. 123-ter of Legislative Decree 58/98, shows the remuneration policy adopted by the company to its directors and executives with strategic responsibilities. The document also describes in detail by type and quantified entities the fees paid to them, even by subsidiaries, as well as stocks and movements of Emak titles in their possession during the year.
Both reports are available to the public at the company's registered office and on the website: www.emakgroup.it, in the section "Investor Relations > Corporate Governance".

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D.Lgs 231/2001

It has to be underlined the adoption by the most important companies of the Group, of the Organization and Management Model, art. 6, Legislative Decree 231/01, calibrated on individual specific reality and periodically expanded in a modular form, in line with the extension of the liability of companies for ever new crimes.
The Model makes use, in the different companies of the Group, of Supervisory Committees, furnished with autonomous powers of action and control regarding its effective and efficient application.

* * * * * * *

Ethical Code

Emak Group has implemented and updated an Ethical Code, in which the company's chosen ethical principles are set out and which the Directors, Auditors, Employees, Consultants and Partners of the parent company, as well as of its subsidiary companies, are required to follow.
The model, as per art. 6, Leg. Dec. 231/01, and the Ethical Code are both available for consultation at the internet address web www.myemak.com, in the section Organization and certifications.

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Significant operations: derogation from disclosure obligations

The Company has resolved to make use, with effect from 31 January 2013, of the right to derogate from the obligation to publish the informative documents prescribed in the event of significant merger, demerger, share capital increase through the transfer of goods in kind, acquisition and disposal operations, pursuant to art. 70, paragraph 8, and art. 71, paragraph 1-bis of *Consob* Issuers Regulations, approved with resolution no. 11971 of 4/5/1999 and subsequent modifications and integrations

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Disclosure of consolidated non financial information

The consolidated non-financial declaration of Emak S.p.A. for 2018, prepared in accordance with Legislative Decree. 254/16, constitutes a separate report ("Sustainability Report") with respect to this management report, as provided for by Art. 5 paragraph 3, letter b) of Legislative Decree 254/16, and is available on the website www.emakgroup.it, in the "Sustainability" section.

10. Disputes

There were no disputes in progress that might lead to liabilities in the financial statements other than those already described in note 34 of the consolidated financial statements.

11. Other information

With regard to the requirements of article 36 of the Market Rules - Consob Resolution No. 16191 dated October 29, 2007, Emak reports to have currently the control of four large companies, incorporated and regulated under the law of a state outside the European Union:

- Jiangmen Emak Outdoor Power Equipment Co. Ltd. (Republic of China);
- Comet Usa Inc. (United States of America);
- Valley industries LLP (United States of America);
- Comet do Brasil Investimentos LTDA (Brazil).
- Yong Kang Lavor Wash Equipment (Republic of China).
- Speed North America Inc. (United States of America)

For all companies Emak S.p.A. has complied with current legislation, including the filing at the registered office, for the benefit of the public, of the financial statements of subsidiaries prepared for the purposes of preparing the consolidated financial statements.

12. Business outlook

For 2019 the Group's prospects remain cautiously optimistic despite an external scenario characterized by persistent macroeconomic uncertainty. The Group will continue its policy of investment in innovation and product development and rationalization of its internal processes with the aim of generating value for all its stakeholders.

13. Significant events occurring during the period and positions or transactions arising from atypical and unusual transactions, significant and non-recurring

The significant events that occurred during the period and positions or transactions arising from atypical and unusual transactions, significant and non recurring are set out in notes 7 and 8 of consolidated financial statements.

14. Subsequent events

Acquisition of 30% of Agres Sistemas Eletrônicos SA

On January 25, 2019 the subsidiary Tecomec S.r.l. has completed the purchase of 30% of the share capital of Agres Sistemas Eletrônicos S.A. ("Agres"), a Brazilian company based in Pinais (Paranà) active in the development and supply, mainly on the local market, of electronic systems (software, hardware and related services) for agricultural machines, in particular spraying and weeding machines and seeders.

The transaction is part of the Group's external growth strategy through the expansion and completion of its product range. With the entry into the capital of Agres the Emak Group will expand its offer of agricultural products, in particular electronic ones, in the Components and Accessories segment, where it already boasts an important position.

In 2017 the company achieved revenues of 26.6 million Reais (approximately € 6.2 million, converted at the average 2018 exchange rate) and an EBITDA of approximately 6.2 million Reais (equal to about € 1.4 million). The value of the transaction was 11.7 million Reais (approximately € 2.8 million). The agreements governing the transaction also provide for Put & Call Option on a further 55% stake to be exercised in 2023.

15. Reconciliation between shareholders' equity and net profit of the parent company Emak and consolidated equity and the results

In accordance with the CONSOB Communication dated July 28 2006, the following table provides a reconciliation between net income for 2018 and shareholders' equity at December 31, 2018 of the Group (Group share), with the corresponding values of the parent company Emak S.p.A.

€/000	Equity at 31.12.2018	Result for the year ending 31.12.2018	Equity at 31.12.2017	Result for the year ending 31.12.2017
Equity and result of Emak S.p.A.	**150,639**	**5,832**	**150,487**	**2,759**
Equity and result of consolidated subsidiaries	268,121	32,888	257,912	22,859
Effect of the elimination of the accounting value of shareholdings	(229,755)	(210)	(235,316)	1,282
Elimination of dividends	-	(17,516)	-	(10,600)
Elimination of other intergroup items and profits	16,015	4,387	13,888	(194)
Evaluation of equity investment in associated	800	266	534	329
Total consolidated amount	**205,820**	**25,647**	**187,505**	**16,435**
Non controlling interest	**(2,076)**	**(250)**	**(2,722)**	**(270)**
Equity and result attributable to the Group	**203,744**	**25,397**	**184,783**	**16,165**

16. <u>Proposal for the allocation of profit for the financial year and dividend</u>

Shareholders,
We submit for your approval the financial statements at December 31, 2018, which reports a profit of € 5,832,406.00. We also propose the distribution of a dividend of € 0.045 for each share outstanding.

We invite you to approve this resolution:

<< The Shareholders' Meeting of Emak S.p.A.

<u>with regard to point 1.1 to the agenda</u>

resolves

a) to approve the Directors' Report and the financial statements at December 31, 2018, showing a net profit of € 5,832,406.00;

<u>with regard to point 1.2 to the agenda</u>

resolves

a) to allocate the net profit of € 5,832,406.00, as follows:
- € 291,620.30 to the statutory reserve;
- to the Shareholders, in the form of dividends, the amount of € 0.030, gross of legal deductions, for each share outstanding, with the exclusion of treasury shares held by the company;
- the entire remaining amount to extraordinary reserve;

b) to allocate to the Shareholders, as dividend, the additional amount of € 2,453,064.03 by assigning € 0.015, gross of withholding taxes, for each outstanding share, with the exclusion of treasury shares held by the company, withdrawing it from the reserve "Retained earnings", which is therefore reduced from € 26,891,944.15 to € 24,438,880.12;
c) to authorize the Chairman, if the number of treasury shares changes before the coupon detachment date, to adjust the amount of the item "retained earnings" to take into account the treasury shares purchased or sold in the meantime;
d) to pay the total dividend of € 0.045 per share (coupon no. 22) on 5 June 2019, with ex-dividend date June 3, and the *record date* June 4.>>

Bagnolo in Piano (RE), 14 March 2019

On behalf of the Board of Directors
The Chairman
Fausto Bellamico

Definitions of alternative performance indicators

The chart below shows, in accordance with recommendation CESR/05-178b published on November 3, 2005, the criteria used for the construction of key performance indicators that management considers necessary to the monitoring the Group performance.

- EBITDA before non ordinary expanses: is obtained by deducting at EBITDA the impact of charges and income for litigation, expenses related to M&A transaction, and revenue for government grants and restructuring.
- EBITDA: calculated by adding the items "Operating result" plus "Amortization, depreciation and impairment losses".
- FREE CASH FLOW FROM OPERATIONS: calculated by adding the items "Net profit" plus "Amortization, depreciation and impairment losses".
- EQUITY PER SHARE: is obtained dividing the item "Group equity" by number of outstanding shares at period end.
- CASH FLOW PER SHARE: is obtained dividing the sum of the items "Group Net Profit" + "Amortization, depreciation and impairment losses" by the average number of outstanding shares in the period.
- NET WORKING CAPITAL: include items “Trade receivables”, “Inventories”, current non financial “other receivables” net of “Trade payables” and current non financial “other payables”.
- NET NON-CURRENT ASSETS: include non-financial “Non current assets” net of non-financial “Non-current liabilities”.
- NET CAPITAL EMPLOYED: is obtained by adding the "Net working capital" and "Net non-current assets".

Emak Group
Consolidated Financial Statements 2018

Consolidated financial statements

Consolidated Income Statement

Thousand of Euro

CONSOLIDATED INCOME STATEMENT	Notes	Year 2018	of which to related parties	Year 2017	of which to related parties
Revenues from sales	10	**452,825**	**778**	**422,155**	**1,308**
Other operating incomes	10	5,465		3,684	
Change in inventories		4,621		14,168	
Raw materials, consumable and goods	11	(243,182)	(4,545)	(234,565)	(6,640)
Personnel expenses	12	(83,310)		(80,055)	
Other operating costs and provisions	13	(86,970)	(2,361)	(81,455)	(2,531)
Amortization, depreciation and impairment losses	14	(15,473)		(13,955)	
Operating result		**33,976**		**29,977**	
Financial income	15	5,316	2	1,807	8
Financial expenses	15	(4,784)		(4,820)	
Exchange gains and losses	15	86		(4,218)	
Income from/(expenses on) equity investment	21	266		389	
Profit befor taxes		**34,860**		**23,135**	
Income taxes	16	(9,213)		(6,700)	
Net profit (A)		**25,647**		**16,435**	
(Profit)/loss attributable to non controlling interests		(250)		(270)	
Net profit attributable to the Group		**25,397**		**16,165**	
Basic earnings per share	17	**0.155**		**0.099**	
Diluted earnings per share	17	**0.155**		**0.099**	

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	Notes	Year 2018	Year 2017
Net profit (A)		**25,647**	**16,435**
Profits/(losses) deriving from the conversion of foreign company accounts		(1,041)	(5,330)
Actuarial profits/(losses) deriving from defined benefit plans (*)		45	(470)
Income taxes on OCI (*)		(13)	133
Total other components to be included in the comprehensive income statement (B)		**(1,009)**	**(5,667)**
Total comprehensive income for the perdiod (A)+(B)		**24,638**	**10,768**
Comprehensive net profit attributable to non controlling interests		(205)	(166)
Comprehensive net profit attributable to the Group		24,433	10,602

(*) Items will not be classified in the income statement

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of transactions with related parties on the consolidated income statement are shown in the scheme and are further described and discussed in note 38.

Statement of consolidated financial position

Thousand of Euro

ASSETS	Notes	31.12.2018	of which to related parties	31.12.2017	of which to related parties
Non-current assets					
Property, plant and equipment	18	75,446		73,275	
Intangible assets	19	20,195		20,327	
Goodwill	20	65,773	14,646	67,112	14,670
Equity investments in other companies	21	230		230	
Equity investments in associates	21	4,550		4,284	
Deferred tax assets	30	8,480		9,068	
Other financial assets	26	2,464	260	752	297
Other assets	23	65		65	
Total non-current assets		**177,203**	**14,906**	**175,113**	**14,967**
Current assets					
Inventories	24	156,678		155,727	
Trade and other receivables	23	108,328	935	109,394	1,227
Current tax receivables	30	6,043		5,428	
Other financial assets	26	554	37	7,348	449
Derivative financial instruments	22	283		201	
Cash and cash equivalents	25	62,602		40,812	
Total current assets		**334,488**	**972**	**318,910**	**1,676**
TOTAL ASSETS		**511,691**	**15,878**	**494,023**	**16,643**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2018	of which to related parties	31.12.2017	of which to related parties
Shareholders' Equity					
Shareholders' Equity of the Group	27	203,744		184,783	
Non-controlling interest		2,076		2,722	
Total Shareholders' Equity		**205,820**		**187,505**	
Non-current liabilities					
Loans and borrowings due to banks and other lenders	29	113,328		95,730	
Deferred tax liabilities	30	8,355		9,622	
Employee benefits	31	8,764		10,932	
Provisions for risks and charges	32	2,173		2,265	
Other non-current liabilities	33	520		579	
Total non-current liabilities		**133,140**		**119,128**	
Current liabilities					
Trade and other payables	28	95,938	3,623	101,515	3,444
Current tax liabilities	30	4,913		4,676	
Loans and borrowings due to banks and other lenders	29	69,359		78,469	
Derivative financial instruments	22	643		208	
Provisions for risks and charges	32	1,878		2,522	
Total current liabilities		**172,731**	**3,623**	**187,390**	**3,444**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**511,691**	**3,623**	**494,023**	**3,444**

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of related party transactions on the financial position are shown in the scheme and are further described and discussed in note 38 our power, your passion

Statement of changes in consolidated equity for the Emak Group at 31.12.2017 and at 31.12.2018

Thousand of Euro	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES					RETAINED EARNINGS		TOTAL GROUP	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	TOTAL
			Legal reserve	Revaluation reserve	Cumulative translation adjustment	Reserve IAS 19	Other reserves	Retained earnings	Net profit of the period			
Balance at 31.12.2016	**42,519**	**40,529**	**2,709**	**1,138**	**6,692**	**(968)**	**30,900**	**39,059**	**17,595**	**180,173**	**1,495**	**181,668**
Profit reclassification			350					11,521	(17,595)	**(5,724)**	(91)	**(5,815)**
Other changes								(268)		**(268)**	1,152	**884**
Net profit for the period					(5,226)	(337)			16,165	**10,602**	166	**10,768**
Balance at 31.12.2017	**42,519**	**40,529**	**3,059**	**1,138**	**1,466**	**(1,305)**	**30,900**	**50,312**	**16,165**	**184,783**	**2,722**	**187,505**
Profit reclassification			138				168	10,135	(16,165)	**(5,724)**	(218)	**(5,942)**
Other changes					(695)	176		771		**252**	(633)	**(381)**
Net profit for the period					(996)	32			25,397	**24,433**	205	**24,638**
Balance at 31.12.2018	**42,519**	**40,529**	**3,197**	**1,138**	**(225)**	**(1,097)**	**31,068**	**61,218**	**25,397**	**203,744**	**2,076**	**205,820**

The share capital is show n net of the nominal value of treasury shares in the portfolio amounted to € 104 thousand
The share premium reserve is stated net of the premium value of treasury shares amounting to € 1,925 thousand

Consolidated Cash Flow Statement

(€/000)	Notes	31.12.2018	31.12.2017
Cash flow from operations			
Net profit for the period		**25,647**	**16,435**
Amortization, depreciation and impairment losses	14	15,473	13,955
Financial expenses from discounting of debts	15	1,194	1,691
Income from equity investment	21	(266)	(389)
Capital (gains)/losses from change in scope of consolidation	15	(2,472)	-
Financial (income)/ Expenses from adjustment of estimated liabilities for outstanding commitment associates' shares	15	(2,074)	(281)
Capital (gains)/losses on disposal of property, plant and equipment		(140)	(184)
Decreases/(increases) in trade and other receivables		(2,411)	4,336
Decreases/(increases) in inventories		(5,411)	(13,713)
(Decreases)/increases in trade and other payables		(3,714)	5,269
Change in employee benefits		(905)	(44)
(Decreases)/increases in provisions for risks and charges		(628)	(12)
Change in derivative financial instruments		360	(297)
Cash flow from operations		**24,653**	**26,766**
Cash flow from investing activities			
Change in property, plant and equipment and intangible assets		(18,157)	(16,164)
(Increases) and decreases in financial assets		4,342	1,257
Proceeds from disposal of property, plant and equipment		140	184
Change in scope of consolidation		5,484	(40,905)
Cash flow from investing activities		**(8,191)**	**(55,628)**
Cash flow from financing activities			
Change in equity		(349)	(612)
Change in short and long-term loans and borrowings		18,018	35,201
Dividends paid		(5,942)	(5,815)
Cash flow from financing activities		**11,727**	**28,774**
Total cash flow from operations, investing and financing activities		**28,189**	**(88)**
Effect of changes from exchange rates and translation reserve		**149**	**836**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**28,338**	**748**
OPENING CASH AND CASH EQUIVALENTS		**27,768**	**27,020**
CLOSING CASH AND CASH EQUIVALENTS		**56,106**	**27,768**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

(€/000)		31.12.2018	31.12.2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Opening cash and cash equivalents, detailed as follows:	25	**27,768**	**27,020**
Cash and cash equivalents		40,812	32,545
Overdrafts		(13,044)	(5,525)
Closing cash and cash equivalents, detailed as follows:	25	**56,106**	**27,768**
Cash and cash equivalents		62,602	40,812
Overdrafts		(6,496)	(13,044)
Other information:			
Income taxes paid		(7,674)	(11,419)
Financial interest income		471	304
Financial expenses paid		(2,039)	(1,802)
Change in related party receivables and service transactions		292	454
Change in related party payables and service transactions		196	19
Change in trade and other receivables related to tax assets		(615)	(451)
Change in trade payables and other liabilities related to tax liabilities		407	(920)
Change in related party financial assets		449	37
Change in related party financial loans and borrowings		-	-

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of related party transactions on the financial statements are identified in the section Other information.

Explanatory notes to the consolidated financial statements of Emak Group

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40. Subsequent events

1. General Information

Emak S.p.A. (hereinafter "Emak" or the "Parent Company") is a public company, with registered offices in Via Fermi, 4 in Bagnolo in Piano (RE). It is listed on the Italian stock market (MTA) on the STAR segment.

Emak S.p.A. is controlled by Yama S.p.A., an industrial holding company, which holds the majority of its capital and appoints, in accordance with law and statute, the majority of the members of its governing bodies. Emak S.p.A., nonetheless, is not subject to management or coordination on the part of Yama, and its Board of Directors makes its own strategic and operating choices in complete autonomy.

Values shown in these notes are in thousands of Euros, unless otherwise stated.

The Board of Directors of Emak S.p.A. on March 14, 2019 approved the Financial Report to December 31, 2018, and ordered his immediate notification under Art. 154-ter, paragraph 1-ter TUF, to the Board of Auditors and to the Auditing firm in order for them to carry out their relative duties. In connection with this communication, the company has issued an appropriate press release with the key figures of the financial statements and the dividend proposal made to the General Meeting of Shareholders.

The financial statements and consolidated financial statements are subject to statutory audit by Deloitte & Touche S.p.A.

1.1 Newly applied standards

The Group applied two new accounting standards with effect from 1 January 2018:

- IFRS 15 “Revenue from Contracts with Customers”, replacing standards IAS 18 “Revenues” and IAS 11 “Construction contracts” and the relative interpretations;
- IFRS 9 “Financial Instruments”, replacing standard IAS 39 “Financial Instruments - Recognition and Measurement”.

The IFRS 15 standard “Revenue from Contracts with Customers” introduces a unique general model for establishing if, when and to what extent to recognise revenues. In general terms, according to IFRS 15, revenues are recognised when the customer obtains control of the goods or services, and the determination of when moment transfer of control occurs (at a particular time or over time) requires an evaluation on the part of the company management.
For full details of the treatment reference should be made to paragraph 2.21 and 2.27.

The Group has not detected any effect on its financial statements as a result of the application of the new accounting standard.

The IFRS 9 standard “Financial instruments” introduces new requirements for the recognition and measurement of financial assets and liabilities and new rules for hedge accounting.

To add to what has already been reported in paragraph 2.27, more information is provided here regarding the choices made in applying (i) the classification of financial assets, (ii) the new methodology for the impairment of financial assets, including receivables and (iii) the new rules for hedge accounting.

a. Classification of financial assets: financial assets that come under IFRS 9 application are recognised at amortised cost or at fair value on the basis of the business model of the enterprise for the management of financial assets and the characteristics of the contractual cash flows of the financial asset;

b. Expected credit losses model: the methodology is based on a predictive approach, based on the prediction of the default of the counterparty (so-called probability of default) and on the possibility of collection in the event that default occurs (so-called loss given default);

c. Hedge accounting: the new provisions introduce modifications to the rules for the management of hedge accounting compared to the previous IAS 39 standard, applied until 31 December 2017, shifting the bases of recognition towards those used by the Group in relation to Risk Management. The new standard, in fact, permits the application of hedge accounting, from 1 January 2018, also to groups of non-financial elements and single components of elements, provided that the element covered can be reliability measured.

The Group has not detected any effect on its financial statements as a result of the application of the new accounting standard.

With reference, instead, to standard IFRS 16 "Leasing", published in the Official Gazette of the European Community on 9 November 2017, which will be applied prospectively in transition form from 1 January 2019, an impact of a first application on financial liabilities of around 28 million Euros is preliminarily estimated as reported in paragraph 2.27. With the full implementation of the new standard in 2019, account will be taken of the interpretations that will be issued by the IFRS Interpretations Committee (IFRIC), as well as the accounting practices to be followed.

2. Summary of principal accounting policies

The main accounting policies used in the preparation of these consolidated financial statements are explained below and, unless otherwise indicated, have been uniformly adopted for all periods presented.

2.1 General methods of preparation

The consolidated financial statements of the Emak Group (hereinafter "the Group") have been prepared in accordance with the IFRS standards issued by the International Accounting Standards Board and adopted by the European Union at the date of preparing this report. The term IFRS also refers to all valid International Accounting Standards (IAS) still in force, as well as all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).

The consolidated financial statements have been prepared under the historical cost method, except for those financial assets and liabilities (including derivative instruments) measured at fair value.

On the basis of information available and of the current and foreseeable income and financial situation, the directors have drawn up the financial statements according to the going concern assumption.
On the basis of factors known to us, that is, the current situation and future forecasts of key economic, statement of financial position and financial figures for the Group, and of an analysis of the Group's risks, there are no significant uncertainties that may compromise the Group's status as a going concern.

In accordance with the provisions of IAS 1, the consolidated statement of financial position is constituted by the following reports and documents:

- Statement of financial position: based on the distinction between current and non-current assets and current and non-current liabilities;
- Income Statement and Comprehensive Income Statement: classification of items of income and expense according to their nature;
- Consolidated Cash flow Statement: based on a presentation of cash flows using the indirect method;
- Consolidated Statement of Changes in Equity;
- Notes to the consolidated financial statements.

The preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the consolidated financial statements are discussed in note 5.

With reference to Consob Resolution no. 15519 of 27 July 2006 regarding the presentation of financial statements, it should be noted that the income statement and the statement of financial position show dealings with related parties.

2.2 Methods of consolidation

Subsidiaries

The consolidated financial statements of the Emak Group include the financial statements of Emak S.p.A. and the Italian and foreign companies over which Emak exercises direct or indirect control by governing their financial and operating policies and receiving the related benefits, according to the criteria established by IFRS 10.

The acquisition of subsidiaries is accounted for using the purchase method ("Acquisition method"), except for those acquired in 2011 from Yama Group. The cost of acquisition initially corresponds to the fair value of the assets acquired, the financial instruments issued and the liabilities at the date of acquisition, ignoring any minority interests. The excess of the cost of acquisition over the group's share of the fair value of the net assets acquired is recognized as goodwill.

If the cost of acquisition is lower, the difference is directly expensed to income (note 2.6). The financial statements of subsidiaries are included in the consolidated accounts starting from the date of taking control to when such control ceases to exist. Minority interests and the amount of profit or loss for the period attributable to minorities are shown separately in the consolidated statement of financial position and income statement.

Subsidiaries are consolidated line-by-line from the date that the Group obtains control.

It is noted that:

- The subsidiary Valley LLP, owned by Comet Usa Inc with a share of 90%, is consolidated at 100% as a result of the "Put & Call Option Agreement" which regulates the acquisition of the remaining 10% held by a company linked to the current Managing Director of the subsidiary;
- The subsidiary Lemasa, owned by Comet do Brasil LTDA with a share of 70%, is consolidated at 100% as a result of the "Put & Call Option Agreement" which regulates the acquisition of the remaining 30%;
- The Lavorwash Group, headed by Lavorwash SpA, participated by Comet S.p.A. with a share of 83.73%, is consolidated at 98.40% on the basis of the "Put & Call Option Agreement" which regulates the purchase of the remaining 14.67%.

Compared to 31 December 2017, for the company Raico S.r.l. have been consolidated only the economic data of the first quarter, following its sold occurred on 30 March 2018.
Since 1st August 2018 the Brazilian company Spraycom S.A. is included in the scope of consolidation, following the subscription of 51% of the share capital by the subsidiary Tecomec S.r.l
It should be also noted the variation in the percentage of shareholding for Epicenter (from 61% to 100%) and Lavorwash S.p.A. (from 97.78% to 98.40% following the purchase of shares from minority).

The 2017 consolidated financial statements included only the second half of the Lavorwash Group's income statement, acquired on 3 July 2017.

Intercompany transactions
Transactions, balances and unrealized profits relating to operations between Group companies are eliminated. Unrealized losses are similarly eliminated, unless the operation involves a loss in value of the asset transferred. The financial statements of the enterprises included in the scope of consolidation have been suitably adjusted, where necessary, to align them with the accounting principles adopted by the Group.

Associated companies
Associated companies are companies in which the Group exercises significant influence, as defined by IAS 28 - *Investments in Associates and joint venture*, but not control over financial and operating policies. Investments in associated companies are accounted for with the equity method starting from the date the significant influence begins, up to when such influence ceases to exist.

Scope of consolidation

The scope of consolidation at December 31, 2018 following the acquisitions during the year include the following companies consolidated using the full consolidation method:

Name	Head office	Share capitale	Currency	% consolidated	Held by	% of equity investment
Parent Company						
Emak S.p.A.	Bagnolo in Piano - RE (I)	42,623,057	€			
Italy						
Comet S.p.A.	Reggio Emilia (I)	2,600,000	€	100.00	Emak S.p.A.	100.00
PTC S.r.l.	Rubiera - RE (I)	55,556	€	100.00	Comet S.p.A.	100.00
Sabart S.r.l.	Reggio Emilia (I)	1,900,000	€	100.00	Emak S.p.A.	100.00
Tecomec S.r.l.	Reggio Emilia (I)	1,580,000	€	100.00	Emak S.p.A.	100.00
Geoline Electronic S.r.l.	Poggio Rusco - MN (I)	100,000	€	51.00	Tecomec S.r.l.	51.00
Lavorwash S.p.A. (1)	Pegognaga - MN (I)	3,186,161	€	98.40	Comet S.p.A.	83.73
Europe						
Emak Suministros Espana SA	Getafe - Madrid (E)	270,459	€	90.00	Emak S.p.A.	90.00
Comet France SAS	Wolfisheim (F)	320,000	€	100.00	Comet S.p.A.	100.00
Emak Deutschland Gmbh	Fellbach - Oeffingen (D)	553,218	€	100.00	Emak S.p.A.	100.00
Emak France SAS	Rixheim (F)	2,000,000	€	100.00	Emak S.p.A.	100.00
Emak U.K. Ltd	Burntwood (UK)	342,090	GBP	100.00	Emak S.p.A.	100.00
Epicenter LLC	Kiev (UA)	19,026,200	UAH	100.00	Emak S.p.A.	100.00
Speed France SAS	Arnas (F)	300,000	€	100.00	Tecomec S.r.l.	100.00
Victus-Emak Sp. Z o.o.	Poznan (PL)	10,168,000	PLN	100.00	Emak S.p.A.	100.00
Lavorwash France S.A.R.L.	La Courneuve (F)	37,000	€	100.00	Lavorwash S.p.A.	100.00
Lavorwash GB Ltd	St. Helens Merseyside (UK)	900,000	GBP	100.00	Lavorwash S.p.A.	100.00
Lavorwash Polska SP.ZOO	Bydgoszcz (PL)	163,500	PLN	100.00	Lavorwash S.p.A.	100.00
Lavorwash Iberica S.L.	Tarragona (E)	80,000	€	99.00	Lavorwash S.p.A.	99.00
America						
Comet Usa Inc	Burnsville - Minnesota (USA)	231,090	USD	100.00	Comet S.p.A.	100.00
Comet do Brasil Investimentos LTDA	Indaiatuba (BR)	51,777,052	BRL	100.00	Comet S.p.A.	99.63
					PTC S.r.l.	0.37
Emak do Brasil Industria LTDA	Curitiba (BR)	8,518,200	BRL	100.00	Emak S.p.A.	99.98
					Comet do Brasil LTDA	0.02
Lemasa industria e comércio de equipamentos de alta pressao S.A. (2)	Indaiatuba (BR)	14,040,000	BRL	100.00	Comet do Brasil LTDA	70.00
PTC Waterblasting LLC	Burnsville - Minnesota (USA)	285,000	USD	100.00	Comet Usa Inc	100.00
S.I. Agro Mexico	Guadalajara (MEX)	1,000,000	MXM	85.00	Comet S.p.A.	85.00
Speed South America S.p.A.	Providencia - Santiago (RCH)	444,850,860	CLP	100.00	Speed France SAS	100.00
Valley Industries LLP (3)	Paynesville - Minnesota (USA)	-	USD	100.00	Comet Usa Inc	90.00
Speed North America Inc.	Wooster - Ohio (USA)	10	USD	100.00	Speed France SAS	100.00
Lavorwash Brasil Ind. Ltda	Ribeirao Preto (BR)	8,305,769	BRL	100.00	Lavorwash S.p.A.	99.99
					Comet do Brasil LTDA	0.01
Spraycom comercio de pecas para agricoltura S.A.	Catanduva (BR)	533,410	BRL	51.00	Tecomec S.r.l.	51.00
Rest of the Word						
Jiangmen Emak Outdoor Power Equipment Co.Ltd	Jiangmen (RPC)	25,532,493	RMB	100.00	Emak S.p.A.	100.00
Ningbo Tecomec Manufacturing Co. Ltd	Ningbo City (RPC)	8,029,494	RMB	100.00	Tecomec S.r.l.	100.00
Speed Industrie Sarl	Mohammedia (MA)	1,445,000	MAD	100.00	Speed France SAS	100.00
Tai Long (Zhuhai) Machinery Manufacturing Ltd	Zhuhai (RPC)	16,353,001	RMB	100.00	Emak S.p.A.	100.00
Speed Line South Africa Ltd	Pietermaritzburg (ZA)	100	ZAR	51.00	Speed France SAS	51.00
Yongkang Lavorwash Equipment Co. Ltd	Yongkang City (RPC)	63,016,019	RMB	100.00	Lavorwash S.p.A.	100.00
Yongkang Lavorwash Trading Co. Ltd	Yongkang City (RPC)	3,930,579	RMB	100.00	Lavorwash S.p.A.	100.00

(1) Lavorwash S.p.A. is consolidated at 98.40% as a result of the “Put & Call Option Agreement” which regulates the acquisition of the remaining 14.67%.
(2) Lemasa is consolidated at 100% as a result of the "Put & Call Option Agreement" which regulates the acquisition of the remaining 30%.
(3) Valley Industries LLP is consolidated at 100% as a result of the "Put & Call Option Agreement" which regulates the acquisition of the remaining 10%.

The **associated company** Cifarelli S.p.A., based in Voghera (Italy) with a share capital of € 374,400, is owned at 30% by Emak S.p.A. and consolidated since 1 October 2016 with the equity method. Despite the presence of a Put & Call agreement for the acquisition of the remaining 70%, the Group does not hold control pursuant to IFRS 10.

2.3 Translation differences

Functional currency and presentation currency
Transactions included in the financial statements of each group company are recorded using the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are presented in Euro, the functional and presentation currency of the Parent Company.

Transactions and balances
Transactions in foreign currencies are translated at the exchange rates at the dates of the transactions. Gains and losses arising from foreign exchange receipts and payments in foreign currency and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income. Gains and losses realized on cash flow hedges whose hedged items are still unrealized are posted to the comprehensive income statement.

Consolidation of foreign companies financial statements
The financial statements of all Group companies are prepared in accordance with IAS / IFRS in accordance with the accounting principles of Emak S.p.A.

The financial statements with functional currency different from the presentation currency of the consolidated financial statements are translated as follows:
(i) assets and liabilities are translated at the closing rate on the statement of financial position date;
(ii) income and expenses are translated at the average rate for the period;
(iii) all translation differences are recognized as a separate reserve under equity ("cumulative translation adjustment").

The main exchange rates used for the translation in Euro of the financial statements expressed in foreign currencies are the following:

Amount of foreign for 1 Euro	Average 2018	31.12.2018	Average 2017	31.12.2017
GB Pounds (UK)	0.88	0.89	0.88	0.89
Renminbi (China)	7.81	7.88	7.63	7.80
Dollar (Usa)	1.18	1.15	1.13	1.20
Zloty (Poland)	4.26	4.30	4.26	4.18
Zar (South Africa)	15.62	16.46	15.05	14.81
Uah (Ukraine)	32.11	31.74	30.02	33.73
Real (Brazil)	4.31	4.44	3.61	3.97
Dirham (Morocco)	11.08	10.94	10.95	11.24
Peso Mexican (Mexico)	22.71	22.49	21.33	23.66
Peso Chilean (Chile)	756.94	794.37	732.61	737.29

2.4 Property, plant and equipment

Land and buildings largely comprise production facilities, warehouses and offices; they are stated at historical cost, plus any legal revaluations carried out in years prior to the first-time adoption of IAS/IFRS, less the accumulated depreciation of the buildings. Other assets are recorded at historical cost, less accumulated depreciation and impairment. Historical cost includes all the directly attributable costs of purchasing the assets.

Subsequent expenditure is added to the carrying amount of the asset only when it is probable that this expenditure will generate future economic benefits and these costs can be measured reliably. Expenditure on other repairs and maintenance is expensed to income in the period incurred.

Land is not depreciated. Other assets are depreciated on a straight-line basis over their estimated useful lives generally as follows:

- buildings, 33 years;
- light construction, 10 years;
- plant and machinery, 6-10 years;
- molds for the production, 4-6 years;
- other, 4-8 years.

The residual value and useful life of assets is reviewed and amended, if necessary, at the end of each financial year.

If the carrying amount of any asset is higher than the estimated recoverable amount, it is immediately reduced to realizable value.

Assets held under finance leases, which substantially transferred to the Group all the risks and rewards of ownership, are recognized in the financial position as Group assets at their fair value determined according to the value of future payments to be made. The principal element of repayments to be made is recorded as financial liabilities. The interest element is charged to the income statement so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases for which the lessor retains a significant portion of the risks and rewards incident to ownership are classified as operating leases, whose payments are recognized as an expense in the income statement over the lease term on a straight-line basis.

Government grants obtained for investments in buildings and machinery are treated as deferred income, which is recognized in the income statement over the period required to match these grants with the related costs.

2.5 Intangible assets

(a) Development costs
These are intangible assets with a finite life. The development costs of new products are capitalized only if the following conditions are met:

- the costs can be measured reliably;
- the product's technical feasibility and expected price and market indicate that the costs incurred for development will generate future economic benefits.

An intangible asset, generated in the development phase of an internal project, is recorded as an asset if the Company is able to demonstrate:

- the technical possibility of completing the intangible asset, so that it becomes available for use or sale;
- the intention to complete the asset and its ability to use it or sell it;
- the means by which the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the availability of adequate technical, financial and other types of resources to complete the development and to use or sell the asset;
- the ability to reliably evaluate the cost attributable to the asset during its development;
- the ability to use the intangible asset generated.

The amortisation of development costs, classified under the “Development costs” heading, accrues from the end of the development phase and when the relevant asset begins to generate economic benefits.
In the period in which capitalisable internal development costs are incurred, they may be posted in the income statement as a reduction of the cost items affected and classified under intangible fixed assets.
Capitalised development costs are amortised on the basis of an estimate of the period in which it is expected that the assets in question will generate cash flows and, in any case, for periods of not more than 5 years starting from the start of production of the products pertaining to the development activities.
All other development costs which do not meet the requirements for being capitalised are recorded in the income statement when incurred.

(b) Concessions, licenses and trademarks

Trademarks and licenses are valued at historical cost. Trademarks and licenses have a finite useful life and are stated after deducting accumulated amortization. Amortization is calculated on a straight-line basis so as to spread the asset's cost over its estimated useful life and in any case for a period not exceeding 10 years.

(c) Other intangible assets
Other intangible assets are recorded as prescribed by IAS 38 – *Intangible assets*, when it is identifiable, it is probable that it will generate future economic benefits and its cost can be measured reliably.
Intangible assets are recognized at purchase cost and amortized on a systematic basis over their estimated useful lives, which cannot exceed 10 years, except for the fair value of the customer list arisen during the acquisition of Lavorwash S.p.A, which is amortized in 14 years.

2.6 Goodwill

The goodwill deriving from the purchase of subsidiaries, classified under non-current assets, is initially recorded at cost value the excess of the consideration paid and the amount recorded for minority interests, recognized as of the acquisition date, compared to the net assets identifiable acquired and liabilities assumed by the Group. If the consideration is less than the fair value of net assets of the subsidiary acquired, the difference is recognized in the income statement.
Goodwill is considered by the Emak Group an asset with an indefinite useful life. Consequently, this asset is not amortized but is subject to regular checks to detect any impairment.
Goodwill is allocated to the business units that generate separately identifiable cash flows and monitored in order to allow the verification of impairment.
Goodwill relating to associates is included in the value of the investment.

2.7 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are reviewed annually for any impairment. Assets subject to amortization or depreciation are reviewed for impairment every time that events or changes in circumstances indicate that their carrying value might not be recoverable. The impairment loss recognized is the amount by which the carrying amount of an asset exceeds its recoverable amount, corresponding to the higher of the asset's net selling price and its value in use. For the purposes of measuring impairment, assets are classified together into the smallest identifiable groups that generate cash inflows (cash-generating units) as required by IAS 36.
The aforementioned impairment test necessarily requires making subjective valuations based on information available within the Group, on reference market prospects and on historical trends. In addition, if there appears to be a potential reduction in value, the Group makes a calculation of the value using what it considers to be suitable valuation techniques.
The same value checks and the same valuation techniques are applied to intangible and property, plant and equipment with a defined useful life when there are indicators that predict difficulties in recovering the relative net book value through use.
The correct identification of indicators of the existence of a potential reduction in value, as well as estimates for establishing values, mainly depend on factors and conditions that may vary over time, also to a significant degree, thereby influencing the valuations and estimates made by the directors.

2.8 Investment property

Property held for long-term capital appreciation and buildings held to earn rentals are measured at cost, less depreciation and any impairment losses.

2.9 Financial assets

All recognised financial assets falling within the application of IFRS 9 are recognised at amortised cost or at fair value on the basis of the business model of the enterprise for the management of financial assets and the characteristics of the contractual cash flows of the financial asset.
Specifically, the Group has identified the following <u>financial assets:</u>

- financial assets held as part of a business model in which the objective is to collect contractual cash flows, represented uniquely by collections of principal and interest on the capital amount to be returned. Said assets are valued at amortised cost;
- financial assets held as part of a business model in which the objective is achieved both through the collection of contractual financial cash flows and through the sale of the asset: said assets are valued at fair value with variations recorded in profit (loss) (FVTPL);
- other financial assets are valued at fair value, with variations recorded in profit (loss) for the financial period (FVTPL);

With reference to financial assets valued at amortised cost, when the contractual cash flows of the financial asset are renegotiated or otherwise modified and the renegotiation or modification does not produce de-recognition, the gross accounting value of the financial asset is recalculated and the profit or loss deriving from the modification is recorded in the profit (loss) for the financial period.

Any cost or commission incurred adjust the accounting value of the modified financial asset and are amortised along the remaining term of the asset.

Financial assets are derecognised when the contractual rights on the cash flows expire or substantially all the risks and benefits connected with the holding of the asset are transferred (so-called *Derecognition*), or in the event that the item is considered as definitively unrecoverable after all the necessary recovery procedures have been completed.

Financial assets and liabilities are offset in the balance sheet when there is the legal right to offsetting in the period and when there is the intention to adjust the ratio on a net basis (or to realise the asset and simultaneously settle the liability).

Financial assets not carried at fair value through profit or loss for the period are initially valued at their fair value plus the operational costs directly attributable to the acquisition or issue of the asset.

With regards to the loss of value of financial assets, the Group applies a model based on expected losses on receivables at every balance sheet reference date in order to reflect the variations in credit risk occurring since the initial recognition of the financial asset.

2.10 Non-current assets and liabilities held for sale

In this items are to be classified as assets held for sale and disposal when:

a) the asset is available for immediate sale;
b) the sale is highly probable within one year;
c) management is committed to a plan to sell;
d) a reasonable sales price is available;
e) the plan for disposal is unlikely to change;
f) a buyer is being actively sought.

These assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets reclassified to this category cease to be amortized.

2.11 Shareholdings in associated companies

An associated company is a company over which the Group exercises significant influence. Significant influence is considered as the power to participate in the determination of the financial and operating policies of the associated company without having control or joint control.
Shareholdings of the Group in associated companies are valued with the equity method. With the equity method, the shareholding in an associated company is initially recognised at cost. The book value of the shareholding is increased or decreased to recognise the proportional share of the profits and losses of the associated company realised after the date of acquisition, taking into consideration any effect deriving from the elimination of non-realised intergroup margins.
The income statement reflects the share of the result for the financial period of the associated company pertaining to the Group.

The aggregate share of the result for the financial period of associated companies pertaining to the Group is recognised in the income statement and represents the result net of taxes and the share of results attributable to other shareholders of the associated company.
The financial statements of associated companies are drawn up at the same closing date as the financial statements of the Group. Where necessary, the financial statements are adjusted to be in line with the Group's accounting principles.

2.12 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw material costs, direct labor costs, general manufacturing costs and other direct and indirect costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined using prevailing selling prices less estimated costs of completion and sale.
Obsolete or slow-moving stocks are devalued on the basis of the presumed possibility of their use or of their future realizable value, by creating an appropriate provision that has the effect of reducing the inventories value.

2.13 Trade receivables

Financial instruments are definable. Initial recognition is at fair value; for trade receivables without a significant financial component the initial recognised value is the transaction price. The assessment of the collectability of receivables is made on the basis of the so-called Expected Credit Losses model provided for by IFRS 9; reference can be made to paragraphs 1.1 and 2.27.
Trade receivables are recognized initially at fair value and subsequently measured at depreciated cost, using the effective interest method. They are recorded net of a bad debt provision, deducted directly from accounts receivable to bring the evaluation at their estimated realizable value.
Expected losses on trade receivables are estimated using a provision matrix with aging bands of receivables, making reference to past experience regarding losses on credits, an analysis of debtors' financial positions, corrected to take account of specific factors regarding the debtor, and an assessment of the current and expected evolution of such factors at the balance sheet reference date.
A provision for the impairment of trade receivables is recognized when there is objective evidence that the Group will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.14 Trade payables

Trade and other payables, due under normal commercial terms, are not discounted but are recognized at cost (identified by their face value), representing the expenditure required for their settlement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term financial investment with original maturities of three months or less highly liquid, net of overdrafts. Bank overdrafts are classified in the statement of financial position under short-term loans and borrowings under current liabilities.

In the consolidated cash flow cash and cash equivalents have been shown net of bank overdrafts at the closing date.

2.16 Share capital

Ordinary shares are classified under equity.

If a company of the Group purchases shares in the Parent company, the consideration paid, including any attributable transaction costs less the related tax, is deducted as treasury shares from the total equity pertaining to the Group until such time as these shares are cancelled or sold. Any proceeds from their sale, less directly attributable transaction costs and the related tax, are recognized in equity pertaining to the Group.

In accordance with the requirements of International accounting standard IAS 32, costs sustained for the increase in share capital (that is, registration costs or other charges due to regulation authorities, amounts paid to legal advisors, auditors or other professionals, printing costs, registration costs and stamp duty), are accounted for as a reduction in equity, net of any connected tax benefit, to the extent to which they are marginal costs directly attributable to the share capital operation and would have been avoided otherwise.

2.17 Loans and borrowings

Loans and borrowings are recognized initially at fair value, less the related transaction costs. They are subsequently measured at amortized cost; the difference between the amount received, less transaction costs, and the amount repayable is recognized in the income statement over the term of the loan, using the effective interest method.

In the event of non-substantial modifications in the terms of a financial instrument, the difference between the current value of cash flows as modified (determined using the effective interest rate of the instrument in force at the modification date) and the book value of the instrument is recorded in the income statement.

Loans and borrowings are classified as current liabilities if the Group does not have an unconditional right to defer the extinguishment of the liability to at least 12 months after the statement of financial position date.

Financial liabilities are removed from the balance sheet when the specific contractual obligation is discharged. Modification of the existing contractual terms is also treated as a discharge in the event the new conditions significantly change the original terms.

2.18 Taxes

Current taxes are the taxes accrued in accordance with the rules in force at the date of the financial statement in the various countries in which the Group operates; also include adjustments to prior years' taxes.
Deferred tax assets and liabilities are recorded to reflect all temporary differences at the reporting date between the carrying amount of an asset / liabilities for tax purposes and allocated according to the accounting principles applied.
Deferred tax assets and liabilities are calculated using tax rates established by current regulations.
Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each statement of financial position date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of the deferred tax asset to be utilized. These assets are restored if the reasons for them no longer apply.
As a general rule, apart from specific exceptions, deferred tax liabilities must always be recognized.
Income taxes (current and deferred) relating to items recognized directly in Equity are also recognized directly in Equity.
Current tax assets and liabilities are offset only if the company has a legally enforceable right to set off the recognized amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may be offset only if the company is able to offset current tax assets against current tax liabilities and if the deferred taxes refer to income taxes levied by the same taxation authority.

2.19 Employee benefits

The employee termination indemnity comes within the sphere of defined benefit plans, subject to actuarial evaluations (deaths, the probability of terminations, etc.) and expresses the current value of the benefit, payable at the termination of employment, which employees have accrued up to the statement of financial position date.

The costs relating to the increase in the current value of the liability, arising as the time of payment approaches, are included among financial charges. All other costs included in the provision are posted to the income statement as a staff cost. Actuarial gains and losses are accounted for in the statement of changes in comprehensive income in the year in which they occur.

2.20 Provisions for risks and charges

Provisions for risks and charges are recognized when the Group has legal or constructive obligation arising from past events, is likely to be asked to pay the balance of the obligation and a reliable estimate can be made of the related amount.

2.21 Revenues

Revenues are recognized in the income statement on an accruals and temporal basis and are recognized to the extent that it is probable that the economic benefits associated with the sale of goods or the provision of services will flow to the Company and their amount can be reliably measured.
Revenues are accounted net of returns, discounts, rebates and taxes directly associated with the sale of goods or the provision of the service

Sales are recognized at the fair value of the consideration received for the sale of products and services, when there are the following conditions:

a) are substantially transferred the risks and rewards of ownership of the property;
b) the amount of revenue can be measured reliably;
c) it is probable that the economic benefits associated with the transaction will flow to the entity;
d) the costs incurred or to be incurred can be measured reliably and respect the principle of correlation with revenues.

Accounting for revenues involves following the passages provided for by IFRS 15:

- Identification of the contract with the customer;
- identification of the performance obligations provided for in the contract;
- determination of the price;
- allocation of the price to the performance obligations contained in the contract;
- recognition of the revenues when the enterprise satisfies each performance obligation.

Revenues are recognised upon the transfer of control of the goods to the customer, which coincides with the moment when the goods are delivered to the customer (at a point in time), in compliance with the specific contractual terms agreed with the customer.

The Group considers that the breakdown of revenues by operating segment is appropriate to meet required disclosure requirements since it is information regularly reviewed by management in order to assess the company’s financial performance.

2.22 Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grants will be received and all the conditions attaching to them have been satisfied.
Government grants related to costs (e.g. operating grants) are recognized as revenue on a systematic basis over a number of years so as to match the costs that the grant is intended to offset.
Government grants related to assets (e.g. facility grants) are recorded in non-current liabilities and gradually released to the income statement on a systematic basis over the useful life of the asset concerned.

2.23 Financial income and expenses

Financial income and expenses are recognized on an accrual basis using the effective interest rate and include exchange gains and losses and gains and losses on derivatives charged to the income statement.

2.24 Payment of dividends

Dividends on the Parent company's ordinary shares are reported as liabilities in the financial statements in the year in which the shareholders approve their distribution.

2.25 Earnings per share

Basic earnings per share are calculated by dividing the Group's net profit by the weighted average number of shares outstanding during the period, excluding treasury shares.
Emak S.p.A. does not have any potential ordinary shares.

2.26 Cash flow statement

The cash flow statement has been prepared using the indirect method.
Cash and cash equivalents included in the cash flow statement comprise the cash-related balances at the reporting date. Interest income and expense, dividends received and income taxes are included in cash flow generated by operations.

2.27 Changes in accounting standards and new accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE SINCE 1 JANUARY 2018
The following IFRS accounting standards, amendments and interpretations were first adopted by the Group starting January 1, 2018:

- **IFRS 15** – ***Revenue from Contracts with Customers*** (issued on 28 May 2014 and supplemented with additional clarifications on 12 April 2016) intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of application of other IFRSs, such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
  - identifying the agreement in place with the customer;
  - identifying the performance obligations under the agreement;
  - defining the transaction price;
  - price allocation to the performance obligations under the agreement;
  - revenue recognition criteria when the entity satisfies each performance obligation.

  IFRS 15 was applied from January 1st, 2018. The adoption had no impact on the consolidated financial statements of the Group.

- Final version of **IFRS 9 – Financial instruments** (issued on 24 July 2014). The standard includes the results of IASB project, which replaced IAS 39 with effects for the financial years starting on or after January 1, 2018 with early application permitted.
  The principle specifies how classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. The new standard contains substantial changes from the current financial instruments standard (IAS 39) concerning the classification, measurement, impairment and hedge accounting requirements.
  Under IFRS 9 new requirements are established for recognition and measurement, impairment de-recognition and general hedge accounting of a financial assets. That standard uses a new approach to determine the criteria for the valuation of financial assets which consider and assess principally two characteristics, the objective of the entity's business model (to hold assets only to collect cash flows, or to collect cash flows and to sell), and the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding.
  For financial liabilities the main change concerns the accounting treatment of financial liabilities designated as at FVTPL using the fair value option, IFRS 9 requires the amount of the change in the

liability's fair value attributable to changes in the credit risk to be recognized in OCI with the remaining amount of change in fair value recognized in profit or loss, unless this treatment of the credit risk component creates or enlarges a measurement mismatch.
According to the new standard, these changes must be shown in the "Other comprehensive income" statement and no longer in the income statement. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.
Furthermore, in case of renegotiation or modifications of financial liabilities defined as non-substantial it is no longer permitted to spread the economic effects of those results on the residual duration of the debt by modifying the effective interest rate to that date, but it will be necessary to record the related effect in the income statement.
Referring to the impairment, IFRS 9 introduces a new impairment model based on expected losses, (rather than incurred loss as per IAS 39) using supportable information, available without unreasonable charges or efforts that include historical, current and prospective data.
The standard states that this impairment model applies to all financial instruments, ie financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to receivables deriving from rental contracts and trade receivables. It also requires the same measurement basis for impairment for all items in the scope of the impairment requirements. This differs from IAS 39, under which impairment is calculated differently for amortised cost assets and available-for-sale assets. Further, IFRS 9 applies the same measurement approach to certain loan commitments and financial guarantee contracts where previously these were measured with reference to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
Finally, the standard introduces a new hedge accounting model in order to adapt the requirements set by the current IAS 39, which have been considered too stringent and not suitable for reflecting the risk management policies of the companies.
The main focus points concern:

- the application of the hedge accounting requirements if certain eligibility and qualification criteria are met
- Hedge accounting requirements, forward contracts are designated in a hedge in order to avoid rise to volatility in profit or loss
- changes to the hedge effectiveness criteria by replacing the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, an assessment of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility given by the new accounting rules is counterbalanced by additional requests for information on the risk management activities of the company.
IFRS 9 was applied from January 1st, 2018. The adoption had no impact on the consolidated financial statements of the Group.

- Amendments to **IFRS 2** "***Classification and measurement of share-based payment transactions***"(issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. IFRS 2 was applied from January 1st, 2018. The adoption had no impact on the consolidated financial statements of the Group.

- Document "**Annual Improvements to IFRSs: 2014-2016 Cycle"**, issued on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*) The amendment was applied starting January 1, 2018 and relates to the elimination of some short-term exemptions provided by paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of these exemptions is now considered out of date.
  IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice.* The amendment clarifies that the option for a venture capital organization or other entity as well qualified (such as a mutual fund or similar entity) measuring investments in associates and joint ventures at fair value through profit or loss (rather than through the application of the equity method) is exercised for each individual investment at the time of initial recognition. The amendment applied from 1 January 2018.
  IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard)* partially supplements existing standards. These standards were applied from January 1st, 2018. The adoption had no impact on the consolidated financial statements of the Group.

The amendment explain the scope of application of IFRS 12 specifying that the information required by the standard, with the exception for paragraphs B10-B16, applies to all the shares that are classified as held for sale, held for distribution to shareholders or discontinued operations in accordance with IFRS 5. This amendment applied from 1 January 2018.
The adoption of these amendments did not have any effects on the Group's consolidated financial statements.

- **Amendments to IAS 40 "Transfers of Investment Property"** (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity's management alone is not sufficient. IAS 40 was applied from January 1st, 2018. Adoption had no impact on the consolidated financial statements of the Group.

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 was applied from January 1st, 2018. Adoption had no impact on the consolidated financial statements of the Group.

ACCOUNTING STANDARD, AMENDMENTS AND IFRS/IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED FROM THE GROUP ON DECEMBER 31ST, 2018

- **IFRS 16 – Leases** (issued on 13 January 2016) intended to replace IAS 17 – Leases, as well as IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces a criteria based on the control (right of use) of an asset to differentiate between lease and service agreements identifying which distinctive: asset identification, right of replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.
  The standard introduces a single lessee accounting model for recognizing and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognized in the statement of financial position as assets and lease financial liability providing the possibility to not recognize as lease the agreements concerning "low-value assets" and agreements with a duration equal and/or less 12 months. To the opposite, no significant changes are introduced by the Standard for lessor accounting.
  The standard applies from January 1st, 2019, though early adoption is allowed.

  The Group has completed the preliminary assessment project of the impacts arising from the application of the new standard on the transition date (January 1st, 2019). This process has been declined in different phases, including the complete mapping and analysis of the contracts potentially suitable to contain a relevant lease for IFRS 16.
  During the first application of the standard, the group will adopt the "modified retrospective (alternative 1)" approach, accounting the cumulative effect in equity at January 1st, 2019, in accordance with IFRS 16. In particular, the Group will account, concerning the leases previously classified as operating:

  a) a financial liability, equal to the present value of future payments on transition data, discounted for each contract the incremental interest rate applied at the transition date;

  b) a right of use equal to the net book value that is due to the initial data of the lease contract applying a discount rate defined at the transaction date.

  The amount of the right of use was estimated at € 27,755 thousand against a financial liability of € 27,959 thousand.

  The following table shows the estimated impacts by the adoption of IFRS 16 on the transition date:

Thousand of Euro

	Impacts on the transition date 01.01.2019
ASSETS	
Non-current assets	
Right of use Buildings	*27,057*
Right of use Other assets	*698*
Deferred tax assets	*112*
Current assets	
Other current receivables	*(244)*
Total	***27,623***
SHAREHOLDERS' EQUITY AND LIABILITIES	
Non-current liabilities	
Financial loans and borrowings for Non-current lease	*23,192*
Deferred tax liabilities	*(6)*
Current liabilities	
Financial loans and borrowings for current lease	*4,767*
Other current liabilities	*(9)*
Total	***27,944***
Shareholders' Equity	*(321)*
Retained earnings	*(321)*

With reference to the application, the Group intends to use the exemption granted by IFRS paragraph 16: 5 (a) in relation to short-term leases for the following asset classes: Buildings and Other assets. Likewise, the Group intends to use the exemption granted to IFRS 16 with regard to lease contracts for which the underlying asset is configured as a low-value asset. The contracts for which the exemption has been applied fall mainly in the following categories:
• Computers, phones and tablets;
• Printers;
• Other electronic devices.

For these contracts, the introduction of IFRS 16 will not involve the recognition of the financial liability of the lease and the related right of use, but the lease installments will be recorded in the income statement on a linear basis for the duration of the respective contracts.

The Group intends to use the following practical expedients required by IFRS 16:

• Classification of contracts that expire within 12 months from the transition date as a short term lease. For these contracts the lease installments will be recorded in the income statement on a linear basis;

• Use of information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension options and early closure.

- Amendments to **IFRS 9 "Prepayment Features with Negative Compensation**" (issues on 12 October 2017). This document specifies the instruments that provide for early repayment may comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. These amendments apply as from 1 January 2019, though early adoption is allowed. Directors do not expect a significant effect on consolidated financial statements by adopting of these changes.

- **IFRIC 23 "*Uncertainty over Income Tax Treatments"*** (issued on 7 June 2017). This interpretation provides guidelines how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires that the uncertainly on the determination of liabilities or asset for income taxes should be recognized in the financial statements when it is probable that entity will pay or receive the amount in question. Therefore, the interpretation does not provide any new mandatory disclosure; however, the entity should assess whether is necessary to provide disclosures on the management consideration done in relation to the uncertainty inherent to the recognition of the income taxes, in accordance with IAS 1. This interpretation apply as from 1 January

2019, though early adoption is allowed. Directors do not expect a significant effect on consolidated financial statements by adopting of these interpretation.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of this Financial Report, the competent bodies of European Union had not yet completed the approval process necessary for the adoption of amendments and the principles described below.

- On May 18th, 2017 IASB issued the new principle **IFRS 17 – Insurance Contracts** that will replace IFRS 4 – *Insurance Contracts*. The objective of the Standard is to ensure that an entity provides relevant information that faithfully represents rights and obligations from insurance contracts it issues. The IASB developed the Standard to eliminate inconsistencies and weaknesses in existing accounting practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The Standard is applicable for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- Amendments to **IAS 28 "*Long-term Interests in Associates and Joint Ventures*"** (issued on 12 october 2017). The document clarify the need to apply IFRS 9, including the requirement related to impairment, to the other long-term interest in associates and joint ventures not evaluate with equity method. These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- Document "***Annual Improvements to IFRSs 2015-2017 Cycle***" issued on 12 December 2017 (including IFRS 3 Business Combinations e IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation). The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity. The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
  IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalization), that implements the changes on some standards as part of the annual improvement process. These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- Amendments to **IAS 19** "***Plant Amendment, Curtailment or Settlement"*** (issued on February 7th, 2018). The amendments specify how determined an expenses when changes occur to a defined benefit plan. The change requires to update its assumptions and re-measure the liability or net asset arising from the plan. The amendments clarify that after the occurrence of this event, an entity uses updated hypotheses to measure the *current service cost* and the interests for the entire period following that event.These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- On October 22nd, 2018, the IASB issued amendments to **IFRS 3 "*Business Combinations"*** which aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.change the definition of a business to enable entities to determine whether an acquisition is a business combination or an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier adoption permitted.
  The IASB issued narrow-scope amendments to IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not.

The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant’s ability to replace missing elements, and narrow the definition of outputs, replacing the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.
The amendments introduce an optional *concentration test* to permit a simplified assessment of qualified business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiableassets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3. As such, the concentration test never determines that a transaction is a business combination. The Board provided a series of illustrative examples to help constituents to apply the guidance in IFRS 3 on the definition of a business.
Furthermore, any effects will be accounted in the consolidated financial statements for the year of the first time adoption.

- On October 31st, 2018, the IASB issued amendments to its **D*efinition of Material*** in **IAS 1**, *Presentation of Financial Statements* and **IAS 8**, *Accounting Policies, Changes in Accounting Estimates* clarifying the definition of materiality to aid in application. The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier adoption permitted. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- Amendments to **IFRS 10 and IAS 28 - *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. According to the provisions of IAS 28, the profit or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share limited to the share held in the joint venture or associate by other investors unrelated to the transaction. On the contrary, IFRS 10 provides for the recognition of the entire profit or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling share therein, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments clarify that in a disposal of an asset or a subsidiary to a joint venture or associate, determining a profit or loss to be recognized in the financial statements of the transferor depends on whether the assets or subsidiary companies sold / contributed constitute or not a business, according to the IFRS 3 requirements. In the event that the assets or the subsidiary company transferred / conferred represent a business, the entity must recognize the profit or loss on the entire quota previously held; while, otherwise, the share of profit or loss relating to the share still held by the entity must be eliminated.The IASB has suspended the application of these amendments for the time being. The Directors are evaluating the effects on the Group's consolidated financial statements from the adoption of these amendments.

- **IFRS 14– *Regulatory Deferral Accounts*** (issued on January 30, 2014): the Standard is available only for the first-time adopters of IFRSs who recognized regulatory deferral balances under their previous GAAP. IFRS 14 permits eligible fisrt-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies. As the Group is not a first-time adopter, this Standard is not applicable.

3. Capital management

The Group's objectives for managing capital are:

a) to safeguard the ability to continue operating as a going concern;
b) to provide an adequate return for shareholders.

The Group manages capital structure in proportion to the risk. In order to maintain or adjust its capital structure, the group may vary the amount of dividends paid to shareholders and the return on capital to shareholders, and it may issue new shares, or sell assets to reduce the level of debt.
During recent years the group's dividend policy has been to “pay out” around 40% of net profit attributable to the Group reported in the consolidated financial statements.

The Group monitors its capital on the basis of the ratio between net financial position and equity, and between net financial position and Ebitda.
The Group's strategy is to maintain the relationship Net financial position (NFP) / Equity ratio to a value not greater than 1 and a value in the long term, not exceeding 3 for the ratio Net financial position (NFP) / EBITDA, in order to ensure access to finance at a limited cost while maintaining a high credit rating. This debt target could be revised in case of changes in the macroeconomic situation or breached for a short period in case of "Mergers & Acquisitions" operations. Considering the seasonality of the business, this ratio is subject to change during the year.

The NFP / Equity and NFP / EBITDA before non ordinary expanses ratios at 31 December 2018 and 31 December 2017 are as follows:

€/000	31 December 2018	31 December 2017
Net financial position (Nfp) (note 9)	117,427	125,294
Total Equity	205,820	187,505
Ebitda before non ordinary expanses (1)	50,763	45,612
Nfp/Equity	**0.57**	**0.67**
Nfp/Ebitda before non ordinary expanses	**2.31**	**2.75**

(1) For more details please see the section "definitions of alternative performance indicators" in the Annual Report.

4. Financial risk management

4.1 Financial risk factors

The Group is exposed to a variety of financial risks associated with its business activities:

- market risks, with particular reference to exchange and interest rates and market price, since the Group operates at an international level in different currencies and uses financial instruments that generate interest;
- credit risk, regarding both normal commercial relations and to financing activities;
- liquidity risk, with particular reference to the availability of financial resources and to access to the credit market.

The Group's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the consolidated results. The Group uses derivative financial instruments to hedge certain risks.
Hedging of the Group's financial risks is managed by a head office function working in close collaboration with the individual operating units.
Qualitative and quantitative information is given below regarding the nature of such risks for the Emak Group.
The quantitative figures shown below have no value for forecasting purposes, specifically, the sensitivity analysis on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesized.

(a) Market risk

(i) Interest rate risk
The Group's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the Group to the cash flow risk associated with interest rates. Fixed rate loans expose the Group to the fair value risk associated with interest rates.
The Group's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money.

At December 31 2018, financings with banking institutions and financial leasing companies are at variable rates and, consequently, the Group has set up hedging operations aimed at limiting the effects of interest rate fluctuations
Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

Sensitivity analysis
The possible effects of variations in interest rates are analyzed for their potential impact in terms of cash flows, since almost all the Group's financial assets and liabilities accrue variable interest.

A hypothetical, instantaneous and unfavorable negative variation of 50 base points in annual interest rates in force at December 31 2018 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around € 309 thousand (€ 506 thousand at December 31 2017). The above calculation takes into consideration the total amounts of financial liabilities net of the total amount of IRS operations carried out for hedging purposes and liabilities for the purchase of minority shares of equity investments and of fixed rate financing.

(ii) Foreign exchange risk
The Group is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.
The net balances at December 31 2018 for which the Group is exposed to exchange rate risk as a result of the use of a currency different from Group companies' local reporting currency are as follows:

Credit position in US Dollars	14,519 thousand
Credit position in GB Pound	664 thousand
Debt position in Renminbi	63,818 thousand
Debt position in Euro	17,505 thousand
Debt position in Yen	12,306 thousand
Debt position in Swiss Francs	142 thousand
Debt position in Brazilian Reais	3 thousand
Debt position in Taiwanese Dollars	543 thousand

Specifically:

- in cases in which the companies in the Group incur costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result of such companies.
  In the 2018 financial period, the overall amount of revenues directly exposed to exchange risk represented around 10.1% of the Group's aggregate turnover (9.4% in the 2017 financial period), while the amount of costs exposed to exchange risk is equal to 19.1% of aggregate Group turnover (20.2% in the 2017 financial period).

  The main currency exchanges to which the Group is exposed are the following:
  - EUR/USD, relating to sales in dollars made in the North American market and in other markets in which the Dollar is the reference currency for commercial exchanges, and to production/purchases in the Euro zone;
  - EUR/GBP, essentially in relation to sales in the UK market;
  - EUR/RMB and USD/RMB, in relation to Chinese production activities and to relative import/export flows;
  - EUR/YEN, relating to purchases in the Japanese market;
  - EUR/PLN, relating to sales in the Polish market;
  - EUR/UAH and USD/UAH, in respect of sales on the Ukrainian market;
  - USD/REAIS and EUR/REAIS, in respect of sales on the Brazilian market;
  - EUR/ZAR, relating to purchases in the South African market;
  - EUR/MXR, relating of sales in the Mexican market;
  - EUR/MAD, relating to purchases in the Moroccan market.

  There are no significant commercial flows with regards to other currencies.

  The Group's policy is to cover, partially, net currency flows, typically through the use of forward contracts, evaluating the amounts and expiry dates according to market conditions and net future exposure, with the objective of minimizing the impact of possible variations in future exchange rates.

- With regards to commercial activities, the companies in the Group are able to hold commercial credits and debits expressed in currencies which are different from the currency in which they keep their accounts and the variation in exchange rates may result in the realization or ascertainment of exchange risks.

- A number of subsidiary companies in the Group are located in countries which are not members of the European Monetary Union, in particular, the United States, the United Kingdom, Poland, China, Ukraine, South Africa, Morocco, Mexico, Brazil and Chile. Since the reference currency for the Group is the Euro, the income statements for these companies are converted into Euro at the average exchange rate for the period and variations in exchange rates may affect the equivalent value of revenues, costs and results in Euro.

- Assets and liabilities of subsidiary companies in the Group, whose accounting currency is different from the Euro, may have different equivalent values in Euro depending on the trend in exchange rates. As provided for by the accounting principles adopted, the effects of such variations are recorded in the comprehensive income statement and directly in equity, under the heading “reserve for conversion differences” (see Note 27).
  At the statement of financial position date there was no hedging in force with regards to these exposures for conversion exchange risk.

Sensitivity analysis
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Group at December 31 2018, as a result of a hypothetical unfavorable and immediate variation of 10% in all relevant single exchange rates of functional currencies with foreign ones, would amount to around € 2,258 thousand (€ 2,752 thousand at December 31 2017).

Other risks on derivative financial instruments
As described in Note 22, the Group holds a number of derivative financial instruments whose value is linked to the trend in exchange rates (forward currency purchase and sales operations) and the trend in interest rates.

Although these operations have been entered into for hedging purposes, accounting principles do not permit their treatment using hedge accounting. As a result, changes in underlying values may affect the economic results of the Group.

Sensitivity analysis
The potential loss of fair value of derivative financial instruments held by the Group at December 31 2018 as a result of a hypothetical unfavorable and immediate variation of 10% in underlying values would amount to around € 1,685 thousand (€ 70 thousand at December 31 2017).

(iii) Price risk
The group is exposed to fluctuations in the price of raw materials. This exposure is mostly towards suppliers of parts since their price is generally tied by contract to the trend in market prices for raw materials. The raw materials of greatest use refer to aluminum, steel, brass, metal alloys, plastic and copper.

(b) Credit risk
The Group has adopted policies to ensure that products are sold to customers of proven creditworthiness and that certain types of receivable are are subject to risk hedging through leading insurance companies.
The maximum theoretical exposure to credit risk for the Group at 31 December 2018 is the accounting value of financial assets shown in the financial statements.

The credit granted to clients involves specific assessments of solvency and generally the Group obtains guarantees, both financial and otherwise, against credits granted for the supply of products addressed to some countries.

Credit positions are subject to constant analysis and possible individual devaluation in the case of singularly significant positions that are in a condition of partial or total insolvency.

The total devaluation is estimated on the basis of recoverable flows, from relative collection data, from the costs and expenses of future recovery, as well as possible guarantees in force. For those credits that are not subject to individual devaluation, bad debt provisions are allocated on an overall basis, taking account of historical experience and statistical data.

At December 31 2018 Trade receivables, equal to € 108,953 thousand (€ 109,577 thousand at 31 December 2017), include € 13,626 thousand (€ 12,418 thousand at 31 December 2017) outstanding by more than 3 months. This value has been rescheduled according to repayment plans agreed with the clients.

The value of amounts receivable covered by insurance or by other guarantees at December 31 2018 is € 24,158 thousand (€ 23,854 thousand at December 31 2017).

At December 31 2018 the first 10 customers account for 11.1% of total trade receivables (11.9% at December 31 2017), while the top customer represents 2.9% of the total (3.1% at December 31 2017).

(c) Liquidity risk
Liquidity risk can occur as a result of the inability to obtain financial resources necessary for the Group's operations at acceptable conditions.
The main factors determining the Group's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and activities and by investment, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.
Prudent liquidity risk management implies maintaining sufficient financial availability of cash and marketable securities, funding through an adequate amount of bank credit.
Consequently, the Group's treasury sets up the following activities:

- the monitoring of expected financial requirements in order to then take suitable action;
- the obtaining of suitable lines of credit;
- the optimization of liquidity, where feasible, through the centralized management of the Group's cash flows;
- the maintenance of sufficient liquidity;
- the maintenance of a balanced composition of net financial borrowing with respect to investments made;
- the pursuit of a correct balance between short-term and medium-long-term debt;
- limited credit exposure to a single financial institute;
- the monitoring of compliance with the parameters provided for by covenants associated with loans.

Counterparties to derivative contracts and operations performed on liquid funds are restricted to primary financial institutions.

The Group has maintained high reliability indices on the part of lenders.

The characteristics and nature of the expiry of debts and of the Group's financial activities are set out in Notes 25 and 29 relating respectively to Cash and Cash Equivalents and Loans and borrowings.

The management considers that currently unused funds and credit lines, amounting to € 130 million, more than cash flow which will be generated from operating and financial activities, will allow the Group to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

4.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency and interest rate fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations.
As established by IFRS 9, derivative financial instruments may qualify for special hedge accounting only when the condition established by principle are met.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent statement of financial position dates.

On the basis of the above, and of contracts entered into, the accounting methods adopted are as follows:
1. *Fair value hedge*: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.

2. *Cash flow hedge*: the variations in fair value of the financial instruments to be effective for hedging future cash flows are posted to the Comprehensive Income Statement, while the ineffective portion is posted immediately to the Income Statement. If contractual commitments or planned hedging operations lead to the creation of an asset or liability, when this occurs the profits or losses on the derivative which have been posted directly to the Comprehensive Income Statement adjust the opening cost of acquisition or holding value of the asset or liability. For financial cash flow hedgings that do not lead to the creation of an asset or liability, the amounts which have been posted directly to the Comprehensive Income Statement are transferred to the Income Statement in the same period in which the contractual commitment or planned hedging operation are posted to the Income Statement.
3. Derived financial instruments not defined as hedging instruments: the variations in fair value are posted to the Income Statement.

The accounting method adopted for a hedge is applied until it expires, is sold, terminates, is exercised or is no longer defined as a hedge. Accumulated profits or losses from the hedging instrument recorded directly in the Statement of Comprehensive Income are maintained until the related operation effectively occurs. If the operation to which the hedge relates is no longer expected to occur, the accumulated profits or losses recorded directly in the Statement of Comprehensive Income are transferred to the Income Statement for the relevant period.

4.3 Measurement of fair value

The fair value of financial instruments with a quoted market price in an active market (such as publicly traded derivatives and securities held for trading and for sale) is based on the market price at the statement of financial position date. The market price used for the Group's financial assets is the bid price; the market price for financial liabilities is the offer price.

The fair value of financial instruments not quoted in an active market (for example, derivatives quoted over the counter) is determined using valuation techniques. The Group uses various methods and makes assumptions that are based on existing market conditions at the statement of financial position date. Long-term payables are valued using quoted market or trading prices for the specific or similar instruments. Other methods, such as estimating the present value of future cash flows, are used to determine the fair value of the other financial instruments. The fair value of forward currency contracts is determined using the forward exchange rates expected at the statement of financial position date.

It is assumed that the face value less estimated doubtful receivables approximates the fair value of trade receivables and payables. For the purposes of these notes, the fair value of financial liabilities is estimated by discounting contractual future cash flows at the current market rate available to the group for similar financial instruments.

5. Key accounting estimates and assumptions

The preparation of the consolidated financial statements and the related notes under IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to contingent assets and liabilities at the statement of financial position date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts receivable and inventory obsolescence, amortization and depreciation, write-downs to assets, post-employment benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

The assessment that goodwill is recorded in the financial statements for a value not higher than their recoverable value (so-called impairment test) provides, first of all, to test the endurance of the value of the goodwill divided into the Cash Generating Unit (CGU). The calculation of the recoverable amount is carried out in accordance with the criteria established by IAS 36 and is determined in terms of value in use by discounting the expected cash flows from the use of the asset or of a CGU, as well as from the expected value of the asset at its disposal at the end of its useful life. This process involves the use of estimates and assumptions to determine both the amount of future cash flows and the corresponding discount rates. The future cash flows are based on the most recent economic-financial plans drawn up by the Management of each CGU in relation to the functioning of the production assets and the market context. With reference to the business in which the company operates, the factors that have the greatest relevance in the estimates of future cash flows are attributable to the intrinsic difficulty of formulating future forecasts, to the feasibility of market strategies in highly competitive contexts, as well as to the risks of macroeconomic nature related to the geographic areas in which the Emak Group operates. The discount rates reflect the cost of money for the period forecast and the specific risks of the activities and countries in which the Group operates and are based on observable data in the financial markets.

In this context, it should be noted that the situation caused by the persistent difficulties of the economic and financial scenario has implied the need to make assumptions regarding the future outlook which is characterized by uncertainty. As a result, it cannot be excluded that the actual results obtained will be different from the forecasts, and therefore adjustments, even of significant amounts, which obviously cannot today be estimated or foreseeable, to the book value of the relative items may be necessary.

6. Segment information

IFRS 8 provides for information to be given for certain items in the financial statements on the basis of the operational segments of the company.

An operating segment is a component of a company:

a) that carries on business activities generating costs and revenues;
b) whose operating results are reviewed on a periodic basis at the highest executive levels for the purpose of taking decisions about resources to be allocated to the segment and for the evaluation of results;
c) for which separate reporting information is available.

IFRS 8 is based on the so-called “Management approach”, which defines sectors exclusively on the basis of the internal organizational and reporting structure used to assess performance and allocate resources.

According to these definitions, the operating segments of Emak Group are represented by three Divisions/ Business Units with which develops, manufactures and distributes its range of products:

- Outdoor Power Equipment (products for gardening, forestry and small agricultural equipment, such as brushcutters, lawnmowers, garden tractors, chainsaws, tillers and walking tractors);
- Pumps and High Pressure Water Jetting (membrane pumps for the agricultural sector - spraying and weeding - piston pumps for the industrial sector, professional and semi-professional high-pressure washers, hydrodynamic units and urban cleaning machines);
- Components and Accessories (line and heads for brushcutters, chainsaw accessories, guns, nozzles and valves for high pressure washers and agricultural applications, precision farming such as sensors and computers, technical seats and spare parts for tractors).

The directors separately observe the results by business segment in order to make decisions about resource allocation and performance verification.

The *performance* of the segment is evaluated on the basis of the measured result that is consistent with the result of the consolidated financial statements.

Below are the main economic and financial data broken down by operating segment:

	OUTDOOR POWER EQUIPMENT		PUMPS AND HIGH PRESSURE WATER JETTING		COMPONENTS AND ACCESSORIES		Other not allocated / Netting		Consolidated	
€/000	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Sales to third parties	165,770	168,402	183,111	138,770	103,944	114,983			**452,825**	**422,155**
Intersegment sales	1,694	1,851	1,649	1,456	7,988	7,767	(11,331)	(11,074)		
Revenues from sales	167,464	170,253	184,760	140,226	111,932	122,750	(11,331)	(11,074)	**452,825**	**422,155**
Ebitda	11,859	9,400	25,356	19,546	13,550	17,372	(1,316)	(2,386)	**49,449**	**43,932**
Ebitda/Total Revenues %	*7.1%*	*5.5%*	*13.7%*	*13.9%*	*12.1%*	*14.2%*			***10.9%***	***10.4%***
Ebitda before non ordinary expenses	13,599	9,840	25,855	20,804	13,748	17,354	(2,439)	(2,386)	**50,763**	**45,612**
Ebitda before non ordinary expenses/Total Revenues %	*8.2%*	*5.8%*	*14.1%*	*15.0%*	*13.2%*	*15.1%*			***11.2%***	***10.8%***
Operating result	5,882	3,787	20,255	15,503	9,155	13,073	(1,316)	(2,386)	**33,976**	**29,977**
Operating result/Total Revenues %	*3.5%*	*2.2%*	*11.0%*	*11.1%*	*8.2%*	*10.7%*			***7.5%***	***7.1%***
Net financial expenses (1)									**884**	**(6,842)**
Profit befor taxes									**34,860**	**23,135**
Income taxes									**9,213**	**6,700**
Net profit									**25,647**	**16,435**
Net profit/Total Revenues%									***5.7%***	***3.9%***

(1) Net financial expenses includes the amount of Financial income and expenses, Exchange gains and losses and the amount of the Income from equity investment

STATEMENT OF FINANCIAL POSITION	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Net debt	24,025	27,297	86,597	91,969	7,094	7,031	(289)	(1,003)	**117,427**	**125,294**
Shareholders' Equity	176,750	176,986	56,259	44,002	48,899	48,975	(76,088)	(82,458)	**205,820**	**187,505**
Total Shareholders' Equity and Net debt	200,775	204,283	142,856	135,971	55,993	56,006	(76,377)	(83,461)	**323,247**	**312,799**
Net non-current assets (2)	134,048	136,604	77,937	76,648	18,557	19,076	(75,616)	(81,366)	**154,926**	**150,962**
Net working capital	66,727	67,679	64,919	59,323	37,436	36,930	(761)	(2,095)	**168,321**	**161,837**
Total net capital employed	200,775	204,283	142,856	135,971	55,993	56,006	(76,377)	(83,461)	**323,247**	**312,799**

(2) The net non-current assets of the Outdoor Power Equipment area includes the amount of Equity investments for 76,074 thousand Euro

OTHER STATISTICS	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Number of employees at period end	764	801	736	704	490	516	9	8	**1,999**	**2,029**

OTHER INFORMATIONS	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Amortization, depreciation and impairment losses	5,977	5,613	5,101	4,043	4,395	4,299			**15,473**	**13,955**
Investment in property, plant and equipment and in intangible assets	8,100	8,346	5,997	3,767	4,097	5,315			**18,194**	**17,428**

For the comments of the economic part, reference should be made to chapter 3 of the Directors Report.

7. Significant non-recurring events and transactions

Acquisition of the remaining 39% of Epicenter

On January 29, 2018, the Parent Company Emak S.p.A acquired the remaining 39%, still owned by the founder, of the Ukrainian subsidiary Epicenter LLC, leading its shareholding to 100%. The price for the acquisition of this share amounts to € 340 thousand.

Reorganization of commercial activities in U.S.A

Starting from the beginning of 2018, the Group has implemented a reorganization of its commercial activities in the United States in the Pumps and High Pressure Water Jetting segment. Specifically, the company Comet USA conferred in Valley the industrial pump business in order to maximize logistical, operational and management efficiencies. The new organization will also allow to focus the energies on future developments of the activities on the US territory. Following the reorganization, the Put & Call option outstanding with the minority shareholder of Valley, for the purchase of the remaining 10%, was extended indefinitely.

Sale of 100% of Raico S.r.l.

On March 6, 2018, the parent company Emak S.p.A. signed a binding agreement for transferring the 100% of the share capital of Raico S.r.l. This agreement was concluded on March 30th, with the total transfer to the company Kramp S.r.l. for an equivalent of € 5,500 thousand.

Raico, specialised in the distribution of components and accessories for farm tractors, industrial machines and earthmoving machinery, closed at 31 December 2017 with a turnover of about € 12.8 million, Gross Operating Margin equal to € 0.5 million and a passive Net Financial Position of € 0.7 million.

The economic effects of the first three months of 2018 are included in the scope of consolidation and the deconsolidation determined a total capital gain of € 2,472 thousand.

The fair value of assets and liabilities subject to disposal with effect as of 30 March 2018 and the price cashed are detailed below:

€/000	Book values
Non-current assets	
Property, plant and equipment	254
Intangible assets	291
Deferred tax assets	230
Other financial assets	5
Current assets	
Inventories	4,369
Trade and other receivables	2,849
Cash and cash equivalents	16
Non-current liabilities	
Employee benefits	(1,262)
Provisions for risks and charges	(88)
Current liabilities	
Trade and other payables	(2,550)
Current tax liabilities	(170)
Loans and borrowings	(915)
Provisions for risks and charges	(1)
Total net assets sold	**3,028**
% interest sold	**100.0%**
Net equity sold	**3,028**
Sale price cashed	**5,500**
Cash and cash equivalent sold	**(16)**
Net cash flow	**5,484**
Capital Gain from the sale	**2,472**

Personnel reorganization plan Emak S.p.A

The Parent Company, following an assessment aimed at improving the organization at the Bagnolo in Piano (RE) headquarters, due to the logic of efficiency and renewal, signed with the Trade Unions and company RSU an Agreement, aimed primarily at employees who have acquired the right to a pension within 24 months following the termination of the employment relationship, envisaging a plan to early retirement on voluntary basis referred to in articles 4, 5 and 24 of law n. 223/91, for 32 employees.

The non-ordinary charges related to the reorganization plan, equal to € 1,134 thousand, were accounted during 2018.

Early exercise of the Put & Call option of 10% of P.T.C. S.r.l.

In December 2017, the company Comet S.p.A. has signed an agreement establishing the early exercise of the "Put and call Option Agreement" which regulates the purchase of the remaining 10% of the company P.T.C. S.r.l.
On 8 August 2018, the company Comet S.p.A. concluded the operation with purchase of the remaining 10% of P.T.C. S.r.l. at a price equal to € 178 thousand, as agreed previously.
The company P.T.C. S.r.l., based on the previous "Put and Call Option Agreement", was already 100% consolidated.

New R&D centre

Works for the construction of the new R&D centre started in July 2016 go on, at the Parent Company Emak S.p.A.
At December 31, 2018, the portion of the investment already recorded under fixed assets amounted to approximately € 5,100 thousand, compared to a total estimated investment of about € 7,400 thousand.

ERP Transformation project

Concerning the project for the implementation of the new ERP Microsoft Dynamics 365 system in some Group's companies, it has to be highlighted that activities are proceeding with the aim to get to "go live" within first months 2019. Overall forecasted investment for the ongoing projects will amount to € 2,790 thousand, of which € 1,750 thousand already accounted for as of 31 December 2018.

Acquisition of 51% of Brazilian company Spraycom

On 20 July 2018, the subsidiary Tecomec S.r.l. entered into the company structure of Spraycom, with a share of 51%, paying an amount of € 377 thousand in capital increase account (destined to share premium account).

Spraycom is a Brazilian company based in Catanduva (São Paulo), active in the distribution in Brazil of components and accessories for agriculture such as nozzles, valves, pumps, electronic components.

The transaction represents a strengthening of the commercial activity in the Components and Accessories segment of the Emak Group in Brazil, through the acquisition of a sales network already present and recognized on the market, with the aim of laying the foundations for future development of an important market like the Brazilian one.

The fair value of assets and liabilities subject to aggregation with effect as of 1st August 2018 and the subscribed capital are detailed below:

€/000	Book values	Fair Value adjustments	Fair value of acquired assets and liabilities
Non-current assets			
Property, plant and equipment	24	-	24
Intangible fixed assets	1	-	1
Current assets			
Inventories	819	-	819
Trade and other receivables	504	-	504
Current tax assets	148	-	148
Cash and cash equivalents	98	-	98
Current liabilities			
Trade and other payables	(987)	-	(987)
Current tax liabilities	(3)	-	(3)
Loans and borrowings due to banks and other lenders	(257)	-	(257)
Total net assets	**347**	**-**	**347**
% interest held			**51%**
Equity of the Group			**177**
Goodwill			**200**
Cash outflow for the subscription of 51% of the share capital			**377**

8. Balances or transactions arising from atypical and unusual operations

No events/operations as per Consob Communication DEM/6064293 of 28 July 2006 have been recorded during the financial period 2018. As indicated in this Communication "atypical and/or unusual operations are considered as operations that, due to their significance/materiality, the nature of the counterparties, the object of the transaction, the means for determining the transfer price and the time of the event (near the close of the period), may give rise to doubts with regards to: the correctness/completeness of the information in the financial statements, conflicts of interest, the protection of company assets, the safeguarding of minority interests.

9. Net financial positions

It is shown in the table below details of the net financial position, which includes the net financial debt determined according to ESMA criteria (based on the format required by Consob communication no. 6064293 of 28 July 2006).

	Thousand of Euro	31/12/2018	31/12/2017
A.	Cash	62,602	40,812
B.	Other cash at bank and on hand (held-to-maturity investments)	-	-
C.	Financial instruments held for trading	-	-
D.	**Liquidity funds (A+B+C)**	**62,602**	**40,812**
E.	**Current financial receivables**	**837**	**7,549**
F.	Current payables to banks	(18,086)	(36,570)
G.	Current portion of non current indebtedness	(46,152)	(31,956)
H.	Other current financial debts	(5,764)	(10,151)
I.	**Current financial indebtedness (F+G+H)**	**(70,002)**	**(78,677)**
J.	**Current financial indebtedness, net (I+E+D)**	**(6,563)**	**(30,316)**
K.	Non-current payables to banks	(99,817)	(80,084)
L.	Bonds issued	-	-
M.	Other non-current financial debts	(13,511)	(15,646)
N.	**Non-current financial indebtedness (K+L+M)**	**(113,328)**	**(95,730)**
O.	**Net indebtedness (ESMA) (J+N)**	**(119,891)**	**(126,046)**
P.	Non current financial receivables	2,464	752
Q.	**Net financial position (O+P)**	**(117,427)**	**(125,294)**

The net financial position at December 31, 2018, includes € 17,256 thousand (€ 23,891 thousand at December 31, 2017), referring to payables for the purchase of the remaining minority shareholding and for the settlement of purchase transactions with deferred price subject to contractual restrictions (Note 29). These debts refer to the purchase of investments in the following companies:
- Lemasa for an amount of € 5,447 thousand;
- Lavorwash Group for an amount of € 10,301 thousand;
- Valley LLP for an amount of € 1,508 thousand.

At December 31, 2017 financial receivables were recorded for € 6,887 thousand, referring to amounts deposited in Escrow Account to guarantee debts for the purchase of equity investments. At December 31, 2018, this credit amounted to € 351 thousand since the remaining part was released against payment of the deferred price for the purchase of 70% of the company Lemasa, in April 2018, for an amount of approximately 15,280 thousand of Reais equal to a value of about € 3,600 thousand.

At December 31, 2018, current and non-current financial receivables mainly include deposits guaranteeing potential liabilities, escrow accounts related to equity acquisition contracts and other forms of temporary liquidity investment.

At 31 December 2018, net financial debts include amounts receivable from related parties for the amount of € 297 thousand, of which € 37 thousand are short-term, attributable to the receivable from Yama S.p.A. for the guarantees included in the contract in favor of Emak S.p.A. as part of the so-called “Operazione Greenfield” through which Emak S.p.A. acquired in 2011 the companies Comet S.p.A., Tecomec S.r.l., Sabart S.r.l. and Raico S.r.l.

10. Revenues from sales and other operating income

The Group's revenues amount to € 452,825 thousand, compared to € 422,155 thousand of last year, and are recorded net of returns for € 1,807 thousand, against € 1,453 thousand of last year.

The increase in sales is attributable to the change in scope of consolidation, more accurately described in the Annual Report, for an amount of € 29,802 thousand.

Details of revenues from sales are as follows:

€/000	FY 2018	FY 2017
Net sales revenues (net of discounts and rebates)	450,063	419,467
Revenues from recharged transport costs	4,569	4,141
Returns	(1,807)	(1,453)
Total	**452,825**	**422,155**

Other operating income is analyzed as follows:

€/000	FY 2018	FY 2017
Capital gains on property, plant and equipment	146	237
Recovery of warrants costs	101	131
Insurance refunds	40	76
Advertising reimbursement	287	258
Grants related to income and assets	964	305
Recovery of administrative costs	251	242
Recovery of costs canteen	126	107
Revenues for rents	559	533
Other operating income	2,991	1,795
Total	**5,465**	**3,684**

The item “Grants related to income and assets” mainly refers to tax assets for research and development.

The item “Other operating income” includes € 873 thousand relating to the reversal of some trade payables that are no longer payable.

The change in the balance is also affected by the different scope of consolidation compared to 2017 which included only the second half of the Lavorwash Group, while the 2018 financial year includes only the first three months of the company Raico S.r.l.

11. Cost of raw materials, consumable and goods

The cost of raw materials, semi-finished products and goods is analyzed as follows:

€/000	FY 2018	FY 2017
Raw materials, semi-finished products and goods	238,984	231,447
Other purchases	4,198	3,118
Total	**243,182**	**234,565**

The change in the balance is also affected by the different scope of consolidation compared to 2017 which included only the second half of the Lavorwash Group, while the 2018 financial year includes only the first three months of the company Raico S.r.l.

12. Personnel expenses

Details of these costs are as follows:

€/000	FY 2018	FY 2017
Wage and salaries	57,690	54,600
Social security charges	16,509	15,810
Employee termination indemnities	2,689	2,664
Other costs	1,668	1,816
R&D costs capitalized	(431)	-
Directors' emoluments	1,884	1,507
Temporary staff	3,301	3,658
Total	**83,310**	**80,055**

The details of staff by country is shown in heading 6 of the Directors' Report.

The exit from the scope of consolidation of Raico has effected personnel costs by approximately € 1,900 thousand compared to the previous year.

The effect of the consolidation of the Lavorwash Group weighed on the personnel expenses for € 5,326 thousand compared to the six month of 2017.

The costs for the year include reorganization costs that mainly refer to the Parent Company for an amount of € 1,398 thousand.

During the 2018 financial year, personnel costs for € 431 thousand were capitalized under intangible fixed assets, referring to the costs for the development of new products in the context of a multi-year project subject to facilities by the Ministry of Economic Development.

13. Other operating costs and provisions

Details of these costs are as follows:

€/000	FY 2018	FY 2017
Subcontract work	13,039	12,173
Maintenance	4,285	4,078
Trasportation	19,065	17,927
Advertising and promotion	3,717	3,639
Commissions	7,623	6,612
Travel	3,562	3,500
Postals and telecommunications	927	998
Consulting fees	5,930	5,822
Driving force	2,369	2,234
Various utilities	1,171	1,143
Services and bank fees	975	1,009
Costs of after sales warranty	1,513	1,396
Insurances	1,555	1,507
Other services	7,917	6,953
R&D costs capitalized	(123)	-
Services	**73,525**	**68,991**
Rents, rentals and the enjoyment of third party assets	**8,533**	**7,970**
Increases in provisions (note 32)	**721**	**860**
Credit losses	86	124
Increases in provision for doubtful accounts (note 23)	1,222	742
Capital losses on property, plant and equipment	6	53
Other taxes (not on income)	1,359	1,318
Grants	133	121
Other costs	1,385	1,276
Other operating costs	**4,191**	**3,634**
Total	**86,970**	**81,455**

The “consultinf fees” include € 387 thousand that refers to the costs incurred for the operations of M&A realized during the 2018 and to the costs incurred for the implementation of the new ERP Microsoft Dynamics 365 system in some Group’s companies. At 31 december 2017 the item included € 1,264 thousand for the operations of M&A.

The change in the balance is also affected by the different scope of consolidation compared to 2017 which included only the second half of the Lavorwash Group, while the 2018 financial year includes only the first three months of the company Raico S.r.l.

14. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2018	FY 2017
Amortization of intangible assets (note 19)	3,188	2,817
Depreciaton of property, plant and equipment (note 18)	11,688	10,548
Impairment losses	597	590
Total	**15,473**	**13,955**

The depreciation and amortization at December 31, 2018 amounted to € 15,473 thousand of which € 597 thousand as a partial impairment loss of goodwill allocated to the CGU Geoline Electronic S.r.l recognized after the impairment test for which details are provided in Note 20. The goodwill allocated to this CGU had already been partially reduced by € 590 thousand recorded in the previous year.

15. Financial income and expenses

"**Financial income**" is analyzed as follows:

€/000	FY 2018	FY 2017
Capital gains from change in scope of consolidation	2,472	-
Income from adjustment to fair value and fixing of derived instruments for hedging interest rate risk	71	209
Interest of trade receivables	201	226
Interest on bank and postal current accounts	171	199
Financial income of debt adjustment estimate for purchase commitment of remaining shares of subsidiaries	2,074	281
Other financial income	327	892
Financial income	**5,316**	**1,807**

The "Capital gains from change in scope of consolidation" refers to the capital gain deriving from the deconsolidation of the company Raico S.r.l. (reference should be made to Note 7 for more details).

The "Financial income of debt adjustment estimate for purchase commitment of remaining shares of subsidiaries" refers to the adjustment of the debt, partly settled in 2018, for the purchase of the shares of the company Lemasa LTDA. The acquisition of Lemasa, which took place in 2015, has provided for the valuation of the deferred portion of the price and of the *Put & Call option* on the basis of the economic and financial results realized by the target company.
During the 2018 financial year, the Group entered under the Financial income:

- € 1,880 thousand for the adjustment of the estimate of the debt for the purchase commitment of the remaining shares of the company Lemasa LTDA subject to Put & Call option, and the price of which is correlated to the results that the company will realize in the years 2017-2019. At 31 December 2018, the originally planned business plan was updated, recording the positive adjustment of the estimated Put & Call option under financial income.
- € 194 thousand for the reduction in the deferred price for the purchase of 70% of the company Lemasa LTDA, paid in April 2018, based on the 2015-2017 results as provided for by contract.

In the previous year the item "Other financial income" included € 764 thousand as interest income accrued on the escrow account with the escrow account contract part of the acquisition of company Lemasa and released in April 2018 against payment of the price deferred of 70% of the company's shares

"Financial expenses" are analyzed as follows:

€/000	FY 2018	FY 2017
Interest on medium-term bank loans and borrowings	1,708	1,948
Interest on short-term bank loans and borrowings	378	311
Costs from adjustment to fair value and fixing of derived instruments for hedging interest rate risk	750	239
Financial charges from valuing employee terminations indemnities (note 31)	72	81
Financial expenses from discounting debts	1,194	1,691
Other financial costs	682	550
Financial expenses	**4,784**	**4,820**

The reduction in interest on bank loans compared to the previous year is due to the reduction in average interest rates applied to bank loans.

"Financial expenses from discounting debts" refer to charges due to the discounting on liabilities for the acquisition of equity investments which will be settled in the future.

Reference should be made to Note 22 for more details on derived instruments for hedging interest rate risk.

The breakdown of "**exchange gains and losses**" is as follows:

€/000	FY 2018	FY 2017
Profit / (Loss) on exchange differences on trade transactions	(95)	(2,726)
Profit / (Loss) on exchange differences on financial assets	181	(1,492)
Exchange gains and losses	**86**	**(4,218)**

The exchange rate management is positive for € 86 thousand against a negative value equal to € 4,218 thousand of the previous year. The result is related to the trend of the currencies, mainly the US dollar, the Chinese Renmimbi and the Brazilian real, in which the relative flows are denominated.

16. Income taxes

The tax charge in 2018 for current and deferred tax assets and liabilities amounts to € 9,213 thousand (€ 6,700 thousand in the previous year).

This amount is made up as follows:

€/000	FY 2018	FY 2017
Current income taxes	10,105	7,882
Taxes from prior years	(171)	243
Deferred tax assets (note 30)	363	(438)
Deferred tax liabilities (note 30)	(1,084)	(987)
Total	**9,213**	**6,700**

Current income taxes include the cost of IRAP (regional company tax) to € 1,089 thousand, compared to € 875 thousand in 2017.

The reconciliation of the theoretical taxes calculated using the rate in force in the country where the Parent Company is located and the effective taxation is illustrated below:

€/000	FY 2018	% Rate	FY 2017	% Rate
Profit before taxes	**34,860**		**23,135**	
Theoretical tax charges	**9,726**	**27.9**	**6,455**	**27.9**
Effect of IRAP differences calculated on different tax base	190	0.5	106	0.5
Non-taxable income	(1,781)	(5.1)	(340)	(1.5)
Non-deductible costs	677	1.9	494	2.1
Differences in rates with other countries	(362)	(1.0)	(127)	(0.5)
Previous period taxes	(170)	(0.5)	244	1.1
Taxes on financial charges concerning the discounting of payables for equity investments	395	1.1	546	2.4
Other differences	538	1.5	(678)	(2.9)
Effective tax charge	**9,213**	**26.4**	**6,700**	**29.0**

The effective tax rate is 26.4%, against 29.0% at 31 December 2017.

The tax rate of the year was positively affected by the recording of non-taxable income arising from the capital gain from the deconsolidation of the company Raico S.r.l. (with an effect of 2% on the tax rate) and the adjustment of the fair value of the debt for *P&C* option for the purchase (with a positive effect of 2% in the tax rate).

The tax rate of the year was negatively affected by the unrecorded deferred tax assets on tax losses for an amount of € 846 thousand, with a negative effect on the tax rate for 2.4%.

In the previous year, the income taxes included € 666 thousand of income accrued following the successful outcome of a ruling that allowed the recognition of ACE tax benefits related to previous tax years. The tax rate of the previous year also benefited from the adjustment of the deferred tax liabilities due to the change in the tax rate with a positive effect of € 500 thousand.

17. Earnings per share

“Basic" earnings per share are calculated by dividing the net profit for the period attributable to the Parent company's shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased or held by the Parent company as treasury shares (see note 37). The Parent company has only ordinary shares outstanding.

	FY 2018	FY 2017
Net profit attributable to ordinary shareholders in the parent company (€/000)	25,397	16,165
Weighted average number of ordinary shares outstanding	163,537,602	163,537,602
Basic earnings per share (€)	**0.155**	**0.099**

Diluted earnings per share are the same as basic earnings per share.

18. Property, plant and equipment

Changes in property, plant and equipment are shown below:

€/000	31.12.2017	Change in scope of consolidation Increase	Change in scope of consolidation Decrease	Increases	Decreases	Exchange differences	Reclassification	31.12.2018
Lands and buildings	53,430		(15)	125	(1,666)	(142)	1,837	53,569
Accumulated depreciation	(18,968)		5	(1,508)	1,666	32	0	(18,773)
Lands and buildings	**34,462**	**0**	**(10)**	**(1,383)**	**-**	**(110)**	**1,837**	**34,796**
Plant and machinery	94,404		(311)	4,897	(1,513)	(350)	3,594	100,721
Accumulated depreciation	(73,762)		202	(5,101)	1,366	133	10	(77,152)
Plant and machinery	**20,642**	**0**	**(109)**	**(204)**	**(147)**	**(217)**	**3,604**	**23,569**
Other assets	121,337	36	(1,103)	4,809	(2,163)	(148)	1,113	123,881
Accumulated depreciation	(109,276)	(12)	968	(5,079)	2,073	109	261	(110,956)
Other assets	**12,061**	**24**	**(135)**	**(270)**	**(90)**	**(39)**	**1,374**	**12,925**
Advances and fixed assets in progress	**6,110**	**0**	**0**	**4,868**	**(11)**	**21**	**(6,832)**	**4,156**
Cost	**275,281**	**36**	**(1,429)**	**14,699**	**(5,353)**	**(619)**	**(288)**	**282,327**
Accumulated depreciation (note 14)	**(202,006)**	**(12)**	**1,175**	**(11,688)**	**5,105**	**274**	**271**	**(206,881)**
Net book value	**73,275**	**24**	**(254)**	**3,011**	**(248)**	**(345)**	**(17)**	**75,446**

€/000	31.12.2016	Change in scope of consolidation	Increases	Decreases	Exchange differences	Reclassification	Other movements	31.12.2017
Lands and buildings	46,018	6,283	204		(714)	1,639		53,430
Accumulated depreciation	(17,437)	(232)	(1,292)		166	(173)		(18,968)
Lands and buildings	**28,581**	**6,051**	**(1,088)**	**-**	**(548)**	**1,466**	**-**	**34,462**
Plant and machinery	85,007	7,143	4,616	(2,718)	(1,972)	2,303	25	94,404
Accumulated depreciation	(65,856)	(6,181)	(4,564)	1,525	1,324		(10)	(73,762)
Plant and machinery	**19,151**	**962**	**52**	**(1,193)**	**(648)**	**2,303**	**15**	**20,642**
Other assets	97,035	22,159	3,388	(1,141)	(807)	384	319	121,337
Accumulated depreciation	(85,865)	(20,531)	(4,692)	1,123	650	39	0	(109,276)
Other assets	**11,170**	**1,628**	**(1,304)**	**(18)**	**(157)**	**423**	**319**	**12,061**
Advances and fixed assets in progress	**2,749**	**760**	**6,594**	**(8)**	**(60)**	**(3,591)**	**(334)**	**6,110**
Cost	**230,809**	**36,345**	**14,802**	**(3,867)**	**(3,553)**	**735**	**10**	**275,281**
Accumulated depreciation (note 14)	**(169,158)**	**(26,944)**	**(10,548)**	**2,648**	**2,140**	**(134)**	**(10)**	**(202,006)**
Net book value	**61,651**	**9,401**	**4,254**	**(1,219)**	**(1,413)**	**601**	**0**	**73,275**

During 2018, part of the new building that will occupy the new R&D center of the Parent Company was completed. € 1,794 thousand were therefore reclassified from the item "Advances and fixed assets in progress" to the item “Land and Buildings” and € 1,638 thousand to the item "Plant and machinery", relating to the plant already in use by the R&D department. The unfinished portion of this investment is recorded among the fixed assets in progress for a value of € 1,390 thousand.
The decreases mainly refer to the demolition of the pre-existing R&D building and to the sale of production equipment and plants disposed by the production process.

Increases refer mainly to investments:

1. in equipment for the development of new products and new technologies;
2. in renewal projects of the IT system;
3. in the upgrading and modernization of production lines;
4. in the upgrading of production systems and infrastructures;
5. in the cyclical renewal of production and industrial equipment;
6. for the continuation of the construction project of the new R&D center.

The increases of changes in the scope of consolidation refer to the fair value of tangible fixed assets acquired as part of the acquisition of the Spraycom. The decreases of changes in the scope of consolidation refer to the net book value of the tangible assets of the company Raico S.r.l. sold during 2018.

No indicators of impairment of tangible assets were recorded.

There are no assets subject to restrictions following secured guarantees.

Over the years, the Group has benefited from a number of capital grants provided in accordance with Law 488/92 to the subsidiary Comag S.r.l. (from 1 January 2015 merged into the company Emak S.p.A.). The grants received are credited to income over its remaining useful life of the assets to which they relate and are shown in the statement of financial position as deferred income.
All receivables related to these contributions are received.

19. Intangible assets

Intangible assets report the following changes:

€/000	31.12.2017	Change in scope of consolidation Increase	Change in scope of consolidation Decrease	Increases	Amortizations	Exchange differences	Reclassification	31.12.2018
Development costs	561	-	-	729	(303)	-	481	1,468
Patents	2,660	1	(174)	1,038	(1,040)	(12)	253	2,726
Concessions, licences and trademarks	6,058	-	-	68	(581)	(71)	(6)	5,468
Other intangible assets	9,209	-	(42)	63	(1,264)	(82)	-	7,884
Advanced payments and fixed assets in progress	1,839		(75)	1,597	-	(1)	(711)	2,649
Net book value	20,327	1	(291)	3,495	(3,188)	(166)	17	20,195

€/000	31.12.2016	Change in scope of consolidation	Increases	Amortizations	Exchange differences	Reclassification	Other movements	31.12.2017
Development costs	554	-	138	(264)	-	95	38	561
Patents	2,744	30	854	(1,143)	(11)	150	36	2,660
Concessions, licences and trademarks	841	5,542	81	(298)	(109)	1	-	6,058
Other intangible assets	3,507	7,504	119	(1,112)	(208)	(601)	-	9,209
Advanced payments and fixed assets in progress	734	-	1,434	-	(9)	(246)	(74)	1,839
Net book value	8,380	13,076	2,626	(2,817)	(337)	(601)	0	20,327

The net book value of the intangible assets attributable to the company Raico S.r.l., exit from the scope of consolidation from 1° April 2018, total amount to € 291 thousand.

Research costs directly recorded in the Group's income statement amount to € 7,284 thousand.
The increase of the item "Development costs" mainly refer to the investment in a new development project started by the Parent Company in the context of a multi-year project subject to facilities by the Ministry of Economic Development. These costs include approximately € 431 thousand of personnel costs incurred internally and capitalized under this item.

All intangible fixed assets have a defined residual life and are amortized at constant rates on the basis of their remaining useful life, except for the trade mark of the subsidiary Lemasa, allocated in occasion of the acquisition of the same company and recorded for a value of 2,664 thousand Reais, equal to € 599 thousand as at 31 December 2018.

Other intangible assets refer for € 6,558 thousand to the valuation of the "customer list" determined following the *Purchase Price Allocation* process of the consideration paid by the Group for the acquisition of the Lavorwash Group during 2017.The useful life of this asset has been estimated at 14 years.

20. Goodwill

The goodwill of € 65,773 thousand reported at December 31, 2018 is detailed below:

Cash Generating Unit (CGU)	*Country*	Description	31.12.2017	Change in scope of consolidation	Impairment losses (Note 14)	Exchange differences	31.12.2018
Victus	Poland	Goodwill from the acquisition of Victus-Emak Sp. z o.o.	5,827	-	-	(169)	5,658
Emak	Italy	Goodwill from the merger of Bertolini S.p.A.	2,074	-	-	-	2,074
Tailong	China	Goodwill from the acquisition of Tailong Machinery Ltd.	2,682	-	-	(24)	2,658
Tecomec	Italy	Goodwill from the acquisition of Gruppo Tecomec	2,807	-	-	-	2,807
Speed France	France	Goodwill from the acquisition of Speed France	2,854	-	-	-	2,854
Comet	Italy	Goodwill from the acquisition of Gruppo Comet and merger of HPP	4,253	-	-	-	4,253
PTC	Italy	Goodwill from transfer of the business PTC	1,236	-	-	-	1,236
Valley	USA	Goodwill from the acquisition of Valley LLP and A1	12,150	-	-	577	12,727
Geoline	Italy	Goodwill from the acquisition of Geoline Electronic S.r.l.	1,498	-	(597)	-	901
S.I.Agro Mexico	Mexico	Goodwill from the acquisition of S.I.Agro Mexico	634	-	-	-	634
Lemasa	Brazil	Goodwill from the acquisition of Lemasa LTDA	13,607	-	-	(1,326)	12,281
Lavorwash	Italy	Goodwill from the acquisition of Lavorwash Group	17,490	-	-	-	17,490
Spraycom	Brazil	Goodwill from the acquisition of Spraycom	-	200	-	-	200
		Total	**67,112**	**200**	**(597)**	**(942)**	**65,773**

The difference, if compared to December 31, 2017, is mainly attributable to the change in consolidation exchange rates and to the partial reduction in goodwill attributable to the CGU Geoline Electronic S.r.l. In particular:

- Goodwill allocated to the CGU Victus-Emak Sp. Z.o.o., equal to € 5,658 thousand, for € 867 thousand relates to the difference between the acquisition price for 100% of the company regulated by Polish law, Victus-Emak Sp. Z.o.o., and its equity at the date of acquisition, while an amount of € 4,791 thousand relates to the acquisition of the company branch of Victus International Trading SA. Both acquisitions were finalized in 2005.

- The goodwill recorded for € 2.074 thousand refers to the positive difference arising from the acquisition from the parent company Yama S.p.A. and further to the absorption of the company Bertolini S.p.A into Emak S.p.A. in 2008.

- The amount of € 2,658 thousand refers to the greater value emerging from the acquisition, from the Yama Group, of 100% of the company regulated by Chinese law, Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd., made in 2008.

- Goodwill relating to the acquisition of the Tecomec Group, the Comet Group and of the Speed France Group on the part of Tecomec S.r.l respectively for € 2,807 thousand, € 4,253 thousand and € 2,854 thousand arise from the Greenfield Operation (for details on the operation, reference should be made to the prospectus published on November 18, 2011); in compliance with the requirements of the reference accounting standards, the acquisition operations carried out between parties subject to common control are not regulated by IFRS 3, but are accounted for taking account of the requirements of IAS 8, that is, the concept of a reliable and faithful representation of the operation, and of the provisions of OPI 1 (Assirevi, Association of Italian Auditors, Preliminary Guidelines regarding IFRS), relating to the "accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements". As more fully specified in the aforementioned accounting standards, the choice of the accounting standard for the operations in question must make reference to the above-described elements, which imply the application of the criterion of the continuity of the values of the net assets transferred. The principle of the continuity of values gives rise to the recognition in the financial statements of the acquiring company of values equal to those that would have been shown if the net assets subject to aggregation had always been aggregated. The net assets must therefore be recognized at the book values shown in the accounts of the acquired companies before the operation or, if available, at the values shown in the consolidated accounts of the common controlling company. Specifically, the company has chosen to account for the difference arising from the greater price paid for the acquisition of the stakes of the Tecomec Group and of the Comet Group only at the values already recognized in the consolidated accounts of the controlling company Yama at the time of the respective acquisitions.

Since the acquisition values of the shareholdings in the Greenfield Operation are greater than the equity values of the acquired companies at 31 December 2011, the excess of € 33,618 thousand has been eliminated by adjusting down equity in the consolidated financial statements.
The goodwill allocated to the CGU Comet, equal to € 4,253 thousand, includes the amount of € 1,974 thousand relates to the positive difference emerged following the acquisition and subsequent merger by incorporation of the company HPP in Comet S.p.A., finalized in 2010.

- The goodwill allocated to the CGU PTC, equal to €1,236 thousand, refer to:

  - € 360 thousand relates to the goodwill of a business unit contributed in 2011 by minority shareholders in PTC S.r.l., a Comet Group company;

  - € 523 thousand relates to the goodwill arose upon the acquisition of the company, Master Fluid S.r.l., acquired in June 2014 by P.T.C. S.r.l. and subsequently merged by incorporation into it. The goodwill derives from the difference between the price of acquisition and its equity on 30 June 2014;

  - € 353 thousand relates to the positive difference emerged following the acquisition and subsequent merger by incorporation of the company Acquatecnica S.r.l. in P.T.C. S.r.l., finalized in 2016.

- The goodwill allocated to the CGU Valley, equal to € 12,727 thousand, include an amount of € 11,354 thousand for the acquisition of Valley Industries LLP by Comet USA Inc in February 2012, resulting from the difference arising between the acquisition price and its net assets and an amount equal to € 1,373 thousand arising from the acquisition of the company branch A1 Mist Sprayers Resoruces Inc., realized in the first months of 2017.

- The goodwill recorded for € 901 thousand refers to the acquisition of the 51% of the company Geoline Electronic Srl, by Tecomec S.r.l. in January 2014. At 31 December 2018 the impairment test showed, for this CGU, a partial loss in the value of goodwill equal to € 597 thousand, accounted for as a reduction of the same. The goodwill allocated to this CGU had already been partially reduced by € 590 thousand recorded in the previous year.

- The goodwill recorded for € 634 thousand refers to the difference arisen in 2014 between the acquisition price paid by Comet Spa for the 55% of the company S.I.Agro Mexico (with which was increased the shareholding from 30% to 85%) and the pro-share equity acquired.

- The amount of € 12,281 thousand refers to the goodwill recorded in relation to the acquisition of the 100% of Lemasa during 2015 financial year, of which 30% regulated by a Put & Call option. The goodwill was calculated as the difference between the estimate of the current price of acquisition of 100% of the company and the fair value of its Net Equity at the date of acquisition. On the basis of the contractual agreements, part of the deferred acquisition price and the value of the Put & Call depend on the economic-financial results of the same CGU. The value of the goodwill was originally recorded using the best estimate of the current value of the deferred price for the exercise and the options, determined on the basis of the originally planned business plan. During 2016 financial year, as a result of the impairment test, this goodwill was partially reduced for € 4,811 thousand.

- The amount of € 17,490 thousand includes the value of the goodwill acquired from the consolidation of the Lavorwash Group for € 253 thousand and, for € 17,237 thousand, the portion of the price allocated at goodwill, referred to the acquisition of the 97.78% of the same Group, of which 14.67% regulated by a Put &Call Option Agreement to be exercised in 2020 and to be valued on the basis of the results of the period 2018-2019. The goodwill was calculated as the difference between the fair value of the net assets and the acquisition price that, for the portion regulated by Put & Call option, will be valued according to the future economic and financial results, with the forecast of a cap value; the value of the goodwill was, therefore, accounted for using the best estimate of the current value of the price for the exercise of the options, determined on the basis of the related business plan.

- The goodwill recorded for € 200 thousand in 2018, refers to the difference between the value of the capital increase subscribed by Tecomec S.r.l. for 51% of the company Spraycom and the pro-share equity acquired.

The Group checks the recoverability of goodwill at least once a year, or more frequently if there are indicators of loss in the value. This check is carried out by calculating the recoverable value of the relevant Cash Generating Unit (CGU), using the "Discounted cash flow" method.

The more relevant factors in the estimate of future cash flows are attributable to the intrinsic difficulty in the formulation of future forecasts, to the feasibility of market strategies in highly competitive contexts, and to macroeconomic risks connected to geographical areas in which the Emak Group operates.

All the impairment tests relating to goodwills recorded at 31 December 2018 have been approved by the Board of Directors taking account of the opinion of the Risk Control Committee.

In the basic assumption, the discount rate used to discount the expected cash flows has been established by single market area. This rate (WACC) reflects the current market assessments of the time value of money over the period considered and the specific risks of Emak Group companies.

The discount rates used correspond to an estimate net of taxation calculated on the basis of the following main assumptions:

- risk-free rate equal to the average yield on reference ten-year government bonds;
- indebtedness in relation to the comparable financial structure.

For the purpose of carrying out the impairment test on goodwill values, the Discounted cash flow has been calculated in the basis of the following assumptions:

- The basic data used has been extracted from the company plans that represent management's best estimate of the future operating performance of single entities in the period in question;
- Expected future cash flows refer to reference units in their current state and exclude any operation of an extraordinary nature and/or operations not yet defined at the closing of the fiscal year. With regards to the goodwill arising from the merger of Bertolini S.p.A into Emak S.p.A., planned figures of the CGU, Emak S.p.A., have been considered since they represent the minimum level at which goodwill is monitored by management for internal purposes.

- The WACC used to discount future cash flows are calculated on the basis of the following assumptions:

  - the average cost of capital is the result of the weighted average cost of debt (calculated considering the reference rates plus a "spread");
  - the cost of equity is determined using the value of beta levered and the financial structure of a panel of industry comparatives, with the only exceptions of the risk-free rate and the risk premium, specific for each country;
  - the terminal value was determined on the basis of a long-term growth rate (g) of 2%, representative of long-term expectations for the industrial sector to which it belongs. For the goodwill of the CGU located in Brazil, a growth rate of 4% was used, as it is representative of the country's long-term inflation.

- The future expected cash flows have been forecast in the currencies in which they will be generated;
- The future expected cash flows refer to a period of 3/5 years and include a normalized terminal value used to express a synthetic estimate of future results beyond the timeframe explicitly considered;
- For the determination of the operating cash flow based on the last year of explicit forecast, was reflected, in order to project "in perpetuity" a stable situation, a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business) and change in working capital equal to zero;
- With regards to companies operating in the Euro area, the WACC used to discount expected future cash flows for the CGU ranges from a minimum of 6.83% to a maximum of 9.28%;
- The WACC used to discount cash flows of the CGU located in Poland is 9.0%, for the CGU located in China 9.59%, for the CGU located in Mexico 12.99%, for the CGU located in the USA 8.72%, while for

the CGU located in Brazil has been used a WACC that ranges from a minimum of 15.13% to a maximum of 15.38%.

As already anticipated, considering the results recorded by the company Geoline Electronic Srl, which develops and produces electronic control systems for applications in the agriculture sector, the Board of Directors has approved a new industrial plan, used for the verification of impairment on the goodwill allocated to this CGU. The impairment test was carried out by applying over the five years a WACC of 8.68%, which takes into account the tax rate of 27.9%, and a long-term growth rate "g" equal to 2 %.
This valuation showed a partial reduction in value of € 597 thousand, attributed entirely to goodwill and recognized under the item "Amortization, depreciation and impairment losses" of the Income Statement.

The impairment test procedure, applied to the other CGU, in compliance with the provisions of IAS 36 and applying criteria issued by the Board of Directors, has not led others impairment losses on goodwill.
In addition, also on the basis of the indications contained in the joint document issued by the Bank of Italy, Consob and Isvap (supervisory body for private insurance) no. 4 of 3 March 2010, the Group has drawn up sensitivity analyses on the results of the test with respect to variations in the underlying assumptions effecting the use value of the CGU. Also in the event of a positive or negative variation of the WACC of 5%, of the long-term growth rate (g) of 50 bps and of 5% of the cash flows, the analyses would nevertheless indicate no losses in value.

21. Equity investments and Investments in associates

The amount of the balance of "Equity Investments" is € 230 thousand and it refers mainly to the 15.41% percentage of equity investment in Netribe S.r.l., a company operating in the sector I.T.
This investment is recorded at the fair value for an amount of € 223 thousand.
Investments are not subject to impairment losses; risks and benefits associated with the possession of the investment are negligible.

"Investments in associates" amounting to € 4,550 thousand (€ 4,284 thousand at 31 December of the previous year), refers to the proportionate interest in the value of the Group in the company Cifarelli S.p.A., obtained by applying the equity method. The value of the investment in the associated company was adjusted at December 31, 2018 for a value of € 266 thousand, recorded under the Income Statement "Income from equity investments".

22. Derivative financial instruments

The financial statements values relate to changes in the fair value of financial instruments for:
- hedging purchases in foreign currency;
- hedging the risk of changes in interest rates.

All derivative financial instruments belonging to this heading are valued at fair value at the second hierarchical level, that is, the estimate of their fair value has been carried out using variables other than prices quoted in active markets and which are observable (on the market) either directly (prices) or indirectly (derived from prices).

In the case in point, the fair value recorded is equal to the "market to market" estimation provided by independent sources, which represents the current market value of each contract calculated at the date at the closing date of the Financial Statements.

Accounting for the underexposed instruments is at fair value. According to the IFRS principles these effects were accounted in the income statement of the current year.

The current value of these contracts at December 31, 2018 is shown as follows:

€/000	31.12.2018	31.12.2017
Positive *fair value* assessment exchange rate hedge	278	189
Positive *fair value* assessment exchange rate options	-	12
Positive *fair value* assessment IRS and interest rate options	5	-
Total derivative financial instrument assets	**283**	**201**
Negative *fair value* assessment exchange rate hedge	30	51
Negative *fair value* assessment IRS and interest rate options	613	157
Total derivative financial instrument liabilities	**643**	**208**

At December 31, 2018 appear outstanding forward contracts of purchase in foreign currencies for:

	Company		Nominal value (€/000)	Forward rate (average)	Due to (*)
Forward contracts for foreign currencies purchases					
Cnh/Euro	Emak Spa	Cnh	76,500	8.12	13/11/2019
Cnh/Euro	Lavorwash Spa	Cnh	21,000	8.062	25/06/2019
Gbp/Euro	Lavorwash Spa	Gbp	300	0.88	30/09/2019
Usd/Euro	Lavorwash Spa	Usd	1,000	1.15	22/04/2019
Usd/Euro	Sabart Srl	Usd	2,000	1.15	03/06/2019
Usd/Euro	Emak France	Usd	400	1.23	29/01/2019
Euro/Pln	Victus	€	950	4.33	18/04/2019
Usd/Pln	Victus	Usd	72	3.64	26/09/2019
Cnh/Pln	Victus	Cnh	800	1.18	02/04/2019
Euro/Gbp	Emak UK Ltd.	€	200	0.88	05/03/2019
Euro/Mxn	SI Agro Mexico	€	1,310	23.45	31/07/2019
Usd/Mxn	SI Agro Mexico	Usd	30	20.15	22/01/2019
Euro/Usd	Valley	€	400	1.15	28/02/2019
Forward contracts for foreign currencies purchases with collar options					
Cnh/Euro	Emak Spa	Cnh	37,500	8.055	29/11/2019

(*) The expiry date is indicative of the last contract

Finally, on December 31, 2018 IRS contracts and options on interest rates are also in force, with the aim of covering the risk of variability of interest rates on loans.

The Parent company Emak S.p.A. and the subsidiaries Tecomec S.r.l., Comet S.p.A. and Comet USA Inc. have signed IRS contracts and options on interest rates for a total notional value of € 102,585 thousand; the expiration of the instruments is so detailed:

Bank	Company	Notional Euro (€/000)	Date of the operation	Due to
Ubi Banca	Emak S.p.A.	1,000	30/06/2015	31/12/2019
Carisbo	Emak S.p.A.	833	24/09/2015	12/06/2020
Mediobanca	Emak S.p.A.	2,500	24/09/2015	31/12/2020
MPS	Emak S.p.A.	1,500	24/09/2015	31/12/2020
Banca Nazionale del Lavoro	Emak S.p.A.	3,000	29/09/2017	22/04/2020
Credit Agricole Cariparma	Emak S.p.A.	6,563	26/10/2017	11/05/2022
Credit Agricole Cariparma	Emak S.p.A.	4,000	24/05/2018	30/06/2023
MPS	Emak S.p.A.	9,000	14/06/2018	30/06/2023
UniCredit	Emak S.p.A.	9,000	14/06/2018	30/06/2023
Banco BPM	Emak S.p.A.	7,500	21/06/2018	31/03/2023
Banca Nazionale del Lavoro	Emak S.p.A.	7,500	06/07/2018	06/07/2023
UniCredit	Comet S.p.A.	2,267	06/08/2015	20/03/2020
Banca Nazionale del Lavoro	Comet S.p.A.	1,067	06/08/2015	20/03/2020
Carisbo	Comet S.p.A.	833	24/09/2015	12/06/2020
Bper	Comet S.p.A.	9,000	20/09/2017	29/12/2023
Ubi Banca	Comet S.p.A.	4,500	20/09/2017	29/12/2023
UniCredit	Comet S.p.A.	9,000	14/06/2018	30/06/2023
Banca Nazionale del Lavoro	Comet S.p.A.	7,500	06/07/2018	06/07/2023
Bper	Comet S.p.A.	3,750	15/11/2018	29/12/2023
Ubi Banca	Comet S.p.A.	1,875	15/11/2018	29/12/2023
Carisbo	Tecomec S.r.l.	833	24/09/2015	12/06/2020
MPS	Tecomec S.r.l.	1,000	24/09/2015	31/12/2020
Credit Agricole Cariparma	Tecomec S.r.l.	4,000	24/05/2018	30/06/2023
Ubi Banca	Tecomec S.r.l.	3,929	23/10/2018	31/07/2022
Intesa San Paolo	Comet USA Inc	635	27/02/2013	19/02/2019
Total		**102,585**		

The average interest rate resulting from the instruments is equal to 0.22% at December 31, 2018.

All contracts, although having the purpose and characteristics of a hedging strategy, do not respect the rules to be formally recognized as such, so all changes in fair value are expensed in the income statement of the period.

The value of all these contracts (relating to interest and exchange rates) at December 31, 2018 is an overall negative fair value of € 360 thousand.

23. Trade and other receivables

Details of these amounts are as follows:

€/000	31.12.2018	31.12.2017
Trade receivables	108,953	109,577
Provision for doubtful accounts	(5,952)	(5,315)
Net trade receivables	**103,001**	**104,262**
Trade receivables from related parties (note 38)	316	373
Prepaid expenses and accrued income	1,747	1,570
Other receivables	3,264	3,189
Total current portion	**108,328**	**109,394**
Other non current receivables	65	65
Total non current portion	**65**	**65**

The item "Other short-term receivables" includes:
- an amount of € 619 thousand (€ 854 thousand at December 31 of the previous year) for receivables of certain Group companies towards the controlling company Yama S.p.A., emerging from the relationships that govern the tax consolidation in which they participate, of which € 456 thousand referring to the instance of reimbursement submitted in 2012 by the consolidating company in order to obtain the tax benefit associated with the deductibility of IRAP relating to personnel costs, for employees and other workers, from taxable IRES, as per Article 2, paragraph 1-c of the Decree-law no. 201/2011;
- an amount of approximately € 915 thousand as advances to suppliers for the supply of goods.

All non-current receivables mature within five years. There are no trade receivables maturing beyond one year.

The movement in the provision for bad debts is as follows:

€/000	31.12.2018	31.12.2017
Opening balance	**5,315**	**4,676**
Change in scope of consolidation	(124)	708
Provisions (note 13)	1,222	742
Decreases	(395)	(754)
Exchange differences	(66)	(57)
Closing balance	**5,952**	**5,315**

The book value reported in the statement of financial position corresponds to its fair value.

24. Inventories

Inventories are detailed as follows:

€/000	31.12.2018	31.12.2017
Raw, ancillary and consumable materials	46,918	45,706
Work in progress and semi-finished products	23,996	23,429
Finished products and goods	85,764	86,592
Total	**156,678**	**155,727**

Inventories at December 31, 2018 are stated net of provisions amounting to € 9,946 thousand (€ 9,913 thousand at December 31 2017) intended to align the obsolete and slow moving items to their estimated realizable value.

The inventories provision is an estimate of the loss in value expected by the Group, calculated on the basis of past experience, historic trends and market expectations.

Details of changes in the provision for inventories are as follows:

€/000	FY 2018	FY 2017
Opening balance	9,913	6,578
Change in scope of consolidation	(565)	2,687
Provisions	1,589	1,130
Effect of exchange differences	(65)	(50)
Usage	(926)	(432)
Closing balance	**9,946**	**9,913**

25. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2018	31.12.2017
Bank and post office deposits	62,529	40,680
Cash	73	132
Total	**62,602**	**40,812**

For the purposes of the cash flow statement, closing cash and cash equivalents comprise:

€/000	31.12.2018	31.12.2017
Cash and cash equivalents	62,602	40,812
Overdrafts (note 29)	(6,496)	(13,044)
Total	**56,106**	**27,768**

26. Other financial assets

Other financial instruments amount to € 2,464 thousand in current assets and € 554 thousand in fixed assets, and refer mainly to:

- an amount of € 351 thousand, recorded under fixed assets, corresponding to the residual amount of the sum originally paid through an Escrow Account contract as part of the Lemasa operation, to cover the Group against any potential liabilities deriving from the acquisition of 70% of the subsidiary;
- an amount of € 1,350 thousand (corresponding to 5,998 thousand reais) as a monetary investment made by the company Comet Do Brasil LTDA, of which € 507 thousand are short-term and € 843 thousand are long-term;
- an amount of € 518 thousand recorded under fixed assets, paid by the company, S.I. Agro Mexico, by way of a guarantee in relation to a dispute arising on customs matters, in order to be able to proceed with the submission of the relative claim (see Note 32);
- an overall amount of € 297 thousand, of which the fixed asset part is € 260 thousand and the current asset part € 37 thousand, corresponding to the receivable due from the parent company, Yama S.p.A. by way of a capital replenishment made to the Group for expenses incurred by a number of companies and relating to the period on which Yama S.p.A. exercised control over them.

The difference compared to the previous year is mainly due to the reduction of the escrow account for the acquisition of 70% of the company, Lemasa, which was released in April 2018 with the payment of the deferred price.

27. Equity

Share capital
Share capital is fully paid up at 31 December 2018 and amounts to € 42,623 thousand, remaining unchanged during the year under examination, and it consists of 163,934,835 ordinary shares of par value € 0.26 each. The share capital, shown net of the amount of the nominal value of the treasury shares in the portfolio, is equal to € 42,519 thousand.

All shares have been fully paid.

Treasury shares
The adjustment of the share capital for purchase of treasury shares, equal to € 104 thousand, represents the nominal value of treasury shares held at December 31, 2018 (Note 37).
Compared to the previous year, the overall amount paid by Emak S.p.A. to purchase on the market of own shares, fully exposed to the reduction of the share capital, has been attributed to an adjustment to the nominal value of the share capital and the share premium adjustment to the share premium reserve.

As for the sale and purchase of shares made during the period, please refer to the appropriate section of the Directors' Report.

Share premium reserve
At 31 December 2018, the share premium reserve amounts to € 40,529 thousand, and consists of premiums on newly issued shares, net of share premium treasury shares held at December 31, 2018 amounted to € 1,925 thousand. The reserve is shown net of charges related to the capital increase amounted to € 1,598 thousand and adjusted for the related tax effect of € 501 thousand.

Legal reserve
The legal reserve at December 31 2018 of € 3,197 thousand (€ 3,059 thousand at December 31 2017).

Revaluation reserve
At 31 December 2018 the revaluation reserve includes the reserves deriving from the revaluation as per Law 72/83 for € 371 thousand and as per Law 413/91 for € 767 thousand. No changes occurred during the year.

Reserve for conversion differences
At 31 December 2018 the reserve for conversion differences for a negative amount of € 225 thousand is entirely attributable to the differences generated from the translation of balances into the Group's reporting currency.
The negative variation of € 1,691 thousand is mainly attributable to the currency depreciation generated from the translation of the financial statements of consolidated subsidiaries belonging to the Brazilian currency area for € 3,463 thousand and to the Chinese area for € 434 thousand, partially offset by the currency revaluation generated from the translation of the financial statements of the companies belonging to the US currency area for € 3,072 thousand. The negative change in the reserve recorded for € 695 thousand, among other changes, refers to the minority portion of the translation difference of the financial statements of the company Epicenter acquired by the Group during 2018.

Reserve IAS 19
At 31 December 2018 the IAS 19 reserve is equal a negative amount of € 1,097 thousand, for the actuarial valuation difference of post-employment benefits to employees.

Other reserves
At 31 December 2018 Other reserves include:
- the extraordinary reserve, amounts to € 27,256 thousand, inclusive of all allocations of earnings in prior years;
- the reserves qualifying for tax relief refer to tax provisions for grants and donations for € 129 thousand;
- the reserves for merger surpluses for € 3,561 thousand;
- the reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

Details of the restrictions and distributability of reserves are contained in the specific table in the notes to the financial statements of the Parent company Emak S.p.A.

28. Trade and other payables

Details of trade and other payables are set out below:

€/000	31.12.2018	31.12.2017
Trade payables	73,710	80,229
Payables due to related parties (note 38)	1,828	2,632
Payables due to staff and social security institutions	10,427	11,339
Advances from customers	3,551	3,246
Accrued expenses and deferred income	998	466
Other payables	5,424	3,603
Total	**95,938**	**101,515**

The book value reported in the statement of financial position corresponds to fair value.

The item “Other payables” includes € 1,795 thousand, against € 812 thousand at 31 December 2017, for current IRES (Italian corporate income tax) payable accounted for a number of Group companies to the parent company, Yama S.p.A., and arising from the relationships that govern the tax consolidation as per art. 117 and following of Presidential Decree no. 917/1986, in which they participate.

29. Loans and borrowings

Details of **short-term loans and borrowings** are as follows:

€/000	31.12.2018	31.12.2017
Bank loans	57,630	55,468
Overdrafts (note 25)	6,496	13,044
Liabilities for purchase of equity investments	4,448	9,304
Financial accrued expenses and deferred income	112	16
Other loans	673	637
Total current portion	**69,359**	**78,469**

The carrying amount of short-term loans and lease finance approximates their current value.

The item “**Liabilities for purchase of equity investments**” includes:

- an amount of € 1,833 thousand as current portion of the debt for the purchase of the shares of the Lavorwash Group regulated by Put & Call option:
- an amount of € 1,508 thousand refers to the debt towards the transferor shareholder of the company Valley Industries LLP following the agreement of "*Put and Call Option Agreement*" to purchase the remaining 10% of the company;
- an amount of € 1,107 thousand, corresponding to approximately 4,921 thousand Reais, as an estimated debt for the distribution of dividends to the outgoing shareholders of the company Lemasa, as the current portion of the price value regulated by Put & Call option.

At 31 December 2017 the item “**Liabilities for purchase of equity investments”** included an amount of € 4,279 thousand, equivalent to approximately 17,000 thousand Reais, related to the deferred price for the purchase of 70% of the company Lemasa paid to the selling shareholder of Lemasa at April 2018 for an amount of approximately 15,280 thousand Reais, maintaining the residual amount in Escrow Account blocked to guarantee any future obligations.

The item "**Other loans**" includes:

- an amount of € 352 thousand as current portion of a loan made by Simest S.p.A. to the parent company Emak S.p.A in accordance with Law 133/08, through which, the Italian companies, are accompanied in their internationalization process by loans at preferential interest rates;
- an amount of € 303 thousand related to the debt for the loan made by the minority shareholders towards the company Geoline Electronic S.r.l.

Long-term loans and borrowings are detailed as follows

€/000	31.12.2018	31.12.2017
Bank loans	99,817	80,084
Liabilities for purchase of equity investments	12,808	14,587
Other loans	703	1,059
Total non current portion	**113,328**	**95,730**

"**Liabilities for purchase of equity investments**" refers to debts outstanding at the end of the year for the purchase of minority equity investments. This item includes:

- an amount of € 3,991 thousand, corresponding to approximately 17,700 thousand Reais, related to the non-current portion of the remaining debt actualized to the selling shareholder of company Lemasa following the "Put & Call Option Agreement" for purchase the remaining 30% of the company to be exercised by 2020. The adjustment of this debt at December 31, 2018 has led to a recognition in the income statement of financial costs due to the discounting of this debt for € 761 thousand.
  These debts represent the best estimate of the discounted debt related to the Put and Call Option to be paid to selling shareholders and could change on the basis of the trend of some economic-financial indicators regulated by the purchase contract.
  At December 31, 2018, the Management reviewed the long-term plans originally used to estimate the Put & Call option price by adjusting the value of the debt. In accordance with the provisions of IFRS 9 and IAS 32, following a IFRS 3 business combination, the changes in the debt, relating to the current value of the future disbursement due, were recognized in the income statement. This adjustment resulted in the recognition of financial income of € 1,880 thousand.
- an amount of € 349 thousand, equivalent to approximately 1,550 thousand Reais, related to the deferred price for the purchase of 70% of the company Lemasa corresponding at the share accrued in Escrow Account bound to guarantee any obligations.
- an amount of € 8,468 thousand related to the discounted debt for the portion of the purchase price of the 14.67% of the shares of the Lavorwash Group following the "Put & Call Option Agreement" to be exercised in 2020. The price could change on the basis of the trend of economic-financial indicators of the target Group and within the limits of a maximum value (CAP) contractually regulated. The Management has estimated the value of the future debt on the basis of forecasting economic-financial plans. The adjustment of this debt at December 31, 2018 has led to a recognition in the income statement of financial costs due to the discounting of this debt for € 175 thousand.

"Other loans" includes € 703 thousand as non-current portion of the loan from Simest S.p.A. illustrated previously.

The changes in **medium and long term loans** are reported below:

€/000	31.12.2017	Increases	Decreases	Exchange differences	Other movements	31.12.2018
Bank loans	80,084	58,680	(38,886)	(61)	-	99,817
Liabilities for purchase of equity investments	14,587	-	(2,048)	(667)	936	12,808
Other loans	1,059	-	(4)	(352)	-	703
Total	**95,730**	**58,680**	**(40,938)**	**(1,080)**	**936**	**113,328**

The other movements refer to the implicit interests accrued during the year and recorded as an increase of the discounted debts to pay in future fiscal years.

Some medium and long term loans are subjected to financial Covenants verified, mainly, on the basis of the consolidated ratios *Pfn/Ebitda* and *Pfn/Equity.* At December 31, 2018 the Group respects all the reference parameters foreseen by the contract.

The **medium and long term loans** are reimbursed under the following repayment plans:

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	36,496	26,249	22,956	14,116	**99,817**	-
Liabilities for purchase of equity investments	12,808	-	-	-	**12,808**	-
Other loans	352	351	-	-	**703**	-
Total	**49,656**	**26,600**	**22,956**	**14,116**	**113,328**	-

The interest rates applied on short and medium-long term loans are as follows:

- on bank loans in Euro, Euribor plus a fixed spread is applied;
- on bank loans in British pounds, the "base rate" Bank of England plus a fixed spread is applied;
- bank loans in U.S. dollars, LIBOR plus a fixed spread is applied;
- on bank loans in Brazilian Reais, applies the CDI plus a fixed spread;
- on bank loans in Polish Zloty, WIBOR plus a fixed spread is applied.

The book value of items in the financial statements does not differ from its fair value.

30. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2017	Ch. in scope of consolidation	Increases	Decreases	Other movements	Exchange differences	31.12.2018
Deferred tax on impairment losses of assets	427	(8)		(59)		2	362
Deferred tax on reversal of unrealized intercompany gains	2,492		53				2,545
Deferred tax on provision for inventory obsolescence	2,013	(157)	559	(475)		(2)	1,938
Deferred tax on losses in past financial periods	741		75	(11)		(20)	785
Deferred tax on provisions for bad debts	462		102	(9)			555
Other deferred tax assets	2,933	(65)	391	(989)	27	(2)	2,295
Total (note 16)	**9,068**	**(230)**	**1,180**	**(1,543)**	**27**	**(22)**	**8,480**

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2018.
The recognition of deferred tax assets depends on the existence of conditions for their future recovery on the basis of updated strategic plans.
The exploitation of past tax losses is of unlimited duration.

"Other deferred tax assets" mainly includes receivables for facilitation "ACE", the tax effect related to the discounting of Employee Indemnities and other provisions subject to deferred taxation.

Deferred tax liabilities are detailed below:

€/000	31.12.2017	Increases	Decreases	Other movements	Exchange differences	31.12.2018
Deferred tax on property IAS 17	1,171	-	(33)	-	-	1,138
Deferred tax on depreciations	6,632	169	(538)	-	(80)	6,183
Other deferred tax liabilities	1,819	297	(979)	(118)	15	1,034
Total (note 16)	**9,622**	**466**	**(1,550)**	**(118)**	**(65)**	**8,355**

Other deferred tax liabilities refers mainly to revenues that will be fiscally recognized in future financial periods.

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2018.

At December 31, 2018, no deferred tax liabilities for taxes on retained earnings of subsidiaries have been recognized as the Group does not believe, at the time, that these profits will be distributed in the foreseeable future.

It should be noted, moreover, that deferred taxes relating to the revaluation reserves, which are reserves in partial tax suspension, have not been allocated since it is unlikely that there will be any operations carried out giving rise to taxation.

The tax credits amount at December 31 2018 to € 6,043 thousand, against € 5,428 thousand at December 31 2017, and refer to VAT credits, surplus payments on account of direct tax and other tax credits.

The tax debts amount to € 4,913 thousand at December 31 2018, compared with € 4,676 thousand a year earlier, and they refer to payables for direct tax for the period, VAT and withholding taxes.

A number of Group companies participate in the tax consolidation submitted by the parent company, Yama S.p.A., as per arts. 117 and following of Presidential Decree no. 917/1986: current IRES taxes payable by these companies are accounted for in the heading "Other payables" (Note 28).

31. Employee benefits

At December 31 2018 such benefits refer principally to the discounted liability for employment termination indemnity payable at the end of an employee's working life, amounting to € 8,180 thousand against € 10,288 thousand at December 31 2017. The valuation of the indemnity leaving fund (TFR), carried out according to the nominal debt method, in force at the closing date, would be € 7,634 thousand against € 9,469 at December 31 2017. The change in scope of consolidation refer to the deconsolidation of the company Raico S.r.l.

Movements in this liability are as follows:

€/000	FY 2018	FY 2017
Opening balance	**10,932**	**9,137**
Current service cost and other provisions	11	228
Actuarial (gains)/losses	(45)	470
Interest cost on obligation (note 15)	72	81
Change in area of consolidation	(1,262)	1,840
Disbursements	(944)	(824)
Closing balance	**8,764**	**10,932**

The principal economic and financial assumptions used, for the calculations of TFR, in accordance with IAS 19, are as follows:

	FY 2018	FY 2017
Annual inflation rate	1.5%	1.5%
Discount rate	1.1%	0.9%
Rate of dismissal	1.0%	1.0%

Demographic assumptions refer to the most recent statistics published by ISTAT.
In the 2019 financial year, payments are expected to be in line with 2018, net of the payment attributable to the effects of the corporate restructuring procedure started at December 2017 relatively to the Parent Company, for more information see the specific paragraph of the Directors' Report.

32. Provisions for risks and charges

Movements in these provisions are detailed below:

€/000	31.12.2017	Change in scope of consolidation	Increases	Decreases	Exchange differences	Other movements	31.12.2018
Provisions for agents' termination indemnity	2,097	(89)	212	(140)	-	-	2,080
Other provisions	168	-	-	(63)	(12)	-	93
Total non current portion	**2,265**	**(89)**	**212**	**(203)**	**(12)**	**-**	**2,173**
Provisions for products warranties	1,225	0	43	(6)	(7)	(3)	1,252
Other provisions	1,297	(1)	466	(1,134)	(2)	-	626
Total current portion	**2,522**	**(1)**	**509**	**(1,140)**	**(9)**	**(3)**	**1,878**

The provision for agents' termination indemnity is calculated on the basis of agency relationships in force at the close of the financial year, it refers to the probable indemnity which will have to be paid to the agents.
The year allocation of € 212 thousand, was recorded under the provisions in the item "Other operating expenses" in the income statement.

Other non-current provisions, equal to € 93 thousand, have been allocated for:

- € 56 thousand in legal costs accrued in respect of the conduct of tax disputes on the part of some companies of the Lavorwash Group and of Bertolini S.p.A (Incorporated into Emak S.p.A. in year 2008) for which the Group, following the opinion expressed by its defenders, does not expect to mobilize additional funds to contingent liabilities;
- € 37 thousand as allocation effected against a tax assessment and other current disputes related to the company Lemasa.

The product warranty provision refers to future costs for repairs on warranty which will be incurred for products sold covered by the legal and/or contractual warranty period; the allocation is based on estimates extrapolated from the historic trend.

The "Other provisions", for the current part, refers to the best possible estimate of probable liabilities, details of which are given below:

- allocation for € 388 thousand, corresponding to approximately 8,733 thousand Pesos, set aside during the year by the company S.I. Agro Mexico, on the basis of a dispute concerning customs relating the correct management of VAT on goods entering Mexican territory. The federal administrative court has demanded the preventive payment of the total of the disputed amount for an amount of 11,644 thousand pesos, equal to € 518 thousand, and recorded among the "Other non-current financial assets". In the month of February 2019 the local court confirmed the dispute at first instance and the Group, through the support of its consultants, estimated the liability relying on a defense briefs to be presented in the second instance judgment;
- allocation concerning various objections relating to various disputes and future costs for € 238 thousand.

The **decrease** of the item "Other provisions" mainly refers to:

- for € 450 thousand, referring to the company Lavorwash, originally allocated against a tax dispute relating to "Transfer Pricing" for the years 2012-2013 and 2014. During the second quarter of 2018 the Group defined the annual installments disputed through the instrument of assessment with acceptance, paying an amount of € 490 thousand. Part of this disbursement was subject to compensation by the transferors of the Lavorwash shares as per contractual provisions;
- for € 150 thousand (including legal defense costs for € 32 thousand and legal interests for € 8 thousand), previously set aside for a tax audit, at the company Comet S.p.A., following comments on transfer prices applied to the sale of products to foreign subsidiaries Comet USA Inc. and Comet France S.A.S. On the basis of the opportunity to close a passive position, Comet S.p.A. has decided to proceed with the definition of the disputed annuities through the institution of assessment with acceptance and has proceeded to the payment of the sums requested within the limits of what has already been allocated;

- for € 308 thousand previously set aside against a dispute arising in the labor law field of the subsidiary Speed France SAS; the dispute closed with a positive outcome during the second half of the year, generating a release of the previously allocated provision.

33. Other non-current liabilities

The entire amount of € 520 thousand (€ 579 thousand at 31 December 2017) refers to the deferred income relating to capital grants received pursuant to Law 488/92 by Comag S.r.l., now merged into Emak S.p.A., and allocated to subsequent financial periods. The part of the grant receivable within a year is recorded in current liabilities under accrued expenses and deferred income (note 28) and amounts to € 59 thousand.

34. Contingent liabilities

The Group has not further outstanding disputes in addition to those already discussed in these notes.

35. Commitments

Fixed asset purchases
The Group has commitments for purchases of fixed assets not accounted in the financial statements at December 31 2018 for an amount of € 3,830 thousand (€ 4,039 thousand at December 31 2017).
These commitments relate to the purchase of equipment, plant and machinery and the new R&D center under construction and for the ERP Transformation project of some companies of the Group.

Purchases of additional shares of equity
Please note that with respect to shares held directly or indirectly by the Parent Company Emak S.p.A. the following contractual agreements are in force:
- a Put and Call option is contained in the contract for the acquisition of the subsidiary, Valley Industries LLP, for the remaining 10% of the share capital in favor of the trust Savage Investments LLC, to be exercised without any restriction of deadline;
- as part of the contract for the acquisition of the Maxican company, S.I.Agro Mexico, the subsidiary, Comet S.p.A., has entered into a supplementary agreement that provides for a call option in favor of Comet for the acquisition of the remaining 15% of the share capital, to be exercised in 2019;
- in the contract to acquire the subsidiary Lemasa LTDA, owned by Comet do Brasil with a share of 70%, there is an agreement of "Put & Call Option" that regulates the purchase of the remaining 30% to be exercised between April 1 2020 and April 1, 2021;
- as part of the contract for the acquisition of the Lavorwash Group a “Put & Call Option” was defined for the acquisition of the 14.67%, to be exercised in 2020;
- as part of the contract for the acquisition of the company Cifarelli S.p.A a “Put &Call Option” was defined for the acquisition of the 70%, to be exercised in 2020.

36. Guarantees

The group has € 3,357 thousand in guarantees granted to third parties at December 31 2018, relating to guarantee policies for customs rights and bank guarantees.
The shares representing the capital of Comet do Brasil Investimentos LTDA, Lemasa and Lavorwash S.p.A. are subject to a lien in favor of credit institutions that provided the financing functional to the purchase of the same.

37. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at December 31 2018 and amounts to € 42,623 thousand and it consists of 163,934,835 ordinary shares of par value € 0.26 each.

	31.12.2018	31.12.2017
Number of ordinary shares	163,934,835	163,934,835
Treasury shares	(397,233)	(397,233)
Total outstanding shares	**163,537,602**	**163,537,602**

The dividends for 2017 approved by the shareholders on April 27 2018, totaling € 5,724 thousand, were paid during 2018.

At December 31 2017 the company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand. During 2018 no treasury shares were purchased or sold.
Therefore, at December 31 2018 the company held 397,233 treasury shares in portfolio for a value of € 2,029 thousand.

In January and February 2019 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to December 31 2018.

38. Related party transactions

The transactions entered into with related parties by the Emak Group in the year 2018 mainly relate to two different types of usual nature relations, within the ordinary course of business, adjusted to market conditions and with the parent Yama S.p.A. and certain subsidiary companies.

It is in first place for the exchange of goods and provision of services of industrial and real estate activities. Among the companies under the direct control of Yama, some have provided during the period to the Emak Group components, materials of production, as well as the leasing of industrial surfaces. On the other hand, certain companies of Yama Group bought from Emak Group products for the completion of their respective range of commercial offer. The conduct of these operations is responding to a compelling logic and industrial and commercial purposes.

Secondly, relations of a tax nature and usual character attain the equity investment of the Parent company Emak S.p.A. and of the subsidiaries Comet S.p.A., Tecomec S.r.l., Sabart S.r.l. and Lavorwash S.p.A. to the tax consolidation under Articles. 117 et seq., Tax Code, which involves Yama, as consolidating company. The criteria and procedures for the settlement of such transactions are established and formalized in agreements of consolidation, based on the principle of equal treatment between participants.

A further area of relationships with "related parties" is derived from the performance of professional services for legal and fiscal nature, provided by entities subject to significant influence of certain directors.

The nature and extent of the usual and commercial operations described above is shown in the following two tables.

Sale of goods and services, trade and other receivables and financial asset:

€/000	Net sales	Trade receivables	Other receivables for tax consolidation	Total trade and other receivables	Financial revenues	Current financial asset	Non current financial asset
SG Agro D.o.o.	38	17	-	17	-	-	-
Euro Reflex D.o.o.	596	278	-	278	-	-	-
Garmec S.r.l.	117	17	-	17	-	-	-
Mac Sardegna S.r.l.	(33)	-	-	-	-	-	-
Selettra S.r.l.	2	1	-	1	-	-	-
Yama S.p.A.	-	-	619	619	2	37	260
Cifarelli S.p.A.	58	3	-	3	-	-	-
Total (notes 23 - 26)	**778**	**316**	**619**	**935**	**2**	**37**	**260**

Purchase of goods and services and trade and other payables:

€/000	Purchases of raw and finished products	Other costs	Trade payables	Other payables for tax consolidation	Total trade and other payables
SG Agro D.o.o.	20	-	3	-	3
Cofima S.r.l.	86	-	-	-	-
Euro Reflex D.o.o.	1,370	5	235	-	235
Garmec S.r.l.	33	-	-	-	-
Selettra S.r.l.	342	3	202	-	202
Yama Immobiliare S.r.l.	-	1,832	1	-	1
Yama S.p.A.	-	-	-	1,795	1,795
Cifarelli S.p.A.	2,694	2	1,157	-	1,157
Other related parties	-	519	230	-	230
Total (note 28)	**4,545**	**2,361**	**1,828**	**1,795**	**3,623**

* * * * * * * * * * *

The remunerations of the Directors and Auditors of the Parent company for the financial year 2018, the different components of the total remuneration, the remuneration policy adopted, the procedures followed for their calculation and the shareholdings in the Group owned by the above officers, are set out in the “Remuneration report”, drawn up pursuant to art. 123-ter, Leg. Dec. 58/98 and available on the company website www.emakgroup.it, in the section “Investor Relations > Corporate Governance >Remuneration reports”.

* * * * * * * * * * *

During the year there are no other significant intercompany transactions with related parties outside the Group, other than those described in these notes.

39. Grants received: obligations of transparency regarding public grants Law no.124/2017

In compliance with the transparency obligations regarding public grants provided for by article 1, paragraphs 125-129 of Law no. 124/2017, subsequently integrated by the “security” Decree Law (no. 113/2018) and by the “Simplification” Decree Law (no. 135/2018), information relating to public grants received by the Group during the 2018 financial year is given below.
It should be noted that a cash-based reporting criterion has been adopted, reporting the grants collected during the period in question.
Disbursements received as consideration for supplies and services provided have not been taken into consideration.

€/000

Lender	Description	Emak S.p.A.	Tecomec S.r.l.	Comet S.p.A.	Lavorwash S.p.A.	P.T.C. S.r.l.	Totale
Emilia Romagna Region	Contribution for research and development projects (Invitation to tender POR FESR 2014-2020)	-	145	-	-	-	145
Emilia Romagna Region	Contribution for research and development projects (DGR 773/2015)	110	-	-	-	-	110
Emilia Romagna Region	Contribution for Asbestos Invitation to tender 2015	19	-	-	-	-	19
Lombardia Region	Contribution for Earthquake - Decree 207/2018	-	-	-	171	-	171
Ministry for the Environment, Land and Sea	Tax credit for asbestos rehabilitation (L. 28 December 2015, n. 221)	-	-	-	-	5	5
Fondimpresa	Contribution for training plans	6	15	-	8	-	29
Fondirigenti	Contribution for training plans	27	2	19	-	-	48
MEF	Tax credit under Law 190/2014	382	61	-	-	-	443
MEF	Tax credit under Law 107/2015	2	-	-	-	-	2
MEF	Tax credit under Law 106/2011	-	-	2	-	-	2
Totale		**546**	**223**	**21**	**179**	**5**	**974**

40. Subsequent events

For the description of subsequent events please refer to the note 14 of the Directors' report.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Emak S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Emak S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Emak S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test of goodwill	
Description of the key audit matter	The consolidated financial statements of the Emak Group as of 31 December 2018 include goodwill of Euro 65,773 thousand, distributed for Euro 37,273 thousand in Europe, Euro 13,115 thousand in Latin America, Euro 12,727 thousand in North America and Euro 2,658 thousand in Asia.

Goodwill is not amortized, but is tested for impairment at least annually, as stated by IAS 36 – Impairment of Assets. Impairment tests are performed by comparing the recoverable values of the cash generating units (CGU) identified by the Group - determined according to the method of value in use - and the carrying amounts, which take into account both the goodwill and the other assets allocated to CGU.

As a result of the impairment test, the Group has recorded goodwill impairment losses of Euro 597 thousand in relation to the cash-generating unit (CGU) represented by Geoline Electronic S.r.l., an Italian subsidiary operating in the "Components and Accessories" segment, which had reported lower results than expected.

The evaluation process adopted by Management to identify possible impairment is based on assumptions about, among other matters, the forecast cash flows of the cash-generating units (CGUs), the appropriate discounting rate (WACC) and the long-term growth rate (g-rate). The assumptions reflected in the long-term plans of the CGUs concerned are influenced by future expectations and market conditions, which are affected by uncertainties especially with regard to Lemasa CGU (Brazil), who operates in geographical area marked by economic instability, and whose goodwill as of 31 December 2018, also following the write downs made in previous years, amounts to Euro 12,281 thousand.

In view of the significance of the goodwill reported in the financial statements, the subjective nature of the estimates made to determine the cash flows of the CGUs and the key variables of the impairment model, and the many unpredictable factors that might influence the performance of the markets in which the Group operates, we considered the impairment test of goodwill to be a key audit matter of the audit of the consolidated financial statements of the Emak Group as of 31 December 2018.

The explanatory notes of consolidated financial statements in the paragraphs "2.6 Goodwill", "2.7 Impairment of assets", and "5. Key accounting estimates and assumptions", describe the Management assessment process and the note 20 reports the significant assumptions and disclosures on the items subject to impairment tests, including a sensitivity analysis that illustrates the effects deriving from changes in the key variables used to carry out the impairment tests.

Audit procedures performed

In the context of our audit work we performed the following procedures, among others, partly with assistance from experts:

- examination of the approach adopted by Management to determine the value in use of the CGUs, and analysis of the methods and assumptions applied by management to carry out the impairment test;
- understanding and testing the operating effectiveness of the relevant controls implemented by the Emak Group over the impairment testing process;
- analysis of the reasonableness of the principal assumptions made in order to forecast cash flows, partly by analysing external data and obtaining information from Management that we deemed to be significant;

- analysis of actual values in comparison with the original plans, in order to assess the nature of variances and the reliability of the planning process, giving particular attention to the Lemasa CGU (Brazil);
- assessment of the reasonableness of the discount rates (WACC) and the long-term growth rate (g-rate), partly via the appropriate identification of and reference to external sources that are normally used in professional practice and to key data for main comparables;
- verification of the mathematical accuracy of the model used to determine the value in use of the CGU;
- verification that the carrying amount of the CGU was determined properly;
- verification of the sensitivity analysis prepared by Management;
- examination of the adequacy of the information disclosed about the impairment tests and its consistency with the requirements of IAS 36.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Emak S.p.A. has appointed us on April 22, 2016 as auditors of the Company for the years from December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Emak S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Emak Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Emak Group as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Emak Group as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Emak S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Farioli
Partner

Parma, Italy
March 28, 2019

This report has been translated into the English language solely for the convenience of international readers.

Emak S.p.A.
Separate financial statements at 31 December 2018

Financial statements

Emak S.p.A.-Income Statement

€	Notes	Year 2018	of which to related parties	Year 2017	of which to related parties
Revenues from sales	**8**	**124,240,305**	**27,345,046**	**125,425,877**	**32,177,519**
Other operating incomes	8	825,384	2,380	456,805	1,400
Change in inventories		(1,744,433)		3,434,425	
Raw materials, consumable and goods	9	(73,648,027)	(26,607,686)	(80,936,263)	(28,386,543)
Personnel expenses	10	(24,225,205)		(24,697,104)	
Other operating costs and provisions	11	(19,661,085)	(610,493)	(19,872,125)	(896,187)
Impairment gains and losses, Amortization and depreciation	12	(5,158,035)		(4,944,401)	
Operating result		**628,904**		**(1,132,786)**	
Financial income	13	5,511,678	5,366,169	5,544,914	5,254,631
Financial expenses	13	(862,095)	(2,146)	(692,222)	(8,943)
Exchange gains and losses	13	873,670		(2,288,067)	
Profit befor taxes		**6,152,157**		**1,431,839**	
Income taxes	14	(319,751)		1,327,595	
Net profit		**5,832,406**		**2,759,434**	

Statement of other comprehensive income

€	Notes	Year 2018	Year 2017
Net profit (A)		**5,832,406**	**2,759,434**
Actuarial profits/(losses) deriving from defined benefit plans (*)	**29**	60,000	(207,000)
Income taxes on OCI (*)		(17,000)	58,000
Total other components to be included in the comprehensive income statement (B)		**43,000**	**(149,000)**
Total comprehensive income for the perdiod (A)+(B)		**5,875,406**	**2,610,434**

(*) Items will not be classified in the income statement

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of transactions with related parties on the consolidated income statement are shown in the scheme and are further described and discussed in note 36.

Statement of financial position

ASSETS

€	Notes	31.12.2018	of which to related parties	31.12.2017	of which to related parties
Non-current assets					
Property, plant and equipment	16	30,113,313		29,415,087	
Intangible assets	17	3,741,384		2,338,252	
Goodwill	18	2,074,305	2,074,305	2,074,305	2,074,305
Equity investments	19	93,681,189		97,397,145	
Deferred tax assets	28	1,853,733		2,215,690	
Other financial assets	21	20,617,970	20,617,970	18,071,986	18,071,986
Other assets	22	3,350		3,350	
Total non-current assets		**152,085,244**	**22,692,275**	**151,515,815**	**20,146,291**
Current assets					
Inventories	23	35,063,752		36,808,185	
Trade and other receivables	22	44,908,272	15,797,327	40,708,259	12,036,246
Current tax assets	28	1,434,597		1,154,694	
Other financial assets	21	910,468	910,468	1,883,168	1,883,168
Derivative financial instruments	20	200,106		79,003	
Cash and cash equivalents	24	31,086,293		8,337,136	
Total current assets		**113,603,488**	**16,707,795**	**88,970,445**	**13,919,414**
TOTAL ASSETS		**265,688,732**	**39,400,070**	**240,486,260**	**34,065,705**

EQUITY AND LIABILITIES

€	Notes	31.12.2018	of which to related parties	31.12.2017	of which to related parties
Capital and reserves					
Issued capital		42,519,776		42,519,776	
Share premium		40,529,032		40,529,032	
Other reserves		34,865,509		34,516,139	
Retained earnings		32,724,349		32,922,131	
Total equity	**25**	**150,638,666**		**150,487,078**	
Non-current liabilities					
Loans and borrowings due to banks and other landers	27	46,762,042	259,742	29,854,300	296,848
Deferred tax liabilities	28	1,306,127		1,267,372	
Employee benefits	29	3,124,136		3,768,874	
Provisions for risks and charges	30	1,935,342		346,952	
Other non-current liabilities	31	519,747		578,737	
Total non-current lialilities		**53,647,394**	**259,742**	**35,816,235**	**296,848**
Current liabilities					
Trade and other payables	26	34,874,629	5,473,571	35,553,118	6,439,675
Current tax liabilities	28	1,042,986		975,589	
Loans and borrowings due to banks and other landers	27	24,753,268	2,465,962	17,130,820	478,030
Derivative financial instruments	20	266,267		74,898	
Provisions for risks and charges	30	465,522		448,522	
Total current liabilities		**61,402,672**	**7,939,533**	**54,182,947**	**6,917,705**
TOTAL EQUITY AND LIABILITIES		**265,688,732**	**8,199,275**	**240,486,260**	**7,214,553**

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of transactions with related parties on the consolidated income statement are shown in the scheme and are further described and discussed in note 36

Emak S.p.A. – Statement of changes in equity at December 31, 2017 and December 31, 2018

€/000	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES				RETAINED EARNINGS		TOTAL
			Legal reserve	Revaluation reserve	Reserve IAS 19	Other reserves	Retained earnings	Net profit for the period	
Total at 31.12.2016	**42,519**	**40,529**	**2,709**	**1,138**	**(432)**	**30,900**	**29,227**	**7,010**	**153,600**
Change in treasury shares									**0**
Payment of dividends								(5,723)	**(5,723)**
Reclassification of 2016 net profit			350				937	(1,287)	**0**
Other changes									**0**
Net profit for 2017					(149)			2,759	**2,610**
Total at 31.12.2017	**42,519**	**40,529**	**3,059**	**1,138**	**(581)**	**30,900**	**30,164**	**2,759**	**150,487**
Change in treasury shares									**0**
Payments of dividends							(3,270)	(2,453)	**(5,723)**
Reclassification of 2017 net profit			138				0	(138)	**0**
Other changes						168		(168)	**0**
Net profit for 2018					43			5,832	**5,875**
Total at 31.12.2018	**42,519**	**40,529**	**3,197**	**1,138**	**(538)**	**31,068**	**26,894**	**5,832**	**150,639**

The share capital is show n net of the nominal value of treasury shares in the portfolio amounted to € 104 thousand
The share premium reserve is stated net of the premium value of treasury shares amounting to € 1,925 thousand

Cash Flow Statement Emak S.p.A.

€/000	Notes	2018	2017
Cash flow from operations			
Net profit for the period		**5,832**	**2,759**
Impairment gains and losses, Amortization and depreciation	12	5,158	4,944
Capital (gains)/losses on disposal of property, plant and equipment		(14)	(4)
Dividends income		(4,804)	(4,834)
Decreases/(increases) in trade and other receivables		(4,118)	5,778
Decreases/(increases) in inventories		1,744	(3,434)
(Decreases)/increases in trade and other payables		(631)	2,004
Change in employee benefits	29	(645)	(8)
Revaluation of equity investment	19	(1,020)	-
Increase of equity investment for conversion of financial receivables	19	(412)	-
(Decreases)/increases in provisions for risks and charges	30	1,605	(568)
Change in derivate financial instruments		70	(137)
Cash flow from operations		**2,765**	**6,500**
Cash flow from investing activities			
Dividends income		4,804	4,834
Change in property, plant and equipment and intangible assets		(7,259)	(7,084)
(Increases) and decreases in financial assets		3,575	(12,825)
Proceeds from disposal of property, plant and equipment		14	4
Cash flow from investing activities		**1,134**	**(15,071)**
Cash flow from financing activities			
Dividends paid		(5,723)	(5,723)
Change in short and long-term loans and borrowings		27,135	(1,515)
Change in equity		43	(149)
Cash flow from financing activities		**21,455**	**(7,387)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**25,354**	**(15,958)**
OPENING CASH AND CASH EQUIVALENTS		**5,467**	**21,425**
CLOSING CASH AND CASH EQUIVALENTS		**30,822**	**5,467**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000		2018	2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Opening cash and cash equivalents, detailed as follows:	24	**5,467**	**21,425**
Cash and cash equivalents		8,337	21,425
Overdrafts		(2,870)	-
Closing cash and cash equivalents, detailed as follows:	24	**30,822**	**5,467**
Cash and cash equivalents		31,086	8,337
Overdrafts		(264)	(2,870)
Other information:			
Income taxes paid		(52)	(50)
Interest paid		(518)	(595)
Interest on financings to subsidiary companies		539	352
Interest on financings to parent company		2	8
Interest on financings from subsidiary companies		(2)	(9)
Interest receivable on bank account		50	114
Interest receivable on trade receivables		74	69
Interest receivable on subsidiaries trade receivables		21	-
Effects of exchange rate changes		(24)	1,354
Change in related party financial assets transactions		(1,573)	(12,832)
Change in related party financial liabilities transactions		1,951	(1,515)
Change in trade receivables and others toward related parties		(3,761)	53
Change in trade payables and others toward related parties		(965)	(2,388)
Change in trade receivables and others related to fiscal assets		107	547
Change trade in payables and others related to fiscal liabilities		149	(309)

In accordance with the CONSOB resolution no. 15519 of July 27 2006, the effects of transactions with related parties on the consolidated income statement are shown in the section Other information.

Emak S.p.A. Explanatory notes to the financial statement

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1. General information

Emak S.p.A. (hereinafter "Emak" or "the "Company") is a public limited company, listed on the Italian stock market on the STAR segment, with registered offices in Via Fermi, 4 Bagnolo in Piano (RE).

Emak S.p.A. is controlled by Yama S.p.A., an industrial holding company, which holds the majority of its capital and appoints, pursuant to the law and the company's bylaws, the majority of the members of its governing bodies. Emak S.p.A., nonetheless, is not subject to management or coordination on the part of Yama, and its Board of Directors makes its own strategic and operating choices in complete autonomy.

The Board of Directors of Emak S.p.A. on March 14, 2019 approved the Financial Statements for the year to December 31, 2018, and ordered immediate notification under Art. 154-ter, paragraph 1-ter TUF, to the Board of Auditors and to the Auditing firm in order for them to carry out their relative duties. In connection with this communication, the company issued an appropriate press release with the key figures of the financial statements and the dividend proposal made to the General Meeting of Shareholders.

The financial statements for the financial year will be submitted for approval by the General Meeting of Shareholders called for 30 April 2019.

Emak S.p.A., as the parent company, has also prepared the consolidated financial statements of the Emak Group at 31 December 2018, also approved by the Board of Directors of Emak S.p.A. in the meeting of 14 March 2019; both sets of financial statements are subject to statutory audit by Deloitte & Touche S.p.A.

Values shown in the notes are in thousands of Euros, unless otherwise stated.

1.1 Newly applied standards

Emak S.p.A. applied two new accounting standards with effect from 1 January 2018:

- IFRS 15 "Revenue from Contracts with Customers", replacing standards IAS 18 "Revenues" and IAS 11 "Construction contracts" and the relative interpretations;
- IFRS 9 "Financial Instruments", replacing standard IAS 39 "Financial Instruments - Recognition and Measurement".

The IFRS 15 standard "Revenue from Contracts with Customers" introduces a unique general model for establishing if, when and to what extent to recognise revenues. In general terms, according to IFRS 15, revenues are recognised when the customer obtains control of the goods or services, and the determination of when moment transfer of control occurs (at a particular time or over time) requires an evaluation on the part of the company management.
For full details of the treatment reference should be made to paragraph 2.21 and 2.27.

Emak S.p.A. has not detected any effect on its financial statements as a result of the application of the new accounting standard.

The IFRS 9 standard "Financial instruments" introduces new requirements for the recognition and measurement of financial assets and liabilities and new rules for hedge accounting.

To add to what has already been reported in paragraph 2.27, more information is provided here regarding the choices made in applying (i) the classification of financial assets, (ii) the new methodology for the impairment of financial assets, including receivables and (iii) the new rules for hedge accounting.

a. Classification of financial assets: financial assets that come under IFRS 9 application are recognised at amortised cost or at fair value on the basis of the business model of the enterprise for the management of financial assets and the characteristics of the contractual cash flows of the financial asset;

b. Expected credit losses model: the methodology is based on a predictive approach, based on the prediction of the default of the counterparty (so-called probability of default) and on the possibility of collection in the event that default occurs (so-called loss given default);

c. Hedge accounting: the new provisions introduce modifications to the rules for the management of hedge accounting compared to the previous IAS 39 standard, applied until 31 December 2017, shifting the bases of recognition towards those used by the Company in relation to Risk Management. The new standard, in fact, permits the application of hedge accounting, from 1 January 2018, also to groups of non-financial elements and single components of elements, provided that the element covered can be reliability measured.
Emak S.p.A. has not detected any effect on its financial statements as a result of the application of the new accounting standard.

With reference, instead, to standard IFRS 16 "Leasing", published in the Official Gazette of the European Community on 9 November 2017, which will be applied prospectively in transition form from 1 January 2019, an impact of a first application on financial liabilities of around €160 thousand is preliminarily estimated as reported in paragraph 2.27. With the full implementation of the new standard in 2019, account will be taken of the interpretations that will be issued by the IFRS Interpretations Committee (IFRIC), as well as the accounting practices to be followed.

2. Summary of principal accounting policies

The main accounting standards used for the preparation of these financial statements are set out below and, unless otherwise indicated, have been uniformly adopted for all periods presented.

2.1 General methods of preparation

The financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board and adopted by the European Union at the date of preparing this report. The term IFRS also refers to all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

The financial statements have been prepared under the historical cost method, except for those financial assets and liabilities (including derivative instruments) measured at fair value.

On the basis of information available and of the current and foreseeable income and financial situation, the directors have drawn up the financial statements according to the going concern assumption.
On the basis of factors known to us, that is, the current situation and future forecasts of key economic, statement of financial position and financial figures for Emak and for the Group, and of an analysis of the Group's risks, there are no significant uncertainties that may compromise the Group's status as a going concern.

The company has adopted the following formats for its financial statements as required by IAS 1:
- Statement of financial position: based on the distinction between current and non-current assets and current and non-current liabilities;
- Income Statement and Comprehensive Income Statement: based on a classification of items according to their nature;
- Cash flow Statement: based on a presentation of cash flows using the indirect method;
- Statement of Changes in Equity;
- The notes to the separate financial statements.

The preparation of financial statements under IFRS requires management to make use of accounting estimates. The matters involving a high degree of judgement or complexity and the areas in which the assumptions and estimates could have a significant impact on the financial statements are discussed in note 4.

With reference to Consob Resolution n. 15519 of July 27 2006 on the financial statements, it should be noted that the income statement and statement of financial position show dealings with related parties.

2.2 Presentation currency

(a) The financial statements are presented in Euros, which is the functional currency of the company. The notes to the accounts show thousands of Euros unless where otherwise indicated.

(b) Transactions and balances
A foreign currency transaction is translated using the rate of exchange at the date of the transaction. Exchange gains and losses arising upon receipt and payment of the foreign currency amounts and upon translation at closing rates of monetary items denominated in a foreign currency are reported in the income statement. Gains and losses realized on cash flow hedges whose hedged items are still unrealized are posted to the comprehensive income statement.

2.3 Property, plant and equipment

Land and buildings largely comprise production facilities, warehouses and offices. They are stated at historical cost, plus any legal revaluations in years prior to the first-time adoption of IAS/IFRS, less the accumulated depreciation of the buildings. Other assets are recorded at historical cost, less accumulated depreciation and impairment.
Historical cost includes all the directly attributable costs of purchasing the assets.

Subsequent expenditure is added to the carrying amount of the asset or is accounted for as a separate asset only when it is probable that this expenditure will generate future economic benefits and these costs can be measured reliably. Expenditure on other repairs and maintenance are charged to the income statement in the period incurred.

Land is not depreciated. Other assets are depreciated on a straight-line basis over their estimated useful lives as follows:

- buildings, 33 years;
- light construction, 10 years;
- plant and machinery, 7-10 years;
- molds for producing, 4 years;
- other, 4-8 years.

The residual value and the useful life of assets are reviewed and modified, if necessary, at the end of each year.

If the carrying amount of any asset is higher than the estimated recoverable amount, it is immediately reduced to realizable value.

Leases for which the company has substantially all the risks plus the right of redemption are classified as finance leases. The related assets are recognized under property, plant and equipment at the value of the future lease payments.
The principal element of repayments to be made is recorded as financial liabilities. The interest element is charged to the income statement so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases for which the lessor retains a significant portion of the risks and rewards incident to ownership are classified as operating leases, whose payments are recognized as an expense in the income statement over the lease term on a straight-line basis.

Government grants for investments in buildings and plant are recognized in the income statement over the period necessary to match them with relative costs and are treated as deferred income.

2.4 Intangible assets

(a) Development costs
These are intangible assets with a finite life.
The development costs of new products are capitalized only if the following conditions are met:

- the costs can be measured reliably;
- the product's technical feasibility and expected price and market indicate that the costs incurred for development will generate future economic benefits.

An intangible asset, generated in the development phase of an internal project, is recorded as an asset if the Company is able to demonstrate:

- the technical possibility of completing the intangible asset, so that it becomes available for use or sale;
- the intention to complete the asset and its ability to use it or sell it;
- the means by which the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the availability of adequate technical, financial and other types of resources to complete the development and to use or sell the asset;
- the ability to reliably evaluate the cost attributable to the asset during its development;
- the ability to use the intangible asset generated.

The amortisation of development costs, classified under the “Development costs” heading, accrues from the end of the development phase and when the relevant asset begins to generate economic benefits.
In the period in which capitalisable internal development costs are incurred, they may be posted in the income statement as a reduction of the cost items affected and classified under intangible fixed assets.
Capitalised development costs are amortised on the basis of an estimate of the period in which it is expected that the assets in question will generate cash flows and, in any case, for periods of not more than 5 years starting from the start of production of the products pertaining to the development activities.
All other development costs which do not meet the requirements for being capitalised are recorded in the income statement when incurred.

(b) Concessions, licenses and trademarks
Trademarks and licenses have a definite useful life and they are valued at historical cost and shown net of accumulated depreciation. Amortization is calculated on a straight-line basis so as to spread the asset's cost over its estimated useful life, which for this category is 10 financial years.

(c) Other intangible assets
Other intangible assets are recognized in accordance with IAS 38 - Intangible assets, when the asset is identifiable, it is probable that future economic benefits and its costs can be measured reliably. Intangible assets are recorded at cost and amortized over the period of estimated useful life and in any case for a period not exceeding 10 years.

2.5 Goodwill

Goodwill deriving from the acquisition of subsidiaries, classified among non-current assets, is initially recognized at cost, represented by the difference between the consideration paid and the amount recorded for minority interests at the acquisition date, and the identifiable net assets acquired and liabilities taken on. If the consideration is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized in the income statement.
Goodwill is considered as an asset with an indefinite useful life. As a result, this asset is not amortized, but is subject periodically to checks to identify any impairment.
Goodwill is allocated to the operating units that generate separately identifiable financial flows and which are monitored in order to allow for verification of any impairment.
Goodwill relating to associates is included in the value of the investment and is not amortized, but subject to impairment tests if indicators of loss in the value arise.

2.6 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are reviewed annually for any impairment and whenever there are indications of possible losses in value. Assets subject to depreciation or amortization are reviewed for impairment every time that events or changes in circumstances indicate that their carrying value might not be recoverable. The impairment loss recognized is the amount by which the carrying amount of an asset exceeds its recoverable amount, corresponding to the higher of the asset's net selling price and its value in use. For the purposes of measuring impairment, assets are classified together into the smallest identifiable groups that generate cash inflows (cash-generating units).
The aforementioned impairment test necessarily requires the making subjective valuations based on information available within the Group, on reference market prospects and historical trends. In addition, if there appears to be a potential reduction in value, the Group makes a calculation of the value using what it considers to be suitable valuation techniques. The same value checks and the same valuation techniques are applied to intangible and property, plant and equipment with a defined useful life when there are indicators that predict difficulties in recovering the relative net book value through use.
The correct identification of indicators of the existence of a potential reduction in value, as well as estimates for establishing values mainly depend on factors and conditions that may vary over time, also to a significant degree, thereby influencing the valuations and estimates made by the directors.

2.7 Investment property

Property held for long-term capital appreciation and buildings held to earn rentals are measured at cost, less depreciation and any impairment losses.

2.8 Financial assets

All recognised financial assets falling within the application of IFRS 9 are recognised at amortised cost or at fair value on the basis of the business model of the enterprise for the management of financial assets and the characteristics of the contractual cash flows of the financial asset.
Specifically, Emak S.p.A. has identified the following financial assets:

- financial assets held as part of a business model in which the objective is to collect contractual cash flows, represented uniquely by collections of principal and interest on the capital amount to be returned. Said assets are valued at amortised cost;
- financial assets held as part of a business model in which the objective is achieved both through the collection of contractual financial cash flows and through the sale of the asset: said assets are valued at fair value with variations recorded in profit (loss) (FVTPL);
- other financial assets are valued at fair value, with variations recorded in profit (loss) for the financial period (FVTPL);

With reference to financial assets valued at amortised cost, when the contractual cash flows of the financial asset are renegotiated or otherwise modified and the renegotiation or modification does not produce de-recognition, the gross accounting value of the financial asset is recalculated and the profit or loss deriving from the modification is recorded in the profit (loss) for the financial period.

Any cost or commission incurred adjust the accounting value of the modified financial asset and are amortised along the remaining term of the asset.

Financial assets are derecognised when the contractual rights on the cash flows expire or substantially all the risks and benefits connected with the holding of the asset are transferred (so-called *Derecognition*), or in the event that the item is considered as definitively unrecoverable after all the necessary recovery procedures have been completed.

Financial assets and liabilities are offset in the balance sheet when there is the legal right to offsetting in the period and when there is the intention to adjust the ratio on a net basis (or to realise the asset and simultaneously settle the liability).

Financial assets not carried at fair value through profit or loss for the period are initially valued at their fair value plus the operational costs directly attributable to the acquisition or issue of the asset.

With regards to the loss of value of financial assets, Emak S.p.A. applies a model based on expected losses on receivables expected at every balance sheet reference date in order to reflect the variations in credit risk occurring since the initial recognition of the financial asset.

2.9 Non-current assets and liabilities held for sale

Assets held for sale are classified in this category when:

- the asset is available for immediate sale;
- the sale is highly probable within one year;
- management is committed to a plan to sell;
- a reasonable sales price is available;
- the plan for disposal is unlikely to change;
- a buyer is being actively sought.

This condition is met only if the sale is considered highly probable and the asset (or group of assets) is available for an immediate sale in its current state. The first condition is met when the Management is committed to the selling, that should happen within twelve months from the classification date of this item.
These assets are measured at the lower of their carrying amount and fair value less costs to sell. Assets reclassified to this category cease to be depreciated.

2.10 Shareholdings in subsidiaries

Emak S.p.A. controls a company when, during the exercise of the power it has over the company, it is exposed and entitled to its variable returns, through its involvement in its management and, at the same time, has the possibility of influencing the returns of the subsidiary.
Controlling interests are valued at cost, after initial recording at fair value, adjusted for any permanent losses emerging in subsequent financial periods.

2.11 Shareholdings in associated companies

An associated company is a company over which the Emak S.p.A. exercises significant influence. Significant influence is considered as the power to participate in the determination of the financial and operating policies of the associated company without having control or joint control.
Shareholdings of the Emak S.p.A. in associated companies are valued with the cost method.

2.12 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished products and work in progress includes raw material costs, direct labor costs, general manufacturing costs and other direct and indirect costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined using prevailing selling prices less estimated costs of completion and sale.
Obsolete or slow-moving stocks are devalued on the basis of the presumed possibility of their use or of their future realizable value, by creating an appropriate provision that has the effect of reducing the inventories value.

2.13 Trade receivables

Financial instruments are definable. Initial recognition is at fair value; for trade receivables without a significant financial component the initial recognised value is the transaction price. The assessment of the collectability of receivables is made on the basis of the so-called Expected Credit Losses model provided for by IFRS9; reference can be made to paragraphs 1.1 and 2.27.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. They are recorded net of a bad debt provision, deducted directly from accounts receivable to bring the evaluation at their estimated realizable value. Expected losses on trade receivables are estimated using a provision matrix with aging bands of receivables, making reference to past experience regarding losses on credits, an analysis of debtors' financial positions, corrected to take account of specific factors regarding the debtor, and an assessment of the current and expected evolution of such factors at the balance sheet reference date. A provision for the impairment of trade receivables is recognized when there is objective evidence that the company will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.14 Trade payables

Trade and other payables, due under normal commercial terms, are not discounted but are recognized at cost (identified by their face value), representing the expenditure required for their settlement.

2.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks and short-term financial investments that are highly liquid and originally mature in three months or under, less bank overdrafts. Bank overdrafts are classified in the statement of financial position under short-term loans and borrowings under current liabilities.

In the consolidated cash flow cash statement and cash equivalents have been shown net of bank overdrafts at the closing date.

2.16 Share capital

Ordinary shares are classified under equity.

Any proceeds from their sale, less directly attributable transaction costs and the related tax, are recognized in equity pertaining to the Society.

In accordance with the requirements of International accounting standard IAS 32, costs sustained for the increase in share capital (that is, registration costs or other charges due to regulation authorities, amounts paid to legal advisors, auditors or other professionals, printing costs, registration costs and stamp duty), are accounted for as a reduction in equity, net of any connected tax benefit, to the extent to which they are marginal costs directly attributable to the share capital operation and would have been avoided otherwise.

2.17 Loans and borrowings

Loans and borrowings are recognized initially at fair value, less the related transaction costs. They are subsequently measured at amortized cost; the difference between the amount received, less transaction costs, and the amount repayable is recognized in the income statement over the term of the loan, using the effective interest method.

In the event of non-substantial modifications in the terms of a financial instrument, the difference between the current value of cash flows as modified (determined using the effective interest rate of the instrument in force at the modification date) and the book value of the instrument is recorded in the income statement.

Loans and borrowings are classified as current liabilities if the company does not have an unconditional right to defer the extinguishment of the liability to at least 12 months after the statement of financial position date.

Financial liabilities are removed from the balance sheet when the specific contractual obligation is discharged. Modification of the existing contractual terms is also treated as a discharge in the event the new conditions significantly change the original terms.

2.18 Taxes

Current taxes are accrued in accordance with the rules in force at the date of the financial statement and include adjustments to prior years' taxes.
Deferred tax assets and liabilities are recorded to reflect all temporary differences at the reporting date between the carrying amount of an asset / liabilities for tax purposes and allocated according to the accounting principles applied.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.
Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.
The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each statement of financial position date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilized. Any such reductions are reversed if the reasons for them no longer apply. As a general rule, apart from specific exceptions, deferred tax liabilities must always be recognized.
Income taxes (current and deferred) relating to items recognized directly in equity are also recognized directly in equity.
Current tax assets and liabilities are offset only if the company has a legally enforceable right to set off the recognized amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may be offset only if the company is able to offset current tax assets against current tax liabilities and if the deferred taxes refer to income taxes levied by the same taxation authority.

Beginning from 2016, Emak has exercised the option for consolidated IRES taxation for the three - year period 2016 - 2018 with its parent Yama. The tax assets and liabilities entries by virtue of the consolidation converge with the corresponding balances recorded by the consolidating company Yama. The reciprocal accounting entries between Emak and Yama are regulated in accordance with the consolidation agreement signed on September 12, 2016.

2.19 Employee benefits

Employee termination indemnities fall into the category of defined benefit plans for valuation on an actuarial basis (death rates, expected changes in remuneration etc.) and reflect the present value of the benefit, payable at the end of employment, which employees have matured at the statement of financial position date.
The costs relating to the increase in the obligation's present value, arising as the time of payment approaches, are recorded as financial expenses. All other costs relating to the provision are reported as payroll costs in the income statement. All actuarial gains and losses are recognized in the period in which they occur.

2.20 Provisions for risks and charges

Provisions for risks and charges are recognized when the company has a legal or constructive obligation as a result of past events, it is probable that a payment will be required to settle the obligation and a reliable estimate can be made of the related amount.

2.21 Revenues

Revenues are recognized in the Income Statement on an accruals and temporal basis and are recognized to the extent that it is probable that the economic benefits y associated with the sale of goods or the provision of services will flow to the Company and their amount can be reliably measured.
Revenues are accounted net of returns, discounts, rebates and taxes directly associated with the sale of goods or the provision of the service.

Sales are recognized at the fair value of the compensation received for the sale of products and services, when there are the following conditions:

- are substantially transferred the risks and rewards of ownership of the property;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the costs incurred or to be incurred can be measured reliably and respect the principle of correlation with revenues.

Accounting for revenues involves following the passages provided for by IFRS 15:

- Identification of the contract with the customer;
- identification of the performance obligations provided for in the contract;
- determination of the price;
- allocation of the price to the performance obligations contained in the contract;
- recognition of the revenues when the enterprise satisfies each performance obligation.

Revenues are recognised upon the transfer of control of the goods to the customer, which coincides with the moment when the goods are delivered to the customer (at a point in time), in compliance with the specific contractual terms agreed with the customer.

2.22 Government grants

Government grants are recognized at fair value when there is reasonable assurance that the grants will be received and all the conditions attaching to them have been satisfied.
Government grants related to costs (e.g. operating grants) are recognized as revenue on a systematic basis over a number of years so as to match the costs that the grant is intended to offset.
Government grants related to assets (e.g. facility grants) are recorded in non-current liabilities and gradually released to the income statement on a systematic basis over the useful life of the asset concerned.

2.23 Financial income and expenses

Financial income and expenses are recognized on an accrual basis using the effective interest rate and include dividends received from subsidiaries, exchange gains and losses and gains and losses on derivatives charged to the income statement.

2.24 Payment of dividends

Dividends on ordinary shares are reported as liabilities in the financial statements in the year in which the shareholders approve their distribution.

2.25 Earnings per share

Basic earnings per share are calculated by dividing the company's net profit by the weighted average number of shares outstanding during the period, excluding treasury shares.
The company does not have any potential ordinary shares.

2.26 Cash flow statement

The cash flow statement has been prepared using the indirect method.
Cash and cash equivalents included in the cash flow statement comprise the cash-related balances at the reporting date. Interest income and expense, dividends received and income taxes are included in cash flow generated by operations.

2.27 Changes in accounting standards and new accounting standards

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE SINCE 1 JANUARY 2018

The following IFRS accounting standards, amendments and interpretations were first adopted by the Company starting January 1, 2018:

- **IFRS 15** – ***Revenue from Contracts with Customers*** (issued on 28 May 2014 and supplemented with additional clarifications on 12 April 2016) intended to replace IAS 18 – Revenue and IAS 11 – Construction Contracts, as well as the interpretations IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenues-Barter Transactions Involving Advertising Services. The standard provides for a new revenue recognition model, which will be applicable to all agreements made with customers, with the exception of those falling under the scope of application of other IFRSs, such as leases, insurance contracts and financial instruments. The main steps for revenue recognition according to the new model are:
  - identifying the agreement in place with the customer;
  - identifying the performance obligations under the agreement;
  - defining the transaction price;
  - price allocation to the performance obligations under the agreement;
  - revenue recognition criteria when the entity satisfies each performance obligation.

  IFRS 15 was applied from January 1st, 2018. The adoption had no impact on the separate financial statements of the Company.

- Final version of **IFRS 9 – Financial instruments** (issued on 24 July 2014). The standard includes the results of IASB project, which replaced IAS 39 with effects for the financial years starting on or after January 1, 2018 with early application permitted.
  The principle specifies how classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. The new standard contains substantial changes from the current financial instruments standard (IAS 39) concerning the classification, measurement, impairment and hedge accounting requirements.
  Under IFRS 9 new requirements are established for recognition and measurement, impairment de-recognition and general hedge accounting of a financial assets. That standard uses a new approach to determine the criteria for the valuation of financial assets which consider and assess principally two characteristics, the objective of the entity's business model (to hold assets only to collect cash flows, or to collect cash flows and to sell), and the contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest on the principal amount outstanding.
  For financial liabilities the main change concerns the accounting treatment of financial liabilities designated as at FVTPL using the fair value option, IFRS 9 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in OCI with the remaining

amount of change in fair value recognized in profit or loss, unless this treatment of the credit risk component creates or enlarges a measurement mismatch.
According to the new standard, these changes must be shown in the "Other comprehensive income" statement and no longer in the income statement. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.
Furthermore, in case of renegotiation or modifications of financial liabilities defined as non-substantial it is no longer permitted to spread the economic effects of those results on the residual duration of the debt by modifying the effective interest rate to that date, but it will be necessary to record the related effect in the income statement.
Referring to the impairment, IFRS 9 introduces a new impairment model based on expected losses, (rather than incurred loss as per IAS 39) using supportable information, available without unreasonable charges or efforts that include historical, current and prospective data.
The standard states that this impairment model applies to all financial instruments, ie financial assets measured at amortised cost, to those measured at fair value through other comprehensive income, to receivables deriving from rental contracts and trade receivables. It also requires the same measurement basis for impairment for all items in the scope of the impairment requirements. This differs from IAS 39, under which impairment is calculated differently for amortised cost assets and available-for-sale assets. Further, IFRS 9 applies the same measurement approach to certain loan commitments and financial guarantee contracts where previously these were measured with reference to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
Finally, the standard introduces a new hedge accounting model in order to adapt the requirements set by the current IAS 39, which have been considered too stringent and not suitable for reflecting the risk management policies of the companies.
The main focus points concern:

- the application of the hedge accounting requirements if certain eligibility and qualification criteria are met
- Hedge accounting requirements, forward contracts are designated in a hedge in order to avoid rise to volatility in profit or loss
- changes to the hedge effectiveness criteria by replacing the current methods based on the 80-125% parameter with the principle of the "economic relationship" between the hedged item and the hedging instrument; furthermore, an assessment of the retrospective effectiveness of the hedging relationship will no longer be required.

The greater flexibility given by the new accounting rules is counterbalanced by additional requests for information on the risk management activities of the company.

IFRS 9 was applied from January 1st, 2018. The adoption had no impact on the separate financial statements of the Company.

- Amendments to **IFRS 2** "***Classification and measurement of share-based payment transactions***"(issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. IFRS 2 was applied from January 1st, 2018. The adoption had no impact on the separate financial statements of the Company.

- Document "**Annual Improvements to IFRSs: 2014-2016 Cycle"**, issued on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*) The amendment was applied starting January 1, 2018 and relates to the elimination of some short-term exemptions provided by paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of these exemptions is now considered out of date.
IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice.* The amendment clarifies that the option for a venture capital organization or other entity as well qualified (such as a mutual fund or similar entity) measuring investments in associates and joint ventures at fair value through profit or loss (rather than through the application of the equity method) is exercised for each individual investment at the time of initial recognition. The amendment applied from 1 January 2018

IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard)* partially supplements existing standards. These standards were applied from January 1st, 2018. The adoption had no impact on the consolidated financial statements of the Company.
The amendment explain the scope of application of IFRS 12 specifying that the information required by the standard, with the exception for paragraphs B10-B16, applies to all the shares that are classified as held for sale, held for distribution to shareholders or discontinued operations in accordance with IFRS 5. This amendment applied from 1 January 2018.
The adoption of these amendments did not have any effects on the Company's separate financial statements.

Amendments to **IAS 40 "Transfers of Investment Property"** (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity's management alone is not sufficient. IAS 40 was applied from January 1st, 2018. Adoption had no impact on the separate financial statements of the Company.

- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 was applied from January 1st, 2018. Adoption had no impact on the separate financial statements of the Company.

ACCOUNTING STANDARD, AMENDMENTS AND IFRS/IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, BUT NOT YET MANDATORY APPLICABLE AND NOT EARLY ADOPTED FROM THE COMPANY ON DECEMBER 31ST, 2018

- **IFRS 16 – Leases** (issued on 13 January 2016) intended to replace IAS 17 – Leases, as well as IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces a criteria based on the control (right of use) of an asset to differentiate between lease and service agreements identifying which distinctive: asset identification, right of replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.
The standard introduces a single lessee accounting model for recognizing and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognized in the statement of financial position as assets and lease financial liability providing the possibility to not recognize as lease the agreements concerning "low-value assets" and agreements with a duration equal and/or less 12 months. To the opposite, no significant changes are introduced by the Standard for lessor accounting.
The standard applies from January 1st, 2019, though early adoption is allowed.

The Company has completed the preliminary assessment project of the impacts arising from the application of the new standard on the transition date (January 1st, 2019). This process has been declined in different phases, including the complete mapping and analysis of the contracts potentially suitable to contain a relevant lease for IFRS 16.
During the first application of the standard, the company will adopt the "modified retrospective (alternative 1)" approach, accounting the cumulative effect in equity at January 1st, 2019, in accordance with IFRS 16. In particular, the Company will account, concerning the leases previously classified as operating:

a) a financial liability, equal to the present value of future payments on transition data, discounted for each contract the incremental interest rate applied at the transition date;

b) a right of use equal to the net book value that is due to the initial data of the lease contract applying a discount rate defined at the transaction date.

The amount of the right of use was estimated at € 155 thousand against a financial liability of € 160 thousand.

The following table shows the estimated impacts by the adoption of IFRS 16 on the transition date:

Thousand of Euro

	Impacts on the transition date 01.01.2019
ASSETS	
Non-current assets	
Right of use Other assets	*155*
Total	***155***
SHAREHOLDERS' EQUITY AND LIABILITIES	
Non-current liabilities	
Financial loans and borrowings for Non-current lease	*89*
Current liabilities	
Financial loans and borrowings for current lease	*71*
Total	***160***
Shareholders' Equity	*(5)*
Retained earnings	*(5)*

With reference to the application, the Company intends to use the exemption granted by IFRS paragraph 16: 5 (a) in relation to short-term leases for the following asset class Other assets.
Likewise, the Company intends to use the exemption granted to IFRS 16 with regard to lease contracts for which the underlying asset is configured as a low-value asset. The contracts for which the exemption has been applied fall mainly in the following categories:

- Computers, phones and tablets;
- Printers;
- Other electronic devices.

For these contracts, the introduction of IFRS 16 will not involve the recognition of the financial liability of the lease and the related right of use, but the lease installments will be recorded in the income statement on a linear basis for the duration of the respective contracts.

The Company intends to use the following practical expedients required by IFRS 16:

- Classification of contracts that expire within 12 months from the transition date as a short term lease. For these contracts the lease installments will be recorded in the income statement on a linear basis;
- Use of information present at the transition date for the determination of the lease term, with particular reference to the exercise of extension options and early closure.

- Amendments to **IFRS 9 "Prepayment Features with Negative Compensation**" (issues on 12 October 2017). This document specifies the instruments that provide for early repayment may comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. These amendments apply as from 1 January 2019, though early adoption is allowed. Directors do not expect a significant effect on separate financial statements by adopting of these changes.

- **IFRIC 23 "*Uncertainty over Income Tax Treatments"*** (issued on 7 June 2017). This interpretation provides guidelines how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires that the uncertainly on the determination of liabilities or asset for income taxes should be recognized in the financial statements when it is probable that entity will pay or receive the amount in question. Therefore, the interpretation does not provide any new mandatory disclosure; however, the entity should assess whether is necessary to provide disclosures on the management consideration done in relation to the uncertainty inherent to the recognition of the income taxes, in accordance with IAS 1. This interpretation apply as from 1 January 2019, though early adoption is allowed. Directors do not expect a significant effect on separate financial statements by adopting of these interpretation.

ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the date of this Financial Report, the competent bodies of European Union had not yet completed the approval process necessary for the adoption of amendments and the principles described below.

- On May 18th, 2017 IASB issued the new principle **IFRS 17 – Insurance Contracts** that will replace IFRS 4 – *Insurance Contracts*. The objective of the Standard is to ensure that an entity provides relevant information that faithfully represents rights and obligations from insurance contracts it issues. The IASB developed the Standard to eliminate inconsistencies and weaknesses in existing accounting practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The Standard is applicable for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- Amendments to **IAS 28 "*Long-term Interests in Associates and Joint Ventures*"** (issued on 12 october 2017). The document clarify the need to apply IFRS 9, including the requirement related to impairment, to the other long-term interest in associates and joint ventures not evaluate with equity method. These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- Document "***Annual Improvements to IFRSs 2015-2017 Cycle***" issued on 12 December 2017 (including IFRS 3 Business Combinations e IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation). The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
  IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity. The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
  IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalization), that implements the changes on some standards as part of the annual improvement process. These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- Amendments to **IAS 19** "***Plant Amendment, Curtailment or Settlement"*** (issued on February 7th, 2018). The amendments specify how determined an expenses when changes occur to a defined benefit plan. The change requires to update its assumptions and re-measure the liability or net asset arising from the plan. The amendments clarify that after the occurrence of this event, an entity uses updated hypotheses to measure the *current service cost* and the interests for the entire period following that event.These amendments apply as from 1 January 2019, though early adoption is allowed. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- On October 22nd, 2018, the IASB issued amendments to **IFRS 3 "*Business Combinations"*** which aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.change the definition of a business to enable entities to determine

whether an acquisition is a business combination or an asset acquisition. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier adoption permitted.
The IASB issued narrow-scope amendments to IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not.
The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant’s ability to replace missing elements, and narrow the definition of outputs, replacing the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.
The amendments introduce an optional *concentration test* to permit a simplified assessment of qualified business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiableassets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if an entity elects not to apply the test, a detailed assessment must be performed applying the normal requirements in IFRS 3. As such, the concentration test never determines that a transaction is a business combination. The Board provided a series of illustrative examples to help constituents to apply the guidance in IFRS 3 on the definition of a business.
Furthermore, any effects will be accounted in the separate financial statements for the year of the first time adoption.

- On October 31st, 2018, the IASB issued amendments to its **D*efinition of Material*** in **IAS 1**, *Presentation of Financial Statements* and **IAS 8**, *Accounting Policies, Changes in Accounting Estimates* clarifying the definition of materiality to aid in application. The amendments are effective for annual periods beginning on or after January 1, 2020 with earlier adoption permitted. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- Amendments to **IFRS 10 and IAS 28 - *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. According to the provisions of IAS 28, the profit or loss resulting from the sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share limited to the share held in the joint venture or associate by other investors unrelated to the transaction. On the contrary, IFRS 10 provides for the recognition of the entire profit or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling share therein, including in this case also the sale or transfer of a subsidiary to a joint venture or associate. The amendments clarify that in a disposal of an asset or a subsidiary to a joint venture or associate, determining a profit or loss to be recognized in the financial statements of the transferor depends on whether the assets or subsidiary companies sold / contributed constitute or not a business, according to the IFRS 3 requirements. In the event that the assets or the subsidiary company transferred / conferred represent a business, the entity must recognize the profit or loss on the entire quota previously held; while, otherwise, the share of profit or loss relating to the share still held by the entity must be eliminated.The IASB has suspended the application of these amendments for the time being. The Directors are evaluating the effects on the Company's separate financial statements from the adoption of these amendments.

- **IFRS 14– *Regulatory Deferral Accounts*** (issued on January 30, 2014): the Standard is available only for the first-time adopters of IFRSs who recognized regulatory deferral balances under their previous GAAP. IFRS 14 permits eligible fisrt-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies. As the Company is not a first-time adopter, this Standard is not applicable.

3. Financial risk management

3.1 Risk factors of a financial nature

The Company is exposed to a variety of financial risks associated with its business activities:

- market risks, with particular reference to exchange and interest rates, since the Company operates at an international level in different currencies and uses financial instruments that generate interest;
- credit risk, regarding both normal commercial relations and to financing activities;
- liquidity risk, with particular reference to the availability of financial resources and to access to the credit market.

The Company's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the financial results. The Company uses derivative financial instruments to hedge certain risks.
Hedging of the Company's financial risks is managed by a head office function working in close collaboration with the individual operating units of the Group.
Qualitative and quantitative information is given below regarding the nature of such risks for the Company.
The quantitative figures shown below have no value for forecasting purposes, specifically, the sensitivity analysis on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesized.

(a) Market risks

(i) Interest rate risk

The Company's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the Company to the cash flow risk associated with interest rates. Fixed rate loans expose the Company to the fair value risk associated with interest rates.
The Company's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money. At December 31, 2018, the Company's bank loans and borrowings and finance leases all carried variable interest and consequently, the company has set up hedging operations aimed at limiting the effects of interest rate fluctuations.
Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

Sensitivity analysis
The possible effects of variations in interest rates are analyzed for their potential impact in terms of cash flows, since almost all the Group's financial assets and liabilities accrue variable interest.

A hypothetical, instantaneous and unfavorable negative variation of 50 base points in annual interest rates in force at December 31 2018 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around € 90 thousand (€ 117 thousand at December 31 2017). The above calculation takes into consideration the total amounts of financial liabilities net of the total amount of IRS operations carried out for hedging purposes.

(ii) Exchange rate risk

The Company is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.
Specifically in cases in which the Company incurs costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result.
In 2018 the overall amount of revenues directly exposed to exchange risk represented around 13.5% of the turnover (14.7% in 2017), while the amount of costs exposed to exchange risk is equal to 29.2% of turnover (31.7% in 2017).

The main currency exchanges to which the Company is exposed are the following:
- EUR/USD, relating to sales in dollars made mainly in the markets that use the dollar as preferential currency;
- EUR/RMB, relating to purchases in the Chinese market.

There are no significant commercial flows with regards to other currencies.

The Company’s policy is to cover net currency flows, typically through the use of forward contracts, evaluating the amounts and expiry dates according to market conditions and net future exposure, with the objective of minimizing the impact of possible variations in future exchange rates.

Sensitivity analysis
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Company at December 31, 2018, as a result of a hypothetical unfavorable and immediate variation of 10% in all relevant single exchange rates, would amount to around € 723 thousand (€ 1,112 thousand at December 31, 2017).

Other risks on derivative financial instruments

The Company as of December 31, 2018 holds any derivative financial instruments to hedge exchange rate (operations of currency purchases).

Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

Sensitivity analysis
The potential loss of fair value of the exchange rate derivative financial instruments outstanding at December 31, 2018, as a result of an instant hypothetical and unfavourable 10% change in the underlying values, would be approximately € 1,408 thousand.

(iii) Price risk
The Company is exposed to fluctuations in the price of raw materials. This exposure is mostly towards suppliers of parts since their price is generally tied by contract to the trend in market prices for raw materials. The Company usually enters into medium-term contracts with certain suppliers for the purpose of managing and limiting the risk of fluctuations in the price of its main raw materials such as aluminum, sheet metal, plastic and copper, as well as semi-finished products such as motors.

(b) Credit risk

The Company has adopted policies to ensure that products are sold to customers of proven creditworthiness and that certain types of receivable are insured.
The maximum theoretical exposure to credit risk for the Company at 31 December 2018 is the accounting value of financial assets shown in the financial statements.

The credit granted to the clients involves specific assessments of solvency and generally the Company obtains guarantees, both financial and otherwise, against credits granted for the supply of products. Certain categories of credits to foreign customers are also covered by insurance with SACE.

Credit positions are subject to constant analysis and possible individual devaluation in the case of singularly significant positions that are in a condition of partial or total insolvency.

The total devaluation is estimated on the basis of recoverable flows, from relative collection data, from the costs and expenses of future recovery, as well as possible guarantees in force. For those credits that are not subject to individual devaluation, bad debt provisions are allocated on an overall basis, taking account of historical experience and statistical data.

At December 31, 2018, the provision for doubtful accounts refers to the constant analysis of past due loans on a collective basis, in addition to the analysis of individual positions.

At December 31, 2018 “Trade receivables” equal to € 30,904 thousand (€ 29,989 thousand at December 31, 2017), include € 5,939 thousand (€ 5,793 thousand at December 31, 2017) outstanding by more than 3 months. This value has been partially rescheduled according to repayment plans agreed with the clients.

The maximum exposure to credit risk deriving from trade receivables at the end of the financial period, broken down by geographical area (using the SACE reclassification) is as follows:

€/000	2018	2017
Trade receivables due from customers with SACE 1 rating	23,825	22,488
Trade receivables due from customers with SACE 2 e 3 rating	4,087	4,526
Trade receivables due from customers with non-insurable SACE	2,992	2,975
Total (Note 22)	**30,904**	**29,989**

From 2018, for all countries, regardless of the rating, the insurance covers 90% of the amounts receivable while, SACE provides no coverage for non-Insurable or suspended countries.

The value of amounts receivable covered by SACE insurance or by other guarantees at December 31, 2018 is € 9,370 thousand.

At December 31, 2018 the 10 most important customers (not including companies belonging to the Emak Group) account for 29.3% of total trade receivables, while the top customer represents 10.3% of the total.

(c) Liquidity risk

Liquidity problems can occur as a result of the inability to obtain financial resources necessary for the Company's operations at acceptable conditions.
The main factors determining the Company's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and investment activities, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.
Prudent management of liquidity risk implies the maintenance of sufficient liquid funds and marketable securities, and the availability of funding through adequate credit lines.
Consequently, the treasury, in accordance with the general directives of the Group, carries out the following activities:

- the monitoring of expected financial requirements in order to then take suitable action;
- the obtaining of suitable lines of credit;
- the optimization of liquidity, where feasible, through the centralized management of the Group's cash flows;
- the maintenance of sufficient liquidity;
- the maintenance of a balanced composition of net financial borrowing with respect to investments made;
- the pursuit of a correct balance between short-term and medium-long-term debt;
- limited credit exposure to a single financial institute;
- the monitoring of compliance with the parameters provided for by covenants associated with loans.

Counterparties to derivative contracts and operations performed on liquid funds are restricted to primary financial institutions.

The company, through a financial management of the Group has maintained high levels of reliability on the part of banks.

The characteristics and nature of the expiry of debts and of the Company's financial activities are set out in Notes 24 and 27 relating respectively to "Cash and Cash Equivalents" and "Loans and borrowings".
The management considers that currently unused funds and credit lines, amounting to € 51,873 thousand, as well as those which will be generated from operating and financial activities, will allow the Company to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations.
As established by IFRS 9, derivative financial instruments may qualify for special hedge accounting only when the condition established by principle are met.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent statement of financial position dates.

On the basis of the above, and of stipulated contracts, the accounting methods adopted are as follows:

1. *Fair value hedge*: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.

2. *Cash flow hedge:* the variations in fair value which are intended and proved to be effective for hedging future cash flows are posted to the Comprehensive Income Statement, while the ineffective portion is posted immediately to the Income Statement. If contractual commitments or planned hedging operations lead to the creation of an asset or liability, when this occurs the profits or losses on the derivative which have been posted directly to the Comprehensive Income Statement adjust the opening cost of acquisition or holding value of the asset or liability. For financial cash flow hedging that do not lead to the creation of an asset or liability, the amounts which have been posted directly to the Comprehensive Income Statement are to be transferred to the Income Statement in the same period in which the contractual commitment or planned hedging operation are posted to the Income Statement.

3. *Derived financial instruments not defined as hedging instruments*: the variations in fair value are posted to the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. The cumulative gains or losses on the hedging instrument recognized directly in the Comprehensive Income Statement remain until the forecast transaction effectively occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognized directly in Comprehensive Income Statement are transferred to the Income Statement for the period.

3.3 Measurement of current value

The current value of financial instruments with a quoted market price in an active market (such as publicly traded derivatives and securities held for trading and for sale) is based on the market price at the statement of financial position date. The market price used for the company's financial assets is the bid price; the market price for financial liabilities is the offer price.

The current value of financial instruments not quoted in an active market (for example, derivatives quoted over the counter) is determined using valuation techniques. The company uses various methods and makes assumptions that are based on existing market conditions at the statement of financial position date. Long-term payables are valued using quoted market or trading prices for the specific or similar instruments. Other methods, such as estimating the present value of future cash flows, are used to determine the fair value of the other financial instruments. The current value of forward currency contracts is determined using the forward exchange rates expected at the statement of financial position date.

It is assumed that the face value less estimated doubtful receivables approximates the fair value of trade receivables and payables. For the purposes of these notes, the fair value of financial liabilities is estimated by discounting contractual future cash flows at the current market rate available to the company for similar financial instruments.

4. Key accounting estimates and assumptions

The preparation of the financial statements and the related notes under IFRS has required management to make estimates and assumptions affecting the value of reported assets and liabilities and the disclosures relating to contingent assets and liabilities at the statement of financial position date. Actual results could differ from these estimates. Estimates are used for recording provisions for doubtful accounts receivable and inventory obsolescence, amortization and depreciation, write-downs to assets, post-employment benefits, taxes and other provisions. Estimates and assumptions are reviewed periodically and the effects of any change are immediately reflected in the income statement.

The assessment that goodwill, as well as equity investments in subsidiaries, is recorded in the financial statements for a value not higher than their recoverable value (so-called impairment test) provides, first of all, to test the endurance of the value of the goodwill divided into the Cash Generating Unit (CGU). The calculation of the recoverable amount is carried out in accordance with the criteria established by IAS 36 and is determined in terms of value in use by discounting the expected cash flows from the use of a CGU, as well as from the expected value of the asset at its disposal at the end of its useful life. This process involves the use of estimates and assumptions to determine both the amount of future cash flows and the corresponding discount rates. The future cash flows are based on the most recent economic-financial plans drawn up by the Management of each CGU in relation to the functioning of the production assets and the market context. With reference to the business in which the company operates, the factors that have the greatest relevance in the estimates of future cash flows are attributable to the intrinsic difficulty of formulating future forecasts, to the feasibility of market strategies in highly competitive contexts, as well as to the risks of macroeconomic nature related to the geographic areas in which the Emak Group operates. The discount rates reflect the cost of money for the period forecast and the specific risks of the activities and countries in which the Group operates and are based on observable data in the financial markets.

In this context, it should be noted that the situation caused by the persistent difficulties of the economic and financial scenario has implied the need to make assumptions regarding the future outlook which is characterized by uncertainty. As a result, it cannot be excluded that the actual results obtained will be different from the forecasts, and therefore adjustments, even of significant amounts, which obviously cannot today be estimated or foreseeable, to the book value of the relative items may be necessary. The financial statements heading most affected by the use of estimates is shareholdings in subsidiaries and associates included among non-current assets, where the estimates are used to establish any devaluations and recoveries of value. Any effects are not, however, particularly critical or material, considering their low significance in relation to the underlying account headings.

5. Significant non-recurring events and transactions

Acquisition of the remaining 39% of Epicenter

On January 29, 2018, Emak S.p.A acquired the remaining 39%, still owned by the founder, of the Ukrainian subsidiary Epicenter LLC, leading its shareholding to 100%. The price for the acquisition of this share amounts to € 340 thousand.

Sale of 100% of Raico S.r.l.

On March 6, 2018, Emak S.p.A. signed a binding agreement for transferring the 100% of the share capital of Raico S.r.l., specialised in the distribution of components and accessories for farm tractors, industrial machines and earthmoving machinery.
This agreement was concluded on March 30th, with the total transfer to the company Kramp S.r.l. for an equivalent of € 5,500 thousand, that determined a total capital gain of € 12 thousand.

Personal reorganization plan Emak S.p.A

Emak S.p.A., following an assessment aimed at improving the organization at the Bagnolo in Piano (RE) headquarters, due to the logic of efficiency and renewal, signed with the Trade Unions and company RSU an Agreement, aimed primarily at employees who have acquired the right to a pension within 24 months following the termination of the employment relationship, envisaging a plan to early retirement on voluntary basis referred to in articles 4, 5 and 24 of law n. 223/91, for 32 employees.

The non-ordinary charges related to the reorganization plan, equal to € 1,134 thousand, were accounted during 2018 financial year.

New R&D centre

Works for the construction of the new R&D centre started in July 2016 go on, at the establishments of Emak S.p.A.
At December 31, 2018, the portion of the investment already recorded under fixed assets amounted to approximately € 5,100 thousand, compared to a total estimated investment of about € 7,400 thousand.

ERP Transformation project

Concerning the project for the implementation of the new ERP Microsoft Dynamics 365 system in some Group's companies, it has to be highlighted that activities are proceeding with the aim to get to "go live" within first months 2019. Overall forecasted investment for the ongoing projects will amount to € 1,900 thousand, of which € 1,200 thousand already accounted for as of 31 December 2018.

6. Positions or transactions deriving from atypical and unusual operations

No events/operations as per Consob Communication DEM/6064293 of 28 July 2006 have been recorded during the financial period 2018. As indicated in this Communication "atypical and/or unusual operations are considered as operations that, due to their significance/materiality, the nature of the counterparties, the object of the transaction, the means for determining the transfer price and the time of the event (near the close of the period), may give rise to doubts with regards to: the correctness/completeness of the information in the financial statements, conflicts of interest, the protection of company assets, the safeguarding of minority interests".

7. Net financial position

In the table below are shown details of the net financial position, which includes the net financial debt determined according to ESMA criteria (based on the format required by Consob communication no. 6064293 of 28 July 2006):

€/000	31/12/2018	31/12/2017
A. Cash	31,086	8,337
B. Other cash at bank and on hand (held-to-maturity investments)	-	-
C. Financial instruments held for trading	-	-
D. Liquidity funds (A+B+C)	**31,086**	**8,337**
E. Current financial receivables	**1,111**	**1,962**
F. Current payables to banks	(289)	(2,903)
G. Current portion of non current indebtedness	(21,645)	(13,396)
H. Other current financial debts	(3,086)	(907)
I. Current financial indebtedness (F+G+H)	**(25,020)**	**(17,206)**
J. Current financial indebtedness, net (I+E+D)	**7,177**	**(6,907)**
K. Non-current payables to banks	(45,799)	(28,502)
L. Bonds issued	-	-
M. Other non-current financial debts	(963)	(1,352)
N. Non-current financial indebtedness (K+L+M)	**(46,762)**	**(29,854)**
O. Net indebtedness ESMA (J+N)	**(39,585)**	**(36,761)**
P. Non current financial receivables	**20,618**	**18,072**
Q. Net financial position (O+P)	**(18,967)**	**(18,689)**

At December 31, 2018 the net financial position includes:

- medium and long-term loans granted by Emak S.p.A. to subsidiary companies for an amount of € 20,358 thousand, of which € 14,800 thousand due to the subsidiary Comet S.p.A. and a financial receivable for equity reinstatement to the parent company Yama S.p.A. for a value of € 260 thousand, recorded under Non-current financial receivables;
- the short-term loan granted by Emak S.p.A. to the subsidiary Comet USA for € 873 thousand and a financial receivable for equity reinstatement for a value of € 37 thousand, recorded under Current financial receivables;
- the financial payable for equity reinstatement due to the subsidiary Tecomec S.r.l., for an amount of € 260 thousand, recorded under Other non-current financial payables;
- the financial payable to the subsidiary Sabart S.r.l., for an overall amount of € 2,017 thousand and the financial payable for the equity reinstatement due to the subsidiary Tecomec S.r.l., for € 449 thousand, recorded under Other current financial payables.

At December 31, 2017 the net financial position included:

- medium and long-term loans granted by Emak S.p.A. to subsidiary companies for an amount of € 17,775 thousand and a financial receivable for equity reinstatement to the parent company Yama S.p.A. for a value of € 297 thousand, recorded under non-current financial receivables; the significant increase if compared to the previous year is mainly attributable to the loan granted during the year to the subsidiary Comet S.p.A. for € 14,800 thousand, in relation to the acquisition of the Lavorwash Group;
- the short-term loan granted by Emak S.p.A. to the subsidiary Comet USA for € 834 thousand, to the subsidiary Raico S.r.l. for € 600 thousand and to the parent company, Yama S.p.A., for a value of € 449 thousand, recorded under current financial receivables;
- the financial payable for equity reinstatement due to the subsidiary Tecomec S.r.l., for an amount of € 297 thousand, recorded under Other non-current financial payables;

- the financial payable to the subsidiary Sabart S.r.l., for an overall amount of € 29 thousand and the financial payable for the equity reinstatement due to the subsidiary Tecomec S.r.l., for € 449 thousand, recorded under Other current financial payables.

8. Revenues from sales and other operating income

Sales revenues amount to € 124,240 thousand, compared with € 125,426 thousand in the prior year. They are stated net of € 985 thousand in returns, compared with € 427 thousand in the prior year. The revenue was mainly penalized by lower sales realized in European markets and in America, counterbalanced positively by the trend registered in Italy and in Far East Countries.

The detail of the item is as follows:

€/000	FY 2018	FY 2017
Net sales revenues (net of discounts and rebates)	122,851	123,468
Revenues from recharged transport costs	2,374	2,385
Returns	(985)	(427)
Total	**124,240**	**125,426**

Other operating income is analysed as follows:

€/000	FY 2018	FY 2017
Grants related to income	687	194
Capital gains on tangible fixed assets	15	6
Insurance refunds	3	22
Other operating incomes	120	235
Total	**825**	**457**

The heading **"Operating grants"** refers mainly to:
- Research and Development tax credit provided for by art. 1, paragraph 35, of Law 23 December 2014, no. 190, for € 382 thousand;
- the contribution made by the Emilia Romagna Region referring to the first tranche of €110 thousand obtained as part of the Call for Tenders for research and development cooperation projects for Enterprises, as per DGR (Regional Executive Order) 773/2015 as amended;
- the grant as per Law 488/92 for € 89 thousand;
- the Training 4.0 tax credit as per Law 205/17 for € 48 thousand;
- the Art Bonus tax credit as per Law 106/2014 for € 6 thousand;
- the grant collected in the financial period referring to the Asbestos Call for Tenders 2015 - Incentives for asbestos removal issued by the Emilia Romagna Region - for €18 thousand;
- the Executive training fund/Enterprise training fund grant, equal to € 34 thousand, granted to cover the costs incurred by the Company for staff training.

9. Raw materials, consumable and goods

The heading is analyzed as follows:

€/000	FY 2018	FY 2017
Raw materials	44,955	51,148
Finished products	26,834	28,115
Consumable materials	226	293
Other purchases	1,633	1,380
Total	**73,648**	**80,936**

The decrease in purchases of raw materials and finished products is attributable to a decline in production volumes and a reduction in inventories. The increase in the item "Other purchases" is determined by higher expenses for advertising materials and for research and development.

10. Personnel expenses

Details of these costs are as follows:

€/000	FY 2018	FY 2017
Wage and salaries	16,718	16,347
Social security charges	5,107	5,186
Employee termination indemnities	1,133	1,201
Other costs	121	155
Capitalized internal projects costs	(431)	-
Directors' emoluments	793	550
Temporary staff	784	1,258
Total	**24,225**	**24,697**

Labor costs are in line with the previous year. During 2018, the company incurred expenses for reorganization charges for € 1,134 thousand. Net of these expenses, the cost of labor decreased due to a lower number of employees and the lesser use of temporary staff due to lower production volumes in the current year at the Bagnolo in Piano (RE) and Pozzilli (IS) plants.
Furthermore, this item recorded, compared to the previous year, an increase due to the wage dynamics measured by the remuneration merit policies.

During the 2018 financial year, personnel costs for € 431 thousand were capitalized under intangible assets, referring to costs for the development of new products in the context of a multi-year project subject to facilities by the Ministry of Economic Development.

The breakdown of employees by grade is the following:

	Average number of employees in year		Number of employees at this date	
	2018	2017	2018	2017
Executives	15	16	14	16
Office staff	181	190	175	187
Factory workers	241	246	243	247
Total	**437**	**452**	**432**	**450**

11. Other operating costs and provisions

Details of these costs are as follows:

€/000	FY 2018	FY 2017
Subcontract work	1,638	1,683
Transportation	6,371	7,160
Advertising and promotion	574	1,001
Maintenance	1,854	1,657
Commissions	1,201	1,154
Consulting fees	2,025	1,626
Costs of after sales warranty	583	628
Insurance	342	359
Travel	366	368
Postals and telecommunications	188	218
Other services	2,509	2,227
Capitalized internal projects costs	(123)	
Services	**17,528**	**18,081**
Rents, rentals and the enjoyment of third party assets	**765**	**769**
Increases in provisions	**55**	**37**
Increases in provision for doubtful accounts (note 22)	446	194
Other taxes (not on income)	317	310
Other operating costs	550	481
Other costs	**1,313**	**985**
Total other operating costs	**19,661**	**19,872**

The decrease in transport costs, compared to the previous year, is related to the reduction in sales and purchasing volumes and to a more efficient logistic management of imports.
The decrease in Advertising and Promotion costs is related to the lower contributions granted.
Consulting fees include € 318 thousand for costs incurred for M&A transactions (sale of the investment in Raico Srl and acquisition of the remaining 39% of the share capital of the Ukrainian subsidiary Epicenter LLC) realized during the year and costs incurred for the implementation of the new information system.

12. Impairment gains and losses, Amortization and depreciation

Details of these amounts are as follows:

€/000	FY 2018	FY 2017
Depreciation of property, plant and equipment (note 16)	4,066	3,692
Amortization of intangible assets (note 17)	492	472
Impairment losses and gains (note 19 and note 30)	600	780
Total	**5,158**	**4,944**

The item "**Impairment gains and losses**" refers to the impairment of the investment in subsidiaries of the companies Emak Do Brasil Industria Ltda and Emak Deutschland, as described in note 30, for a total value of € 1,620 thousand.
In addition, it proceeded to the full revaluation of the carrying amount of the subsidiary Epicenter LLC, previously impaired in 2014, with a positive economic effect of € 1,020 thousand (note 19).

During the 2017 financial year, the figure included the amount of the impairment of the investment in the Brazilian company Emak Do Brasil Industria Ltda for € 780 thousand.

13. Financial income and expenses

Financial income" is analyzed as follows:

€/000	FY 2018	FY 2017
Dividends from subsidiaries	4,804	4,834
Dividends from associates	-	61
Interest on trade receivables	74	69
Interest on loans to subsidiaries and other financial income (note 36)	560	352
Interest on financial assets granted to parent company (note 36)	2	9
Interest on bank and post office accounts	50	114
Income from adjustment to fair value of derivates instruments for hedging interest rate risk	9	65
Other financial income	13	41
Financial income	**5,512**	**5,545**

The heading **"Dividends from subsidiaries"** refers to the dividends received from the subsidiaries Emak Suministros Espana S.A, Tecomec S.r.l., Sabart S.r.l., Victus-Emak Sp.Z.o.o. and Tailong (see note 36).

"Financial expenses" are analyzed as follows:

€/000	FY 2018	FY 2017
Interest on long-term bank loans and borrowings	487	425
Interest on short-term bank loans and borrowings	2	1
Interest on loans to related parties (note 36)	2	9
Financial charges from valuing employee termination ind. (note 29)	30	38
Costs from adjustment to fair value and closure of derivates instruments for hedging interest rate risk	334	89
Other financial costs	7	130
Financial expenses	**862**	**692**

The details of the **"Exchange gains and losses"** heading are as follows:

€/000	FY 2018	FY 2017
Exchange rate gains	1,276	1,871
Unrealized gains/(losses)	192	(1,932)
Exchange rate losses	(594)	(2,227)
Exchange gains and losses	**874**	**(2,288)**

The exchange rate management of the previous year was adversely affected by the performance of the US dollar which had led to the recognition of a loss due to the valuation at the year-end exchange rate of the related net assets.

14. Income taxes

This amount is made up as follows:

€/000	FY 2018	FY 2017
Current income taxes	19	325
Taxes from prior years	46	94
Deferred tax liabilities (note 28)	(39)	408
Deferred tax assets (note 28)	(345)	501
Total	**(319)**	**1,328**

"Current income taxes", for the year 2018, amount to a positive value of € 19 thousand and includes:

- the cost for IRAP of € 141 thousand (€ 70 thousand at December 31, 2017);
- retrocession from the benefits of consolidated tax to which the company participates ex art. 117 TIUR, for € 163 thousand, on the basis of the contribution by Emak of the facility "ACE" and other benefits, usable by the Group;
- other foreign taxes for € 49 thousand;
- the positive effect of € 46 thousand Euro relative to the deduction from IRES for Ecobonus, following interventions aimed at saving energy, carried out during the year, at the Bagnolo in Piano plant.

The value of the item "Income taxes for previous years" is given by a positive effect of € 45 thousand concerning the retrocession of greater facilitation "ACE" for the tax consolidation pertaining the fiscal year 2017, but recognized in the following year.

The theoretical tax charge, calculated using the ordinary rate, is reconciled to the effective tax charge as follows:

€/000	FY 2018	% rate	FY 2017	% rate
Profit before taxes	**6,152**		**1,432**	
Theoretical tax charges	**1,716**	**27.9**	**400**	**27.9**
Effect of IRAP differences calculated on different tax base	(102)	(1.7)	13	0.9
Dividends	(1,095)	(17.8)	(1,133)	(79.1)
Non-deductible costs	330	5.4	318	22.2
Current and advance taxes of previous years	(45)	(0.7)	(622)	(43.4)
ACE facilitation	(163)	(2.6)	(140)	(9.8)
Other differences	(322)	(5.2)	(164)	(11.5)
Effective tax charge	**319**	**5.3**	**(1,328)**	**(92.8)**

The item "Other differences" mainly includes the benefit deriving from the increase in the fiscally recognized cost of new capital goods, c.d. *super amortization*, provided for by the 2018 Budget Law.

It should be noted that the fiscal management of 2017 for current taxes, deferred tax assets and liabilities amounted to a positive net value of € 1,328 thousand. This result was mainly due to a positive effect related to the retrocession from the tax consolidation to which the company participates pursuant to art. 117 TUIR against the contribution, by EMAK, of ACE and other deductible benefits, usable by the Group, totaling € 666 thousand.

15. Earnings per share

"Basic" earnings per share are calculated by dividing the net profit for the period of the Group attributable to the Company's Shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of treasury shares held (see note 17 of the Consolidated Financial Statements).

16. Property, plant and equipment

Changes in property, plant and equipment are shown below:

€/000	31.12.2017	Increases	Decreases	Other movements	31.12.2018
Lands and buildings	29,986	95	(1,666)	1,794	30,209
Accumulated depreciation	(12,588)	(805)	1,666	-	(11,727)
Lands and buildings	**17,398**	**(710)**	-	**1,794**	**18,482**
Plant and machinery	17,785	560	(903)	1,638	19,080
Accumulated depreciation	(14,821)	(885)	903	-	(14,803)
Plant and machinery	**2,964**	**(325)**	-	**1,638**	**4,277**
Other assets	60,758	2,214	(987)	249	62,234
Accumulated depreciation	(55,685)	(2,376)	986	-	(57,075)
Other assets	**5,073**	**(162)**	**(1)**	**249**	**5,159**
Advances and fixed assets in progress	**3,980**	**1,896**	**-**	**(3,681)**	**2,195**
Cost	**112,509**	**4,765**	**(3,556)**	**-**	**113,718**
Accumulated depreciation (note 12)	**(83,094)**	**(4,066)**	**3,555**	**-**	**(83,605)**
Net book value	**29,415**	**699**	**(1)**	**-**	**30,113**

€/000	31.12.2016	Increases	Decreases	Other movements	31.12.2017
Lands and buildings	29,977	9	-	-	29,986
Accumulated depreciation	(11,900)	(688)	-	-	(12,588)
Lands and buildings	**18,077**	**(679)**	**-**	**-**	**17,398**
Plant and machinery	16,814	993	(37)	15	17,785
Accumulated depreciation	(14,174)	(684)	37	-	(14,821)
Plant and machinery	**2,640**	**309**	**-**	**15**	**2,964**
Other assets	59,103	1,513	(133)	275	60,758
Accumulated depreciation	(53,489)	(2,321)	125	-	(55,685)
Other assets	**5,614**	**(808)**	**(8)**	**275**	**5,073**
Advances and fixed assets in progress	**920**	**3,350**	**-**	**(290)**	**3,980**
Cost	**106,814**	**5,865**	**(170)**	**-**	**112,509**
Accumulated depreciation (note 12)	**(79,563)**	**(3,693)**	**162**	**-**	**(83,094)**
Net book value	**27,251**	**2,172**	**(8)**	**-**	**29,415**

No evidence of impairment indicators has been reported for property, plant and equipment.

The increases relate to:

- land and buildings category for some improvements for the reconstruction of some premises of the headquarters of Bagnolo in Piano for € 95 thousand;
- the plant and machinery category following the realization of new production lines and new test benches for € 560 thousand;
- the **“Other fixed assets”** category mainly includes:
  - acquisitions of equipment and molds for the development of new products, for € 1,764 thousand;
  - acquisitions of electronic machines and office equipment for € 434 thousand;
  - acquisitions of office furniture and machines for € 1 thousand;
  - acquisitions of testing and control instruments for € 14 thousand.

During 2018, part of the new building that will occupy the new R&D center was completed. € 1,794 thousand were therefore reclassified from the item "Advances and fixed assets in progress" to the item “Land and Buildings” and € 1,638 thousand to the item "Plant and machinery", relating to the plant already in use by the R&D department.
The item "**Advances and fixed assets in progress**" therefore refers to sums paid for € 1,390 thousand for the part still under construction of the new research and development center and the remaining € 506 thousand for advances for the construction of equipment and molds for production.

The decreases relate to:

- the category **"Land and Buildings"** and the category "**Plant and machinery**" for the total demolition of the old R&D plant;
- the category "**Other assets**" for the scrapping of obsolete equipment, furniture and electronic machines, obsolete testing instruments, for which the useful life was already over.

The Company does not hold goods that a subject to restrictions on entitlement and ownership.

Over the years the company, Comag S.r.l., merged into Emak S.p.A.in 2015 financial year, has benefitted from a number of capital grants paid in accordance with Law 488/92. The contributions paid are posted to the income statement according to the residual possibility of use of the fixed assets to which they refer and are recorded in the statement of financial position under deferred income.
All receivable relating to these contributions have been received.

17. Intangible assets

Intangible assets report the following changes:

€/000	31.12.2017	Increases	Decreases	Other movements	31.12.2018
Development costs	1,988	708	-	220	2,916
Accumulated amortization	(1,837)	(36)	-	-	(1,873)
Development costs	**151**	**672**	**-**	**220**	**1,043**
Patents and intellectual property rights	8,244	396	-	-	8,640
Accumulated amortization	(7,187)	(340)	-	-	(7,527)
Patents	**1,057**	**56**	**-**	**-**	**1,113**
Concessions, licences and trademarks	130	30	-	-	160
Accumulated amortization	(100)	(9)	-	-	(109)
Concessions, licences and trademarks	**30**	**21**	**-**	**-**	**51**
Other intangible assets	1,220	38	-	-	1,258
Accumulated amortization	(1,031)	(107)	-	-	(1,138)
Other intangible assets	**189**	**(69)**	**-**	**-**	**120**
Advanced payments	**911**	**723**	**-**	**(220)**	**1,414**
Cost	**12,493**	**1,895**	**-**	**-**	**14,388**
Accumulated depreciation (note 12)	**(10,155)**	**(492)**	**-**	**-**	**(10,647)**
Net book value	**2,338**	**1,403**	**-**	**-**	**3,741**

€/000	31.12.2016	Increases	Decreases	Other movements	31.12.2017
Development costs	1,830	120	-	38	1,988
Accumulated amortization	(1,825)	(12)	-	-	(1,837)
Development costs	**5**	**108**	**-**	**38**	**151**
Patents and intellectual property rights	7,903	306	-	35	8,244
Accumulated amortization	(6,845)	(342)	-	-	(7,187)
Patents	**1,058**	**(36)**	**-**	**35**	**1,057**
Concessions, licences and trademarks	123	7	-	-	130
Accumulated amortization	(91)	(9)	-	-	(100)
Concessions, licences and trademarks	**32**	**(2)**	**-**	**-**	**30**
Other intangible assets	1,125	95	-	-	1,220
Accumulated amortization	(921)	(110)	-	-	(1,031)
Other intangible assets	**204**	**(15)**	**-**	**-**	**189**
Advanced payments	**283**	**701**	**-**	**(73)**	**911**
Cost	**11,264**	**1,229**	**-**	**-**	**12,493**
Accumulated depreciation (note 12)	**(9,682)**	**(473)**	**-**	**-**	**(10,155)**
Net book value	**1,582**	**756**	**-**	**-**	**2,338**

The increase in “Development costs” mainly refers to investments in a new development activity started as part of a multi-year project subject to facilitation by the Ministry of Economic Development. These costs include approximately € 431 thousand of personnel costs incurred internally and capitalized under this item.
The increase in the item "Patents and intellectual property rights" refers to the purchase of licenses for the new treasury program of the Group and the start of the project to implement the product traceability at the production site in Pozzilli (IS).
The increase in the item “Other intangible assets” includes investments relating at the implementation of the web marketing projects for the e-commerce.
The increase in “Advanced payments” includes for the most advances for the development of new products and advances for the launch of the project to implement the new ERP Microsoft Dynamics 365 system of the Group (note 5).
All the intangible assets have a finite residual life and are amortized on a straight-line basis over the following periods:

• Development costs	5	years
• Intellectual property rights	3	years
• Concessions, licences, trademarks and similar rights	10/15	years

Research and development costs directly posted to the income statement amount to € 4,727 thousand.

18. Goodwill

The amount of € 2,074 thousand refers to the positive difference arising from the acquisition from the Parent company Yama S.p.A. and further to the merger of the company Bertolini S.p.A into Emak S.p.A.

The Company checks the recoverability of goodwill at least once a year, or more frequently if there are indicators of loss in the value. This check is carried out by calculating the recoverable value of the relevant Cash Generating Unit (CGU), using the “Discounted cash flow” method.
With regard to the goodwill arising from the merger of the company Bertolini S.p.A into Emak S.p.A., the plan date of the CGU Emak S.p.A were considered, being this the minimum level at which the goodwill is monitored by the management for internal management purposes.

The impairment tests and the five year plan relating to goodwill recorded at 31 December 2018 have been approved by the Board of Directors taking account of the opinion of the Risk Control Committee.
For the purpose of carrying out the impairment test on goodwill values, the Discounted cash flow has been calculated in the basis of the following assumptions:

- The basic data used has been extracted from the company plans that represent management’s best estimate of the future operating performance of the Company in the period in question;
- Expected future cash flows, for a period of 5 years, refer to the unit in their current state and exclude any operation of an extraordinary nature and/or operations not yet defined at the closing of the fiscal year;
- For the determination of the operating cash flow based on the last year of explicit forecast, was reflected, in order to project "in perpetuity" a stable situation, a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business) and change in working capital equal to zero;
- The WACC used to discount future cash flows of the CGU Emak S.p.A, was calculated equal to 7.89% and specifically:
    - the terminal value was determined on the basis of a long-term growth rate (g) of 2%, representative of long-term expectations for the industrial segment to which it belongs, considering the likely actual impacts.;
    - The beta levered value and the financial structure used for the impairment test are extrapolated by a reliable panel of comparable in the sector.

Furthermore, also on the basis of the indications contained in the joint document of the Bank of Italy, Consob and Isvap no. 4 of 3 March 2010, the Company proceeded to draw up a sensitivity analysis on the results of the impairment test of the CGU Emak S.p.A., with respect to changes in the basic assumptions that affect the value in use of the investment. Also in the case of a positive or negative change of 5% of the WACC, half a percentage point of the growth rate "g" and 5% of the cash flows; these analyses do not lead to impairment losses.

19. Equity investments

Details of equity investments are as follows:

€/000	31.12.2017	Increases	Revaluation	Decreases	31.12.2018
Equity investments					
- in subsidiaries	93,422	752	1,020	(5,488)	89,706
- in associates	3,750	-	-	-	3,750
- in other companies	225	-	-	-	225
TOTAL	**97,397**	**752**	**1,020**	**(5,488)**	**93,681**

Investments in **subsidiaries** amounted to € 89,706 thousand. The registered movements during the year is related to:

- the purchase, for a value of € 340 thousand, on January 29, 2018, of the remaining 39% of the Ukrainian subsidiary Epicenter LLC, leading its shareholding to 100%;
- the increase, of the value of € 412 thousand, of the total equity investment in the subsidiary Tecomec S.r.l., due to the conversion of the current financial receivable for equity reinstatement;
- the revaluation of the subsidiary Epicenter LLC, of € 1,020 thousand, as a total reversal of the provision for impairment accrued in previous years following the positive result of the impairment test;
- the sale of 100% of the share capital of Raico S.r.l. for a value of € 5,500 thousand, which generated a capital gain of € 12 thousand.

The values of investments in subsidiaries and associates are set out in detail in Annexes 1 and 2.

The Company therefore carried out an impairment test of the equity investments that show indicators of impairment, or object of previous devaluations, in order to identify any losses and / or reversal of impairment losses to be recognized in the Income Statement, following the procedure set forth in IAS 36, and then comparing the book value of the individual equity investments with the value in use given by the current value of the estimated cash flows that are expected to derive from the continuous use of the asset subject to impairment test.
There is a connection between the subsidiaries and the cash generating units ("CGU") identified for implementing the aforementioned impairment tests.
The impairment test was therefore implemented for equity investments in Emak Do Brasil Ltda, Emak Deutschland GmbH, Sabart S.r.l., Epicenter Llc, and Victus Sp Z.o.o.
The factors that are most relevant in the estimates of future cash flows are attributable to the intrinsic difficulty of formulating future forecasts, to the feasibility of market strategies in highly competitive contexts, as well as to the macro-economic risks related to the geographical areas in which the Emak Group operates.

For the tests was used the discounted cash flow method (Discounted Cash Flow Unlevered) deriving from the multiannual plans approved by the Board of Directors, with the opinion of the Risk Control Committee, prepared by the individual subsidiaries, as well as from the assumptions at the base of the forecasts, set out over a period of 3-5 years, relating to the individual CGU. These forecasts for the explicit period are in line with forecasts on the performance of the operating segment to which each company belongs (as estimated by the most relevant sources in the sector), and represent the best management estimate on the future operating performance of the individual subsidiaries during the period considered, and excluding any transactions of non-ordinary nature and / or transactions not yet defined at the end of the financial year.
The impairment tests were approved by the Company's Board of Directors on February 28, 2019.

The discount rates in the impairment tests were calculated using as baseline the risk-free rates and the market premiums relating to the different countries to which belong the equity investments under assessment.

The terminal value was calculated with the “perpetuity growth” formula, assuming a growth rate “g-rate” ranging from 0%, for some companies whose plans show limited growth rates, to 2% and considering an operating cash flow based on the last year of explicit forecast, adjusted to “perpetuity” project a stable situation, specifically by using the following main assumptions:
- a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business);
- change in working capital equal to zero.
The value obtained by summing the discounted cash flows of the explicit period and the terminal value ("Enterprise Value") is deducted the net financial debt at the reference date of the valuation, in this case on 31 December 2018, in order to obtain the economic value of the investments subject to assessment ("Equity Value").

The WACCs used for discounting future cash flows are determined based on the following assumptions:
- the average cost of capital is the result of the weighted average cost of debt (calculated considering the reference rates plus a "spread");
- the cost of equity is determined using the value of beta levered and the financial structure of a panel of comparable companies, with the only exceptions of the risk-free rate and the risk premium, specific for each country.

The WACC used to discount cash flows were respectively 9% for Victus Sp Z.o.o. (Poland), 8.35% for Emak Deutschland Gmbh (Germany), 7.89% for Sabart S.r.l. (Italy), 18.63% for Epicenter Llc (Ukraine), while a WACC of 15.91% was used for the CGU Emak Do Brasil Ltda located in Brazil.

The impairment tests carried out on these subsidiaries did not show any impairment losses to be recognized in the income statement as at 31 December 2018 with the exception of the company Emak Do Brasil and Emak Deutschland Gmbh already completely written down in previous years. Future cash flows derive from plans drawn up taking into account the critical and macroeconomic risks that distinguish the scope in which the subsidiaries operates and the impairment test showed impairment losses of € 1,167 thousand and € 453 thousand respectively. Therefore, an allocation to the provision to cover future losses was made for a total of € 1,620 thousand (note 30).

Furthermore, based on the evidence of the impairment test of the subsidiary Epicenter Llc, the *carrying amount* previously written down in 2014 was fully revalued with a positive economic effect of € 1,020 thousand, in consideration of the results forecast in the plan confirmed by the trend in economic and financial results realized.

Furthermore, also on the basis of the indications contained in the joint document of the Bank of Italy, Consob and Isvap no. 4 of 3 March 2010, the Company proceeded to draw up a sensitivity analysis on the results of the impairment test with respect to changes in the basic assumptions that may affect the value in use of the investment. Even in the case of a positive change of 5% of the WACC, or negative of half a percentage point of the growth rate "g" or of 5% of the cash flows, the analyses do not show any losses in value

The heading **equity investments in associated companies** amounts to € 3,750 thousand and refers to the acquisition of 30% of Cifarelli S.p.A. carried out in the 2016.

Investments in **other companies** relate to:
- a minority interest in Netribe S.r.l., a company operating in the IT sector; this investment is valued at its fair value of € 223 thousand. The percentage of equity investment of Emak S.p.A. in Netribe S.r.l. is 15.41%;
- one share for membership of the ECOPED Consortium as required by Decree 151/2005, with a value of € 1 thousand;
- one share for membership of the POLIECO Consortium as required by Decree 151/2006, with a value of € 1 thousand.

20. Derivative financial instruments

The financial statements values relate to changes in the fair value of financial instruments:

- hedging the risk of changes in debit interest rates;
- hedging purchases in foreign currencies.

All derivative financial instruments belonging to this heading are valued at fair value at the second hierarchical level, that is, the estimate of their fair value has been carried out using variables other than Prices quoted in active markets and which are observable (on the market) either directly (prices) or indirectly (derived from prices).

In the case in point, the fair value recorded is equal to the “market to market” estimation provided by the bank, which represents the current market value of each contract calculated at the date at the closing date of the Financial Statements.

December 31, 2018 appear outstanding forward contracts of purchase in foreign currencies for:

	Company		Nominal value (€/000)	Forward Exchange (average)	Due to (*)
Forward contracts for foreign currencies purchases					
Cnh/Euro	Emak Spa	Cnh	76,500	8.12	13/11/2019
Forward contracts for foreign currencies purchases with collar options					
Cnh/Euro	Emak Spa	Cnh	37,500	8.055	29/11/2019

(*) The expiry date is indicative of the last contract

The accounting for the overexposed instruments takes place at fair value. The current value of forward purchase contracts in foreign currency led to the recognition of a positive fair value of € 200 thousand.
In accordance with the reference accounting standards, these effects have been recognized in the income statement in the current period.

Emak S.p.A. has taken out a number of IRS contracts and options on interest rates, with the aim of covering the risk of variability of interest rates on loans, for a notional total of € 52,396 thousand.

Bank	Company	Notional Euro (€/000)	Date of the operation	Due to
Ubi Banca	Emak S.p.A.	1,000	30/06/2015	31/12/2019
Carisbo	Emak S.p.A.	833	24/09/2015	12/06/2020
Mediobanca	Emak S.p.A.	2,500	24/09/2015	31/12/2020
MPS	Emak S.p.A.	1,500	24/09/2015	31/12/2020
Banca Nazionale del Lavoro	Emak S.p.A.	3,000	29/09/2017	22/04/2020
Credit Agricole Cariparma	Emak S.p.A.	6,563	26/10/2017	11/05/2022
Credit Agricole Cariparma	Emak S.p.A.	4,000	24/05/2018	30/06/2023
MPS	Emak S.p.A.	9,000	14/06/2018	30/06/2023
UniCredit	Emak S.p.A.	9,000	14/06/2018	30/06/2023
Banco BPM	Emak S.p.A.	7,500	21/06/2018	31/03/2023
Banca Nazionale del Lavoro	Emak S.p.A.	7,500	06/07/2018	06/07/2023
Total		**52,396**		

The recorded value of these contracts at December 31, 2018 is a total negative fair value of € 266 thousand.

The average interest rate resulting from the instruments is equal to 0.15%.

All the contracts, while having the purpose and characteristics of hedging operations, do not formally comply with the rules for being accounted for as such; for this reason all the changes in fair value have been recorded in the income statement in the relevant financial period.

21. Other financial assets

The **“Other non-current financial assets”** amounted to € 20,618 thousand, against € 18,072 thousand in the previous year and refer to loans quoted in Euros and U.S. Dollars, granted to subsidiaries amounting to € 20,358 thousand, of which €14,800 thousand due to the subsidiary Comet S.p.A. and receivables from the parent company Yama S.p.A. for capital reinstatement for an amount of € 260 thousand.
“Other current financial assets” amounting to € 910 thousand refer to the U.S. Dollar loan granted to the controlled company Comet Usa for € 873 thousand (€ 834 thousand at December 31, 2017), and for the remaining € 37 thousand to receivables for capital replenishment for the parent company Yama S.p.A., already mentioned in the preceding paragraph, for the current portion.

The interest rates applied to loans granted by Emak to the subsidiaries have been established in accordance with the framework resolutions that define the nature and terms of conduct. In general, the yield varies depending on:

- the type and duration of the loan granted;
- the performance of the financial markets in which Emak and its subsidiaries operate and the official reference rates (mainly Euribor and Libor);
- the currency of the loan granted.

22. Trade receivables and other receivables

A breakdown of the heading is shown below:

€/000	31.12.2018	31.12.2017
Trade receivables	30,904	29,989
Provision for doubtful accounts	(2,571)	(2,233)
Net trade receivables	**28,333**	**27,756**
Receivables from related parties (note 36)	15,797	12,036
Prepaid expenses and accrued income	495	283
Other receivables	283	633
Total current portion	**44,908**	**40,708**
Other non current receivables	3	3
Total non current portion	**3**	**3**

The item "**Receivables from related parties**" increase mainly due to the purchase of the subsidiaries Tecomec S.r.l. and Comet S.p.A. of trade receivables from the subsidiary Emak Do Brasil Ltda.
The item "**Other current receivables**" includes the receivable deriving from the relationship that regulates the tax consolidation with the parent company Yama S.p.A. and relating to the contribution to the Group of accrued benefits for the year which, as at 31 December 2018, amounted to € 163 thousand (€ 398 thousand at 31 December 2017).

Trade receivables have an average maturity of 88 days and there are no trade receivables due after one year.

All non-current receivables mature within five years.

“Trade receivables" are analyzed by geographical area as follows:

€/000	Italy	Europe	Rest of the world	Total
Trade receivables	13,933	7,434	9,537	**30,904**
Related parties receivables	614	8,525	6,658	**15,797**

The movement in the provision for bad debts is as follows:

€/000	FY 2018	FY 2017
Opening balance	**2,233**	**2,146**
Provisions (note 11)	446	194
Usage	(108)	(107)
Closing balance	**2,571**	**2,233**

The book value of this balance approximates its fair value.

23. Inventories

Inventories are detailed as follows:

€/000	31.12.2018	31.12.2017
Raw, ancillary and consumable materials	18,678	17,873
Work in progress and semi-finished products	6,542	6,484
Finished products and goods	9,844	12,451
Total	**35,064**	**36,808**

Inventories are stated net of a provision of € 2,191 thousand at December 31, 2018 (€ 1,626 thousand at December 31, 2017) intended to align obsolete and slow-moving items to their estimated realizable value.

Details of changes in the provision for inventories are as follows:

€/000	FY 2018	FY 2017
Opening balance	**1,626**	**1,723**
Provisions	788	213
Usage	(223)	(310)
Closing balance	**2,191**	**1,626**

The inventories provision is a management estimate of the loss in value expected, calculated on the basis of past experience, historic trends and market expectations.

None of the company's inventories at December 31, 2018 act as security against its liabilities.

24. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2018	31.12.2017
Bank and post office deposits	31,075	8,327
Cash	11	10
Total	**31,086**	**8,337**

For the purposes of the cash flow statement, closing cash and cash equivalents comprise:

€/000	31.12.2018	31.12.2017
Cash and cash equivalents	31,086	8,337
Overdrafts (note 27)	(264)	(2,870)
Total	**30,822**	**5,467**

25. Equity

Share capital
Share capital is fully paid up at 31 December 2018 and amounts to € 42,623 thousand, remaining unchanged during the year under examination, and it consists of 163,934,835 ordinary shares of par value € 0.26 each. This amount is presented net of the nominal value of own shares owned at 31 December 2018, equal to € 104 thousand.

All shares have been fully paid.

Treasury shares
The total value of treasury shares held at 31 December 2018 amounted to € 2,029 thousand and has not changed compared to the previous year.
This sum was allocated for the nominal value (€ 104 thousand) to adjust the share capital and for the corresponding share premium (€ 1,925 thousand) to adjust the share premium reserve.
As for the sale and purchase of shares made during the period, please refer to the appropriate section of the Directors' Report.

Share premium reserve
At 31 December 2018, the share premium reserve amounts to € 40,529 thousand, and consists of premiums on newly issued shares, net of share premium treasury shares held at December 31, 2018. The reserve is shown net of charges related to the capital increase amounted to € 1,598 thousand and adjusted for the related tax effect of € 501 thousand.

Legal reserve
The legal reserve at December 31, 2018 of € 3,197 thousand (€ 3,059 thousand at December 31 2017).

Revaluation reserve
At 31 December 2018 the revaluation reserve includes the reserves deriving from the revaluation as per Law 72/83 for € 371 thousand and as per Law 413/91 for € 767 thousand. No changes occurred during the year.

Other reserves
The extraordinary reserve amounts to € 27,256 thousand at December 31 2018, inclusive of all allocations of earnings in prior years.

At 31 December 2018 other reserves also include:
- reserves qualifying for tax relief, referring to tax provisions for grants and donations for € 129 thousand;
- reserves for merger surpluses for € 3,562 thousand;

- reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

These reserves have remained unchanged compared to the previous year.

The following table analyses equity according to its origin, its possible uses and distribution:

Nature/Description (€/000)	Amount	Possible use	Available portion	Summary of uses in past three years: Coverage of losses	Summary of uses in past three years: Distribution of profits
Share capital	**42,519**				
Capital reserve					
Share premium reserve (§)	40,529	A-B-C	40,529	-	-
Revaluation reserve under Law 72/83 (#)	371	A-B-C	371	-	-
Revaluation reserve under Law 413/91 (#)	767	A-B-C	767	-	-
Merger surplus reserve (£)	3,562	A-B-C	3,562	-	-
Other untaxed reserve (#)	122	A-B-C	122	-	-
Reserves formed from earnings					
Legal reserve	3,197	B	-	-	-
Extraordinary reserve	27,256	A-B-C	27,256	-	-
Untaxed reserve (#)	129	A-B-C	129	-	-
Profits brought forward in FTA	2,165	A-B	2,165	-	-
Valutation reserve	(538)		(538)	-	-
Retained earnings	24,728	A-B-C	24,728	-	3,271
Total	**102,288**		**99,091**	-	**3,271**
Undistributable portion (*)			**(8,244)**	-	-
Distributable balance			**90,847**	-	-
Net profit for the period (**)	**5,832**		**5,540**	-	-
Total equity	**150,639**				

A: for share capital increases
B: for covering losses
C: for distribution to shareholders

(#) Subject to tax payable by the company in the event of distribution;
(£) Subject to taxation of the company, in the event of distribution, for the value of € 394 thousand;
(*) Equal to the reserve First Time Adoption (€ 2,165 thousand), the share of long-term costs not yet amortized (€ 1,043 thousand) in addition to the share of necessary future allocation to the legal reserve (€ 5,036 thousand). This bond bears specifically on the share premium reserve (§);
(**) Subject to obliged allocation to the legal reserve for € 292 thousand.

26.Trade and other payables

Details of these amounts are as follows:

€/000	31.12.2018	31.12.2017
Trade payables	22,219	22,993
Payables due to related parties (note 36)	5,474	6,440
Payables due to staff and social security institution	3,258	2,990
Other payables	3,924	3,130
Total	**34,875**	**35,553**

The heading **"Other payables"** includes a guarantee received from customers for € 2,267 thousand, amounts payable to Directors and employees for € 1,008 thousand, accrued due to the related variable reimbursements defined over a three-year time-frame, and the current part of the contribution as per Law 488/92 of the company Comag S.r.l., merged by incorporation into Emak S.p.A. (note 31).

Trade payables do not accrue interest and are normally settled at around 74 days.

The heading includes amounts in foreign currencies as follows:
- US dollars for 5,884,086;
- Japanese yen for 7,803,723;
- Taiwanese dollars for 292,492;
- Swiss Franc for 21,684;
- Chinese renminbi yuan for 34,524,931;
- Brazilian reais for 3,288.

"Trade payables" and **"Payables due to related parties"** are analyzed by geographical area below:

€/000	Italy	Europe	Rest of the world	Total
Trade payables	16,410	1,784	4,025	**22,219**
Related parties payables	870	425	4,179	**5,474**

The book value reported in the statement of financial position corresponds to fair value.

27. Loans and borrowings

Loans and borrowings at December 31, 2018 do not include any secured payables.

Details of **current loans and borrowings** are as follows:

€/000	31.12.2018	31.12.2017
Overdrafts (note 24)	264	2,870
Bank loans	21,645	13,396
Financial accrued expenses and deferred income	26	35
Financial debts from related parties (note 36)	2,466	478
Other current loans	352	352
Total current portion	**24,753**	**17,131**

The heading **"Financial debts from related parties"** refers to the interest-bearing loan granted by the subsidiary, Sabart S.r.l., for € 2,017 thousand and the debt for the equity reinstatement due to the subsidiary, Tecomec S.r.l., for the current portion of € 449 thousand.
The heading **"Other current loans"** refers to the granting of a subsidized loan on the part of Simest S.p.A. in accordance with Law 133/08.

Short-term loans and borrowings are repayable as follows:

€/000	Due within 6 months	Due within 6 and 12 months	Total
Bank loans	10,039	11,606	**21,645**
Financial debts from related parties (note 36)	2,017	449	**2,466**
Total	**12,056**	**12,055**	**24,111**

Interest rates applied to loans granted to Emak by subsidiaries have been established in accordance with the framework resolutions that define the nature and terms of conduct. Generally the yield varies depending on:

- the type and duration of the loan granted;
- the performance of the financial markets in which Emak and its subsidiaries operate and of the official reference rates (Euribor);
- the currency of the loan granted.

The details of **long-term loans** is as follows:

€/000	31.12.2017	Increases	Decreases	31.12.2018
Bank loans	28,502	31,438	(14,141)	45,799
Financial debts from related parties (note 36)	297	-	(37)	260
Other financial loans	1,055	-	(352)	703
Total non current portion	**29,854**	**31,438**	**(14,530)**	**46,762**

The increase in the item "**Bank loans**" refers to the subscription of new medium / long-term loans activated to meet the Group's financial requirement forecasts.
The heading **"Financial debts from related parties"** of € 260 thousand refers to the debt for the equity reinstatement due to the subsidiary, Tecomec S.r.l., for the long-term portion.

The heading "Other financial loans" refers to a loan granted by Simest S.p.A. in accordance with Law 133/08, through which Italian companies are assisted in their internationalization processes through loans at subsidized rates. The short-term portion is shown under "Other short-term loans and borrowings".

Long and medium-term loans and borrowings are repayable as follows:

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	17,894	12,853	10,991	4,061	**45,799**	**-**
Financial debts from related parties	37	37	37	37	**148**	**112**
Other financial loans	352	351	-	-	**703**	**-**
Total	**18,283**	**13,241**	**11,028**	**4,098**	**46,650**	**112**

The interest rates refer to 3-6 months Euribor plus an average spread of 0.89 percentage points.

A number of medium-long-term loans are subject to finance covenants assessed on the basis of consolidated Net financial position/Ebitda and Net financial position/Equity ratios. At December 31, 2018 the Company complied with all the benchmarks set by contract.

28. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2017	Increases	Decreases	Other movements	31.12.2018
Deferred-taxes on inventory write-downs	386	140	-	-	526
Deferred-taxes on bad debts	128	56	-	-	184
Other deferred tax assets	1,702	232	(773)	(17)	1,144
Total (note 14)	**2,216**	**428**	**(773)**	**(17)**	**1,854**

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2018.

The heading **"Other deferred tax assets"** mainly includes:
- a receivable of € 455 thousand, as tax benefits carried forward, corresponding to ACE (aid for economic growth pursuant to Article 1, Law 201/2011), accrued in previous years (2012 - 2015) and recognized as due by the Italian Revenue Agency in 2017, following a favourable response to the application not to apply presented by the Company.
- an amount of € 231 thousand referring to the incentives for deferred settlement in favour of top *management;*
- the deferred tax effect of accounting for post-employment benefits according to IAS 19, for € 62 thousand;
- deferred tax assets for € 103 thousand relating to the product warranty provision referring to future costs for warranties.

Deferred tax liabilities are detailed below:

€/000	31.12.2017	Increases	Decreases	31.12.2018
Deferred taxes on capital gains on disposals of fixed assets	5	5	(5)	5
Deferred taxes on real estate IAS 17	1,165	-	(28)	1,137
Other deferred tax liabilities	97	183	(116)	164
Total (note 14)	**1,267**	**188**	**(149)**	**1,306**

The portion of the taxes which will reverse in the next 12 months amounted to about € 193 thousand.

The **"Other deferred tax liabilities"** heading refers to unrealized foreign exchange gains in 2018.

It should be noted that no deferred taxes were allocated in respect of the revaluation reserves, which are reserves in partial suspension of the tax, as it is likely that there will be no transactions that would give rise to taxation. The total amount of these taxes at December 31, 2018 is € 340 thousand.

The **current tax assets** amount at December 31, 2018 to € 1,435 thousand, against € 1,155 thousand at December 31, 2017, and refer to:
- credits at reimbursements relating to deductibility of IRES (Italian corporate income tax) from IRAP (regional corporate tax) for a total amount of € 344 thousand, concerning the appeal filed in previous years as per art. 2 Law no. 201/2011 for a value of € 156 thousand and as per art.6, Decree Law 185/2008 for a further € 188 thousand;
- VAT credits for € 970 thousand;
- "Ecobonus" deduction credit for energy saving measures for € 47 thousand;
- ”Training 4.0" tax credit, Law 205/17 for € 48 thousand;
- other minor tax receivables for € 26 thousand.

Current tax liabilities amount to € 1,043 thousand at December 31, 2018 and mainly refer to withholding taxes to be paid and to the current IRAP tax payable of € 71 thousand. The corresponding amount at December 31, 2017 was equal to € 976 thousand.

29. Employee benefits

The liability refers to the time-discounted debt for termination indemnity due at the end of an employee's working life, amounting to € 3,124 thousand. The amount of termination indemnity calculated according to the nominal debt method in force at the closing date would be € 2,904 thousand.

Movements in this liability are as follows:

€/000	2018	2017
Opening balance	**3,769**	**3,777**
Actuarial (gains)/losses	(60)	207
Interest cost on obligation (note 13)	30	38
Disbursements	(615)	(253)
Closing balance	**3,124**	**3,769**

The principal economic and financial assumptions used are as follows:

	FY 2018	FY 2017
Annual inflation rate	1.5%	1.5%
Discount rate	1.1%	0.9%
Dismissal rate	1.0%	1.0%

Demographic assumptions refer to the most recent statistics published by ISTAT.

Payments in 2019 are expected to be in line with 2018, net of the payment attributable to the staff reorganization plan.

30. Provisions for risk and charges

Movements in this balance are analyzed below:

€/000	31.12.2017	Increases	Decreases	31.12.2018
Provisions for agents' termination indemni	322	37	(69)	290
Other provisions	25	1,620	-	1,645
Total non current portion	**347**	**1,657**	**(69)**	**1,935**
Provisions for products warranties	431	-	-	431
Other provisions	18	17	-	35
Total current portion	**449**	**17**	**-**	**466**

The provision for agents' termination indemnity is calculated with reference to the agency contracts in existence at year end and refers to the indemnity that is likely to be paid to agents.

Other provisions in the long term refer to:
- € 25 thousand, for legal costs provisioned in respect of the conduct of tax disputes pertaining to the company Bertolini S.p.A. (incorporated at the time) for which Emak, based on the opinion expressed by its defenders, does not expect to mobilize additional funds to incumbent liabilities;
- accruals for a total value of € 1,620 thousand to a provision to cover future losses relating to investments in subsidiaries Emak Deutschland Gmbh (€ 453 thousand) and Emak Do Brasil Industria Ltda (€ 1,167 thousand), see note 19.

The warranty provision relates to future costs for warranty repairs that will be incurred for products sold covered by the guarantee period and/or contract, the provision is based on estimates extrapolated from historical trends.

The current portion of item **"Other provisions"**, amounting to € 35 thousand, refers to the best estimate of liabilities presently considered as probable, in the face of provisions equal to the value of the relief on claims for product civil liability (€18 thousand) and other liabilities of a minor nature due to probable disputes.

31. Other non-current liabilities

The total amount of € 520 thousand (€ 579 thousand at December 31, 2017) refers to the deferred income relating to capital grants received as per Law 488/92 by Comag S.r.l., now merged into Emak S.p.A. in the year 2015, and spread over subsequent financial periods. The part of the grant receivable within one year is included in current liabilities under "Other payables" and amounts to € 59 thousand.

32. Contingent liabilities

At the date of December 31, 2018 the Company does not have any disputes other than those referred to in these notes. In the Director's opinion, at the closing date, there were no reasonable grounds for the occurrence of additional future liabilities with respect to those already disclosed in these notes.

33. Commitments

Purchase of further equity interests
It should be noted that as part of the contract for the acquisition of the 30% of the company Cifarelli S.p.A was defined a "Put & Call Option" for the acquisition of the 70%, to be exercised in 2020.

Purchase of fixed assets
The Company has commitments for the purchase of fixed assets not recorded in the financial statements at 31 December 2018 for the amount of € 3,454 thousand (€4,039 thousand at 31 December 2017). These commitments refer to the acquisition of equipment, plant and machinery for € 454 thousand, for € 2,300 thousand to the construction of the new building for the research and development center at its headquarters in Bagnolo in Piano and for € 700 thousand to ERP Transformation project at Group level. Accounting for these commitments will take place on the basis of the progress made in implementing them.

34. Guarantees

Guarantees granted to *third parties*
They amount to € 2,235 thousand and are made up as follows:
- € 502 thousand for a bank guarantee in favour of EPA (United Environmental Protection Agency) in compliance with an American regulation in force from 2010 regarding the emissions of combustion engines;
- € 350 thousand for surety policy in favour of the Naples Customs Office for guaranteeing customs duties;
- € 81 thousand for a surety policy in favour of the Campobasso customs office to guarantee customs duties;
- € 1,302 thousand for a surety policy in favour of Simest for loans.

Comfort letters, sureties and credit orders in favor of subsidiaries

These amount to € 101,166 thousand, and refer to the balance of credit line available or used as at December 31, 2018, broken down as follows:

€/000	Value of collateral	Amount guaranteed
Emak Deutschland GmbH	2,718	2,718
Emak U.K. Ltd.	1,756	1,756
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	173	173
Epicenter Limited	178	178
Victus Emak SP. Z.O.O.	673	673
Tecomec S.r.l.	12,067	12,067
Comet S.p.A	29,188	26,488
Comet S.p.A. (operation Lemasa)	13,913	7,729
Comet S.p.A. (operation Lavorwash)	40,500	27,000
Total	**101,166**	**78,782**

35. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at December 31, 2018 and amounts to € 42,623 thousand. It consists of 163,934,835 ordinary shares of par value € 0.26 each.

	31.12.2018	31.12.2017
Number of ordinary shares	163,934,835	163,934,835
Treasury shares	(397,233)	(397,233)
Total outstanding shares	**163,537,602**	**163,537,602**

The dividends for 2017 approved by the shareholders on 27 April 2018, totaling € 5,724 thousand, were paid during 2018.

At December 31, 2017 the Company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand. During 2018 no treasury shares were purchased or sold by Emak S.p.A.

Therefore at December 31, 2018 the company held 397,233 treasury shares in portfolio for a value of € 2,029 thousand.

In January and February 2019 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to December 31, 2018.

36. Related Party transactions

Related parties transactions not usual, neither the recurring, not coming under the ordinary scope of activity

Emak adopted in accordance with the law an assurance procedure for the operations typically extraordinary, entered into with related parties, which defines and governs all the potential relationships of this nature, to be applied to all entities of the Group. This procedure, originally introduced and approved November 12, 2010, was subject to review and rationalization during 2013, while retaining the characteristics of full adequacy to regulatory requirements. The revised procedure was approved by the Board of Directors on January 31, 2014. The procedure is available on the website www.emakgroup.com, in the "Investor relations" - "Corporate governance" - "Other information" section.

* * * * * * *

Related parties ordinary transactions in 2018 within the Group controlled by Emak S.p.A.

With regards to the group of companies under its control, transactions for the supply and purchase of goods and services carried out by Emak correspond to the industrial and commercial supply chain relating to its normal business activity.
It should be noted that all transactions relating to the exchange of goods and the provision of services that occurred in 2018 in the group fall within ordinary business of Emak and have been adjusted based on market conditions (i.e. conditions equivalent to those that would be applied in relations between independent parties).These conditions correspond with aims strictly industrial and commercial and of Group financial management optimization. The execution of these transactions is governed by specific and analytical procedures and programmatic documents ("framework resolutions"), approved by the Board of Directors, with the assistance and consent of the independent directors, meeting in the Audit and Risk Committee.

The operations carried out in 2018 with parties belonging to the Emak Group and the values of such relations in force at the closing date of the financial year are shown below.

Receivables for loans and interest:

Companies belonging to Emak S.p.A. (€/000)	Financial income	Current financial assets	Non current financial assets
Emak Deutschland GmbH	36	-	2,400
Emak UK Ltd.	2	-	158
Comet S.p.A.	448	-	17,800
Comet USA Inc.	62	873	-
Raico S.r.l.	2	-	-
Epicenter Llc.	10	-	-
Total (note 13 and note 21)	**560**	**873**	**20,358**

Payables for loans and interests:

Companies belonging to Emak S.p.A. (€/000)	Financial charges	Current financial liabilities	Non current financial liabilities
Sabart S.r.l.	-	2,017	-
Tecomec S.r.l.	2	449	260
Total (note 27)	**2**	**2,466**	**260**

Other reports related to financial nature concerning the relationship of the guarantee referred to in paragraph 34 above.

Sale of goods and services and receivables:

Companies belonging to Emak S.p.A. (€/000)	Net sales	Other operating incomes	Dividends	Total	Trade and other receivables
Emak Suministros Espana SA	4,758	-	270	**5,028**	**2,132**
Emak Deutschland Gmbh	2,098	-	-	**2,098**	**278**
Emak UK Ltd.	1,675	-	-	**1,675**	**1106**
Emak France SAS	7,450	-	-	**7,450**	**3,027**
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	1,152	-	-	**1,152**	**372**
Victus Emak Sp. z.o.o.	7,076	-	389	**7,465**	**1539**
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	4	-	513	**517**	**-**
Epicenter Llc.	911	-	-	**911**	**164**
Emak Do Brasil Industria Ltda	76	-	-	**76**	**4,094**
Comet S.p.A.	163	2	-	**165**	**313**
Comet USA Inc.	818	-	-	**818**	**2,192**
PTC S.r.l.	7	-	-	**7**	**3**
Sabart S.r.l.	304	-	1,632	**1,936**	**126**
Raico S.r.l.	9	-	-	**9**	**-**
Tecomec S.r.l.	253	-	2,000	**2,253**	**153**
Geoline Elettronic S.r.l.	3	-	-	**3**	**1**
Lavorwash S.p.A.	12	-	-	**12**	**15**
Total (C)	**26,769**	**2**	**4,804**	**31,575**	**15,515**

Purchase of goods and services and payables:

Companies belonging to Emak S.p.A. (€/000)	Purchases of raw and finished products	Other costs	Total costs	Trade and others payables
Emak Suministros Espana SA	16	20	**36**	25
Emak Deutschland Gmbh	19	36	**55**	115
Emak UK Ltd.	-	18	**18**	12
Emak France SAS	9	74	**83**	34
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	20,322	50	**20,372**	3,283
Comet USA	-	80	**80**	22
Victus Emak Sp. z.o.o.	1	26	**27**	9
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	1,236	-	**1,236**	255
Epicenter Llc.	-	4	**4**	1
Emak Do Brasil Industria Ltda	-	68	**68**	524
Comet S.p.A.	595	-	**595**	245
Sabart S.r.l.	11	-	**11**	3
Tecomec S.r.l.	407	-	**407**	68
Ningbo Tecomec	647	-	**647**	95
Speed France SAS	451	6	**457**	6
Total (D)	**23,714**	**382**	**24,096**	**4,697**

* * * * * * *

Usual dealings with related parties external to the Emak Group occurring during 2018 regarding ordinary commercial and financial operations

Emak S.p.A. is part of the larger group of companies that are owned by Yama S.p.A., its parent company.

Firstly, the dealings entered into in the 2018 financial year with companies directly controlled by Yama are exclusively of an ordinary commercial nature, all coming under Emak's typical activities and all at arm's length. Some companies supply Emak with components and materials, others buy products from Emak to complete their respective commercial product range.

Secondly, dealings of a financial nature and of a usual character derive from Emak S.p.A.'s equity investment in the tax consolidation as per arts. 117 and following of the TUIR (the Consolidated Law on Income Tax) with the controlling company, Yama S.p.A., the latter in its capacity as consolidator. The criteria and means for regulating such dealings are established and formalised in consolidation agreements, based on the parity of treatment of the participants (note 22). The operations illustrated in paragraph 21 of these Notes are also of a financial nature.
Other dealings with "other related parties" consist in professional services of a legal and tax nature, provided by bodies subject to significant influence on the part of a number of directors.
Details of the transactions entered into in 2018 with Yama and with other related parties not controlled by Emak are shown below, as well as indications of the entity of such dealings in force at the closing date of the financial year.

Sale of goods and services and receivables:

Releted parties (€/000)	Net sales	Other operating incomes	Trade and other receivables
SG Agroo d.o.o.	(55)	-	-
Euro Reflex D.o.o.	596	-	278
Garmec S.r.l.	8	-	2
Mac Sardegna S.r.l.	(33)	-	-
Selettra S.r.l.	2	-	-
Cifarelli S.p.A.	58	-	2
Total (E)	**576**	**-**	**282**
Total C+E (note 22)	**27,345**	**2**	**15,797**

Purchase of goods and services:

Releted parties (€/000)	Purchases of raw materials and finished products	Other costs	Total costs	Trade payables
Cofima S.r.l.	87	-	**87**	**-**
Euro Reflex D.o.o.	1,294	1	**1,295**	**223**
Selettra S.r.l.	338	3	**341**	**202**
Cifarelli S.p.A.	1,175	-	**1,175**	**220**
Total (F)	**2,894**	**4**	**2,898**	**645**
Other related parties (G)	**-**	**224**	**224**	**132**
Totals D+F+G (note 26)	**26,608**	**610**	**27,218**	**5,474**

Relationships of financial nature and related income:

Companies belonging to Yama Group (€/000)	Financial income	Current financial assets	Non current financial assets
Yama S.p.A.	2	37	260
Total (note 21)	**2**	**37**	**260**

* * * * * * *

Other transactions with related parties

Other significant dealings on the part of Emak with related parties are those concerning the remuneration of company officers, established in compliance with general meeting resolutions which have established, for the three-year period of office, maximum global remunerations and, with regards to the Directors, bonus schemes. The resolutions of the Board of Directors regarding the remuneration are taken with the opinion of the Committee, composed exclusively of independent Directors. More detailed information regarding the remuneration policy, the procedures used for its adoption and implementation, as well as a description of each of the headings making up remuneration, are disclosed in the report drawn up by the Company pursuant to art. 123-ter 58/98, and which is available on the website.

Costs incurred during the financial period for the remuneration of Emak S.p.A.'s directors and auditors are as follows

(€/000)	FY 2018	FY 2017
Emoluments of directors and statutory auditors	890	435
Benefits in kind	9	9
Wage and salaries	687	670
Employee termination indemnities	47	48
Total	**1,633**	**1,162**

The variable incentive part of the remuneration allocated to the executive directors, included in the amounts shown in the table, is established on a three-year basis, corresponding to the expiry of the current Board mandate.

The total debt for remuneration of Directors and Auditors of the Parent Company at December 31, 2018 amounted to € 1,081 thousand.

In the ending year no other relationships of significant amount of current nature with related parties occurred.

37. Grants received: obligations of transparency regarding public grants Law no.124/2017

In compliance with the transparency obligations regarding public grants provided for by article 1, paragraphs 125-129 of Law no. 124/2017, subsequently integrated by the "security" Decree Law (no. 113/2018) and by the "Simplification" Decree Law (no. 135/2018), information relating to public grants received by the Group during the 2018 financial year is given below.
It should be noted that a cash-based reporting criterion has been adopted, reporting the grants collected during the period in question.
Disbursements received as consideration for supplies and services provided have not been taken into consideration.

€/000

Lender	Description	Emak S.p.A.
Emilia Romagna Region	Contribution for research and development projects (DGR 773/2015)	110
Emilia Romagna Region	Contribution for Asbestos Invitation to tender 2015	19
Fondimpresa	Contribution for training plans	6
Fondirigenti	Contribution for training plans	27
MEF	Tax credit under Law 190/2014	382
MEF	Tax credit under Law 107/2015	2
Total		**546**

38. Subsequent events

There are no noteworthy events.

39. Proposal of allocation of net profit for the period and dividend

For the proposal of allocation of the net profit for the year and distribution of dividends, please refer to note 16 of the Directors Report.

Supplementary schedules

The following schedules, forming an integral part of the explanatory notes to the financial statements, are provided as appendices:

1. CHANGES IN EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES AND ASSOCIATES

2. DETAILS OF EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES AND ASSOCIATES

3. FINANCIAL HIGHLIGHTS OF THE ULTIMATE PARENT COMPANY

4. SCHEDULE OF FEES FOR AUDIT SERVICES AND OTHER SERVICES DIFFERENT THAN AUDITING

Appendix 1

Changes in equity investments

	31.12.2017				Changes				31.12.2018			
	Number of shares	Values in the financial statements €/000	% total shareholding	direct shareholding	Subscriptions And acquisitions	Other movements	Sales	Revaluations (Depreciations)	Number of shares	Values in the financial statements €/000	% total shareholding	direct shareholding
Italy												
Comet S.p.A.	5,000,000	27,232	100	100					5,000,000	27,232	100	100
Raico S.r.l. (note 19)	1 share	5,488	100	100			(5,488)		-	-	-	-
Sabart S.r.l.	1 share	21,011	100	100					1 share	21,011	100	100
Tecomec S.r.l. (note 19)	1 share	27,418	100	100		412			1 share	27,830	100	100
Spain												
Emak Suministros Espana SA	405	572	90	90					405	572	90	90
Germany												
Emak Deutschland Gmbh	10,820	-	100	100					10,820	-	100	100
Great Britain												
Emak UK Ltd	342,090	691	100	100					342,090	691	100	100
France												
Emak France SAS	2,000,000	2,049	100	100					2,000,000	2,049	100	100
China												
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	-	2,476	100	100					-	2,476	100	100
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	-	2,550	100	100					-	2,550	100	100
Poland												
Victus Emak Sp. z.o.o.	32,800	3,605	100	100					32,800	3,605	100	100
Ukraine												
Epicenter LLC (note 19)	1 share	330	61	61	340			1,020	1 share	1,690	100	100
Brazil												
Emak do Brasil Industria Ltda	8,516,200	-	99.9	99.9					8,516,200	-	99.9	99.9
Total investments in subsidiaries		**93,422**								**89,706**		
Italy												
Cifarelli S.p.A.	216,000	3,750	30.0	30.0					216,000	3,750	30.0	30.0
Total associates		**3,750**								**3,750**		

Appendix 2

Details of equity investments

€/000	Registered office	Value in the financial statements	% Share	Share Capital	Equity (*) Total	Equity (*) Attributable to Emak S.p.A.	Profit/(Loss) of the year (*)
Emak Suministros Espana SA	Madrid	572	90	270	3,948	3,553	636
Emak Deutschland Gmbh	Fellbach-Oeffingen	0	100	553	(2,017)	(2,017)	(802)
Emak UK Ltd	Burntwood	691	100	468	758	758	(118)
Emak France SAS	Rixheim	2,049	100	2,000	7,498	7,498	108
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	Jiangmen	2,476	100	3,616	16,438	16,438	881
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	Zhuhai	2,550	100	2,316	5,814	5,814	334
Victus Emak Sp. z.o.o.	Poznan	3,605	100	2,387	8,322	8,322	381
Epicenter LLC.	Kiev	1,690	100	727	1,629	1,629	301
Emak do Brasil Industria Ltda	Curitiba	0	99.9	1,976	(2,616)	(2,590)	(1,115)
Tecomec S.r.l.	Reggio Emilia	27,830	100	1,580	30,421	30,421	3,373
Comet S.p.A.	Reggio Emilia	27,232	100	2,600	38,369	38,369	6,871
Sabart S.r.l.	Reggio Emilia	21,011	100	1,900	7,936	7,936	1,919
Total investments in subsidiaries		**89,706**					
Cifarelli S.p.A.	Voghera (PV)	3,750	30	374	8,963	2,689	1,021
Total investments in associates		**3,750**					

(*) Amounts resulting from the reporting package of subsidiaries prepared in accordance with IAS / IFRS for the purpose of preparation of the consolidated financial statements.
In the face of the impairment test of the subsidiaries Emak Deutschland Gmbh and Emak do Brasil Industria Ltda a specific provision to cover future losses (Note 19 and 30) was set aside in the financial statements.

Appendix 3

Highlights from the latest financial statements of the parent company Yama S.p.A

(€/000)		
FINANCIAL POSITION	**31.12.2017**	**31.12.2016**
Assets		
A) Amounts receivable from shareholders for outstanding payments	-	-
B) Fixed assets	69,789	76,609
C) Current assets	21,438	8,085
D) Prepayment and accrued income	18	21
Total assets	**91,245**	**84,715**
Liabilities		
A) Equity:		
Share capital	16,858	16,858
Reserves	26,203	37,011
Net profit	21,245	501
B) Provisions for risks and charges	263	263
C) Employment benefits	6	2
D) Amounts payable	26,662	30,007
E) Accruals and deferred income	8	73
Total liabilities	**91,245**	**84,715**

INCOME STATEMENT	**31.12.2017**	**31.12.2016**
A) Revenues from sales	100	227
B) Production costs	(1,771)	(1,575)
C) Financial income and expenses	24,679	4,343
D) Adjustments to the value of financial assets	(1,768)	(2,900)
E) Extraordinary income and expenses	-	-
Profit before taxes	**21,240**	**95**
Income taxes	5	406
Net profit	**21,245**	**501**

Appendix 4

Schedule of fees relating to the 2018 financial period for audit services and other services, subdivided by type.

Type of service	Entity providing the service	Beneficiary	Fees (€/000)
Audit	Deloitte & Touche S.p.A.	Emak S.p.A.	137
Audit	Deloitte & Touche S.p.A.	Italian controlled companies	138
Audit	Deloitte & Touche S.p.A. Network	Foreign controlled companies	55
Other services	Deloitte & Touche S.p.A. Network	Emak S.p.A.	23

The above information is provided in accordance with art. 160, paragraph 1-bis of Legislative Decree 24 February 1998, no. 58 and with article 149-duodecies of the CONSOB Regulations contained in Consob resolution no. 19971 of 14 May 1999 and subsequent modifications.

Certification of financial statements and consolidated financial statements pursuant to art. 154-bis, paragraph 5 of the Decree. 58/1998 (Consolidated Law on Finance)

1. The undersigned Fausto Bellamico and Aimone Burani, the latter in his position as the executive in charge of preparing the accounting statements of Emak S.p.A., certify, taking account of the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 24 February 1998, no. 58:

- the suitability, in relation to the nature of the entity and

- effective application

of administrative and accounting procedures for the preparation of the company's individual financial statements and the consolidated financial statements for the financial period ending December 31, 2018.

2. No factors of a significant nature have arisen.

3. It is certified, moreover, that:

3.1 the individual financial statements and consolidated financial statements for the financial period:

a) have been drawn up in conformity with the international accounting standards recognised by the European Community in accordance with EC regulation no. 1606/2002 of the European Parliament and European Council of 19 July 2002;

b) correspond to the accounting documents, ledgers and records;

c) appear to be suitable for providing a true and fair view of the statement of financial position, economic and financial situation of the issuer and of the entities included in the consolidation.

3.2 The Directors' Report contains a reliable analysis of operating trends and results, as well as of the current situation of the issuer and of the entities included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Date: 14 March 2019

The executive in charge of preparing the accounting statements:
Aimone Burani

The CEO:
Fausto Bellamico

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Emak S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Emak S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test of equity investments in subsidiaries and goodwill	
Description of the key audit matter	The separate financial statements of Emak S.p.A. as of 31 December 2018 report equity investments in subsidiaries of Euro 89,706 thousand and goodwill of Euro 2,074 thousand. The Company has verified the recoverability of the investments for which it has identified impairment indicators and goodwill, as stated by IAS 36 – Impairment of Assets. Impairment tests are performed by comparing the recoverable values - determined according to the method of value in use - and the related carrying amounts.

As a result of impairment tests, the Company has recorded an impairment loss of Euro 1,167 thousand in relation to the investment held in the subsidiary Emak Do Brasil Industria Ltda and an impairment loss of Euro 453 thousand in relation to the investment held in the subsidiary Emak Deutschland Gmbh; furthermore, the Company has recorded a reversal of impairment of Euro 1,020 thousand related to the subsidiary Epicenter Llc, of which the Company acquired the remaining 39% during the 2018 fiscal year.
The evaluation process adopted by Management to identify possible impairment is complex and based on assumptions about, among other matters, the forecast cash flows of the cash-generating units (CGUs), the appropriate discounting rate (WACC) and the long-term growth rate (g-rate). The assumptions, reflected in the long-term plans of the CGUs concerned, are influenced by future expectations and market conditions, which represent elements of uncertainty when making estimates, with particular reference to equity investments already written down in previous years, Emak Do Brasil Ltda, Emak Deutschland Gmbh, Epicenter Llc, and for which the continuation of structural crises and adverse economic factors had previously contributed to departures from the forecasts made by Management.

In view of the significance of the amount of the investments in subsidiaries and of the goodwill reported in the financial statements, the subjective nature of the estimates made to determine the cash flows of the CGUs and the key variables of the impairment model, and the many unpredictable factors that might influence the performance of the market in which the companies operate, we considered the impairment test of the investments in subsidiaries and the goodwill to be a key audit matter of the separate financial statements of Emak S.p.A. as of 31 December 2018.

The explanatory notes of separate financial statements in the paragraphs "2.5 Goodwill", "2.6 Impairment of assets", "2.10 Shareholdings in subsidiaries" and "4. Key accounting estimates and assumptions", describe the Management assessment process and the notes 18 and 19 report the significant assumptions and disclosures on the items subject to impairment tests, including a sensitivity analysis that illustrates the effects deriving from changes in the key variables used to carry out the impairment tests.

Audit procedures performed

In the context of our audit work we performed the following procedures, among others, partly with assistance from experts:

- examination of the approach adopted by Management to assess the recoverability of the investments in subsidiaries and the goodwill, and analysis of the methods used and assumptions used to carry out the impairment tests;

- understanding and testing the operating effectiveness of the relevant controls implemented by the Company over the process of impairment testing and identifying the impairment indicators;

- analysis of the reasonableness of the principal assumptions made in order to forecast cash flows, partly by analysing external data and obtaining information from Management that we deemed to be significant;

- analysis of actual values in comparison with the original plans, in order to assess the nature of variances and the reliability of the budgeting process, giving particular attention to the subsidiaries Emak Do Brasil Ltda, Emak Deutschland Gmbh and Epicenter Llc;

- assessment of the reasonableness of the discount rates (WACC) and the long-term growth rate (g-rate), partly via the appropriate identification of and reference to external sources that are normally used in professional practice and to key data for main comparables;

- verification of the mathematical accuracy of the model used to determine the value in use of the CGUs;

- verification of the sensitivity analysis prepared by Management;

- examination of the adequacy of the information disclosed by the Company about the impairment tests and its consistency with the requirements of IAS 36.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Emak S.p.A. has appointed us on April 22, 2016 as auditors of the Company for the years from December 31, 2016 to December 31, 2024.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Emak S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Emak S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Emak S.p.A. as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Emak S.p.A. as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Farioli
Partner

Parma, Italy
March 28, 2019

This report has been translated into the English language solely for the convenience of international readers.

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