Consolidated Financial Statements and Financial Statements as at 31 December 2017

TRANSLATION FROM THE ORIGINAL ITALIAN TEXT
ONLY FOR THE CONVENIENCE OF INTERNATIONAL READERS

MARZOTTO S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

1836
MARZOTTO
GROUP

[Summary]

Marzotto
CONSOLIDATED FINANCIAL STATEMENTS and FINANCIAL STATEMENTS

Marzotto group
CONSOLIDATED FINANCIAL STATEMENTS

Marzotto S.p.A.
FINANCIAL STATEMENTS

Consolidated Financial Statements as at 31 December 2017

MARZOTTO GROUP

Parent company: MARZOTTO S.p.A.
Company with sole partner

Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

1836

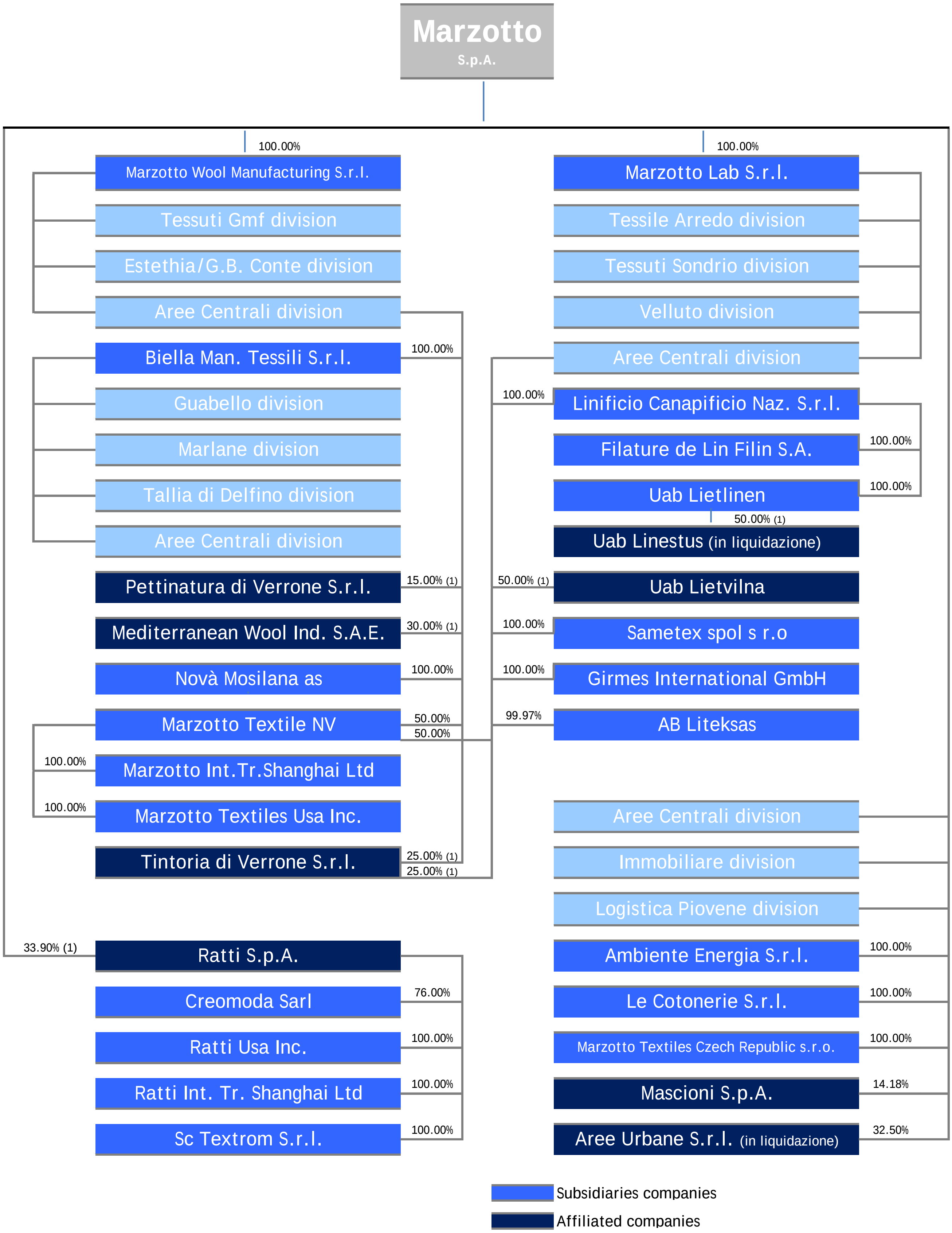
MARZOTTO

GROUP

Report on operations

Parent Company: Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

[Group structure dated 31 december 2017]



[1] Consolidated using the equity method

[Report on Operations]

Introduction

Dear Shareholders,

The consolidated financial statements for the Marzotto Group closed 2017 with net revenues of 347,199 thousand euros and net profit of 13,295 thousand euros.

Standards for the preparation of the financial statements

The consolidated financial statements below have been prepared in compliance with the International Financial Reporting Standards (IFRS or "international accounting standards") issued by the International Accounting Standards Board (IASB) and approved by the European Commission, as subsequently amended and supplemented.

Please refer to the explanatory notes for comments on the figures in the financial statements. Information and updates on the Group's situation and outlook, as well as the information required by current legislation, is provided below.

[Report on Operations]

Group activities

The Marzotto Group operates in the following sectors:

- Wool Fabrics;
- Sundry Textile;
- Other Operations.

The Wool Fabrics sector (in which the Marzotto Wool Manufacturing group operates) includes the manufacturing and distribution of wool fabrics and mainly operates with the following brands:

- **Marzotto:** a leading collection by sales volume worldwide, marked out by strong product research, aimed at designers and international markets.
- **Guabello**: a prestigious traditional Italian textile label, with strong regional roots and people behind its development and success. The collections are made using selected Merino wools and exclusive quality fibres, combining tradition, style and research.
- **Marlane**: The brand offers fabrics primarily focused on market trends, providing the right balance between the latest fashions and quality, with a high level of competitiveness in terms of price and service for the customer.
- **Tallia di Delfino**: a historical fine fabrics brand, it has been known internationally since 1903 for its high-quality men's coats, positioned in the luxury segment; it combines ancient traditions with meticulous attention to detail, sophisticated taste and constant technological innovation. The collection is made up of the best and most refined raw materials, such as Australian wools, Mongolian cashmere and South African mohair.
- **Estethia/G.B. Conte**: encompasses the activities of the **Estethia** division, a dynamic collection of combed, crepe, monostretch and bistretch fabrics, solid colours and printed fabrics with innovative finishes showing high quality and research; **G.B. Conte**, a collection specialised in carded and combed patterned fabrics for outerwear, boiled wool and jersey. Since the A/W 18/19 season, the original Harris Tweed carded fabric has been marketed in Europe (excluding the UK) through an exclusive distribution agreement with Scottish company Harris Tweed Hebrides, located in the Outer Hebrides islands.

The Sundry Textile sector (in which it operates through the Marzotto Lab group) includes the manufacturing and distribution of cotton and velvet fabrics, yarns and linen fabrics, wool yarns and furnishings:

- The **Linen** business encompasses the production and distribution of "long-fibre" linen yarns, through the Linificio e Canapificio Nazionale Group, Linificio is a leading producer and distributor of linen fibre yarns and fabrics.
- The **Cotton** business represents the division of the Marzotto Lab company that is engaged in the production and marketing of premium cotton fabrics. The company manages these owned brands: *Tessuti di Sondrio*, a leading brand and collection in terms of image for cotton and linen fabrics in the high-end segment; *Dal Sasso*, a historic brand discovered in 2008, which is known for its elegant, sophisticated sportswear in wool and cotton/wool, which complements the Sondrio "life-style" project; and **NTB Nuova Tessilbrenta**, a brand acquired in 2009, which completes the product range with cotton and cotton blend fabrics for men's and women's sportswear.
- The **Velvet** business was acquired from the shareholder Marzotto S.p.A. in 2012 in order to broaden the offering by entering the velvet segment through the acquisition of the *Redaelli Velluti*, *Redaelli 1893*, *Niedieck, Christoph Andreae and Girmes* brands. The Redaelli 1893 brand, intended for the clothing and furnishing market, has a formal, elegant flavour; the Niedieck brand, meanwhile, falls within the sportswear segment of sporty/elegant clothing.
- The **Furnishings** segment includes the manufacture and distribution of blankets, throws, duvets and wool furnishing accessories bearing the *Lanerossi and Marzotto Lab* brands. These are leading collections in the sector, standing out for their strong level of product research, focused on comfort, practicality and the development of new processes relating to consumer health and well-being.
- The Group is also engaged in the wool yarns segment through affiliates Uab Lietvilna and Tintoria di Verrone S.r.l.

The **Other Operations** segment mainly includes coordination and strategic management activities, as well as service activities (administration and finance, legal and investor relations, human resources management, information technology) performed centrally for the line operating segments. This area also includes the results of managing the Schio water treatment plant (through subsidiary Ambiente Energia S.r.l., which operates independently with a sole director vested with full powers) and other equity investments that are not fully consolidated. These include, in particular, the 33.90% equity investment in the **Ratti** Group, through which Marzotto has also been operating in the **Silk** segment since 2010. The **Ratti Group** is a designer and manufacturer of printed fabrics, solid and yarn dyed fabrics for clothing (shirts, ties, underwear, swimwear) and furnishing, and produces and distributes finished products (mainly men's and women's accessories, such as ties, scarves and foulards).

[Report on Operations]

Group performance

Despite the macroeconomic context, which, although showing some signs of recovery, is encumbered by multiple complexities and lack-lustre consumption, the year under review confirmed the soundness of the profit performance and balance sheet of the Marzotto Group, which achieved consolidated revenues of 347.2 million euros during the year (347.2 million in 2016) and net profit of 13.3 million (net profit of 13.3 million in 2016).

Pursuit of a strategy that remains consistent over time, focussed on excellent quality and the constant monitoring of the value chain, have helped achieved these favourable results.

The Group aims to grow and develop through a range of high-quality products and a style that seeks to preserve the identity of the brands with which it operates on the market.
The Group also pays attention to value creation and profitability through an integrated organisational structure that, taking account of the various different goods types, is common to the various Group businesses.

The strategic choices pursued and the organisational model adopted, which are being continuously improved, have enabled us to cope with this complex outlook and achieve positive revenues and profits.

The consolidated data booked for 2017 show business volumes of 347.2 million euros, in line with the previous year, and a gross margin of 74.8 million (21.5% of net revenues).

The trend in EBIT was also positive, reaching 16.7 million euros (4.8% of net revenues), compared with 20.7 million euros (5.9% of net revenues) in 2016.

Financial operations showed a positive balance of 1.3 million euros (compared with a positive 0.3 million in 2016) and mainly included net financial expenses of 1.4 million euros (1.5 million in 2016), income from the measurement at equity of affiliates of 2.7 million euros (1.9 million in 2016) and other financial income and expenses of 0.0 million (-0.1 million in 2016).

The analyses described thus far result in Group net profit of 13.3 million euros (compared with net profit of 13.3 million euros as at 31 December 2016).

[Main events of the year]

Before addressing the Group's management activity in 2017, we would first like to note the highlights for the year just ended and the current year.

Tax litigation

During 2015, parent company Marzotto S.p.A. had a general tax audit conducted on it by the Veneto regional tax authority, relating to direct tax, IRES, IRAP, VAT and tax substitute obligations, relative to the periods of 2011 and 2012.

This audit concluded with a formal report of findings issued on 5 June 2015, which highlighted some findings on transfer pricing matters and was followed by assessment notices.

The Company closed outstanding IRES issues with adhesion contracts signed on 1 June 2017 and a conciliation agreement signed on 27 July 2017 concerning IRAP. Following the signing of the aforementioned documents, the dispute ceased.

Litigation Praia a Mare

Beginning in 1999, some former employees and heirs of former employees at the Praia a Mare plant filed a motion with the public prosecutor through the Court of Paola, seeking criminal action against the persons in charge of the plant from the 1960s through 2004, allegedly for functional omissions that, because of safety conditions at the plant, allegedly caused death and serious injury to some employees.

After the judge of the same Court rejected three requests by the examining judge to close the case, in October 2009 and February 2010, the examining judge issued notices of completion of preliminary investigations, also for environmental crimes. In March 2011, Marzotto S.p.A. was served with the summons, pursuant to Article 83 of the Italian Code of Criminal Procedure, of the responsible officer who, according to the ordinary proceedings was jointly responsible for the payment of any damages.

In November 2013, by agreement with the other jointly liable parties, all financial claims lodged by natural persons involved in the criminal proceedings and all those who had taken civil action, were settled.

By sentence of March 2015, the Court of Paola ruled full acquittal of all defendants, because there was no case to answer. It was also established that the external area of the Praia a Mare plant, overlooking the sea, was to be returned, the area on which, by virtue of the order of the mayor of January 2007, Marzotto S.p.A. completed characterisation works in June 2016, whose outcomes, ascertained by the relevant technical bodies, confirmed that the area had not been polluted.

Following the appeal by the Public Prosecutor’s Office of Paola and the civil parties against the first-degree judgement, on 25 October 2017, the Court of Appeal of Catanzaro confirmed the judgement and on 1 February 2018 provided the relative grounds, stating, in a highly questionable manner, that a disaster had taken place although its timing could not be determined. The Catanzaro prosecutor’s office has filed an appeal with the Court of Cassation against the second-degree judgement. As these third-degree proceedings are still in their initial phase, no predictions can be made at this stage as to the outcome.

In October 2016, Marzotto S.p.A., in execution of the settlement agreement previously reached, transferred to the Municipality of Praia a Mare a portion of the property complex located in Praia a Mare; the Municipality waived all claims against Marzotto S.p.A.

In January 2017, the Company received the following notifications: (i) a premises inspection order issued by the public prosecutor's office to the Court of Paola as part of further criminal proceedings, for the inspection of the entire area of the purification plant and the interior of the Praia a Mare plant, and (ii) a number of civil suits filed with the Court of Paola by other former employees and heirs of former employees of the Praia a Mare plant, claiming that the alleged absence of safety conditions for the works carried out at the plant had caused death or serious injury to some employees.

With regard to the criminal proceedings, the judge of the Court of Paola accepted the request for a special evidentiary hearing made by the public prosecutor's office and in December 2017 investigative proceedings began. With regard to the civil proceedings, the judge is bringing together the individual proceedings in a single first hearing in July 2018. As all of the above proceedings are in their preliminary stages, it is currently not possible to predict their outcomes.

[Main events of the year]

Dividend stripping

In 2010, in relation to the litigation against judgement no. 78/2010 passed down by Section 4ª of the Regional Tax Commission of Venice-Mestre of 21 September 2010, Marzotto S.p.A. was notified of entry to a taxpayers' list and the relative tax demand for a total of 28.2 million euros, subsequently reduced to 16.2 million euros following a decision by the competent bodies on the basis of appeals filed by the companies concerned, namely Marzotto S.p.A. and, due to the partial proportionate demerger of July 2005, Valentino Fashion Group S.p.A., acting jointly and severally and with respective responsibility for 1/3 and 2/3 of the aforementioned tax liability.

In January 2014, Marzotto S.p.A. and Valentino Fashion Group S.p.A. signed a settlement agreement to define, inter alia, joint and several liability with regard to the payment of the aforementioned collection notice and the dispute in question. Under this agreement, Marzotto S.p.A. has agreed to settle the residual tax debt in a single payment, benefiting from the concessions provided for by the 2014 Stability Law and releasing Valentino Fashion Group S.p.A. from the relative obligations. Valentino Fashion Group S.p.A. in turn waived any claims made against Marzotto S.p.A., abandoning all civil proceedings brought before the Court of Milan.

Because the Italian tax authorities have filed an appeal with the Court of Cassation against Judgement No. 78/2010, with the entry into force of Decree Law No. 50/2017, which introduced the possibility of a facilitated settlement of the disputes with the tax authorities still outstanding on 24 April 2017, pending at every status and level of proceedings, including the case with the Court of Cassation, the Company considered it appropriate to agree to this settlement, as there are no cash effects, in order to eliminate completely the inherent risk of any ruling.

Report on Operations

Income statement and balance sheet highlights

The table below contains summaries of the Group's main income statement, balance sheet, and financial position items for the year ended on 31 December 2017.

(in milioni di euro)	2017	2016	change	change %
Consolidated net revenues	**347.2**	**347.2**	**=**	**=**
Operating income	16.7	20.7	(4.0)	- 19.3%
% of net revenues	*4.8%*	*5.9%*		
EBITDA (1)	**32.0**	**35.5**	**(3.5)**	**- 9.9%**
% of net revenues	*9.2%*	*10.2%*		
Income before taxes	18.0	21.0	(3.0)	- 14.3%
% of net revenues	*5.2%*	*6.0%*		
Group net income	**13.3**	**13.3**	**=**	**=**
% of net revenues	*3.8%*	*3.8%*		
Net working capital	**81.5**	**72.6**	**8.9**	**+ 12.3%**
Net employed capital	**212.2**	**201.2**	**11.0**	**+ 5.5%**
Net financial position	**77.6**	**75.4**	**2.2**	**+ 2.9%**
Investments for the period	15.7	20.0	(4.3)	**- 21.5%**
Active staff: persons	3,209	3,266	(57)	**- 1.7%**

	2017	2016	change
ROI	7.9%	10.3%	-2.4%
ROE	9.9%	10.6%	-0.7%
ROS	4.8%	5.9%	-1.1%
Debt/Equity	57.7%	59.9%	-2.3%
Capitalisation ratio	63.4%	62.5%	0.9%
Financial coverage rate of assets	65.2%	68.2%	-3.0%
Inventory rotation index	189	173	16
Number of days of credit to clients	69	77	-8

Legend:

ROI: EBIT/Capital employed
ROE: Net result/Shareholders' equity
ROS: EBIT/Net revenues
Debt/Equity: Net financial position/Shareholders' equity
Capitalisation index: Ratio of shareholders' equity to capital employed net of operating liabilities.
Rate of financial coverage of fixed assets: Fixed assets + ML-term funds/Shareholders' equity + ML-term financial borrowing
Stock rotation index: Net inventory/Cost of goods sold x 360 days
Credit days to customers: Gross trade receivables/Net revenues x 360 days

(1). EBIT + Amortisation/depreciation.

[Report on Operations]

Consolidated income statement consolidated

As at 31 December 2017, the Group registered net profit of 13.3 million euros, in line with the final figure recorded in 2016.

Summary consolidated income statement data for the period, compared with those for 2016, are as follows[(1)]:

(in millions of euro)	2017		2016	
Net revenues	**347.2**	*100.0%*	**347.2**	*100.0%*
Cost of sales	(272.4)	*(78.5%)*	(269.3)	*(77.6%)*
Gross income	**74.8**	*21.5%*	**77.9**	*22.4%*
R&D and marketing costs	(38.6)	*(11.1%)*	(37.9)	*(10.9%)*
General and administrative costs	(18.2)	*(5.2%)*	(18.7)	*(5.4%)*
Profit from core businesses	**18.0**	*5.2%*	**21.3**	*6.1%*
Non-recurring income/(charges)	(1.3)	*(0.4%)*	(0.6)	*(0.2%)*
Operating income	**16.7**	*4.8%*	**20.7**	*5.9%*
Net financial charges	(1.4)	*(0.4%)*	(1.5)	*(0.4%)*
Dividends and valutation at equity	2.7	*0.8%*	1.9	*0.5%*
Other financial income/charges	=	=	(0.1)	=
Income before taxes	**18.0**	*5.2%*	**21.0**	*6.0%*
Taxes	(4.7)	*(1.4%)*	(7.7)	*(2.2%)*
Group net income	**13.3**	*3.8%*	**13.3**	*3.8%*

Net revenues[(2)]

The year just ended reports total turnover of 347.2 million euros, in line with the previous year.

With regard to product type, the Wool Fabrics business closed the year with an increase in business volumes of 1.2%, or 2.8 million euros, while the Sundry Textile sector booked an decrease of -2.9%, or -3.0 million euros.

As regards the outlet market, the Group recorded a positive turnover performance in both the domestic market and other European countries, totalling 268.1 million euros (-3.5% on the final figure for 2016), while on the international market, sales reached 79.1 million euros (up14.1% on the final figure for 2016).

Below is a brief presentation of the breakdown of net revenues by sector and geographical area, as compared with the same results of the last year.

by sector

(in millions of euro)	2017		2016	
Textile Sector	**341.2**	*98.2%*	**341.4**	*98.3%*
Wool fabrics	241.1	*69.4%*	238.3	*68.6%*
Sundry textiles	100.1	*28.8%*	103.1	*29.7%*
Other Operations	**17.2**	*5.0%*	**17.6**	*5.1%*
Aggregate total	**358.4**	*103.2%*	**359.0**	*103.4%*
Inter-company sales/other	*(11.2)*	*(3.2%)*	*(11.8)*	*(3.4%)*
Consolidated total	**347.2**	*100.0%*	**347.2**	*100.0%*
of which: Italy	108.1	*31.1%*	112.3	*32.3%*
of which: Other markets	239.1	*68.9%*	234.9	*67.7%*

(1). The Ratti Group, Tintoria di Verrone S.r.l., Uab Lietvilna and Uab Linestus are consolidated with the equity method, in application of the standard IFRS 11.
(2). Compared to 2016, the main foreign currency of interest for the Group had the following trends compared to the euro:
GBP – Pound sterling: 0.876 (2017 average); 0.819 (2016 average);
JPY – Japanese Yen 126.655 (2017 average); 120.314 (2016 average);
USD – US Dollar 1.129 (2017 average); 1.107 (2016 average);
CZK – Czech Crown 26.327 (2017 average); 27.035 (2016 average).

Below is a brief representation of the geographic breakdown of net revenues as compared with last year's results.

by geographical area

(in millions of euro)	2017		2016	
Italy	108.1	*31.1%*	112.3	*32.3%*
Other European countries	160.0	*46.1%*	165.6	*47.7%*
North America	16.6	*4.8%*	9.9	*2.9%*
Asia	50.1	*14.4%*	46.3	*13.3%*
Other countries	12.4	*3.6%*	13.1	*3.8%*
Total	**347.2**	*100.0%*	**347.2**	*100.0%*

Operating profit

The increase in the turnover achieved by the Group is reflected in the result of ordinary operations, which is 18.0 million euros (-3.3 million euros on end-2016), accounting for 5.2% of net sales revenues.

The pursuit of the rationalisation of the industrial and production structure, undertaken during previous years, gave rise to an intensification of synergies and consolidation of the logistics/commercial network in order to obtain an improvement in the quality of service and a limitation of costs, to become more competitive on the outlet markets.

Below are details by business segment:

by business segment

	2017		2016	
(in millions of euro)	Importi	% su ricavi	Importi	% su ricavi
Textile Sector	**16.4**	*4.8%*	**19.9**	*5.8%*
Wool fabrics	17.0	*7.1%*	21.5	*9.0%*
Sundry textiles	(0.6)	*(0.6%)*	(1.6)	*(1.6%)*
Other Operations	**1.5**	*9.0%*	**1.3**	*n.s.*
Adjustments/other	*0.1*	=	*0.1*	=
Total	**18.0**	*5.2%*	**21.3**	*6.1%*

Non-recurring income and expenses

In the year in question, non-recurring operations were negative for 1.3 million euros (negative for 0.6 million euros in 2016) and mainly comprised capital gains realised on asset disposals of 0.8 million euros, offset by business plan expenses of 0.1 million euros, provisions for future risks/charges of 0.6 million euros and other expenses not related to ordinary operations or incurred in previous years of 1.2 million euros.

Financial expenses

At the balance sheet date, net financial expenses amounted to 1.4 million euros, down 0.1 million euros compared with 2016. This improvement mainly reflects the combined effect of reduced average net borrowing and lower interest rates.

Dividends and valuations at equity

The item "Dividends from unconsolidated equity investments and valuations at equity", which amounts to 2.7 million euros, includes dividends received by affiliate Ratti S.p.A. (0.9 million euros) and the economic impact of the measurement of equity investments in affiliates using the equity method (1.8 million euros).

Other financial income and expenses

Other financial income and expenses came to 0.0 million euros, compared with a negative balance of 0.1 million euros in the previous year.

Income taxes

From FY 2008, Marzotto S.p.A. and Linificio e Canapificio Nazionale S.r.l., from FY 2009, Biella Manifatture Tessili S.r.l. (formerly Tallia di Delfino S.p.A.), Le Cotonerie S.r.l. (formerly Immobiliare Isola S.r.l.) and Ambiente Energia S.r.l., and from 2016, Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l., opted for the national tax consolidation scheme, for which the consolidating company is Wizard S.r.l., the effects of which are taken into account in the figures as at 31 December 2017.

The impact of the tax burden on the result for the period was a negative 4.7 million euros (-7.7 million euros in 2016), including current tax for 3.7 million euros and deferred tax assets for 1.4 million euros, as well as taxes relating to previous years for 0.4 million euros.

Net result

The analyses performed thus far show a positive net result for the period of 13.3 million euros, compared with a similar result for 2016.

Consolidated financial position

The Marzotto Group's balance sheet and financial position is summarised in the table below, compared with the corresponding amounts as of 31 December 2016:

(in millions of euro)	31.12.17	31.12.16
Net trade receivable	60.2	68.0
Other receivables	15.0	19.1
Inventory	143.0	129.7
Commercial suppliers	(104.3)	(106.3)
Other payables	(32.4)	(37.9)
A) Net working capital	**81.5**	**72.6**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyond 12 months	9.5	12.3
Equity investments	25.4	23.3
Tangible fixed assets	117.3	116.2
Intangible fixed assets	9.8	9.6
C) Net fixed assets	**162.0**	**161.4**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(25.4)**	**(27.3)**
E) Deferred taxes reserve	**(5.9)**	**(5.5)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**212.2**	**201.2**
Covered by:		
Short-term financial payables	79.1	58.9
Cash and short-term financial receivables	(67.4)	(46.2)
Medium/long term financial payables	66.2	63.1
Medium/long term financial receivables	(0.3)	(0.4)
G) Net borrowing	**77.6**	**75.4**
H) Group shareholders' net equity	**134.6**	**125.8**
I) Total (G+H) as in F	**212.2**	**201.2**

Net capital employed

As at the reporting date, capital employed net of operating liabilities came to 212.2 million euros, compared with 201.2 million as at 31 December 2016.

The increase of 11.0 million euros reflects the increase in working capital (8.9 million euros), as well as the decrease in medium/long-term provisions (1.5 million euros) and the increase in fixed assets (0.6 million euros).

More specifically, the increase of 0.6 million euros in net fixed assets was due to investments in the period (net of the normal amortisation/depreciation process in the period) of 1.3 million euros, the decrease in medium/long-term receivables (essentially prepaid tax) of 2.8 million euros and the 2.1 million euros increase in the value of equity investments, mainly related to the valuation of the equity of affiliates.

The table below shows the investments made in each business segment.

(in millions of euro)	2017		2016	
Textile Sector	**14.6**	*93.0%*	**18.8**	*94.0%*
Wool fabrics	11.3	*72.0%*	13.1	*65.5%*
Sundry textiles	3.3	*21.0%*	5.7	*28.5%*
Other Operations/other	**1.1**	*7.0%*	**1.2**	*6.0%*
Total	**15.7**	*100.0%*	**20.0**	*100.0%*

Investments were mostly in renovations and upgrades to plant and machinery, the efficiency of the production process and logistics service, as well as the adjustment and bringing up to standard of plants and buildings.

Net borrowing

Net borrowing was 77.6 million euros, with an indebtedness ratio[1] of 36.6% of net capital employed (37.5% as at 31 December 2016).

(in millions of euro)	2017	2016
Net income	13.3	13.3
Adjustments to income line items	(2.0)	(1.3)
Depreciation, amortization and write-downs	15.4	14.8
Provision and use of reserve	(1.5)	1.9
Cash Flow	**25.2**	**28.7**
Change in trade receivables	16.1	2.6
Change in inventory	(13.3)	(14.9)
Change in payables	(9.2)	14.1
Cash Flow from current assets	**18.8**	**30.5**
Investment in tangible and intangible fixed assets	(15.7)	(20.0)
Disposals of tangible and intangible fixed assets	0.1	0.6
Acquisitions/change in shareholdings	(0.1)	0.2
Cash Flow from investments	**(15.7)**	**(19.2)**
Free Cash Flow	**3.1**	**11.3**
Conversion differences from net borrowing and minority interests	=	=
Free Cash Flow before dividends	**3.1**	**11.3**
Shareholders' dividends	(5.3)	(8.0)
Capital increase in Parent company	=	=
Change in net financial position for the year	**(2.2)**	**3.3**
Initial net borrowing	(75.4)	(78.7)
Final net borrowing	(77.6)	(75.4)

Cash flow generated by current assets was positive for 18.8 million euros (30.5 million euros as at 31 December 2016), used in the amount of 15.7 million euros in investments (19.2 million euros as at 31 December 2016).

Shareholders' equity

Group shareholders' equity as at 31 December 2017 was 134.6 million euros, up 8.8 million euros on the previous year. The change was mainly due to the comprehensive result for the period, which was positive for 13.3 million euros, offset by the effect of the distribution of dividends of 8 million euros.

The capitalisation ratio[2], calculated as the ratio of own funds to net capital employed, improved from 62.5% in 2016 to 63.4% at the end of 2017.

(1). Ratio of net debt to capital employed net of operating liabilities.
(2). Ratio of shareholders' equity to capital employed net of operating liabilities.

[Equity investments]

Equity investments in subsidiaries

Below is a report on the performance of the main subsidiaries of the Marzotto Group.

Marzotto Wool Manufacturing Group

The main object of Marzotto Wool Manufacturing Group, with parent company Marzotto Wool Manufacturing S.r.l., which has its registered office in Valdagno (VI), is the development, production and distribution of high-end fabrics for men's and women's collections, mainly in wool, but also in wool blends and other fine fibres.

The Marzotto Wool Group includes subsidiaries Novà Mosilana a.s. (wholly owned), Biella Manifatture Tessili S.r.l. (wholly owned) and affiliates Tintoria di Verrone S.r.l. (25% owned), Pettinatura di Verrone S.r.l. (15% owned), Mediterranean Wool Industries SAE (30% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned).

The total turnover volume achieved in 2017 was 241.1 million euros, with EBIT of 17.0 million euros and a net profit of 11.6 million euros.

As regards the sales outlet market, Italy and the other European countries played a key role, respectively accounting for 22.9% and 48.5% of total turnover. Reflecting the fact that part of its turnover with Asian destinations relates to US corporate groups, the final turnover figure for the North American market was 32.8 million euros, an increase of approximately 25% on 2016.

As concerns the breakdown of turnover by operative business unit, the Lanificio Gmf segment registered turnover of 122.0 million euros (50.6% of the total) and Biella Manifatture Tessili registered 103.9 million euros (43.1%) while Estethia/G.B. Conte closed the year with 14.7 million euros in sales (6.1%).

The table below shows turnover contribution and trends by brand.

Net revenues by business

(in millions of euro)	2017		2016	
Lanificio Gmf	122.0	*50.6%*	124.8	*52.4%*
Biella Manifatture Tessili	103.9	*43.1%*	98.9	*41.5%*
Estethia/G.B. Conte	14.7	*6.1%*	14.3	*6.0%*
Other	0.5	*0.2%*	0.3	*0.1%*
Total	**241.1**	*100.0%*	**238.3**	*100.0%*

[Equity investments]

Below are some comments on the trends in the main segments in which the Marzotto Wool Manufacturing Group operates.

LANIFICIO GMF

The turnover volume achieved in 2017 was broadly in line with 2016; however, the margin was partially affected by the gradual increase in the cost of raw materials.

The significant business volumes recorded during the year mainly relate not only to the quality of the product and service offered, which has always been a distinctive feature of **Lanificio GMF** in the market in which it operates, but also to the correct product mix offered in the collections. More specifically, the diverse nature of its collections means that the Group can offer international players both fabrics suitable for classic clothing and fabrics that are more fashion-focused, while maintaining the best value for money. This diversification of the range and relative flexibility of production both mitigate the risks relating to a potential slowdown in the trend of certain segments and enable opportunities arising from changes in the market or emerging market segments to be grasped. High numbers of customers spread throughout the main world markets also allows for the best possible management of problems relating to local economic or other crises.

In 2017, the core market was Europe, where the segment reached 69.5% of the total business volume. The very positive performance achieved on the American market (although partly relating to Asian destinations), which increased Group turnover to around 24 million euros, is mainly due to the range of highly innovative fashion products. The development of business volumes and the conquest of new market share in this geographical area were also facilitated by the presence of a commercial branch in New York.

The main factors that particularly marked out the year in question can be summarised as follows:

Product innovation: in line with our mission, which has grown stronger over the years, major investments were again made in 2017 in research and innovation for the collections, fulfilling the interests of customers and reinforcing the collaborative relationship with the distribution network. In particular, the new creative offerings of fabrics with high technical and performance features, such as those in the Performance line, met with great interest from customers, for both the men's and women's collections.

Sustainability: in 2017, substantial sums continued to be invested in environmental certification and protection projects. In particular, two important environmental (ISO 14001) and social (SA8000) certification processes were launched; ISO 14001 certification was obtained in December 2017, while SA8000 certification is being implemented and the process is expected to be completed by December 2018. The focus on environmental and social issues is, on the one hand, fully integrated within the time-honoured system of principles and values defined in the Group's Code of Ethics, and on the other is becoming a key factor in assessing customer service at international level.

Quality and service for customers: significant investments aimed at ensuring the continuous technological improvement of the plants in order to guarantee quality, competitiveness and flexibility in production, with a simultaneous continuous, progressive improvement of customer services. Major investments made in both processes and new technologies now enable rapid adaptation of production models to align with new demand from world markets, in terms of both product innovation and the service offered.

BIELLA MANIFATTURE TESSILI

The results achieved by the business unit summarise the various performances of the corporate brands, which include turnover of 37.8 million euros for the Guabello division (down 4.3% on the previous year), 39.0 million euros for the Marlane division (up 17.1%) and 26.7 million euros for the Tallia di Delfino division (up 3.9%).

Below are comments on the performance of the individual brands:

Guabello ended 2017 with slightly lower turnover, influenced by a decrease in volumes, offset - in part - by a higher margin on sales. The brand, which strengthened its strategic positioning in the luxury sector in the course of the year, aimed to strengthen its relations with its best customers by innovating strongly in its collection and reading market trends in advance. The Middle and Far Eastern markets are the brand’s strongest growth areas.

[Equity investments]

In 2017, **Marlane** registered both a significant increase in turnover and growth in margins, partly due to a more specialised product mix. The NOS (Never Out of Stock) and Quick Service programmes, which are distinctive activities of Marlane that are not seasonal in nature, registered growth in volumes, demonstrating customer appreciation for this type of service. Targeted commercial activity and an effective quality/service/price ratio increased Marlane's presence in all geographical areas, from Europe to the Middle and Far East. In 2017, the development of partnerships also continued with many big retailers and undisputed international players.

In 2017, **Tallia di Delfino** registered turnover growth that strengthened the brand's positioning in some major markets such as Japan and Asia, where Tallia di Delfino's key customers are located. The other markets performed in line with the previous year.

ESTETHIA/G.B. CONTE

In the year under review, the segment recorded net revenues of 14.7 million euros, up 2.8% on the previous year, reflecting both higher sales volumes and improved margins.
The US and Asian market performance was very positive, while volumes on the European market fell slightly, particularly in Germany and Italy.

The increase in the comprehensive result was due to investments made at both the product and marketing levels.

The table below shows turnover contributions and trends by brand.

Net revenues by geographical area

(in millions of euro)	2017		2016	
Italy	55.1	*22.9%*	58.9	*24.7%*
Other European countries	117.0	*48.5%*	120.7	*50.7%*
North America	14.3	*5.9%*	7.5	*3.1%*
Asia	44.0	*18.3%*	40.1	*16.8%*
Other countries	10.7	*4.4%*	11.1	*4.7%*
Total	**241.1**	*100.0%*	**238.3**	*100.0%*

Below are the key indicators of the Marzotto Wool Manufacturing Group.

Key indicators

(in millions of euro)	2017	2016	change	change %
Consolidated net revenues	**241.1**	**238.3**	**2.8**	**+ 1.2%**
Profit from core businesses	**17.0**	**21.5**	**(4.5)**	**- 20.9%**
% of net revenues	*7.0%*	*9.0%*	*(2.0%)*	
Operating income	**17.0**	**21.8**	**(4.8)**	**- 22.0%**
% of net revenues	*7.0%*	*9.1%*	*(2.1%)*	
Net income	**11.6**	**14.3**	**(2.7)**	**- 18.9%**
Consolidated net invested capital	**111.4**	**96.5**	**14.9**	**+ 15.4%**
Investments for the period	**11.3**	**13.1**	**(1.8)**	**- 13.7%**
Active staff at 31 December: persons	**1,800**	**1,771**	**29**	**+ 1.6%**

[Equity investments]

Marzotto Lab Group

The main object of the Marzotto Lab Group, with parent company Marzotto Lab S.r.l., which has its registered office in Valdagno (VI), is to carry out industrial and commercial operations relating to the purchase, and main and accessory manufacture, of textile fibres of all kinds.

The Marzotto Lab Group, which comprises parent company Marzotto Lab S.r.l., its subsidiary, Linificio e Canapificio Nazionale S.r.l. (wholly owned) and the relative investee companies, AB Liteksas (99.97% owned), Uab Lietvilna (50% owned), Sametex spol s r.o (wholly owned), Girmes G.m.b.H. (wholly owned), Tintoria di Verrone S.r.l. (25% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), is active in the Linen, Cotton, Velvet, Furnishings and Other segments (mainly including coordination functions and service activities carried out by the parent company for the operative businesses).

Turnover volume for the year just ended was 100.1 million euros, down 2.9% on the previous year (2016: 103.1 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2017		2016	
Linen	36.9	*36.9%*	42.4	*41.1%*
Cotton	34.6	*34.5%*	36.2	*35.1%*
Velvet	17.0	*17.0%*	13.5	*13.1%*
Furnishing	9.4	*9.4%*	8.9	*8.6%*
Other	2.2	*2.2%*	2.1	*2.0%*
Total	**100.1**	*100.0%*	**103.1**	*100.0%*

The activities of the Marzotto Lab Group involve divisions and companies relative to diversified textile sectors, even if partially complementary or belonging to a single chain.

LINEN

As described in the company's financial statements, the Linificio e Canapificio Nazionale Group reported a fall in turnover due to the trend in the use of linen in the clothing sector.
Both turnover and orders recovered during the early months of 2018.
Orders rose by more than 80% in the first two months, with plants returning to a production load that ensured saturation levels.
In the first few months of the year, in order to cope with the rapid growth in volumes, overtime was used extensively, until staffing levels could be raised sufficiently to work at full capacity.
These volumes indicated that the 2018 result will be higher than that of 2017.

COTTON

The Sondrio Fabrics division closed the year with a slight reduction in turnover compared with the previous year, mainly due to a market situation with less demand for cotton fabrics in favour of wool fabrics or wool blends.
During the year, initiatives continued to be taken in terms of both product structure and the exploitation of synergies within Marzotto Lab aimed at counteracting and limiting this unfavourable market situation for cotton fabrics.
In particular, the collection was strengthened further in the area of fine natural fibres such as linen and wool blends, including by exploiting synergies with the production capacity for linen yarns and carded and combed wool yarns. New finishes were also introduced with innovative processes and machinery for the processing of fabrics in natural fibres.
New orders were down by around 5% in the winter season due to a delay in orders from the main retailers; meanwhile, sales margins increased, as in 2017.

The results of the trade fairs for S/S, which is the main cotton season, were in line with 2017.

Equity investments

VELVET

This division has continued to grow by further developing its market positioning.
In 2017, it achieved marked growth in volumes in both clothing and in the furnishings segment, which is constantly evolving due to the strategies implemented and a successful entry into the area of theatre and contract furnishings.
The trend of growth has also continued in 2018, not only due to the product development and marketing policies undertaken over the years, but also the development of new finishes and specific items in furnishings.
The order performance in the first two months of 2018 was more than 30% higher than the same period of 2017, and turnover in early 2018 showed the same trend.
The plant is performing in line with the budget, and in weaving, production hours are increasing with use of overtime to maintain flexibility in the second half of the year.

Fashion market trends and investments in the furnishings segment point to a significant improvement on the 2017 results.

FURNISHINGS

This division, which operates in the furnishing accessories market with finished products and capillary distribution throughout Italy, and is more focussed on major customers in the northern European, Far East and North American markets, continued to register turnover growth.
The division's strategy of reducing its supply of commodities products and increasing its presence in wool products, but also fine fibres such as cashmere, silk and linen, produced its first results in 2017.
Marketing activities and product range expansion resulted in a further increase in turnover in the internet channel.
In early 2018, at the major European trade fairs, the presence of a line of products with the Marzotto LAB label, mainly dedicated to the luxury contract world, was extended.
The company increased its hires by more than 30% in the early months of 2018, despite this being a period of low seasonality.

Feedback from trade fairs at the beginning of the year and the above performance are positive indications that the budget will be achieved.

With regard to the outlet markets, it should be noted that the domestic market accounts for 47.7% of the total (up 46.5% compared with the previous year), while the rest of Europe, which covers around an additional 42.7% of the total, was slightly down.

Net revenues by geographical area

(in millions of euro)	2017		2016	
Italy	47.8	*47.7%*	47.9	*46.5%*
Other European countries	42.7	*42.7%*	44.6	*43.3%*
North America	2.2	*2.2%*	2.4	*2.3%*
Asia	5.7	*5.7%*	6.2	*6.0%*
Other countries	1.7	*1.7%*	2.0	*1.9%*
Total	**100.1**	*100.0%*	**103.1**	*100.0%*

Below are the key indicators of the Marzotto Lab Group.

Key indicators

(in millions of euro)	2017	2016	change	change %
Consolidated net revenues	**100.1**	**103.1**	**(3.0)**	**- 2.9%**
Profit from core businesses	**(0.6)**	**(1.6)**	**1.0**	**+ 62.5%**
% of net revenues	*(0.6%)*	*(1.6%)*	*1.0%*	
Operating income	**(1.0)**	**(2.4)**	**1.4**	**+ 58.3%**
% of net revenues	*(1.0%)*	*(2.4%)*	*1.4%*	
Net income	**(0.2)**	**(2.3)**	**2.1**	**+ 91.3%**
Consolidated net invested capital	**81.6**	**81.2**	**0.4**	**+ 0.5%**
Investments for the period	**3.3**	**5.7**	**(2.4)**	**- 42.1%**
Active staff at 31 December: persons	**1,288**	**1,382**	**-94**	**- 6.8%**

[Equity investments]

(in millions of euro)	2017	2016	var.	var. %
Net revenues	**17.2**	**17.6**	**(0.4)**	**- 2.3%**
Profit from core businesses	**1.5**	**1.3**	**0.2**	**+ 18.8%**
Operating income	**0.7**	**1.2**	**(0.5)**	**- 41.7%**
Investments for the period	**1.1**	**1.2**	**(0.1)**	**- 8.3%**
Active staff at 31 December: persons	**121**	**113**	**8**	**+ 7.1%**

The **Other Operations** segment mainly includes coordination and strategic management activities, as well as service activities (administration and finance, legal and investor relations, human resources management, information technology) performed centrally for the line operating segments.

This sector also includes the results of the management of the Schio water treatment plant (held through subsidiary Ambiente Energia S.r.l., which operates independently with a sole director vested with full powers), activities relating to renewable energy and equity investments in affiliates held by Marzotto S.p.A., consolidated using the equity method (mainly Ratti S.p.A.).

[Equity investments]

Equity investments in affiliates

In the following pages we report on the main non-consolidated equity investments:

Ratti S.p.A.
Share capital
11,115,000 euros

	2017	2016
Equity investments	33.90%	33.70%
no. of shares owned	9,271,000	9,217,550
Marzotto S.p.A. book value	10.7 euro/milioni	10.6 euro/milioni
consolidated book value	16.8 euro/milioni	15.4 euro/milioni

In 2010, the parent company Marzotto S.p.A. purchased an initial equity investment of 33.36% in Ratti S.p.A., a company listed on the Milan stock exchange with its registered office in Guanzate (CO).

The Ratti Group operates in the silk sector, producing and marketing printed, solid-colour or yarn-dyed fabrics for clothing and furnishing and develops and distributes finished products, mainly men's and women's accessories.

The Ratti Group achieved revenues of 100.1 million euros (92.1 million in FY 2016) and net profit of 6.0 million (3.6 million in 2016).

In application of the reference accounting standards, the equity investment was measured at equity and its carrying value in the balance sheet was consequently adjusted.

Mascioni S.p.A. (MI)
Share capital
10,000,000 euros

	2017	2016
Equity investments	14.18%	28.35%
no. of shares owned	283,500	283,500
Marzotto S.p.A. book value	=	=
consolidated book value	=	=

The change in the percentage shareholding recorded during the period (from 28.35% to 14.18%) was due to the capital increase in the investee company, to which Marzotto did not subscribe, thereby diluting its ownership percentage.
The draft 2017 financial statements of the affiliate Mascioni S.p.A., which was in a conciliation procedure, show turnover of 40 million euros, up by around 5% compared with a year earlier.

The equity investment was written off in 2014.

Aree Urbane S.r.l. (MI)
in liquidation
Share capital
100,000 euros

	2017	2016
Equity investments	32.50%	32.50%
Marzotto S.p.A. book value	=	=
consolidated book value	=	=

[Other information]

Industrial relations

Following the approval of the renewal of the National Collective Labour Agreement (new National Collective Labour Agreement on 5 July 2017), consultations resumed with the trade unions and trade union representatives for the Company Supplementary Agreement (2nd level agreement) relating to the Marzotto S.p.A. Offices unit with its registered office in Valdagno and the Logistics/Warehouses unit with its registered office in Piovene Rocchette. The agreement was reached on 29 November 2017 and is valid from 1 January 2017 until 31 December 2019.
The new agreement includes a series of new chapters in the regulatory part, incorporating new cases; the economic part was modified by the insertion of a new accident index in addition to the economic parameters (operating performance) and productivity parameters. Subject to changes in amounts and percentage levels for bonus calculation. Welfare and/or supplementary pension options were introduced.

Marzotto Wool Manufacturing Group

As with Marzotto S.p.A., a similar supplementary agreement was signed for Marzotto Wool Manufacturing S.r.l. (registered office in Valdagno - GMF and Estethia G.B. Conte divisions) on 29 November 2017, with effect from 1 January 2017 to 31 December 2019.
The new agreement includes a series of new chapters in the regulatory part, incorporating new cases; the economic part was modified by the insertion of a new accident index in addition to the economic parameters (operating performance) and productivity parameters. Subject to changes in amounts and percentage levels for bonus calculation. Welfare and/or supplementary pension options were introduced.

With regard to the subsidiary Biella Manifatture Tessili S.r.l., consultations began for the Company Supplementary Agreement signed on 26 March 2014, expiring on 31 December 2017.

With regard to Czechoslovakian subsidiary Novà Mosilana a.s., it should be noted that the annual trade union agreement for 2017, starting from 1 January 2018, was signed on 28 November 2018.

With regard to affiliate Tintoria di Verrone S.r.l., due to the positive performance achieved in 2017 and the commitment shown by the employees in supporting production requirements, the Company decided to make a bonus pay-out to all of its workers in the form of shopping vouchers of up to 250 euros per capita. The announcement was made in December 2017 during the annual meeting with the trade unions and union representative.

Marzotto Lab Group

The Sondrio Fabrics Division – NTB in the months from January to July (plant at Via Tonale in Sondrio) was affected by partial recourse to the ordinary wages guarantee fund (Cassa Integrazione Ordinaria). Specific agreements were signed for this on 22 December 2016 (for the months from January to April) and 21 April 2017 (months from May to July).
On 19 December 2017, an agreement was reached with the trade union representative and the trade unions for the use of the ordinary wages guarantee fund in the period January-April 2018.

On the same date, an agreement was reached with the trade union and union representative to renew the Company Supplementary Agreement (2nd level agreement) for the Sondrio plant and the Tessuti di Sondrio and Nuova Tessilbrenta divisions. Valid until 31 December 2018.

With regard to the Company Supplementary Agreement (2nd level agreement) for the production unit of the Furnishings Division and the Covered Warehouse at the registered office of Piovene Rocchette at Via A. Rossi, no. 54, the agreement was reached on 29 November 2017 and will remain valid until 31 December 2019. The new agreement provided for a series of new chapters in the regulatory part, incorporating new categories; the economic part was modified by the insertion of a new accident index in addition to the economic parameters (operating performance) and productivity parameters, as well as different amounts and percentage levels for calculating the premium; welfare and/or supplementary pensions options were introduced.

With regard to Linificio e Canapificio Nazionale S.r.l., partial recourse to the ordinary wages guarantee fund was required for the months from February to April (union agreement of 1 February 2017). Subsequently, the ordinary wages guarantee fund was used again for the months from May to July (union agreement dated 5 May 2017) and September to December (union agreement dated 12 September 2017).

With respect to the Lithuanian companies (AB Liteksas, UAB Lietlinen and UAB Lietvilna), it should be noted that the annual collective agreement was renewed on 8 December 2017.

There is nothing material to report regarding the Tunisian subsidiary Filin.

With regard to the affiliate Tintoria di Verrone S.r.l., please see the section relating to Marzotto Wool Manufacturing S.r.l.

Ratti Group

There is nothing significant to report in relation to Ratti S.p.A.

The employment agreement for the “Textrom” production unit was renewed by adapting the economic components to the new minimum level of pay established by law and taking into account the recent reform that reduced the tax wedge.

[Other information]

Training and development of human resources

In 2017, for the Marzotto Group, investments in training in Italy totalled 2,594 hours (excluding 1,226 hours of safety training), using inter-professional funds Fondimpresa and Fondirigenti, while a total of 21,251 hours of training were delivered at the foreign plants.

The aim of the training and development activities carried out was a widespread strengthening of managerial, linguistic and technical skills, in order to increase competitive capacity within the international scenarios where the Group operates.

The Marzotto Group continued to invest in developing performance and individual and community skills: alongside interventions aimed at individuals (masters, coaching), specific training programmes were also organised involving strategic communities for the business (sales area, operations area and fashion designers). Marzotto worked from the outset in this area by organising courses of a technical nature (foreign languages, IT, finance, etc.), alongside courses for development and improvement of soft skills.

In 2017 Marzotto also decided to pay particular attention to young talents, providing them with professional training that involved them in more theoretical technical courses (textile training, finance, industry 4.0 and project management) alternating with days devoted to the development of soft skills (innovation and team building).

Another subject on which the Marzotto Group has been working is team building, which is an important factor in maintaining cohesion and determination in teamwork. Two training sessions were organised involving 25 employees at Valdagno; each course lasted 16 hours and included topics such as effective communication, the importance of emotions and personal differences in teamwork, the development of mutual trust and the identification of virtuous behaviours in the team.

The insertion of young university or secondary school graduates in the various functional areas of the Marzotto plants also continued: in 2017, 42 young people were admitted.
The aim of these schemes is to train young technicians to develop in strategic areas from now and for the next few years.

In 2017, the following safety training initiatives were implemented:

- Training pursuant to the State-Regions agreement under Legislative Decree 81/08 involving 5 employees at Valdagno;
- A workers' refresher course pursuant to Article 37, involving 2 employees at Valdagno, 2 at Strona, 34 at Guanzate and 2 at Villa d'Almè;
- A training course for workers pursuant to Article 77 and use of PPE, involving 4 employees at the Schio purification plant;
- A fire prevention course involving 10 employees at Mongrando, 22 at Strona and 25 at Guanzate;
- A first-aid refresher course involving 13 employees at Valdagno, 6 at Piovene Rocchette, 8 at Mongrando, 2 at Strona and 7 at Villa d'Almè;
- A course for designated employees pursuant to the Legislative Decree of 9 April 2008 and State-Regions agreement no. 221 of 21 December 2011 for 2 employees at Mongrando, 14 at Strona and 1 at Guanzate;
- A refresher course for workers' safety representatives involving 3 employees at Valdagno, 1 at Piovene Rocchette, 3 at Strona and 1 at Mongrando;
- A refresher course for prevention and protection service managers, involving 1 employee at Strona and 1 at Villa d'Almè;
- A training course on health and safety offences involving 6 employees at Strona and 2 at Mongrando;
- A course on the transportation and handling of hazardous goods pursuant to ADR regulations, involving 8 employees at Strona , 1 at Mongrando and 1 at Guanzate;
- A course on confined spaces and suspected polluting environments, involving 12 employees at Villa D'Almè;
- An information/training meeting on the risks associated with driving electric pallet trucks (man on board and on the ground) involving 12 employees at Valdagno and 7 employees at Mongrando;
- An information/training meeting with the provision of the following material (information booklet on the use of mobile phones and information booklet on the use of company cars), involving 30 employees at Valdagno;

[Other information]

- Provision and explanation of a training booklet about occupational risks for pregnant or breastfeeding women involving 34 people in Valdagno and 3 people in Piovene Rocchette;
- Specific training for workers exposed to other risks involving 5 employees at Valdagno, 7 at Strona, 1 at Mongrando and 20 at Guanzate;
- Specific training of workers at low risk of hearing impairment involving 1 employee at Guanzate;
- General training of workers exposed to low risk involving 54 employees at Valdagno, 4 at Piovene Rocchette, 1 at Strona, 8 at Mongrando and 20 at Guanzate;
- Specific training for workers involving 19 employees at Valdagno, 29 at Strona, 8 at Mongrando and 6 at Guanzate;
- Acknowledgement of provision of form MSGS20 - Fire prevention control registration form involving 16 employees at Valdagno;
- Acknowledgement of provision of form MSGS19 - First aid control registration form involving 18 employees at Valdagno;
- Safety training course for work-study students and interns – work involving 16 people at Valdagno and 3 at Piovene Rocchette;
- Refresher and training course on asbestos risk involving 13 employees at Valdagno;
- Theoretical/practical course on the use of the DAE defibrillator involving 28 employees at Valdagno, 1 at Piovene Rocchette, 9 at Mongrando and 18 at Strona;
- Information/training course on the risks for workers travelling and/or abroad involving 7 employees at Valdagno;
- A training course for new hires involving 5 employees at Valdagno and 36 at Guanzate;
- Provision and explanation of: 1. Booklet on the use of compressed air 2. Booklet on the use of stairways and stools involving 61 employees at Valdagno, 4 at Piovene Rocchette and 30 at Strona;
- Information/training meeting on using forklift trucks involving 9 employees at Valdagno and 1 at Piovene Rocchette;
- Information/training meeting on: - pedestrian pathways and horizontal signalling - access and movement within the plant - mandatory use of safety shoes - hazards related to trolleys, cargo handling and vehicles involving 1 employee at Valdagno, 19 at Piovene Rocchette, 1 at Guanzate and 4 at Sondrio;
- Effective communication and personnel management involving 4 employees at Valdagno and 4 at Piovene Rocchette;
- Meeting on: administrative liability of entities and organisational model pursuant to Legislative Decree No. 231 of 8 June 2001 involving 2 employees at Mongrando and 9 employees at Strona;
- A PES (skilled person)/PAV (informed person)/PEI (competent person) training course involving 2 employees at Mongrando, 11 at Strona and 22 at Guanzate;
- Training in hinged-edge loading ramp involving 4 employees at Strona;
- An e-learning safety course involving 2 employees at Strona, 25 at Guanzate, 1 at Villa d'Almè and 1 at Sondrio;
- A refresher course for workers' safety representatives, pursuant to the State-Regions agreement under Legislative Decree no. 81/08 involving 3 employees at Guanzate and 1 at Villa d'Almè;
- A training course for the workers' safety representatives involving 16 employees at Guanzate;
- A refresher course for low-risk workers involving 1 employee at Guanzate;
- A course in the use of harnesses/ropes and fall control devices involving 6 employees at Guanzate;
- A course on the department fire prevention register involving 19 employees at Guanzate;
- A course for safety trainers involving 19 employees at Guanzate;
- A training course pursuant to the State-Regions agreement (general and specific training) involving 2 employees at Guanzate;
- Training course for the prevention of chemical risk involving 20 employees at Sondrio;

Other information

At subsidiary Novà Mosilana a.s., all employees are trained twice a year in health and safety and fire prevention, in compliance with local legislation. During the year, 171 employees of the subsidiary also took part in foreign language courses (Italian, Czech and English) for a total of 6,840 hours, while 79 assistants and managers took part in employee management courses. Finally, a technical professional training cycle was delivered to 65 employees.

Ratti Group

In 2017, 49 training actions were delivered out of the 64 on the plan, for a total of around 4,100 equivalent hours at an average of 14 hours/person.
The total investment came to around 85,000 euros, including the use of the inter-professional funds Fondimpresa and Fondirigenti.
The type of training delivered was in line with the needs highlighted. The main types of training were knowledge of foreign languages and computer skills (18% of training hours), and training aimed at the acquisition and maintenance of ISO14001 and SA 8000 certification and the prevention of occupational and environmental risks (34% of training hours).
Training courses were also provided for product managers for key accounts, as well as training courses on fashion history and technical knowledge of leather management.
As in previous years, technical internal textile training was further developed for creative staff, as well as collaborations with fashion and design schools.

In 2017, 31 interns were hired following a search for young people, mainly for the creative or industrial areas.

Other information

Employees by sector

In 2017, the Group increased its operating workforce nationally (+12 units on 2016) and reduced it internationally (-69 units on 2016).

The number of active operational staff decreased from 3,266 at the end of 2016 to 3,209 at 31 December 2017.

	Year-end staff				Average			
	31.12.2017		31.12.2016		2017		2016	
Wool fabrics	1,800	*56.1%*	1,771	*54.2%*	1,788	*55.3%*	1,726	*52.8%*
Sundry textiles	1,288	*40.1%*	1,382	*42.3%*	1,334	*41.2%*	1,425	*43.6%*
Textile Sector	**3,088**	*96.2%*	**3,153**	*96.5%*	**3,122**	*96.5%*	**3,151**	*96.4%*
Other Operations	121	*3.8%*	113	*3.5%*	113	*3.5%*	117	*3.6%*
Total	**3,209**	*100.0%*	**3,266**	*100.0%*	**3,235**	*100.0%*	**3,268**	*100.0%*
Laid off/dismissed	4		1		3		1	
Total staff year end	**3,213**		**3,267**		**3,238**		**3,269**	

Active employees by country

	Year-end staff				Average			
	al 31.12.2017		al 31.12.2016		2017		2016	
Italy	1,148	*35.8%*	1,136	*34.8%*	1,140	*35.2%*	1,128	*34.5%*
Czech Republic	1,126	*35.1%*	1,105	*33.8%*	1,118	*34.6%*	1,080	*33.0%*
Lithuania	350	*10.9%*	386	*11.8%*	373	*11.5%*	381	*11.7%*
Tunisia	576	*17.9%*	630	*19.3%*	595	*18.4%*	670	*20.5%*
Other countries	9	*0.3%*	9	*0.3%*	9	*0.3%*	9	*0.3%*
Total	**3,209**	*100.0%*	**3,266**	*100.0%*	**3,235**	*100.0%*	**3,268**	*100.0%*

Research and development

The main actions undertaken were:

GMF Fabrics

Experimental research and development – new materials, structures and treatments – was carried out with the aim of creating innovative fabrics for apparel made mainly in wool and wool blends. The study and testing of traceability devices continued.

Estethia/G.B. Conte

During the year, the division carried out activities aimed at extending and developing the product range. “Total easy care” products were increased in the Esthetia collection and products with breathable and anti-wind treatments and membranes were developed. Fine yarns and new designs were researched for the “G.B.Conte” collection.
Testing of new treatments and finishings continued.

Biella Manifatture Tessili

Biella Manifatture Tessili carried out experimental research and development activities aimed at producing environmentally friendly collections characterised by sector performance. The Company is a partner in the Silknet project, aimed at designing and creating a pilot plant for batch silk processing.

[Other information]

Research and development

Furnishing textiles

The Marzotto Home Division manufactures and distributes blankets, throws and wool furnishing accessories. During the year, the Division carried out experimental development activities aimed at improving product quality, productive efficiency and expanding and developing the product range.

Cotton

During the year, research and development focused on increasing the sustainability of processes and on testing new finishes in order to bring new functionalities and performance to products. The Sondrio Fabrics division is a partner in the ITC4GREENFASHION project for the design and development of an energy management system.

Velvet

The Division has carried out experimental development activities to define an innovative fireproofing system for its velvets. During the year, an Italian patent was granted for the invention of a textile sound-absorbing panel.

Linen

As well as the development of the product range and the search for process sustainability, Linificio e Canapificio Nazionale carried out specific experimental research and development activities. The Company is a partner in the SSUCHY Project (EU Union H2020 call BBI 2016R7) for the design and implementation of hemp reinforcements in composites. It is part of the EFT (*Eco Textile for Fashion*) project, which involves integrating NIR spectroscopy with chemometry methodologies for targeted and reduced consumption of chemicals. With regard to the development of linen technology, the Company has carried out a technical feasibility study for the automation of combing.

Ambiente Energia

Research continued into the development of a new technology for inertification of sewage sludge and the use of heat from excess fumes for drying sludge. Experimental development activities were carried out on new technical supports and solutions for increasing production capacity and efficiency and quality of treated products.

Ratti

Product range development, the implementation of sustainability programmes and analysis and study activities, the upgrading of traditional printing technology and the implementation of smart manufacturing programmes continued.

The Company has also launched programmes in the area of the circular economy, through the mapping of waste and provision for re-use, including in collaboration with external bodies.

The Company has commissioned studies and is working on innovation and technological development in silk farming.

[Other information]

Going concern

These consolidated financial statements have been prepared on the basis of the company as a going concern insofar as, despite the continued difficulties of the economic-financial context, we believe that there is no significant uncertainty regarding the capacity to continue to operate for the foreseeable future, also due to the guidelines defined and strategic choices made, and being implemented, in order to suit the altered market demands.

Risk management (IFRS 7)

The Group acts to identify and assess risk, thereafter implementing procedures for managing any risk factors that may influence company results. Below, we will analyse the risk factors, distinguishing between external (contextual) risks and internal (processing) risks.

External risks (contextual)

Risks connected with the economic outlook

The Group products are addressed to markets subject to demand cycles and are influenced by the general economic trend. Major downturns in consumption levels can have a considerable impact on the Group's economic, equity and financial position. In order to mitigate the possible negative impact, the Group has a flexible structure, outsourcing part of production and splitting sales over a fleet of clients diversified according to products/brands and markets.

Risks related to competition in the sectors of the Group's operations

The Group operates in a competitive environment; it is possible that the competition pressure due to a drop in demand translates to pressure on prices. Part of the range offered by the Group, especially the more basic part, is interchangeable with products offered by our main competitors and therefore, in such cases, price is a significant sales factor.

Should there be a particularly significant drop in volume and/or sale prices, the Group believes that there are actions that can be taken to cut its own cost structure, in order in minimise the possible negative effects on the economic, financial and equity situation.

Country risk

The Group operates in Tunisia through the subsidiary Filature de Lin SA and in Egypt through the affiliate Mediterranean Wool Industries S.A.E.
In order to hedge the risks of losses in relation to these investments deriving from unfavourable political and economic developments in that area, including war and civil disorder, it has taken out a specific insurance policy with a major insurer.

Internal risks (procedural)

Risks related to financing sources and liquidity risk

The effects of the possible turmoil in the global financial system could represent a risk factor in relation to the possibility of obtaining further financing under current conditions.
However, the Group believes that the present debt structure, in particular the immediately available financial resources (deposits) and the lines of credits not used, will limit the negative impacts of a possible difficulty in obtaining credit.

Credit risk

Credit risk is the risk that a customer or one of the counterparties to a financial instrument may cause a financial loss by not complying with an obligation, and mainly pertains to the Group's trade receivables and financial investments.

- Trade receivables

  Credit risk is partly intrinsically reduced also considering the type of customers, which are diversified and not significantly concentrated in the new outlet markets.

  The risk is handled through an insurance coverage policy managed by a specific function in the company, together with the sales organisations.

The Group also uses specialised agencies on a regular basis to obtain business information in order to have detailed knowledge of the geographical areas served.

Other information

- Financial investments

  The Group limits its exposure to credit risk by investing exclusively in highly liquid deposits/securities and only with counterparties with high credit ratings.

The book value of financial assets represents the maximum exposure of the Group to the credit risk. At the end of the year the exposure was as follows:

(thousands of euro)	2017	2016
Financing and cash equivalents	67,698	46,637
Trade and other receivables	75,699	87,938
Total	**143,397**	**134,575**

The ages of the trade receivables due from third parties at the reporting date were as follows:

	2017		2016	
(thousands of euro)	gross	fund	gross	fund
Current	51,704	(1,167)	58,177	(549)
Overdue from 0 to 90 days	8,600	(2,983)	10,205	(3,098)
Overdue over 90 days	5,446	(2,115)	5,186	(2,652)
Total	**65,750**	**(6,265)**	**73,568**	**(6,299)**

The information on guarantees given and received is contained in the section entitled "Contractual commitments and guarantees" (memorandum accounts in the Group note). Information on provisions for bad debt is provided in point 3.2 of the Group note.

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument might change following changes in market prices due to fluctuations in exchange rates, interest rates or quotations of equity instruments.

- *Exchange rate risk*

  Considering the Group's exposure to exchange rate fluctuations in foreign currency transactions, we carry out hedging operations to determine the exchange rate based on estimates of net sales and purchasing volumes for each Group company and the currency exchange rate considered when the price lists are prepared.

  Specifically, the Company uses the following hedging instruments:

  - foreign currency loans;
  - forward sales and purchases in foreign currency.

  These hedging instruments are entered into with the highest-rated banks. The Group does not enter into currency forward or options contracts for speculative purposes.

  The hedged cash flows are expected within the next 12 months.

  The impact of the conversion of foreign currencies on the subsidiaries' own equity capital is recorded under a separate item in shareholders' equity.

  With regard to the most significant currencies, the table below shows the Group's exposure to exchange rate risk at the date of the financial statements.

Other information

(thousands of euro)	2017 Usd	2017 Jpy	2016 Usd	2016 Jpy
Trade receivables	8,331	38,497	7,249	554,460
Short term financial assets and cash and cash equivalents	11,885	88,273	13,398	123,956
Trade payables	(4,621)	(13,673)	(2,913)	(858,792)
Total	**15,595**	**113,097**	**17,734**	**(180,376)**

- *Interest rate risk*
  The Group is exposed to the risk of interest rate volatility associated with both cash and cash equivalents and loans.
  The effects of possible turmoil, already experienced in the banking system, could potentially represent a risk in relation to the cost of obtaining financial resources. The Group constantly monitors this risk, and we do not believe that this risk is significant in terms of possible effects.

Environmental and safety risk

The Group manages environmental and safety risk with suitable staff training according to new legislation and by introducing systems to prevent and improve health and safety at work.
In terms of safety, the Group invests constantly in protecting and ensuring workplace safety, both inside and outside the production facilities.
The activities of the Group are subject to environmental laws and regulations (local, national and international). In particular, the production plants are affected by regulations on atmospheric emissions, waste management and waste water management, particularly because we have finishing and purification plants.
The organisation is always committed to respecting environmental standards in compliance with the environmental regulations in force in each local area with regard to the specific business segments.
New investments are being considered, also in view of the environmental impact, potential savings in resources and energy consumption during operations as well as the reduction of total waste material produced.

Other risks

The risk of price increases for raw materials, where significant, is analysed when the sale lists are prepared. At the same time, the net demand generated by the purchasing budget is covered as far as possible by placing orders with suppliers, in order to minimise the effect on the income statement should raw materials costs increase during the year.

Considering the type of production and the financial structure, there are no other significant risks.

Significant events after the close of the year

At the date of this document, there are no significant events to report after the close of the year.

[Performance news and outlook for the current year]

As regards the economic trend in the first two months of this year, we note that consolidated net revenues came to 49.4 million euros, up by approximately 13% on the 43.8 million recognised for the same period of 2017.

(in millions of euro)	02.2018		02.2017	
Textile Sector	**48.4**	*98.0%*	**42.9**	*97.9%*
Wool fabrics	33.8	68.4%	29.2	66.6%
Sundry textiles	14.6	29.6%	13.7	31.3%
Other Operations	**3.0**	*6.1%*	**3.1**	*7.1%*
Aggregate total	**51.4**	*104.1%*	**46.0**	*105.0%*
Inter-company sales	*(2.0)*	*(4.1%)*	*(2.2)*	*(5.0%)*
Consolidated total	**49.4**	*100.0%*	**43.8**	*100.0%*

With regard to 2018, despite the increase in turnover in the first two months, we expect that the Lab Group's situation will develop, while the Ratti Group will put in a positive performance, offset by a decline in the Wool Group's results.

Valdagno (VI), 23 March 2018

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
SERGIO TAMBORINI

Consolidated financial statements

Parent Company: Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

[Consolidated balance sheet]

(thousands of euro)	31.12.2017 Partial	31.12.2017 Total	31.12.2016 Partial	31.12.2016 Total
1. Non-current assets				
1.1 Property, plant and equipment		115,999		114,905
1.2 Civil buildings		1,281		1,322
1.3 Goodwill, trademarks and other intangible assets		9,819		9,559
1.4 Equity Investments		25,264		23,124
1.5 Other investments		174		173
1.6 Long-term receivables		529		846
1.7 Deferred tax assets		8,929		11,448
1.8 Long-term financial receivables third parties	143		137	
Long-term financial receivables affiliates	167	310	275	412
Total non-current assets		**162,305**		**161,789**
2. Non-current assets held for sale		=		=
3. Current assets				
3.1 Inventories		143,014		129,690
3.2 Trade receivables third parties	59,484		67,269	
Trade receivables affiliates	722	60,206	748	68,017
3.3 Other receivables	12,845		19,067	
Other receivables affiliates	2,119	14,964	8	19,075
3.4 Current financial assets, cash and cash equivalents third parties	66,387		45,087	
Current financial assets, cash and cash equivalents affiliates	1,001	67,388	1,138	46,225
Total current assets		**285,572**		**263,007**
Total assets		**447,877**		**424,796**
4. Shareholders' equity				
4.1 Share capital and reserves		121,313		112,494
4.2 Income/(Loss) for the year		13,295		13,327
Group shareholders' equity		**134,608**		**125,821**
4.3 Non controlling interests		=		=
Total shareholders' equity		**134,608**		**125,821**
5. Non-current liabilities				
5.1 Long-term provisions		25,388		26,787
5.2 Other long-term payables		76		1,301
5.3 Deferred tax liabilities		5,773		4,658
5.4 Long-term financial payables		66,217		63,083
Total non-current liabilities		**97,454**		**95,829**
6. Non-current liabilities held for sale		=		=
7. Current liabilities				
7.1 Trade payables and other payables third parties	125,248		142,710	
Trade payables and other payables affiliates	11,478	136,726	1,503	144,213
7.2 Current financial payables		79,089		58,933
Totale passività correnti		**215,815**		**203,146**
Total shareholders' equity and liabilities		**447,877**		**424,796**
Net financial debt		**(77,608)**		**(75,379)**

Consolidated statement of profit/(loss) and consolidated items of other comprehensive income

(thousands of euro)	Year 2017 Amounts	Year 2017 %	Year 2016 Amounts	Year 2016 %
8. Net revenues third parties	337,129	97.1	337,954	97.3
Net revenues affiliates	10,070	2.9	9,209	2.7
Totale net revenues	**347,199**	**100.0**	**347,163**	**100.0**
9. Cost of sales third parties	(265,020)	(76.4)	(267,032)	(76.9)
Cost of sales affiliates	(7,371)	(2.1)	(2,285)	(0.7)
10. Gross income	**74,808**	**21.5**	**77,846**	**22.4**
11. R&D and marketing costs	(38,584)	(11.1)	(37,898)	(10.9)
12. General and administrative costs	(18,249)	(5.3)	(18,677)	(5.4)
13. Other income and charges	(1,284)	(0.4)	(536)	(0.2)
14. Operating income	**16,691**	**4.8**	**20,735**	**6.0**
15. Net financial charges third parties	(1,375)	(0.4)	(1,499)	(0.4)
Net financial charges affiliates	23	=	26	=
16. Dividends from non consol. equity investments and valuations to equity	2,690	0.8	1,872	0.5
17. Valuation of equity investments held for sale	=	=	=	=
18. Other financial income and charges	(23)	=	(86)	(0.1)
19. Income before taxes	**18,006**	**5.2**	**21,048**	**6.0**
20. Taxes	(4,711)	(1.4)	(7,721)	(2.2)
21. Net income from continuing operations	**13,295**	**3.8**	**13,327**	**3.8**
22. Net profit/(loss) from discontinued operations	=	=	=	=
23. Net income (before non controlling interests)	**13,295**	**3.8**	**13,327**	**3.8**
24. Income attributable to non-controlling interests	=	=	=	=
25. Group net income	**13,295**	**3.8**	**13,327**	**3.8**
26. Fair Value adjustments (1)	1,439	0.4	(369)	(0.1)
27. Other adjustments (1)	1,804	0.5	(1,046)	(0.3)
Items that will be reclassified subsequently to profit and loss	**3,243**	**0.9**	**(1,415)**	**(0.5)**
28. IAS 19 adjustments (1)	(26)	=	(243)	(0.1)
Items that will not be reclassified subsequently to profit and loss	**(26)**	**=**	**(243)**	**(0.1)**
29. Total comprehensive income for the period	**16,512**	**4.7**	**11,669**	**3.4**

1. The Change in Fair Value Reserve, IAS 19 Reserve and the Other adjustments are components of the comprehensive income statement accounted for in equity.

[Consolidated cash flow statement]

(thousands of euro)	2017	2016
Net income (including non controlling interests)	**13,295**	**13,327**
Amortisation and depreciation	15,361	14,789
Change in provisions	2,665	5,145
(Gains)/losses on disposal of fixed assets	(692)	(960)
Investments valued at equity	(1,767)	(931)
Change in inventories	(13,324)	(14,866)
Change in trade receivables and other receivables third parties	14,989	(2,647)
Change in trade receivables and other receivables affiliates/parent	(2,085)	206
Change in trade payables and other payables third parties	(17,449)	15,257
Change in trade payables and other payables affiliates/parent	7,275	(690)
Change in other long term receivables and payables	(908)	1,476
Operating cash flow (A)	**17,360**	**30,106**
Investments in intangible and tangible fixed assets	(15,687)	(20,008)
Disposals in intangible and tangible fixed assets	797	1,660
(Investments in) /disposals of other equity investments	(112)	(187)
Cash flow from investments (B)	**(15,002)**	**(18,535)**
Translation exchange differences and other equity changes (C)	713	(246)
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**3,071**	**11,325**
Dividends paid	(5,300)	(8,000)
Increase in capital share of Parent Company	=	=
Change in net financial position	**(2,229)**	**3,325**
Change in long-term financial payables	3,134	14,318
Change in current financial payables third parties	20,156	3,897
Change in current financial payables affiliates/parent	=	=
Change in long-term financial receivables third parties	(6)	(27)
Change in long-term financial receivables affiliates/parent	108	(1)
Total change in current financial assets, cash and cash equivalent	**21,163**	**21,512**
Cash and current financial assets - beginning of the period	**46,225**	**24,713**
Cash and current financial assets - end of the period	**67,388**	**46,225**

Statement of changes in shareholders' equity

(thousand euro)	Share capital	Legal reserve	Conversion reserve	Extraordinary reserve	Fair value reserve	IAS 19 reserve	Other reserves	Profits carried forward	Group result	Group s/holders' equity
Balance as at 31.12.2015	**40,000**	**8,000**	**5,110**	**5,876**	**(374)**	**(187)**	**27,830**	**19,501**	**14,288**	**120,044**
Allocation of net income: 2015										
a dividends				(5,800)						(5,800)
carried forward								14,288	(14,288)	=
Net income for the year 2016									13,327	13,327
Other total profit/ (losses) [1]			(1,046)	=	(369)	(243)				(1,658)
Total other income/charges	**=**	**=**	**(1,046)**	**=**	**(369)**	**(243)**	**=**	**=**	**13,327**	**11,669**
Other movements							(92)			(92)
Balance as at 31.12.2016	**40,000**	**8,000**	**4,064**	**76**	**(743)**	**(430)**	**27,738**	**33,789**	**13,327**	**125,821**
Allocation of net income: 2016										
a dividends								(8,000)		(8,000)
carried forward								13,327	(13,327)	=
Net income for the year 2017									13,295	13,295
Other total profit/ (losses) [1]			1,804	=	1,439	(26)				3,217
Total other income/charges	**=**	**=**	**1,804**	**=**	**1,439**	**(26)**	**=**	**=**	**13,295**	**16,512**
Other movements							275			275
Balance as at 31.12.2017	**40,000**	**8,000**	**5,868**	**76**	**696**	**(456)**	**28,013**	**39,116**	**13,295**	**134,608**

1. Profits and Losses of the Comprehensive Income Statement recognized in the Shareholders' Equity.

Notes to the consolidated financial statements

General information

The Marzotto Group is one of the main international players in the textile field, mainly operating in the development, production and distribution of high-end wool fabrics (through the Marzotto Wool Manufacturing Group), cotton, wool yarns and linens, furnishing textiles, velvets (through the Lab Group) and silk (with a 33.898% investment in the Ratti Group).

The section entitled “Consolidation scope and method” provides information on the companies included in the Group's consolidation scope.

Management and coordination activities

Parent company Marzotto S.p.A. is subject to the management and coordination of Trenora S.r.l., which has its registered office at Largo S. Margherita 1, Valdagno (VI). In compliance with the provisions of Article 2497 *bis*, paragraph 4, of the Italian Civil Code, below is the summary statement of the key data of the last approved financial statements.

Balance sheet (thousands of euro)	31.12.2016		31.12.2016
B) Fixed assets	100,200	A) Shareholders' equity	100,259
C) Current assets	279	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	222
Total assets	**100,481**	**Total liabilities**	**100,481**

Income statements (thousands of euro)	Year 2016
A) Value of production	=
B) Cost of goods sold	(313)
Difference between value and cost of goods sold (A+B)	**(313)**
C) Financial income and charges	(10)
D) Adjustment to value of financial assets	=
Income before taxes (A+B+C+D+E)	**(323)**
Income taxes	(4)
Profit (loss) for the year	**(327)**

The consolidated financial statements of the Marzotto Group were approved by the Marzotto S.p.A. Board of Directors on 23 March 2018. Publication will take place in accordance with the law.

Compliance with IFRS/IAS

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the orders issued in implementation of Italian Legislative Decree no. 38/2005.

IFRS also means all revised international accounting standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Notes to the consolidated financial statements

Financial statements

These financial statements consist of the consolidated balance sheet, the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the explanatory notes.
More specifically:

- in the consolidated balance sheet, current and non-current assets and current and non-current liabilities are shown separately. Current assets are expected to be realised, transferred or consumed during the regular operating cycle of the Group; current liabilities are those that are expected to be paid off during the regular operating cycle of the Group or in the 12 months following the close of the period;
- for the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, costs are allocated according to their intended purpose;
- for the consolidated cash flow statement we have used the indirect method.

Unless otherwise specified, all figures stated in the financial statements and explanatory notes are in thousands of euros.

Identification of the segments

The disclosure according to business segment and geographical area is given in accordance with IFRS 8 - Operating Segments.
The criteria applied to identify these segments are based on the ways in which the management manages the Group and attributes managerial responsibilities.

The information by segment is primarily organised by product line, as follows:

- Wool Fabrics;
- Sundry Textile;
- Other Operations.

The Group also operates through affiliates in the silk and wool yarns sector.
Its activities are carried out at various plants located throughout Italy (wool and cotton weaving, linen yarns, silk making, velvet fabric production), in Tunisia (linen spinning and weaving), in Egypt (combing), in Lithuania (linen spinning, wool spinning, blankets), in the Czech Republic (woollen spinning and weaving and velvet fabric production) and by qualified contractors. Furthermore, the Group operates in the textile machinery sector in the linen area (through Linificio e Canapificio Nazionale S.r.l.).

The information by geographical area is subject to secondary disclosure.

Notes to the consolidated financial statements

Change to accounting standards

Accounting standards, amendments and interpretations applicable as from 1 January 2017

The same accounting standards and drafting criteria were used in the preparation of this document as in the preparation of the financial statements for the year ended 31 December 2016.

There are no new IFRSs or amendments that entered into force on 1 January 2017 applicable to the Group.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Group

On 28 May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers. The standard replaces IAS 18 - Revenues, IAS 11 - Construction Contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue-Barter Transactions Involving Advertising Services. The standard establishes a new model for the recognition of revenues, which will apply to all contracts stipulated with clients, apart from those falling within the scope of application of other IAS/IFRS standards, such as leasing, insurance contracts and financial instruments.

The essential steps for the booking of revenues according to the new model are:

- identification of the contract with the customer;
- identification of the contract performance obligations;
- determination of the price;
- the allocation of the price to the contract performance obligations;
- the criteria for recording revenues when the entity satisfies each performance obligation.

The provisions of IFRS 15 take effect as from financial years starting on or after 1 January 2018, unless subsequently deferred during approval by the European Union.
On 24 July 2014, the IASB published the final version of IFRS 9 - Financial Instruments.
The document incorporates the results of the classification and measurement, impairment and hedge accounting phases of the IASB's plan to replace IAS 39.
The standard introduces new criteria for the classification and valuation of financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on methods of managing financial instruments and on the characteristics of the contractual cash flows of the financial assets themselves to determine the measurement criterion, replacing the various rules set forth in IAS 39. For financial liabilities, meanwhile, the main change relates to the accounting treatment of changes in the fair value of a financial liability that is designated as a financial liability measured at fair value through profit or loss, if these changes are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognised as “Other comprehensive income” and no longer on the income statement.
With regard to the impairment model, the new standard requires estimates of losses on loans to be based on the expected losses model (rather than the incurred losses model) using information that can be supported and is available at no cost and without any unreasonable effort, including historic, current and prospective data. The standard stipulates that this impairment model shall apply to all financial instruments, i.e. financial assets valued at amortised cost, those measured at fair value through other comprehensive income, receivables deriving from leases and trade receivables.
Finally, the standard introduces a new hedge accounting model, with the aim of adjusting the requirements envisaged by the current IAS 39, which have at times been regarded as overly strict and not appropriately reflecting companies' risk management policies.

The key changes introduced by the document are as follows:

- an increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible for management under hedge accounting;
- a change in the method of booking forward contracts and options when included in a hedge accounting relationship, so as to reduce income statement volatility;
- changes to the efficacy test through the replacement of the current methods based on the parameter of 80 - 125% with the principle of “economic relationship” between the hedged item and the hedging instrument; moreover, assessment of the retrospective effectiveness of the hedging relationship will no longer be required.

Notes to the consolidated financial statements

The new standard must be applied for annual periods starting on or after 1 January 2018.
The Group will adopt these new standards and amendments on the basis of the expected application date, and is assessing their potential impacts. Based on the analyses performed, it is not expected that their application will result in significant impacts on the consolidated financial statements.

Accounting standards, amendments and interpretations not yet approved by the European Union

As at the date of this consolidated document, moreover, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the following accounting standards and amendments.
On 13 January 2016, the IASB published IFRS 16 - Leases, which is intended to replace IAS 17 - Leases and the interpretations 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 a lease and introduces a control-based criterion (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors:
the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the agreement.
The standard establishes a single model for the recognition and measurement of lease agreements for the lessee, which provides for the recognition of the leased asset (including in operating leases) in assets, with a financial payable as a contra-entry, also providing for the possibility of not recognising as leases agreements involving low-value assets and leases with a term of 12 months or less. Conversely, the standard does not include significant changes for lessors. The standard applies from 1 January 2019 but early application is permitted, only for companies that have applied IFRS 15 - Revenue from Contracts with Customers in advance.
On 19 January 2016, the IASB published the document “Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)”, which contains amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred tax assets on unrealised losses in the event of certain circumstances and the estimate of taxable income for future years. The amendments were applicable from 1 January 2017, but as they have not yet been approved by the European Union, they were not adopted by the Group at 31 December 2017.
On 29 January 2016, the IASB published the document “Disclosure Initiative (Amendments to IAS 7)” which contains amendments to IAS 7. The purpose of the document is to provide some clarification to improve the disclosure of financial liabilities. In particular, the amendments require a disclosure enabling users of the financial statements to understand changes in liabilities arising from financing transactions. The amendments were applicable from 1 January 2017, but as they have not yet been approved by the European Union, they were not adopted by the Group at 31 December 2017.
On 20 June 2016, the IASB published the document “Classification and measurement of share-based payment transactions (Amendments to IFRS 2)” which contains clarifications regarding the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with characteristics of net settlement and accounting for changes to the terms and conditions of one share-based payment that change its classification from cash-settled to equity-settled. The amendments apply as from 1 January 2018, but early application is permitted.
On 8 December 2016, the IASB published the document “Annual Improvements to IFRSs: 2014-2016 Cycle” (including IFRS 1 - First-Time Adoption of International Financial Reporting Standards - Deletion of short-term challenges for first-time adopters, IAS 28 - Investments in Associates and Joint Ventures – Measuring investments at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 - Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially supplements the existing standards.
On 8 December 2016, the IASB published the IFRIC 22 interpretation “Foreign Currency Transactions and Advance Consideration”. The purpose of the interpretation is to provide guidelines for transactions carried out in foreign currencies where non-cash advances or down payments are recorded in the financial statements before the relative assets, costs or revenues are recognised.

Notes to the consolidated financial statements

Change to accounting standards

This document provides an indication of how an entity must determine the date of a transaction, and therefore the spot exchange rate to be used when foreign currency transactions occur in which payment is made or received in advance. IFRIC 22 applies as from 1 January 2018, but early application is permitted.

On 8 December 2016, the IASB published the amendment to IAS 40 “Transfers of Investment Property”. These amendments clarify transfers of a property to or from property investments. In particular, an entity must reclassify a property to or from property investments only when there is evidence of a change in use of the property. This change must be due to a specific event that has happened and must not, therefore, be limited to a change in the intentions of the management of an entity. The amendments apply as from 1 January 2018, but early application is permitted.

On 7 June 2017, the IASB published IFRIC Interpretative Document 23 – Uncertainty over Income Tax Treatments. It addresses the issue of uncertainty about the tax treatment to be adopted with regard to income taxes. The document provides that uncertainties in determining tax liabilities or assets will only be reflected in the financial statements when it is probable that the entity will pay or recover the amount in question.

Furthermore, the document does not contain any new disclosure obligations, but points out that the entity will have to determine whether it will be necessary to provide information on the considerations made by management relating to uncertainty regarding the recognition of taxes, in accordance with IAS 1. The new interpretation applies as from 1 January 2019, but early application is permitted.

The Group will adopt these new standards and amendments on the basis of the envisaged date of application, and will assess their potential impact on the consolidated financial statements when they are approved by the European Union.

Notes to the consolidated financial statements

Method of consolidation

The consolidated financial statements of the Marzotto Group include the economic, equity and financial position of parent company Marzotto and the companies over which it has the right to exercise control.
The definition of control is not based exclusively on the concept of legal ownership. Control exists when a Group has the direct or indirect power to govern the financial and operative policies of a business in order to obtain the relevant benefits. Generally speaking, control is assumed to exist when the Group directly or indirectly holds more than half the voting rights, also considering those that can be potentially exercised immediately. The financial statements of the subsidiaries are included in the consolidated financial statements starting from the date on which control is assumed and until such time as the control ceases to exist, adopting the full method by way of consolidation criteria.
The Group uses the purchase accounting method for business combinations. The cost of the business combination is calculated as at the acquisition date in consideration of the fair value of the assets disposed of and/or liabilities assumed and the equity instruments issued in order to obtain control. The cost of the combination includes the fair value of all liabilities incurred or assumed. The costs of the acquisition are recorded on the consolidated income statement when incurred.
The assets, liabilities and potential liabilities acquired and identifiable are recognised at fair value as at the acquisition date. At each acquisition, the Group decides whether or not to recognise the minority interests of the companies acquired at fair value or according to their interest in the fair value of the net assets acquired. The total cost of the business acquired, the amount of each minority interest in the company acquired and the fair value as at the acquisition date of each pre-existing minority interest in the company acquired, in excess of the acquirer's share of the fair value of the identifiable assets and liabilities and contingent liabilities, is recorded as goodwill. If the acquirer's share of the fair value of the identifiable assets and liabilities and contingent liabilities of the business acquired exceeds the cost of the combination, the difference is recognised directly in the income statement.
With regard to the accounting treatment of transactions or events that modify interests in subsidiaries and the attribution of the subsidiary's losses to minority interests, IAS 27 (revised 2008) establishes that, once control of a business has been obtained, transactions in which the parent company acquires or disposes of further minority shares without altering the control exerted over the subsidiary are transactions with shareholders and should therefore be recognised in shareholders' equity. Accordingly, it follows that the book value of controlling interests and minority interests must be adjusted to reflect the change in the interest in the subsidiary and any difference between the amount of the adjustment made to the minority interest and the fair value of the price paid or received in this transaction, is recognised directly in shareholders' equity and attributed to the shareholders of the parent company. There will be no adjustments to the value of goodwill and profits or losses recognised in the income statement.

The main consolidation criteria adopted are as follows:

- for fully consolidated equity investments, the book value of the individual equity investments consolidated is derecognised against the related shareholders' equity, with the assumption of the assets, liabilities, costs and revenues of the subsidiaries, regardless of the size of the investment held, with the share of the capital and reserves pertaining to the minority shareholders of the subsidiaries and the portion pertaining to minority shareholders of the profit or loss for the period of the consolidated subsidiaries identified separately in the consolidated balance sheet and the consolidated income statement;
- for the booking of the acquisitions of subsidiaries, the purchase method is used, as envisaged by IFRS 3 Revised (see the paragraph on "Business combinations");
- all balances and significant transactions between Group companies are eliminated, as are profits and losses (the latter unless representative of an effective lesser value of the asset sold) deriving from commercial or financial intra-group operations not yet realised with regards to third parties;

- increases/decreases in the shareholders' equity of consolidated companies allocated to the results achieved after the date of acquisition of the equity investment, are booked at the time of elision to a specific equity reserve called "Profits (losses) carried forward";
- the dividends distributed by Group companies were eliminated from the income statement during consolidation.

The consolidated financial statements include the portion pertaining to the Group of the results of the companies booked using the equity method starting from the date on which the significant influence or joint control takes effect and until such time as said significant influence or joint control ceases to apply. Intra-group profits not yet realised with regards to third parties are eliminated for the portion pertaining to the Group in the investee company. Intra-group losses not yet realised with regards to third parties are also eliminated unless representing an effective lesser value of the asset sold.
Any losses exceeding shareholders' equity are recognised to the extent to which the investing company is committed to fulfilling legal or implicit obligations with regards to the investee or in any case to covering its losses.

Equity investments in affiliates

Equity investments held in companies over whose financial and operational policies the Group exercises significant influence. Equity investments held in companies over which significant influence is exerted ("affiliates"), which is assumed to exist when the percentage of the investment held ranges between 20% and 50%, are measured using the equity method. By virtue of the application of the equity method, the book value of the investment is aligned to shareholders' equity, adjusted, where necessary, to reflect the application of the IFRSs approved by the European Commission, and includes the registration of any goodwill identified at the time of acquisition. The portion of profits/losses realised by the affiliate after acquisition is booked to the income statement, whilst the portion of changes to reserves subsequent to acquisition is booked to equity reserves. When the portion of Group losses in an affiliate equals or exceeds its share pertaining to the affiliate, considering all receivables that are not guaranteed, the value of the equity investment can be reduced to zero and the Group does not book any additional losses with respect to those within its remit, apart from those for which the Group is liable. Profits and losses not realised and generated on transactions with affiliates are eliminated according to the value of the investment of the Group held in them.

Equity investments in joint ventures or companies under joint control

Joint ventures or companies under joint control are companies over which the Group's power to govern the operative and financial policies requires the unanimous consent of the other parties exercising joint control. Investments in joint ventures or companies under joint control are consolidated at equity, using the same accounting standards as those applicable to the Group.

Equity investments in other companies

Equity investments in other companies constituting "financial assets available for sale" are measured at fair value and all profits and losses deriving from changes in fair value are allocated directly to shareholders' equity until they are sold. Comprehensive profits and losses are booked to the income statement of the year during which the sale takes place, unless a financial asset available for sale has accumulated a significant or prolonged reduction in fair value. In this case, the accumulated capital loss in the fair value reserve is transferred from shareholders' equity to the income statement.

Going concern

The consolidated financial statements as at 31 December 2017 have been prepared on the basis of the going concern principle as, despite the difficult economic and financial context, the Group believes that there is no significant uncertainty as to the capacity to continue to operate in the foreseeable future, also due to the action taken to adjust to changes in demand and the Group's own industrial and financial flexibility.

Notes to the consolidated financial statements

Below are the subsidiaries and affiliates included in the consolidation scope as at 31 December 2017.

Operating Companies consolidated on a line-by-line basis:

Company	Reg. office	Share Capital	Currency	% Ownership 2017	% Ownership 2016
Le Cotonerie S.r.l.	Valdagno (I)	15.00	K EUR	100.00	100.00
Ambiente Energia S.r.l.	Schio (I)	100.00	K EUR	100.00	100.00
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	200.00	K CZK	100.00	100.00
Marzotto Wool Manufacturing S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
Biella Manifatture Tessili S.r.l.	Valdagno (I)	1,000.00	K EUR	100.00	100.00
Novà Mosilana a.s.	Brno (CZ)	1,095,000.00	K CZK	100.00	100.00
Marzotto Lab S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
AB Liteksas	Kaunas (LT)	11,890.00	K EUR	99.97	99.97
Sametex spol. s r.o	Kraslice (CZ)	565,863.00	K CZK	100.00	100.00
Girmes International G.m.b.h.	Tonisvorst (DE)	800.00	K EUR	100.00	100.00
Marzotto Textile N.V.	Amsterdam (NL)	45.00	K EUR	100.00	100.00
and it's subisidiaries:					
Marzotto Int.Trad. (Shanghai) Ltd.	Shanghai (RPC)	1,001.46	K CNY	100.00	100.00
Marzotto Textiles USA Inc.	New York (USA)	410.00	K USD	100.00	100.00
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	27,648.00	K EUR	100.00	100.00
and it's subisidiaries:					
Filature de Lin Filin S.A.	Chbedda (TN)	16,155.00	K TND	100.00	100.00
UAB Lietlinen	Kaunas (LT)	8,445.00	K EUR	100.00	100.00
UAB Linestus in liquidazione	Kaunas (LT)	500.00	K EUR	50.00	50.00

Operating Companies consolidated at equity:

Company	Reg. office	Share Capital	Currency	% Ownership 2017	% Ownership 2016
Mascioni S.p.A.	Milano (I)	10,000.00	K EUR	14.18	28.35
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	9,179.00	K EUR	30.00	30.00
UAB Lietvilna	Kaunas (LT)	4,550.00	K EUR	50.00	50.00
Tintoria di Verrone S.r.l.	Verrone (I)	100.00	K EUR	50.00	50.00
Pettinatura di Verrone S.r.l.	Verrone (I)	3,000.00	K EUR	15.00	15.00
Ratti S.p.A.	Guanzate (I)	11,115.00	K EUR	33.70	33.70
and it's subisidiaries:					
Creomoda S.a.r.l.	Sousse (TN)	10.00	K TND	25.61	25.61
Ratti USA Inc.	New York (USA)	500.00	K USD	33.70	33.70
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	110.00	K EUR	33.70	33.70
Textrom S.r.l.	Cluj - Napoca (RO)	0.20	K RON	33.70	33.70

Operating Companies classified among non-current assets held for sale:

Company	Reg. office	Share Capital	Currency	% Ownership 2017	% Ownership 2016
Aree Urbane S.r.l. in liquidation	Milano (I)	100.00	K EUR	32.50	32.50

Scope and principles of consolidation

[Notes to the consolidated financial statements]

Conversion of accounts carried in foreign currencies

The presentation currency adopted by the Group is the euro, which is also the functional currency of parent company Marzotto S.p.A.

As at the closing date, the accounts of foreign companies carried in functional currencies that differ from the euro are converted into the presentation currency as follows:

- assets and liabilities are converted using the exchange rates in force as at the year end date;
- income statement items are converted using average exchange rates for the financial year/period.

Any exchange differences emerging from this conversion process are accrued within a separate item of equity (conversion reserve) until disposal of the foreign company.

The exchange rates applied for the conversion of the financial statements of the companies included in the consolidation scope are provided in the table below:

Currency (units per 1 euro)		2017	2016	% change
	- for the profit and loss account (average prevailing exchange rates for the year)			
CZK	Czech Crown	26.327	27.035	(2.6)
CNY	China Renmimbi	7.626	7.350	3.8
TND	Tunisian Dinar	2.729	2.374	15.0
RON	New Leu	4.569	4.491	1.7
USD	USA Dollar	1.129	1.107	2.0
	- for the balance sheet (year-end prevailing exchange rates)			
CZK	Czech Crown	25.535	27.021	(5.5)
CNY	China Renmimbi	7.804	7.320	6.6
TND	Tunisian Dinar	2.974	2.450	21.4
RON	New Leu	4.659	4.539	2.6
USD	USA Dollar	1.199	1.054	13.8

Notes to the consolidated financial statements

The most significant valuation criteria adopted when preparing the financial statements are as follows:

1.1 Property, plant and equipment
1.2 Civil real estate

Property, plant and equipment is carried at historical cost, including directly attributable accessory costs.

Land, both vacant and annexed to residential or industrial buildings, is not amortised since its useful life is indefinite.

Some assets that had been revalued in previous periods are recognised on the basis of the revalued amount, regarded as the substitute amount of the cost at the date of transition to IAS.

Assets acquired through business combination operations are recognised at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following 12 months.

Maintenance and repair expenses that do not increase the value or prolong the remaining useful life of assets are recognised as expenses in the period in which they are incurred.

Tangible assets are shown net of accumulated depreciation and any impairment, determined in accordance with the methods described below. Depreciation is straight-line, based on the estimated useful life of the asset.

The estimated useful life of the main property, plant and equipment is as follows:

Land	indefinite
Buildings	10/33 years
Plant and machinery:	
- Textiles	8 years
- Textiles in corrosive environment	5/6 years
- Other	6/25 years
Industrial and commercial equipment	4/7 years
Other assets:	
- Electronic office machinery	5 years
- Office furniture and fixtures	7/9 years
- Vehicles	4/5 years

1.3 Goodwill, trademarks and other intangible assets

Intangible assets with a “finite useful life” are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation and any lasting impairment.

Intangible assets with an “indefinite useful life” are not amortised.

Intangible assets acquired through business combination operations are recognised at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following 12 months.

Impairment

In application of the reference accounting standards (IAS 36), the Group checks, at every balance sheet date, whether there is any indication of lasting impairment to assets.
If such indicators exist, an estimate is made of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit, minus selling costs, and its value in use. In determining its value in use, estimated future cash flows are discounted to present value, using a rate gross of tax that reflects current market appraisals of the value of money and the specific risks of the asset.
Impairment is recognised in the income statement when the book value of the asset or of the related cash generating unit to which it is allocated is greater than the recoverable value.
Impairment losses are written back if the reasons for generating them no longer exist.

Notes to the consolidated financial statements

1.5 Other equity investments

Equity investments in companies other than subsidiaries and affiliates are measured at fair value, with any profits or losses entered directly in shareholders' equity. At the time of their sale, such accumulated profits and losses are recognised in the income statement.

When their fair value cannot be reliably determined, equity investments in other companies are valued at cost, adjusted for impairment where applicable, the effect of which is recognised in the income statement.

At every balance sheet date, the Group checks whether there are indicators of lasting impairment for equity investments and makes the appropriate adjustments, as described above.

1.8 Medium/long-term financial receivables

Financial assets are initially carried at their nominal value, representing fair value, and are later recognised at the lower of their book value and their presumed realisable value.

2. Non-current assets held for sale

Assets or groups of assets and liabilities whose value will be recovered mainly through sale rather than ongoing use are recognised separately from other assets and liabilities in the balance sheet.

Non-current assets or groups of assets and liabilities held for sale are recognised at the lower of their book value and their fair value net of selling costs.

3.1 Inventory

Inventory of raw materials, semi-finished goods and finished products is measured at the lesser of the purchase or production cost (determined according to the FIFO method) and the presumed net realisable value.

Inventory of consumables is measured at the lower of cost (determined using the weighted average cost method) and the presumed net realisable value.

The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.

3.2 Trade receivables
3.3 Other receivables

Trade receivables due within standard business terms and other operating receivables (other receivables) are not discounted and are carried at nominal value net of any write-downs. The adjustment to the presumed realisable value is recognised in special adjustment reserves.

3.4 Short-term financial assets and cash and cash equivalents

Financial assets held for trading are recognised at the fair value shown in the income statement.

Cash and cash equivalents are made up of cash in hand, i.e. cash that is readily available or available in the very short term, successfully, and without collection expenses.

A financial asset (or, if applicable, a portion of a financial asset or portion of a group of similar financial assets) is cancelled from the balance sheet when:

- the rights to receive cash flows from the asset expire;
- the Group has transferred the right to receive financial flows from the asset or has taken over the contractual obligation to pay them fully and without delay to a third party and (a) it has basically transferred all risks and benefits of the ownership of the financial asset or (b) it has not transferred nor retained basically all risks and benefits of the asset, but it has transferred the control of the same.

Notes to the consolidated financial statements

5.1 Long-term provisions

Allocations to long-term provisions are recognised when there is a legal or implicit obligation towards a third party and it is likely that there will be an outlay of resources, the amount of which can be reliably estimated. If the effect is significant, the allocations are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market value of the cost of money in relation to time.
When the amount is discounted, the increase in the provision due to the passing of time is recognised as a financial expense.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and has no legal or implicit obligation to pay additional contributions. The contributions to be paid into defined contribution plans are recorded as a cost in the result of the period in which they are incurred. Contributions paid in advance are recorded amongst assets to the extent to which the advance payment will determine a reduction in future payments or a refund.

Defined benefit plans

The amount payable for employee termination indemnities falls within the scope of defined benefit pension plans, which are plans based on the working life of employees and on the remuneration received by the employee during a pre-determined period of service.
More specifically, the liability relating to the employee termination indemnity is booked at its actuarial value, insofar as it can be classified as an employee benefit due on the basis of a defined benefit plan. The booking of defined benefit plans requires an estimate using actuarial techniques of the amount of the benefits accrued by employees in exchange for work performed during the current and previous years, and the discounting of these benefits in order to determine the current value of the company’s commitments (IAS 19).
According to Law No. 296/06, effective from 30 June 2007, the employee termination indemnities accrued after 1 January 2007 must be paid in an appropriate treasury fund opened with INPS (National Institute for Social Protection) or, according to the instructions of the employee, to the selected fund. With these payments, the item relating to employee termination indemnities is no longer subject to allocations, unlike employee termination indemnities accrued by 31 December 2006, which come under the scope of defined benefit pension plans.

In June 2012, IAS 19 was amended to provide for the recording of changes to actuarial gains/losses of defined benefit plans, including employee termination indemnities, to other comprehensive income as from 1 January 2013. The Group has decided to apply this amendment early, as from the financial statements as at 31 December 2012.

[Notes to the consolidated financial statements]

5.4 Medium/long-term financial payables

Financial liabilities, except for derivatives, are initially recognised at fair value net of directly attributable transaction costs. They are later measured using the actual interest rate method.

6. Non-current liabilities held for sale

The groups of assets and liabilities whose value will be recovered mostly through sale rather than through the continuous use are shown separately from other assets and liabilities in the balance sheet.

Groups of non-current assets and liabilities classified as held for sale are shown at the lower of the book value and the fair value net of selling costs.

7.1 Trade payables and other payables

Trade payables due within standard business terms, and other operating payables, are not discounted and are carried at nominal value.

7.2 Short-term financial payables

Financial liabilities, except for derivatives, are recognised at fair value net of directly attributable transaction costs.

Derivative financial instruments

Derivatives are measured at fair value and are designated as hedging instruments when the relationship between the derivative and the underlying instrument is formally documented and the effectiveness of the hedge, which is verified periodically, is adequate.

When the derivatives cover the risk of a change in the fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; accordingly, the underlying instruments are adjusted to reflect the change in fair value associated with the hedged risk, and the difference is also recognised in the income statement.

When derivatives cover the risk of changes in cash flows from the underlying instruments (cash flow hedge), changes in fair value are initially recognised in shareholders' equity and later in the income statement, according to the effects produced by the hedging transaction.

Changes in the fair value of derivatives that do not meet the conditions to qualify as hedging instruments are recognised in the income statement.

Translation of items in foreign currency

The financial statements of each consolidated company are prepared using the currency of the economy in which the company operates.

In such cases, all transactions in currencies other than the unit of account are recorded at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in currencies other than the unit of account are later adjusted by the exchange rate prevailing at the end-date of the accounting period.

Contributions

Contributions from both government agencies and private third parties are carried at fair value when there is the reasonable certainty that they will be received and the prescribed conditions for obtaining them are satisfied.

Contributions received for specific expenses are recognised among other liabilities and credited to the income statement on a straight-line basis throughout the same period in which the related costs accrue.

Contributions received for specific assets the value of which is stated among tangible and intangible assets, are shown among liabilities and credited in the income statement in relation to the depreciation period for the assets to which they refer.

Operating contributions are fully recognised in the income statement when the conditions for recognising them are satisfied.

Fair value

The fair values used to prepare the financial statements, relating to the valuation of forward purchases and sales of foreign currency and foreign exchange options, were established based on rates provided by the banking system.

[Notes to the consolidated financial statements]

8. Revenues

Depending on the type of transaction, revenues are recognised based on specific criteria indicated below:

- revenues from the sale of goods are recognised when the significant risks and benefits of ownership are transferred to the purchaser (typically at the time of shipment);
- revenues for services provided are recognised based on the status of completion of the assets.

15. Net financial expenses

Financial income and expenses are recognised on the basis of accrued interest on the net value of the relevant financial assets and liabilities using the effective interest rate.

16. Dividends

Dividends are recognised when the right to receive payment is established.

Dividends payable to third parties are shown as changes in shareholders' equity on the date at which they are approved by the Shareholders’ Meeting of the parent company.

20. Taxes

Current income taxes for the financial year are determined based on estimates of taxable income and according to law.

Deferred and advance income taxes are calculated on the temporary differences between the recorded asset values and the respective recognised values for tax purposes, applying the tax rate in effect at the date the temporary difference will be reversed, calculated on the basis of the tax rates provided by the law or substantially in force at the accounting reference date.

The asset entry for advance tax payments is made when recovery is likely, that is when it is estimated that in the future there will be taxable amounts sufficient to recover the asset. The ability to recover assets for advance tax payments is reassessed at the end of each accounting period.

In addition deferred tax receivables and payables are set aside following the adjustments made, upon consolidation, to the financial statements of the companies of the Group.

29. Base profit per share

The profit per share is calculated dividing the profit attributable to the holders of ordinary shares of the parent company by the weighted average of the outstanding ordinary shares during the period.

Use of estimates

In application of IFRS, preparing the consolidated financial statements requires the use of estimates and assumptions that affect the values of balance sheet assets and liabilities and the relevant information, as well as potential assets and liabilities at the reference date.

Estimates and their underlying assumptions are based on past experience and on other factors that are deemed reasonable in each case. Actual results may differ from these estimates.

Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement.

A significant discretionary valuation is required from the directors to establish the amount of deferred tax assets that may be booked. They have to estimate the likely time of occurrence and the amount of future profit subject to tax as well as a planning strategy for future taxes.

Estimates are also used to record provisions for bad debt, inventory obsolescence, amortisation and depreciation, employee benefits and provisions for risks and charges and for purchase price allocation.

At every balance sheet date, the Group checks whether there are any indicators of lasting impairment for all non-financial assets. Goodwill and other intangible assets with an indefinite useful life are subject to review each year to identify any decrease in value. The recoverable value of non-current assets is typically established in reference to the use value, based on the present value of financial flows expected from the continuous use of the asset. This verification also involves the choice of an appropriate discount rate to calculate the present value of the expected cash flows.

[Notes to the consolidated financial statements]

Tax consolidation

Parent company Marzotto S.p.A., together with other companies of the Marzotto Group, joined the national tax consolidation scheme with Wizard S.r.l. as the parent company.
Economic relations, as well as mutual responsibilities and obligations, between the consolidating company and the above subsidiaries are defined in the consolidation regulations.
Subsidiaries which have positive taxable income for the years concerned pay Wizard S.r.l. the greater tax payable by the latter. The taxable income of the subsidiaries used to determine this higher tax was that declared in the tax return referred to in Article 121(a) of the TUIR.
Consolidated companies with negative taxable income receive compensation amounting to 100% of the tax saving achieved on a Group level and corresponding to the tax generated by the subsidiary from Wizard S.r.l. This compensation is due at the time of effective use by Wizard S.r.l.

Consolidated companies with interest expense not deducted pursuant to Article 96 of the TUIR and transferred to the tax consolidation scheme receive from Wizard S.r.l. compensation corresponding to 100% of the tax savings achieved at the Group level and corresponding to the tax generated by the subsidiary in relation to its interest expense. This compensation is due at the time of actual use of the EBIT surplus transferred to the tax consolidation. Assuming that the EBIT surpluses transferred cannot offset the amount of the non-deductible interest payable by the consolidated companies, interest expense is deemed to be offset in proportion to the ratio between the non-deductible interest generated during the period by each company and the total non-deductible interest of the consolidated companies in the same tax period.
In the event that the consolidated companies have surpluses of ACE (Support for Economic Growth pursuant to Article 1 of Legislative Decree No. 201/2011) to be transferred to the Group, within the limits of the Group's comprehensive income, these companies receive compensation corresponding to 100% of the tax savings achieved at Group level from Wizard S.r.l. If several consolidated companies have a surplus of ACE that may be transferred to the Group and the Group's overall comprehensive income is not sufficient to deduct it, a proportional criterion must be applied.

Tax payables are recognised under tax payables net of payments on account, withholding taxes and, in general, tax receivables. The same item includes the current IRES calculated on the basis of the calculation of the positive and negative taxable amounts of the subsidiaries that have adhered to the national tax consolidation scheme, net of the payments on account, withholding taxes and tax receivables accrued by the companies themselves. As a contra-entry to the tax payable, the corresponding receivables of the consolidating company from the Group companies are recognised for the current tax corresponding to the positive taxable amounts transferred as part of the national tax consolidation scheme.
The payable for compensation due to subsidiaries with negative taxable income is recognised under “Payables to subsidiaries”.
Deferred and advance corporation tax is calculated on the temporary differences between the values of assets and liabilities determined according to statutory criteria and the corresponding tax values exclusively with reference to the company.
Current, deferred and advance IRAP is determined exclusively with reference to the company.

Other information

All figures in the consolidated balance sheet, the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in shareholders’ equity, as well as in the explanatory notes, are expressed in thousands of euros.

For ease of comparison, the figures for the previous year have been reclassified as needed, and adequate information has been provided.

Please refer to the Report on Operations for further information regarding:

- main events of the 2017 financial year;
- events after the close of the financial year;
- foreseeable development of operations;
- risk factors (IFRS 7);
- other relevant information on operating performance and the balance sheet structure.

Notes to the consolidated financial statements

With regard to the disclosure obligations established by Law 124 of 4 August 2017, we report:

Marzotto S.p.A.

- Income recognised during the period for the production of electricity from solar farms of 362 thousand euros, including 315 thousand for contributions to electricity production (TPA) and 47 thousand for fees for energy produced and sold (TFO). Income for the year relating to the production of electricity from solar farms came to 344 thousand euros (net of withholding tax), including 294 thousand for contributions (TPA) and 50 thousand for energy produced and sold (TFO);
- Income recognised during the period for contributions pursuant to Article 13 of Law 68/99 (hiring incentives) for 11 thousand euros, with 10 thousand euros collected during the year (net of withholding taxes).

Biella Manifatture Tessili S.r.l.

- Income recognised during the period for the production of electricity from solar farms of 98 thousand euros, including 87 thousand for contributions to electricity production (TPA) and 11 thousand for fees for energy produced and sold (TFO). Income for the year relating to the production of electricity from solar farms came to 92 thousand euros (net of withholding tax), including 65 thousand for contributions (TPA) and 27 thousand for energy produced and sold (TFO);
- Income recognised during the period for contributions to investments in new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 84 thousand euros. During the year, receivables for contributions to new capital goods were used for offsetting in the amount of 212 thousand euros.

Marzotto Wool Manufacturing S.r.l.

- Income recognised during the period for contributions to investments in new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 30 thousand euros. During the year, receivables for contributions to new capital goods of 72 thousand euros were used for offsetting.

Linificio e Canapificio Nazionale S.r.l.

- Income recognised during the period for research and development contributions of 114 thousand euros. During the year, receivables for research and development contributions of 46 thousand euros were used for offsetting;
- Income recognised during the period for Eco Textile For Fashion and Design contributions of 11 thousand euros.

Marzotto Lab S.r.l.

- Income recognised during the period for the production of electricity from solar farms of 86 thousand euros, including 84 thousand for contributions to electricity production (TPA) and 2 thousand for fees for energy produced and sold (TFO). Income for the year relating to the production of electricity from solar farms came to 73 thousand euros (net of withholding tax), including 72 thousand for contributions (TPA) and 1 thousand for energy produced and sold (TFO);
- Income recognised during the period for investment contributions to new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 5 thousand euros. During the period, receivables were used to offset contributions to new capital goods for 9 thousand euros;
- Income recognised during the period for research and development contributions of 73 thousand euros.

Ambiente Energia S.r.l.

- Income recognised during the period for research and development contributions of 61 thousand euros.

Tintoria di Verrone S.r.l.(100%)

- Income recognised during the period for energy-intensive enterprise contributions of 199 thousand euros. Contributions received for the year relating to energy-intensive contributions came to 219 thousand euros.

Ratti S.p.A. (100%)

- Operating contributions during the accounting period include 225 thousand euros relating to contributions for solar farm power production and 40 thousand euros relating to incentive contributions under the Youth Guarantee allowances (EU Regulation No. 1303/2013). With regard to the contributions received, however, it should be noted that in the year in question, contributions received for solar farm power production totalled 252 thousand euros, while contributions for allowances under the Youth Guarantee received and/or offset amounted to 40 thousand euros.

Notes to the consolidated financial statements

The tables below are shown in **thousands of euros**.

1.1) Property, plant and machinery
1.2) Civil buildings

	2017	2016	Change
Amounts to:	**117,280**	**116,227**	**1,053**

broken down as follows:

Description	A) Civil land and buildings	B) Industrial land and buildings	C) Plant and machinery	D) Industrial and comm. equipment	E) Other tangible fixed assets	F) Tangible fixed assets under cons./ advances	Total
Original cost (at exchange rate of 31/12)	1,443	118,768	278,372	11,293	13,992	7,453	431,322
Depreciation funds	(121)	(68,801)	(224,527)	(9,940)	(11,706)	=	(315,095)
Balances as at 31.12.2016	**1,322**	**49,967**	**53,846**	**1,352**	**2,286**	**7,453**	**116,227**
Movements during the year:							
Original cost:							
acquisitions	=	2,691	14,239	743	730	(3,281)	15,122
exchange rate differences	=	1,433	1,516	61	271	183	3,464
reclassifications	=	101	(11)	=	(90)	(230)	(230)
disposals	=	(57)	(4,610)	(123)	(283)	=	(5,073)
Depreciation funds:							
depreciation for the year	(41)	(2,438)	(10,979)	(699)	(664)	=	(14,821)
exchange rate differences	=	(1,047)	(1,040)	(57)	(234)	=	(2,377)
reclassifications	=	(15)	=	=	15	=	=
disposals	=	67	4,500	123	279	=	4,969
Total movements for the year	**(41)**	**735**	**3,616**	**48**	**24**	**(3,328)**	**1,053**
Original cost (at exchange rate of 31/12)	1,443	122,936	289,506	11,973	14,621	4,125	444,604
Depreciation funds	(162)	(72,234)	(232,045)	(10,573)	(12,310)	=	(327,324)
Balances as at 31.12.2017	**1,281**	**50,702**	**57,461**	**1,400**	**2,310**	**4,125**	**117,280**

The changes that took place pertained to the acquisitions carried out by Marzotto S.p.A. (152 thousand euros), Marzotto Wool Manufacturing S.r.l. (4,383 thousand euros), Marzotto Lab S.r.l. (1,132 thousand euros), Ambiente Energia S.r.l. (690 thousand euros), Novà Mosilana a.s. (4,773 thousand euros), Sametex spol s r. o (802 thousand euros), AB Liteksas (392 thousand euros), Biella Manifatture Tessili S.r.l. (2,063 thousand euros) and the Linificio Group (735 thousand euros).

The sale of assets during the year involved booking net capital gains gross of tax of 692 thousand euros (of which gains of 781 thousand euros and losses of 89 thousand euros).

As at 31 December 2017, the fixed assets of the subsidiary Filature de Lin Filin S.A. (Tunisia), consolidated on a line-by-line basis, were encumbered by mortgages to guarantee a bank loan of 2,398 thousand euros at the balance sheet date.

Notes to the consolidated financial statements

1.3) Goodwill, trademarks and other intangible assets

	2017	2016	Change
Amounts to:	**9,819**	**9,559**	**260**

made up as follows:

Description	A) Research, development and advertising costs	B) Ind. patent and intellectual property rights	C) Concessions, licenses, trade-marks and similar rights	D) Goodwill	E) Other intangible fixed assets	F) Intangible fixed assets being developed and advances	Total
Original cost	=	6,079	7,657	167	222	183	14,308
Depreciation funds	=	(4,450)	(229)	=	(70)	=	(4,749)
Balances as at 31.12.2016	**=**	**1,629**	**7,428**	**167**	**152**	**183**	**9,559**
Movements during the year:							
Original cost:							
acquisitions	=	522	70	=	=	(27)	565
exchange rate differences	=	35	=	=	=	2	37
reclassifications	=	230	=	=	=	=	230
disposals/depreciations	=	=	=	=	=	=	=
Amortisation:							
for the year	=	(503)	(12)	=	(25)	=	(540)
exchange rate differences	=	(32)	=	=	=	=	(32)
reclassifications	=	=	=	=	=	=	=
Total movements for the year	**=**	**252**	**58**	**=**	**(25)**	**(25)**	**260**
Original cost	=	6,866	7,727	167	222	158	15,140
Depreciation funds	=	(4,985)	(241)	=	(95)	=	(5,321)
Balances as at 31.12.2017	**=**	**1,881**	**7,486**	**167**	**127**	**158**	**9,819**

Concessions, licences, trademarks and similar rights include the values of the trademarks of Guabello for 2,300 thousand euros and of Tallia di Delfino for 1,170 thousand euros, the value of the Lanerossi trademark for 2,900 thousand euros, and the value of the velvet trademarks “Redaelli Velluti”, “Redaelli 1893”, “Niedieck” and “Christoph Andreae” of the Marzotto Group. The increase of 565 thousand euros during the period mainly relates to transcriptions of trademarks for 70 thousand euros and licences for 495 thousand euros.

The trademarks, which are considered intangible assets with an undefined useful life, are not amortised but rather are regularly impairment tested in compliance with IAS 36.
The impairment test on the trademarks' value is performed establishing their value in use according to the method of comparable royalty rates. Cash flows are discounted at a rate equal to the current interest rate without market risk, in relation to a time frame consistent with the duration of the flows (according to the historical value of the trademarks), plus the risk coefficient specific to the activity.

[Notes to the consolidated financial statements]

Goodwill includes 167 thousand euros for the purchase of the “Logistics Services” business unit of Piovene.

In compliance with international accounting standards, this item is not subject to amortisation, but rather to annual impairment testing. This analysis is carried out by comparing the book value of goodwill with the greater of the value in use and fair value.

In the early months of 2017 there were no significant events to suggest that the values in the financial statements were permanently impaired.
However, the estimated recoverable value of the CGU is discretionary and subject to the use of estimates by the management. In fact there are several factors connected to the difficult market situation which may require a new calculation of the value of goodwill. The Company will monitor closely the circumstances and events which may cause a new assessment of losses of value.

Research and development expenses paid during the year, pertaining to product innovation and applications for the rationalisation of production and logistics, have been charged to the income statement.

1.4) Equity investments

	2017	2016	Change
Amounts to:	**25,264**	**23,124**	**2,140**

made up as follows:

Description	A) Ratti Group	B) Mascioni Group	C) Mediterranean Wool Ind.	D) Pettinatura di Verrone	Sub total
Original cost	10,600	706	2,027	1,667	15,000
Adjustment to equity	4,784	(706)	(28)	188	4,238
Balances as at 31.12.2016	**15,384**	**=**	**1,999**	**1,855**	**19,238**
Movements during the year:					
Original cost:					
acquisitions	112	=	=	=	112
devaluations	=	=	=	=	=
Adjustment to equity:					=
accrued pro-quota profit/(loss)	2,017	=	3	108	2,128
pro-quota dividends paid in 2017	(926)	=	=	=	(926)
effect of change in shareholders' equity	211	=	7	=	218
Total movements for the year	**1,414**	**=**	**10**	**108**	**1,532**
Original cost	10,712	706	2,027	1,667	15,112
Adjustment to equity	6,086	(706)	(18)	296	5,658
Balances as at 31.12.2017	**16,798**	**=**	**2,009**	**1,963**	**20,770**

Description	E) Uab Lietvilna	F) Tintoria di Verrone S.r.l.	Total
Original cost	2,848	108	17,956
Adjustment to equity	789	141	5,168
Balances as at 31.12.2016	**3,637**	**249**	**23,124**
Movements during the year:			
Original cost:			
acquisitions	=	=	112
devaluations	=	=	=
Adjustment to equity:			=
accrued pro-quota profit/(loss)	554	11	2,693
pro-quota dividends paid in 2017	=	=	(926)
effect of change in shareholders' equity	=	43	261
Total movements for the year	**554**	**54**	**2,140**
Original cost	2,848	108	18,068
Adjustment to equity	1,343	195	7,196
Balances as at 31.12.2017	**4,191**	**303**	**25,264**

The above table shows the shares held by the Group in affiliates.

In compliance with the reference standard (IFRS 11), the Group uses the equity method to account for Ratti S.p.A. companies. (33.898% owned), Uab Lietvilna (50% owned), Tintoria di Verrone S.r.l. (50% owned) and Uab Linestus (50% owned).
The Group also holds equity investments in affiliates Mascioni S.p.A. (14.18%), Mediterranean Wool Industries Co. S.A.E. (30%) and Pettinatura di Verrone S.r.l. (15%), which are also measured at equity.

The period adjustment reflects the measurement of the above equity investments using the equity method.

Notes to the consolidated financial statements

1.5) Other investments

	2017	2016	Change
Amounts to:	**174**	**173**	**1**

1.6) Other medium/long-term receivables

	2017	2016	Change
Amounts to:	**529**	**846**	**(317)**
made up as follows:			
Due from Tax Authorities	293	586	(293)
Other receivables	236	260	(24)
Total	**529**	**846**	**(317)**

Other medium/long-term receivables, of 529 thousand euros, include receivables from tax authorities for 293 thousand euros and receivables from third parties for 236 thousand euros. The first relate to tax receivables for investments in new capital goods (pursuant to Article 18 of Decree-Law No. 91 of 24 June 2014), which are used to offset three annual instalments of equal amounts as from 1 January 2016. The second are mainly related to caution deposits paid-in by the Group companies to third parties.

1.7) Deferred tax assets

	2017	2016	Change
Amounts to:	**8,929**	**11,448**	**(2,519)**
made up as follows:			
Depreciation of inventory	2,287	2,323	(36)
Depreciation of receivables	1,406	1,420	(14)
Accrual for risks and charges	4,028	4,332	(304)
Forex	2	280	(278)
Tax losses	85	1,802	(1,717)
Other temporary differences	1,121	1,291	(170)
Total	**8,929**	**11,448**	**(2,519)**

The table above gives details of the items involved by temporary differences on which prepaid tax assets have been calculated.
As at the reporting date, prepaid tax receivables total 8,929 thousand euros, making for a decrease of 2,519 thousand euros. This change includes the recovery of previous losses recognised by parent company Wizard S.r.l. in accordance with current tax law on the consolidation of taxable income.

Of these receivables, 2,818 thousand euros relate to the parent company; the remaining deferred tax assets primarily relate to temporary differences booked by Marzotto Wool Manufacturing S.r.l. for 2,075 thousand euros, by Biella Manifatture Tessili S.r.l. for 1,827 thousand euros, by Novà Mosilana for 355 thousand euros, by Marzotto Lab S.r.l. for 1,022 thousand euros, by the Linificio e Canapificio Nazionale group for 690 thousand euros and by other group companies.

Taking into consideration the Italian regulations on the unlimited carrying forward of tax losses, the outlook for business performance and participation in the national tax consolidation of parent company Wizard S.r.l. by the Italian companies of the group, the directors decided to recognise the advance taxation connected to the losses that may be carried forward by the companies.

Notes to the consolidated financial statements

1.8) Medium/long-term financial receivables

	2017	2016	Change
Amounts to:	**310**	**412**	**(102)**
made up as follows:			
Receivables from affiliates companies	167	275	(108)
Guarantee deposits (financial)	73	68	5
Other receivables	70	69	1
Total	**310**	**412**	**(102)**

Medium/long-term financial receivables include a loan granted by subsidiary Uab Lietlinen to affiliate UAB Linestus, which is 50% owned.

2. Assets held for sale/discontinued operations

The item includes the equity investment in the affiliate Aree Urbane S.r.l. in liquidation, fully impaired in previous years.

3.1) Inventory

	2017	2016	Change
Amounts to:	**143,014**	**129,690**	**13,324**
and can be broken down as follows:			
Raw, ancillary and consumable materials	42,346	40,000	2,346
Unfinished, semi-finished goods and work in progress	45,204	43,317	1,887
Finished products and goods for resale	55,464	46,373	9,091
Total	**143,014**	**129,690**	**13,324**

Inventory of raw materials, semi-finished goods and finished products is measured at the lesser of the purchase or production cost (determined according to the FIFO method) and the presumed net realisable value. Inventory of consumables is measured at the lower of cost (determined using the weighted average cost method) and the presumed net realisable value.

The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.

The **"Inventories"** item shows a net increase of 13,324 thousand euros on the previous year. The breakdown and change in the item is as follows:

- inventories in the Wool Fabrics sector for 98,664 thousand euros (86,748 thousand euros as at 31 December 2016);
- inventories in the Sundry Textile sector for 44,137 thousand euros (42,818 thousand euros as at 31 December 2016);
- inventories in the other/sundry sector for 213 thousand euros (124 thousand euros as at 31 December 2016).

Notes to the consolidated financial statements

3.2) Trade receivables

	2017	2016	Change
Amounts to:	**60,206**	**68,017**	**(7,811)**

and refers to:

	2017		2016	
	Amount	%age	Amount	%age
Active customers receivables	62,659	*100.0*	71,005	*100.0*
- Bad debt provision	(4,052)	*(6.5)*	(4,307)	*(6.1)*
= Net active customers receivables	**58,607**	*93.5*	**66,698**	*93.9*
Bad debt	3,091	*100.0*	2,563	*100.0*
- Bad debt provision	(2,213)	*(71.6)*	(1,992)	*(77.7)*
= Net bad debt	**878**	*28.4*	**571**	*22.3*
Receivables from parent companies	**33**	*100.0*	**=**	=
Receivables from affiliates	**688**	*100.0*	**748**	*100.0*
Total face value of receivables	66,471	*100.0*	74,316	*100.0*
- Bad debt provision	(6,265)	*(9.4)*	(6,299)	*(8.5)*
Net receivables from customers	**60,206**	*90.6*	**68,017**	*91.5*

Trade receivables total 60,206 thousand euros, net of the provision for doubtful debt of 6,265 thousand euros (provision of 6,299 thousand euros at 31 December 2016).

The value of the provision booked is considered appropriate in terms of bringing the nominal value of receivables in line with the presumed realisable value and is consistent with the provisions of the reference accounting standard. This provision was determined by performing a timely analysis of all positions suggesting a risk of doubtful recovery and of all positions relating to disputed receivables, considering the current market position.

In order to provide complete information, please note that as at the reporting date, the impact of the transfer of receivables without recourse is 30,334 thousand euros (25,898 thousand at the end of 2016).

We believe that the book value of the trade receivables, settled under normal market conditions, approximates their fair value.

Trade receivables by geographical area are shown in the table below:

	Italy	Other European Countries	North America	Asia	Other Countries	Total
Towards clients	38,171	13,127	3,824	7,703	2,925	65,750
Towards parent companies	33	=	=	=	=	33
Towards affiliates	355	154	=	=	179	688
Gross receivables	**38,559**	**13,281**	**3,824**	**7,703**	**3,104**	**66,471**

Trade receivables from affiliates relate to:

	2017	2016	Change
Tintoria di Verrone S.r.l.	16	8	8
Uab Lievilna	154	266	(112)
Mediterranean Wool Industries CO. S.A.E.	179	146	33
Ratti S.p.A.	278	266	12
Mascioni S.p.A.	61	62	(1)
Total	**688**	**748**	**(60)**

Trade receivables from affiliates result from business relations and are settled under normal market conditions.

Notes to the consolidated financial statements

3.3) Other receivables

	2017	2016	Change
Amounts to:	**14,964**	**19,075**	**(4,111)**
made up as follows:			
Due from Tax Authorities	7,314	7,728	(414)
Other receivables	6,299	10,115	(3,816)
Accrued income and prepaid expenses	1,351	1,232	119
Total	**14,964**	**19,075**	**(4,111)**

The amount of the item **Other receivables** is 14,964 thousand euros; below are the main items comprising this value.

Receivables from tax authorities relate to:

	2017	2016	Change
Added value tax	2,784	3,132	(348)
Other taxes and interest	4,530	4,596	(66)
Total	**7,314**	**7,728**	**(414)**

In detail, “*Receivables from tax authorities for VAT*”, amounting to 2,784 thousand euros, comprise 370 thousand euros for the parent company, 805 thousand euros for Marzotto Wool Manufacturing S.r.l., 35 thousand euros for Marzotto Lab S.r.l., 311 thousand euros for the Linificio Group, 853 thousand euros for Novà Mosilana a.s., 129 thousand euros for Sametex spol s r. o, 8 thousand euros AB Liteksas, 266 thousand euros for Biella Manifatture Tessili S.r.l., 2 thousand euros for Le Cotonerie S.r.l. and 5 thousand euros for Ambiente Energia S.r.l.

Other tax and interest, amounting to 4,530 thousand euros, includes receivables for IRAP, IRES and other receivables from tax authorities.

Sundry receivables amount to 6,299 thousand euros and mainly include receivables from parent company Wizard S.r.l. as a result of the joining by some Group companies of the tax consolidation scheme for 2,064 thousand euros, receivables relating to the valuation of hedging contracts on exchange rate risks for 2,024 thousand euros and receivables from employees for 729 thousand euros.

Accrued income and deferred expenses come to 1,351 thousand euros and mainly relate to the deferral of insurance costs.

Notes to the consolidated financial statements

3.4) Short-term financial assets and cash and cash equivalents

	2017	2016	Change
Amounts to:	**67,388**	**46,225**	**21,163**
and refers to:			
Financial assets			
Due from affiliates	1,001	1,138	(137)
Other financial receivables	2,586	63	2,523
Cash			
Bank and post-office accounts	63,589	44,835	18,754
Cash and cash equivalent on hand	212	189	23
Total	**67,388**	**46,225**	**21,163**

The total amount of the Group's **Short-term financial assets and cash and cash equivalents** is 67,388 thousand euros, compared with 46,225 thousand euros in the previous year.

More specifically, short-term financial assets include financial receivables from affiliates for 1,001 thousand euros, in respect of Mediterranean Wool Industries Co. S.A.E.

Liquid funds come to 63,801 thousand euros (45,024 thousand euros in 2016) and include temporary funds available on bank accounts and amounts held as cash for future use. The significant increase booked during the period compared with the previous year was reflected in an equally significant increase in debt to the credit system, as shown below.

We believe that the book value of cash and cash equivalents and short-term financial assets is in line with their fair value as at the reporting date.

Notes to the consolidated financial statements

4. Shareholders' equity

Shareholders' equity as at 31 December 2017 is 134,608 thousand euros, improving by 8,787 thousand euros on last year. The change is mainly due to the comprehensive period result, which is positive for 13,295 thousand euros, offset by the reduction in reserves for the distribution of dividends, for 8,000 thousand euros.

Share capital

Number of Shares	Share capital at 31.12.2016	Share capital change	Share capital at 31.12.2017
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2017, the fully subscribed and paid-up share capital was 40,000 thousand euros.

Legal reserve

Balances equity as at 31 December 2016	8,000
+/- change	=
Total	**8,000**

The **legal reserve**, amounting to 8,000 thousand euros, did not change during the year.

Riserva di conversione

Balances equity as at 31 December 2016	4,064
+/- change	1,804
Total	**5,868**

The Conversion reserve totals 5,868 thousand euros and records a rise of 1,804 thousand euros by virtue of the exchange differences deriving from the conversion into euros of the financial statements of the consolidated companies carried in currencies other than the euro.

Extraordinary reserve

Balances equity as at 31 December 2016	76
+/- change	=
Total	**76**

The **extraordinary reserve**, amounting to 76 thousand euros, did not change during the year.

Notes to the consolidated financial statements

Fair value reserve

	2017	2016	Change
Cash flow hedging/other	696	(743)	1,439
Total	**696**	**(743)**	**1,439**

To address exchange rate risks relating to purchases and sales in foreign currencies, the Group carries out hedging transactions to predefine the exchange rate on projected requirements (cash flow hedging).

Specifically, the following hedging instruments are used:

- foreign currency loans;
- forward sales and purchases in foreign currency.

These transactions fall within the scope of “cash flow hedges” insofar as they are stipulated to cover a risk of fluctuations in cash flows deriving from either an existing asset or liability or a future operation.

As established by the international accounting standards, the portion of the gain or loss relating to the measurement of such derivatives (mark to market) has been recognised net of the tax effect amongst items of comprehensive income, as the effectiveness of the hedge provided by these financial instruments has been proven.

The fair value reserve, positive for 696 thousand euros, includes the market value of these operations, net of the related tax effect.

The gain or loss recorded under shareholders' equity is booked to the income statement when the operation hedged affects it.

Below is a reconciliation of the shareholders’ equity and result of the parent company with the corresponding consolidated values:

	2017		2016	
	Income	**Net equity**	**Income**	**Net equity**
Marzotto S.p.A.	13,459	114,878	10,271	109,423
Elimination of shareholdings consolidated line-by-line	19,166	14,560	24,440	15,257
Valuations at equity	2,689	7,608	1,877	5,574
Intercompany dividends	(24,015)	=	(22,905)	=
Consolidation adjustments	1,996	(2,438)	(356)	(4,432)
Total	**13,295**	**134,608**	**13,327**	**125,821**

Notes to the consolidated financial statements

5.1) Long-term provisions

	2017	2016	Change
Amounts to:	**25,388**	**26,787**	**(1,399)**

and refer to:

	2017	2016	Change	due to		
Provision for staff term.indemnities				Accruals	Utilisation	Exch. Diff.
Amounts to:	**9,968**	**10,236**	**(268)**	2,955	(3,223)	=
and refer to:						
Marzotto S.p.A.	773	811	(38)	392	(430)	=
Marzotto Wool S.r.l.	5,345	5,442	(97)	1,094	(1,191)	=
Marzotto Lab S.r.l.	1,075	1,143	(68)	488	(556)	=
B.M.T. S.r.l.	2,064	2,099	(35)	799	(834)	=
Ambiente Energia S.r.l.	91	99	(8)	32	(40)	=
AB Liteksas	79	114	(35)	30	(65)	=
Linificio S.r.l.	541	528	13	120	(107)	=

Employee termination indemnities reflect the indemnity, calculated in accordance with current legislation, accrued by employees as at 31 December 2006, which will be liquidated when they leave. Where specific conditions apply, they may be partially advanced to employees during the course of their working life.
The provision for employee termination indemnities is treated from an accounting point of view as a defined benefit and as such is recalculated at the end of each period according to a statistical and actuarial criterion which also takes account of financial discounting.
This liability has been calculated according to the actuarial criterion of the “projected unit credit method” which “considers each working period as the source of one additional unit of right to the benefits and measures each unit separately to calculate the final obligation”.
The following parameters are used: an annual discount rate of 2.05% and an annual inflation index of 1.0%.
The booking of employee benefits is in accordance with IAS 19 for defined benefits plans; the company has decided to apply the amendments made by IAS 19 early, as from the financial statements as at 31 December 2012, with the consequent noting of changes in actuarial gains/losses amongst other items of the statement of comprehensive income, whilst financial gains/losses are noted on the income statement.
According to Law no. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, according to the instructions of the employee, to an appropriate supplementary pension fund. With these payments, the item for employee termination indemnities is no longer affected by provisions.

Pension	2017	2016	Change
and refer to:	**590**	**634**	**(44)**

The provision refers to a partially reversible supplementary pension fund set up in favour of a former director of the parent company.

Notes to the consolidated financial statements

Other provisions	2017	2016	Change	due to Accruals	Utilisation	Exch. Diff.
Amounts to:	**14,830**	**15,917**	**(1,087)**	759	(1,846)	=
and refer to:						
Agents' severance pay provision	4,561	4,446	115	153	(38)	=
Legal risk fund	2,830	2,993	(163)	=	(163)	=
Restructuring and relocation provisions	1,861	2,013	(152)	=	(152)	=
Tax provisions	88	834	(746)	=	(746)	=
Other provisions for risk/charges	5,490	5,631	(141)	606	(747)	=

Allocations to provisions for risks and charges during the year relate to management's best estimate of the contingent liabilities connected to legal disputes currently in progress. Where applicable, their estimate takes account of the opinion of legal advisors and other experts, previous experience in the history of the company and other entities in similar situations and the company's intention as regards taking further action.

Below are comments on the main provisions booked.

The **agents' indemnity provision**, allocated to cover any risks of the termination of agency contracts, was adjusted to take into account foreseeable contingent liabilities connected to contracts in existence at the end of the financial year. This provision was calculated on the basis of the provisions of law in force as at the reporting date, and the change during the year takes account of expected future cash flows.

The **provision for litigation risk** is intended to cover liabilities that may arise from litigation or other disputes. It includes an estimate of charges from litigation arising during the year and a review of allowances relating to cases which arose in previous years, updated based on the indications of our internal and external legal experts.

The **provision for restructuring and relocation** is mainly allocated to offset planned charges and costs related to the industrial reorganisation plan for some production operations.

The **tax provision** includes allowances made to cover losses that may be incurred by the company in connection with tax liabilities.

Other provisions for risks and charges include foreseeable risks following operations in relation to Aree Urbane S.r.l., in addition to expenses associated with the former Praia a Mare plant. Reference is made to the Report on operations for more information.

5.2) Other medium/long-term payables

	2017	2016	Change
Amounts to:	**76**	**1,301**	**(1,225)**
and refers to:			
Payables due to social security institutions	16	11	5
Payables to suppliers	60	1,290	(1,230)
Total	**76**	**1,301**	**(1,225)**

Other medium/long-term receivables included trade payables in 2016 for the purchase of 13 spinning wheels.

Notes to the consolidated financial statements

5.3) Deferred taxes payables

	2017	2016	Change
Amounts to:	**5,773**	**4,658**	**1,115**
and can be broken down as follows:			
Tangible and intangible assets differences	3,937	4,346	(409)
Other temporary differences	1,836	312	1,524
Total	**5,773**	**4,658**	**1,115**

This item includes deferred taxes reported by the consolidated companies, mainly attributable to the difference between depreciation and amortisation based on tax rates and on the useful life of the asset.

5.4) Medium/long term financial payables

	2017	2016	Change
Amounts to:	**66,217**	**63,083**	**3,134**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	65,990	62,772	3,218
Other medium/long-term debt	227	311	(84)
Total	**66,217**	**63,083**	**3,134**

Medium/long-term financial payables are financial liabilities due to banks and other lenders maturing beyond 12 months.

As at the reporting date, the portion due within twelve months is reclassified to current financial liabilities.

More specifically, the medium/long-term loans item, which amounted to 65,990 thousand euros as at 31 December, consists of the non-current portion of loans and breaks down as follows:

- Banco BPM loan, nominal value 6,000 thousand euros, residual payable of 5,250 thousand, of which 3,750 thousand euros due beyond one year;
- Mediocredito Italiano loan, nominal value 5,000 thousand euros, residual payable of 4,167 thousand, of which 3,056 thousand euros due beyond one year;
- Banco Popolare di Sondrio loan, nominal value 3,000 thousand euros, residual payable of 3,000 thousand, all of which due beyond one year;
- Banca Popolare di Bergamo loan, nominal value 7,500 thousand euros, residual payable of 7,500 thousand euros, all of which due beyond one year;
- Banco Popolare di Sondrio loan, nominal value 5,000 thousand euros, residual payable of 3,589 thousand euros, of which 2,587 thousand euros due beyond one year;
- Banco Popolare di Milano loan, nominal value 20,000 thousand euros, residual payable of 7,594 thousand euros, of which 2,544 thousand euros due beyond one year;
- Banco Friuladria loan, nominal value 5,000 thousand euros, residual payable of 5,000 thousand euros, of which 4,000 thousand euros due beyond one year;
- Banca Nazionale del Lavoro loan, nominal value 25,000 thousand euros, residual payable of 12,188 thousand euros, of which 6,562 thousand euros due beyond one year;
- Mediocredito Italiano loan, nominal value 10,000 thousand euros, residual payable of 8,333 thousand euros, of which 6,111 thousand euros due beyond one year;
- Credito Emiliano loan, nominal value 4,000 thousand euros, residual payable of 2,670 thousand euros, of which 1,337 thousand euros due beyond one year;
- Banco BPM loan, nominal value 4,000 thousand euros, residual payable of 3,500 thousand euros, of which 2,500 thousand euros due beyond one year;
- Banca Popolare di Bergamo loan, nominal value 7,500 thousand euros, residual payable of 7,500 thousand euros, all of which due beyond one year;
- Banca Popolare dell'Emilia Romagna loan, nominal value 5,000 thousand euros, residual payable of 2,522 thousand euros, long-term portion 1,267 thousand euros;
- Friuladria Credit Agricole loan, nominal value 4,000 thousand euros, residual payable of 4,000 thousand euros, long-term portion 3,200 thousand euros;

- Banca Nazionale del Lavoro loan, nominal value 5,000 thousand euros, residual payable of 4,063 thousand euros, long-term portion 2,188 thousand euros;
- Credito Emiliano loan, nominal value 3,000 thousand euros, residual payable of 2,002 thousand euros, long-term portion 1,002 thousand euros;
- Biver Banca loan, nominal value 5,000 thousand euros, residual payable of 5,000 thousand euros, all of which due beyond one year;
- VUB Bank loan, nominal value 41,000 thousand Czk, residual payable of 41,000 thousand Czk, of which 1,204 thousand euros due beyond one year;
- Banca Popolare di Bergamo loan, nominal value 10,000 thousand euros, residual payable of 5,028 thousand euros, of which 1,682 thousand euros due beyond one year.

7.1) Trade payables and other payables

	2017	2016	Change
Amounts to:	**136,726**	**144,213**	**(7,487)**
and can be broken down as follows:			
Trade payables	102,878	103,726	(848)
Trade payables due to affiliates	524	1,503	(979)
Advance payments received	855	1,033	(178)
Payables due to Inland Revenue	4,235	4,714	(479)
Payables due to social security institutions	3,756	3,600	156
Payables due to employees	11,589	12,011	(422)
Other payables	11,345	15,976	(4,631)
Accrued liabilities and deferred income	1,544	1,650	(106)
Total	**136,726**	**144,213**	**(7,487)**

Trade payables are due within the year, and pertain to debts for the purchase of goods and services relating to ordinary operations and settled under normal market conditions.

Trade payables to affiliates relate to:

	2017	2016	Change
Mediterranean Wool Industries Co. S.A.E.	251	267	(16)
Pettinatura di Verrone S.r.l.	251	342	(91)
Uab Lietvilna	=	543	(543)
Tintoria di Verrone S.r.l.	22	351	(329)
Total	**524**	**1,503**	**(979)**

Advance payments from customers refer to down payments received from customers on supplies.

[Notes to the consolidated financial statements]

Payables to tax authorities can be broken down as follows:

	2017	2016	Change
Taxes withheld	2,628	2,523	105
Income taxes	613	821	(208)
Regional manufacturing tax	238	587	(349)
Value added tax	13	10	3
Other amounts due to Inland Revenue	742	773	(31)
Total	**4,235**	**4,714**	**(479)**

Other payables to tax authorities, in the amount of 4,235 thousand euros, decreased by 479 thousand euros.

Payables to social security institutions relate to:

	2017	2016	Change
INPS	2,509	2,359	150
Other Italian institutions	552	628	(76)
Foreign social security agencies	695	613	82
Total	**3,756**	**3,600**	**156**

Payables to social security institutions reflect non-matured positions at the end of the financial year, duly paid upon maturity.

Payables to other institutions include amounts due to supplementary pension funds.

Payables to employees can be broken down as follows:

	2017	2016	Change
December salaries paid in January	2,555	2,621	(67)
Staff termination indemnities paid after year-end	28	237	(209)
Deferred salaries	8,610	8,796	(186)
Miscellaneous amounts due	396	356	40
Total	**11,589**	**12,011**	**(422)**

Other payables of 11,345 thousand euros mainly include payables to parent company Wizard S.r.l. for dividends resolved upon by the Shareholders' Meeting held in December 2017, for 8,000 thousand euros, and payables to parent company Wizard S.r.l. as a result of the adherence of certain Group companies to the tax consolidation scheme, for 2,954 thousand euros.

Accrued liabilities and deferred income include 474 thousand euros in capital account contributions granted by local public entities to the subsidiary Filature de Lin Filin S.A.

Notes to the consolidated financial statements

7.2) Short-term financial payables

	2017	2016	Change
Amounts to:	**79,089**	**58,933**	**20,156**
and can be broken down as follows:			
Payables due to bank and other lenders	76,611	55,354	21,257
Secured financing received	2,398	3,500	(1,102)
Other amounts due to third parties	80	79	1
Total	**79,089**	**58,933**	**20,156**

Short-term financial payables, amounting to 79,089 thousand euros at the reporting date, include payables to banks and other lenders for 76,611 thousand euros for the use of facilities and the current portion of medium/long-term loans.

Collateralised loans, amounting to 2,398 thousand euros, relate to a short-term collateralised loan agreement entered into by subsidiary Filature De Lin Filin S.A.

Below is a breakdown of the net financial position as at 31 December 2017, showing changes occurring during the year in question.

Net financial position

	2017	2016	Change
Amounts to:	**(77,608)**	**(75,379)**	**(2,229)**
and can be broken down as follows:			
1.8 Long term financial receivables	310	412	(102)
3.4 Current financial assets	67,388	46,225	21,163
5.4 Long term financial payables	(66,217)	(63,083)	(3,134)
7.2 Current financial payables	(79,089)	(58,933)	(20,156)
Total	**(77,608)**	**(75,379)**	**(2,229)**

The cash flow generated from operations resulted in a deterioration of 2,229 thousand euros in the net financial position, taking net debt to 77,608 thousand euros.

[Notes to the consolidated financial statements]

Contractual commitments and guarantees (memorandum accounts)

Comments on the memorandum accounts and commitments at 31 December 2017 are provided below:

"Guarantees to subsidiaries and affiliates" were issued:

- by the parent company to subsidiary Marzotto Lab S.r.l. for 42,850 thousand euros for transfers of receivables without recourse;
- by the parent company to subsidiary Marzotto Lab S.r.l. for 23,500 thousand euros to guarantee loans;
- by the parent company to subsidiaries Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. for 54,000 thousand euros for lines of credit;
- by the parent company to subsidiary Linificio e Canapificio Nazionale S.r.l. for 2,000 thousand euros for transfers of receivables without recourse;
- by the parent company to Mediterranean Wool Industries Co. S.A.E. to guarantee loans granted for 1,650 thousand euros;
- to other subsidiaries/affiliates to guarantee loans for 8,794 thousand euros and to guarantee miscellaneous securities for 357 thousand euros.

"Guarantees received from third parties" were issued:

- to the subsidiaries/affiliates for 554 thousand euros as a guarantee for miscellaneous securities;
- to the parent company to guarantee miscellaneous securities for 122 thousand euros.

"Foreign currency/interest rate hedging agreements" refers to forward purchasing agreements for 75,012 thousand euros and forward sale agreements for 31,133 thousand euros.

As of 31 December 2017, currency forward purchasing contracts totalled 34,130 thousand US dollars, with an equivalent value of 29,996 thousand euros, and 14,900 thousand Japanese yen, with an equivalent value of 1,207 thousand euros. Currency forward purchase contracts amount to 1,185,000 thousand CZK, equating to 45,328 thousand euros, 43,950 thousand AUD, equating to 28,929 thousand euros, and 900 thousand USD, equating to 755 thousand euros.
The fair value of currency forward sale and purchase contracts at the balance sheet date, which was positive for 2,167 thousand euros, was determined on the basis of quotes provided by the banks.

Notes to the consolidated financial statements

For comments on the income performance of the Group during the year in question, reference is made to the specific paragraph of the Report on Operations.

8. Net revenues

The table below gives the breakdown of **net revenues** according to business segment.

	2017	2016	% change
Wool Fabrics	241,059	238,271	1.2
Sundry Textiles	100,128	103,057	(2.8)
Other operations	17,182	17,570	(2.2)
Eliminations/adjustments	(11,170)	(11,734)	(4.8)
Total	**347,199**	**347,163**	**=**

Net revenues of 347,199 thousand were in line with the previous year.

The item "Net revenues" includes the following **other revenues**:

	2017	2016	% change
Amounts to:	**16,634**	**16,773**	**(0.8)**
and refers to:			
Real estate income	1,045	979	6.7
Contribution to operating expenses	363	262	38.5
Other revenues and miscellaneous income	15,226	15,532	(2.0)
Total	**16,634**	**16,773**	**(0.8)**

The item "Other revenues and miscellaneous income" mainly relates to the sale of semi-finished goods, manufacturing, and other services relating to ordinary operations.
The item "Operating contributions" includes grants for research and development accrued during the year for 248 thousand euros.

9. Cost of goods sold

	2017	2016	% change
Amounts to:	**(272,391)**	**(269,317)**	**1.1**
and refers to:			
Third party production	(17,302)	(17,848)	(3.1)
In house manufacturing	(93,430)	(91,299)	2.3
Purchase of raw materials, finished and semi-finished products	(150,995)	(152,879)	(1.2)
Change in stock of raw materials, finished and semi-finished products	9,731	15,380	(36.7)
Commercial exchange differences	1,838	(146)	n.c.
Other logistic and industrial costs	(22,233)	(22,525)	(1.3)
Total	**(272,391)**	**(269,317)**	**1.1**

Notes to the consolidated financial statements

Trade exchange rate differences are detailed below:

Trade exchange rate differences	2017	2016	% change
Amounts to:	**1,838**	**(146)**	**n.c.**
and refers to:			
Exchange rate on cash from customers in foreign currency	52	810	
Exchange rate gains on payments to suppliers in foreign currency	(777)	(656)	
Exchange rate on extinguishing of trade financing in foreign currency	2,563	(300)	
Total	**1,838**	**(146)**	**n.c.**

Exchange differences on hedging transactions are all related to hedging instruments put in place to determine the exchange rate based on estimates of net sales and purchasing volumes for each Group company and the currency exchange rate considered when the price lists are prepared. The Group does not enter into currency forward contracts for speculative purposes.

11. Marketing and product development costs

The breakdown of **commercial and development costs** produced as at 31 December 2017 is provided in the table below:

	2017	2016	% change
Amounts to:	**(38,584)**	**(37,898)**	**1.8**
and refers to:			
Variable sales costs	(12,341)	(12,157)	1.5
Losses, write-down, accounts receivables	(1,269)	(858)	47.9
Product research and development	(12,303)	(12,375)	(0.6)
Advertising, marketing and public relations	(2,805)	(2,710)	3.5
Other fixed sales and marketing costs	(9,866)	(9,798)	0.7
Total	**(38,584)**	**(37,898)**	**1.8**

Variable selling costs of 12,341 thousand euros mainly include:

- premiums, commission and agent contributions for 7,370 thousand euros;
- transport and transport insurance costs for 4,948 thousand euros;
- costs for royalties and agent indemnities for 23 thousand euros.

Losses, impairment and credit management, amounting to 1,269 thousand euros, includes the change in provisions for doubtful debt and losses on loans recorded during the period (for +32 thousand euros), insurance costs (for -650 thousand euros) and other credit management expenses (for -651 thousand euros).

“Other fixed commercial costs” (9,866 thousand euros) mainly include commercial staff costs, expenses incurred for travel and transfers, research and development costs and other minor expenses.

12. General and administrative costs

	2017	2016	% change
Amounts to:	**(18,249)**	**(18,677)**	**(2.3)**

General and administrative costs as at 31 December 2017 mainly include payroll costs (around 9,988 thousand euros), consultancy costs and fees (legal, administrative and other minor), third-party costs (2,128 thousand euros), insurance expenses (534 thousand euros) and maintenance, utilities and transport costs (5,599 thousand euros).

Notes to the consolidated financial statements

13. Other income and expenses

	2017	2016	% change
Amounts to:	**(1,284)**	**(536)**	**n.c.**
and refers to:			
Gain on disposal of tangible and intangible assets	781	1,053	
Loss on disposal of tangible and intangible assets	(89)	(93)	
Allocation/use to legal risk fund and future charges	(642)	(591)	
Other income/charges	(1,334)	(905)	
Total other income/charges	**(1,284)**	**(536)**	**n.c.**

The balance of Other income and expenses is negative for 1,284 thousand euros and mainly consists of net capital gains realised on asset sales for 692 thousand euros, with the remainder relating to income components accrued in previous years or whose source is extraneous to the ordinary management of the company.

Notes to the consolidated financial statements

The table below provides a breakdown of EBIT by business segment.

14. EBIT

	2017	2016	% change
Amounts to:	**16,691**	**20,735**	**(19.5)**
and refers to:			
Wool Fabrics	17,006	21,790	(22.0)
Sundry Textiles	(1,033)	(2,386)	(56.7)
Other operations	656	1,225	(46.4)
Eliminations/Adjustments	62	106	(41.5)
Total	**16,691**	**20,735**	**(19.5)**

EBIT amounts to 16,691 thousand euros, down by 4,044 thousand compared with the previous reporting date.

Below are the details of payroll costs and depreciation and amortisation included in the EBIT calculation.

Payroll costs:

	2017	2016	% change
Amounts to:	**(79,872)**	**(79,346)**	**0.7**
and refers to:			
Wool fabrics	(50,741)	(48,548)	4.5
Sundry textiles	(20,455)	(21,552)	(5.1)
Other operations	(8,676)	(9,246)	(6.2)
Total	**(79,872)**	**(79,346)**	**0.7**

The trend in the active **workforcenumber of active** was as follows:

	Year End Staff			Average		
	31.12.2017	31.12.2016	% change	2017	2016	% change
Blue-collar workers	2,555	2,619	(2.4)	2,587	2,619	(1.2)
White-collar workers	621	612	1.5	615	614	0.2
Managers	37	36	2.8	36	36	=
Total	**3,213**	**3,267**	**(1.7)**	**3,238**	**3,269**	**(0.9)**

Depreciation and amortisation was as follows:

	2017	2016	% change
Amounts to:	**(15,361)**	**(14,789)**	**3.9**
and refers to:			
amortization of intangible fixed assets	(540)	(500)	
depreciation of tangible fixed assets	(14,821)	(14,289)	

Notes to the consolidated financial statements

15. Net financial expenses

	2017	2016	% change
Amounts to:	**(1,352)**	**(1,473)**	**(8.2)**
and refers to:			
Financial income			
Interests received from affiliates	23	26	(11.5)
Interests received from banks	86	99	(13.1)
Interests received from other	7	35	(80.0)
Exchange rate gains on financial transactions	2,330	47	>100,0
Total financial income	**2,446**	**207**	**>100,0**
Financial charges			
Interests payable to banks	(534)	(541)	(1.3)
Bank charges	(547)	(622)	(12.1)
Exchange rate losses on financial transactions	(2,599)	(415)	>100,0
Other financial charges	(118)	(102)	15.7
Total financial charges	**(3,798)**	**(1,680)**	**>100,0**
Total	**(1,352)**	**(1,473)**	**(8.2)**

The balance of financial operations as at 31 December 2017 is negative for 1,352 thousand euros, improving by 121 thousand euros.

In addition, it should be noted that interest income from affiliates related to Mediterranean Wool Industries for 18 thousand euros, Uab Lietvilna for 3 thousand euros and Uab Linestus for 2 thousand euros.

16. Dividends from unconsolidated equity investments and valuations at equity

	2017	2016	% change
Amounts to:	**2,690**	**1,872**	**43.7**
and refer to:			
Valuations to equity			
Ratti Group	2,017	1,213	
Uab Linestus	=	(5)	
Pettinatura di Verrone S.r.l.	108	90	
Uab Lietvilna	554	439	
Tintoria di Verrone S.r.l.	11	135	
Total valuations to equity	**2,690**	**1,872**	**43.7**
Total	**2,690**	**1,872**	**43.7**

The above equity investments are measured according to the equity method; consequently, their book value has been aligned to incorporate the results for the year.

Notes to the consolidated financial statements

18. Other financial income and expenses

	2017	2016	% change
Amounts to:	**(23)**	**(86)**	**(73.3)**
and refers to:			
Adjustment TFR IAS 19	(10)	(86)	
Other income/charges	(13)	=	
Total	**(23)**	**(86)**	**(73.3)**

Other financial income and expenses, amounting to -23 thousand euros, include the financial component of the adjustment of employee termination indemnities pursuant to IAS 19.

20. Income taxes

	2017	2016	% change
Amounts to:	**(4,711)**	**(7,721)**	**(39.0)**
and refer to:			
Current taxes	(3,680)	(5,985)	
Deferred taxes receivable	(205)	(2,490)	
Deferred taxes payable	(1,209)	(330)	
Other variations	383	1,084	
Total	**(4,711)**	**(7,721)**	**(39.0)**

Estimated taxes for 2017 were negative for 4,711 thousand euros, down by 3,010 thousand euros on the previous year.

The reconciliation of the theoretical tax rate with the effective tax rate on income before taxes is set out in the table below.

	2017		2016	
	Amount	%age	Amount	%age
Pre-tax profit	**18,006**		**21,048**	
Theoretical taxes	(4,321)	(24.0)	(5,788)	(27.5)
IRAP	(623)	(3.5)	(1,024)	(4.9)
Deferred taxes	(1,414)	(7.9)	(2,820)	(13.3)
Other variations	1,647	9.1	1,911	9.1
Total taxes	**(4,711)**	**(26.2)**	**(7,721)**	**(36.7)**

[Notes to the consolidated financial statements]

Equity investments held directly or indirectly by the parent company

Below is the list of equity investments in which the parent company directly or indirectly holds more than 10% of the voting shares as at 31 December 2017. All equity investments represent ownership:

Company name	Head office	Direct investor	% owned	% group owned
Le Cotonerie S.r.l.	Valdagno (I)	Marzotto S.p.A.	100.00%	100.00%
Ambiente Energia S.r.l.	Schio (I)	Marzotto S.p.A.	100.00%	100.00%
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	Marzotto S.p.A.	100.00%	100.00%
Aree Urbane S.r.l. in liquidation	Milano (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milano (I)	Marzotto S.p.A.	14.18%	14.18%
Marzotto Wool Manufacturing S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
Biella Manifatture Tessili S.r.l.	Valdagno (I)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Novà Mosilana a.s.	Brno (CZ)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Pettinatura di Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	15.00%	15.00%
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	Marzotto Wool Manufacturing S.r.l.	30.00%	30.00%
Tintoria di Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	25.00%	50.00%
Marzotto Lab S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
AB Liteksas	Kaunas (LT)	Marzotto Lab S.r.l.	99.97%	99.97%
Sametex spol s r.o	Kraslice (CZ)	Marzotto Lab S.r.l.	100.00%	100.00%
Girmes International G.m.b.h.	Tonisvorst (DE)	Marzotto Lab S.r.l.	100.00%	100.00%
Tintoria di Verrone S.r.l.	Verrone (I)	Marzotto Lab S.r.l.	25.00%	50.00%
UAB Lietvilna	Kaunas (LT)	Marzotto Lab S.r.l.	50.00%	50.00%
Marzotto Textile N.V.	Amsterdam (NL)	Marzotto Wool S.r.l./Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Marzotto Int. Trad. (Shanghai) Co. Ltd.	Shanghai (RPC)	Marzotto Textile N.V.	100.00%	100.00%
Marzotto Textiles USA Inc.	New York (USA)	Marzotto Textile N.V.	100.00%	100.00%
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Filature de Lin Filin S.A.	Chbedda (TN)	Linificio e Canapificio Nazionale S.r.l.	100.00%	100.00%
UAB Lietlinen	Kaunas (LT)	Linificio e Canapificio Nazionale S.r.l.	100.00%	100.00%
UAB Linestus in liquidation	Kaunas (LT)	UAB Lietlinen	50.00%	50.00%
Ratti S.p.A.	Guanzate (I)	Marzotto S.p.A.	**33.90%**	**33.90%**
Creomoda S.a.r.l.	Soussa (TN)	Ratti S.p.A.	76.00%	25.76%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	33.90%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	33.90%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	33.90%

Notes to the consolidated financial statements

Related parties

It is in the economic interest of the Parent company to carry out operations with related parties, to realise the existing synergies within the Group, especially with reference to the integration of production and sales, the efficient use the acquired knowledge, the rationalisation of the use of central structures and financial resources.
All relations with subsidiaries, affiliates and other related parties, whether in relation to the exchange of goods and services or to financial operations, are carried out at arm's length.
The relations with subsidiaries have been eliminated from the consolidated financial statements. Relations with affiliates are shown in the financial statements and the relevant notes.

Directors and Statutory Auditors

Amounts paid to the Directors and Statutory Auditors of the Marzotto Group:

	Office		
(thousands of euro)	Directors	Auditors	Total
Remuneration	995	40	**1,035**

In the year in question, compensation for the supervisory body of 18 thousand euros was recognised.

Independent Auditors

Remuneration due for the financial year for services provided by the Independent Auditors

		Company	
(thousand of euro)	Marzotto S.p.A.	Subsidiaries	Total
Auditing services	16	220	**236**

Other information

During the financial year there were not atypical or unusual transactions.

Events after the date of these financial statements

During the period following 31 December 2017, no events are recorded as worthy of note or potentially able to significantly influence the data contained in this document.

Segment reporting

The tables below provide segment reporting information.

Notes to the consolidated financial statements

Segment reporting 2017

(thousands of euro)

Segment reporting Income statement	Wool Fabrics	Sundry Textiles	Other Operations	Eliminations	Total
Other revenues	235,796	94,719	6,100	10,584	**347,199**
Inter-sector revenues	5,263	5,409	11,082	(21,754)	**=**
Totale revenues	**241,059**	**100,128**	**17,182**	**(11,170)**	**347,199**
Sector costs	(224,053)	(101,161)	(16,526)	11,232	**(330,508)**
of which depreciation & amortization	(10,037)	(3,600)	(1,772)	48	**(15,361)**
of which other non monetary costs	(297)	(130)	(29)	=	**(456)**
Operating income	**17,006**	**(1,033)**	**656**	**62**	**16,691**
Financial charges net	=	=	=	=	**(1,352)**
Dividends from non cons. equity invest. and valuation to equity	=	=	=	=	**2,690**
Other financial income/charges	=	=	=	=	**(23)**
Pre-tax profit	**=**	**=**	**=**	**=**	**18,006**
Taxes	=	=	=	=	**(4,711)**
Net profit	**=**	**=**	**=**	**=**	**13,295**
Net profit/loss for discontinued operations	=	=	=	=	**=**
Net profit (before minority shareholders)	**=**	**=**	**=**	**=**	**13,295**
Minority shareholders	=	=	=	=	**=**
Net profit	**=**	**=**	**=**	**=**	**13,295**

Segment reporting Balance sheet	Wool Fabrics	Sundry Textiles	Other Operations	= Eliminations	Total
Assets by segment	119,563	56,628	26,221	152,503	**354,915**
Equity investments in subsidiaries companies	92,954	53,947	93,351	(240,252)	**=**
Equity investments in affiliated companies	4,270	4,489	16,505	=	**25,264**
Non-allocated assets	=	=	=	=	**67,698**
Total assets	**216,787**	**115,064**	**136,077**	**(87,749)**	**447,877**
Shareholders' equity	=	=	=	=	**134,608**
Liabilities by segment	111,231	37,937	24,387	(5,592)	**167,963**
Non-allocated liabilities	=	=	=	=	**145,306**
Total liabilities and shareholders' equity	**111,231**	**37,937**	**24,387**	**(5,592)**	**447,877**
Investments	**11,363**	**3,280**	**1,044**	**=**	**15,687**

Information by geographical area	Italy	Other Europ. Countries	North America	Asia	Other Countries	Total
Revenues	108,136	159,942	16,553	50,123	12,445	**347,199**
Fixed assets	308,572	128,324	249	618	10,113	**447,877**
Investments	8,996	6,271	=	=	420	**15,687**

Notes to the consolidated financial statements

Segment reporting 2016

(thousands of euro)

Segment reporting Income statement	Wool Fabrics	Sundry Textiles	Other Operations	Eliminations	Total
Other revenues	233,704	97,651	6,134	9,674	**347,163**
Inter-sector revenues	4,567	5,405	11,436	(21,408)	**=**
Totale revenues	**238,271**	**103,057**	**17,570**	**(11,734)**	**347,163**
Sector costs	(216,481)	(105,443)	(16,345)	11,840	**(326,429)**
of which depreciation & amortization	(9,576)	(3,585)	(1,702)	74	**(14,789)**
of which other non monetary costs	(17)	(149)	6	=	**(161)**
Operating income	**21,790**	**(2,386)**	**1,225**	**106**	**20,735**
Financial charges net	=	=	=	=	**(1,473)**
Dividends from non cons. equity invest. and valuation to equity	=	=	=	=	**1,872**
Other financial income/charges	=	=	=	=	**(86)**
Pre-tax profit	**=**	**=**	**=**	**=**	**21,048**
Taxes	=	=	=	=	**(7,721)**
Net profit	**=**	**=**	**=**	**=**	**13,327**
Net profit/loss for discontinued operations	=	=	=	=	**=**
Net profit (before minority shareholders)	**=**	**=**	**=**	**=**	**13,327**
Minority shareholders	=	=	=	=	**=**
Net profit	**=**	**=**	**=**	**=**	**13,327**

Segment reporting Balance sheet	Wool Fabrics	Sundry Textiles	Other Operations	Eliminations	Total
Assets by segment	108,933	64,065	5,852	176,185	**355,035**
Equity investments in subsidiaries companies	93,084	52,755	103,435	(249,274)	**=**
Equity investments in affiliated companies	4,140	3,924	15,060	=	**23,124**
Non-allocated assets	=	=	=	=	**46,637**
Total assets	**206,157**	**120,744**	**124,347**	**(73,090)**	**424,796**
Shareholders' equity	=	=	=	=	**125,821**
Liabilities by segment	115,409	43,445	23,386	(5,281)	**176,959**
Non-allocated liabilities	=	=	=	=	**122,016**
Total liabilities and shareholders' equity	**115,409**	**43,445**	**23,386**	**(5,281)**	**424,796**
Investments	**13,116**	**5,703**	**1,189**	**=**	**20,008**

Information by geographical area	Italy	Other Europ. Countries	North America	Asia	Other Countries	Total
Revenues	112,332	165,605	9,882	46,268	13,076	**347,163**
Fixed assets	278,408	129,692	261	446	15,989	**424,796**
Investments	8,153	11,402	=	=	453	**20,008**

Valdagno (VI), 23 March 2018

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
SERGIO TAMBORINI

Building a better working world

EY S.p.A.
Via San Crispino, 106
35129 Padova

Tel: +39 049 7707411
Fax: +39 049 7707428
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Sole Shareholder of
Marzotto S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Marzotto Group (the Group), which comprise the consolidated balance sheet as at December 31, 2017, the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated cash flow statement for the year end, the consolidated statement of changes in equity, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, 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.

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 the Company Marzotto S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Marzotto S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Building a better working world

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Marzotto S.p.A. are responsible for the preparation of the Report on Operations of Marzotto's Group as at December 31, 2017, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Marzotto's Group as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of Marzotto's Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Padova, April 13th 2018

EY S.p.A.
Signed by: Stefano Marchesin, partner

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

PARENT COMPANY: MARZOTTO S.p.A.

Company with Sole Shareholder - subject to management and coordination by Trenora S.r.l.

Tax ID and V.A.T. registration number 00166580241
REA Vicenza nr. 801
PEC: Marzotto@legalmail.it

Registered and Administrative office:

Largo S. Margherita, 1
36078 Valdagno (VI)
Tel. 0445 429411

Secondary offices:

Piovene Rocchette (VI), Via A. Rossi 50

Financial Statements as at 31 December 2017

MARZOTTO S.P.A.

MARZOTTO S.p.A.
Company with sole partner

Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

1836

MARZOTTO

GROUP

General information

Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

[Corporate management and shareholders]

Corporate management

Board of Directors
Chairman
Antonio Favrin [1]
Deputy Chairman
Andrea Donà dalle Rose [1]
Board Members
Andrea Guaccero
Donatella Ratti
Federica Favrin
Vittorio Marzotto
Chief Executive Officer
Sergio Tamborini [1]

1. Members of Executive Committee

Board of statutory auditors
Acting Auditors
Franco Corgnati - Chairman
Federico Giorgione
Marco Della Putta
Substitute Auditors
Paolo Corgnati
Stefano Rudelli

Indipendent auditors
EY S.p.A.

Shareholders

As at 31.12.2017 the share capital amounted to 40,000,000 Euros, totally owned by the Sole Shareholder Wizard S.r.l.

Report on operations

[Report on Operations]

Dear Shareholders,

The financial statements for the year ended 31 December 2017, submitted herewith for your approval, close recording income of 12,210 thousand euros and a profit of 13,459 thousand euros.

Standards for the preparation of the financial statements

Marzotto S.p.A.'s financial statements have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) and the related interpretations of the International Accounting Standards Board (IASB), approved by the European Commission and transposed into Italian law by Legislative Decree 38/2005.

Please see the explanatory notes for comments on the results of the financial statements. Below, please find information on the company's position and future outlook, as well as that required by current legislation.

General information

Marzotto S.p.A. is the parent company of the Marzotto Group, which is one of the main international players in the textile field, operating in the development, production and distribution of high-end wool fabrics (through the Marzotto Wool Manufacturing Group), cotton, wool yarns and linens, furnishing textiles, velvets (through the Marzotto Lab Group) and silk (with the Ratti Group).

[Main events of the year]

Before moving onto discuss the business of your Company in FY 2017, we would first note the key events that took place in the year just ended and this year.

Tax litigation

During 2015, parent company Marzotto S.p.A. had a general tax audit conducted on it by the Veneto regional tax authority, relating to direct tax, IRES, IRAP, VAT and tax substitute obligations, relative to the periods of 2011 and 2012.

This audit concluded with a formal report of findings issued on 5 June 2015, which highlighted some findings on transfer pricing matters and was followed by assessment notices.

The Company closed outstanding IRES issues with adhesion contracts signed on 1 June 2017 and a conciliation agreement signed on 27 July 2017 concerning IRAP. Following the signing of the aforementioned documents, the dispute ceased.

Litigation Praia a Mare

Beginning in 1999, some former employees and heirs of former employees at the Praia a Mare plant filed a motion with the public prosecutor through the Court of Paola, seeking criminal action against the persons in charge of the plant from the 1960s through 2004, allegedly for functional omissions that, because of safety conditions at the plant, allegedly caused death and serious injury to some employees.

After the judge of the same Court rejected three requests by the examining judge to close the case, in October 2009 and February 2010, the examining judge issued notices of completion of preliminary investigations, also for environmental crimes. In March 2011, Marzotto S.p.A. was served with the summons, pursuant to Article 83 of the Italian Code of Criminal Procedure, of the responsible officer who, according to the ordinary proceedings was jointly responsible for the payment of any damages.

In November 2013, by agreement with the other jointly liable parties, all financial claims lodged by natural persons involved in the criminal proceedings and all those who had taken civil action, were settled.

By sentence of March 2015, the Court of Paola ruled full acquittal of all defendants, because there was no case to answer. It was also established that the external area of the Praia a Mare plant, overlooking the sea, was to be returned, the area on which, by virtue of the order of the mayor of January 2007, Marzotto S.p.A. completed characterisation works in June 2016, whose outcomes, ascertained by the relevant technical bodies, confirmed that the area had not been polluted.

Following the appeal by the Public Prosecutor’s Office of Paola and the civil parties against the first-degree judgement, on 25 October 2017, the Court of Appeal of Catanzaro confirmed the judgement and on 1 February 2018 provided the relative grounds, stating, in a highly questionable manner, that a disaster had taken place although its timing could not be determined. The Catanzaro prosecutor’s office has filed an appeal with the Court of Cassation against the second-degree judgement. As these third-degree proceedings are still in their initial phase, no predictions can be made at this stage as to the outcome.

In October 2016, Marzotto S.p.A., in execution of the settlement agreement previously reached, transferred to the Municipality of Praia a Mare a portion of the property complex located in Praia a Mare; the Municipality waived all claims against Marzotto S.p.A.

In January 2017, the Company received the following notifications: (i) a premises inspection order issued by the public prosecutor's office to the Court of Paola as part of further criminal proceedings, for the inspection of the entire area of the purification plant and the interior of the Praia a Mare plant, and (ii) a number of civil suits filed with the Court of Paola by other former employees and heirs of former employees of the Praia a Mare plant, claiming that the alleged absence of safety conditions for the works carried out at the plant had caused death or serious injury to some employees.

With regard to the criminal proceedings, the judge of the Court of Paola accepted the request for a special evidentiary hearing made by the public prosecutor's office and in December 2017 investigative proceedings began. With regard to the civil proceedings, the judge is bringing together the individual proceedings in a single first hearing in July 2018. As all of the above proceedings are in their preliminary stages, it is currently not possible to predict their outcomes.

Dividend stripping

In 2010, in relation to the litigation against judgement no. 78/2010 passed down by Section 4ª of the Regional Tax Commission of Venice-Mestre of 21 September 2010, Marzotto S.p.A. was notified of entry to a taxpayers' list and the relative tax demand for a total of 28.2 million euros, subsequently reduced to 16.2 million euros following a decision by the competent bodies on the basis of appeals filed by the companies concerned, namely Marzotto S.p.A. and, due to the partial proportionate demerger of July 2005, Valentino Fashion Group S.p.A., acting jointly and severally and with respective responsibility for 1/3 and 2/3 of the aforementioned tax liability.

In January 2014, Marzotto S.p.A. and Valentino Fashion Group S.p.A. signed a settlement agreement to define, inter alia, joint and several liability with regard to the payment of the aforementioned collection notice and the dispute in question. Under this agreement, Marzotto S.p.A. has agreed to settle the residual tax debt in a single payment, benefiting from the concessions provided for by the 2014 Stability Law and releasing Valentino Fashion Group S.p.A. from the relative obligations. Valentino Fashion Group S.p.A in turn waived any claims made against Marzotto S.p.A., abandoning all civil proceedings brought before the Court of Milan.

Because the Italian tax authorities have filed an appeal with the Court of Cassation against Judgement No. 78/2010, with the entry into force of Decree Law No. 50/2017, which introduced the possibility of a facilitated settlement of the disputes with the tax authorities still outstanding on 24 April 2017, pending at every status and level of proceedings, including the case with the Court of Cassation, the Company considered it appropriate to agree to this settlement, as there are no cash effects, in order to eliminate completely the inherent risk of any ruling.

Income statement and balance sheet highlights

The table below contains summaries of the Company's main income statement, balance sheet, and financial position items for the year ended 31 December 2017.

(in millions of euro)	2017	2016	change	change %
Net revenues	**12.2**	**12.5**	**(0.3)**	**- 2.4%**
Operating income	(0.4)	0.2	(0.6)	n.c.
% of net revenues	*(3.3%)*	*1.7%*		
EBITDA [1]	**0.9**	**1.4**	**(0.5)**	**- 37.1%**
% of net revenues	*7.2%*	*11.4%*		
Income before taxes	13.9	11.0	2.9	+ 26.4%
% of net revenues	*113.9%*	*87.8%*		
Net income	**13.5**	**10.3**	**3.2**	**+ 31.1%**
% of net revenues	*110.6%*	*81.8%*		
Net working capital	**(5.6)**	**(0.3)**	**(5.3)**	**>100%**
Net employed capital	**110.8**	**117.3**	**(6.5)**	**- 5.5%**
Net financial position	**(4.1)**	**7.9**	**(12.0)**	**n.c.**
Investments for the period	0.4	0.7	(0.3)	**- 42.9%**
Active staff: persons	99	93	6	**+ 6.5%**

	2017	2016	change
ROI	-0.4%	0.2%	-0.5%
ROE	11.7%	9.4%	2.3%
ROS	-3.3%	1.7%	-5.0%
Debt/Equity	-3.6%	7.2%	-10.8%
Capitalisation ratio	103.7%	93.3%	10.4%
Financial coverage rate of assets	99.8%	101.6%	-1.7%
Inventory rotation index	=	=	=
Number of days of credit to clients	133	112	21

Legend:

ROI: EBIT/Capital employed
ROE: Net result/Shareholders' equity
ROS: EBIT/Net revenues
Debt/Equity: Net financial position/Shareholders' equity
Capitalisation index: Ratio of shareholders' equity to capital employed net of operating liabilities.
Rate of financial coverage of fixed assets: Fixed assets + ML-term funds/Shareholders' equity + ML-term financial borrowing
Stock rotation index: Net inventory/Cost of goods sold x 360 days
Credit days to customers: Gross trade receivables/Net revenues x 360 days

(1). EBIT + Amortisation/depreciation.

Report on Operations

Income statement

The income statement is summarised below.

(in millons of euro)	2017		2016	
Net revenues	**12.2**	*100.0%*	**12.5**	*100.0%*
Cost of sales	(2.6)	*(21.3%)*	(2.7)	*(21.9%)*
Gross income	**9.6**	*78.7%*	**9.8**	*78.1%*
R&D and marketing costs	=	=	(0.1)	*(0.4%)*
General and administrative costs	(9.2)	*(75.4%)*	(9.5)	*(75.8%)*
Profit from core businesses	**0.4**	*3.3%*	**0.2**	*1.9%*
Non-recurring income/(charges)	(0.8)	*(6.6%)*	0.0	*(0.2%)*
Operating income	**(0.4)**	*(3.3%)*	**0.2**	*1.7%*
Net financial charges	(0.1)	*(0.8%)*	(0.1)	*(0.9%)*
Dividends	14.4	*118.0%*	10.9	*87.1%*
Other financial income/charges	(0.0)	=	(0.0)	*(0.1%)*
Income before taxes	**13.9**	*113.9%*	**11.0**	*87.8%*
Taxes	(0.4)	*(3.3%)*	(0.7)	*(6.0%)*
Net income	**13.5**	*110.6%*	**10.3**	*81.8%*

Net revenues

Net revenues achieved by the Company in FY 2017 come to 12.2 million euros and relate to the following businesses:

(in millions of euro)	2017		2016	
Holding and coordination	8.5	*69.7%*	8.8	*70.4%*
Real estate	1.2	*9.8%*	1.1	*8.8%*
Logistics	1.7	*13.9%*	1.7	*13.6%*
Other	0.8	*6.6%*	0.9	*7.2%*
Total	**12.2**	*100.0%*	**12.5**	*100.0%*

by geographical area

(in millions of euro)	2017		2016	
Italy	10.8	*88.5%*	11.0	*88.0%*
Other European Countries	1.4	*11.5%*	1.5	*12.0%*
Total	**12.2**	*100.0%*	**12.5**	*100.0%*

Operating profit

The result from ordinary operations as at 31 December 2017 was positive for 0.4 million euros, deriving from revenues achieved during the period of 12.2 million euros, net of the cost of goods sold (2.6 million euros) and general and administrative costs (9.2 million euros).

Non-recurring income and expenses

At the reporting date, the net balance of non-recurring operations totalled -0.8 million euros, compared with a substantially unchanged balance in 2016.

Net financial expenses

In FY 2017, the Company booked net financial expenses of 0.1 million euros, compared with 0.1 million euros a year earlier.

Dividends from investees

Dividends recognised and received by the parent company during the year amounted to 14.4 million euros and comprised 13.0 million in dividends approved by Marzotto Wool Manufacturing S.r.l., 0.5 million in dividends approved by Ambiente Energia S.r.l. and 0.9 million euros from the affiliate Ratti S.p.A.
In the previous year, the item amounted to 10.9 million euros and comprised 10.0 million in dividends approved by Marzotto Wool Manufacturing S.r.l. and 0.9 million euros from the affiliate Ratti S.p.A.

Income taxes

Marzotto S.p.A. and the subsidiaries Linificio e Canapificio Nazionale S.r.l., Biella Manifatture Tessili S.r.l., Le Cotonerie S.r.l., Ambiente Energia S.r.l., Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. opted for the national tax consolidation scheme, for which the parent company is Wizard S.r.l., and its effects are reflected in the results as of 31 December 2017.

The balance of tax operations for the period is negative for 0.4 million euros (-0.7 million as at 31 December 2016).

Net result

On the basis of the aforementioned analyses, net profit for the year was 13.5 million (deriving mainly from the 14.4 million in dividends previously described), compared with a net profit of 10.3 million in 2016.

Financial position

The Company’s balance sheet and financial position as at 31 December 2017 are summarised in the table below, compared with the corresponding amounts for the previous year.

(in millions of euro)	31.12.2017	31.12.2016
Net trade receivable	4.4	3.8
Other receivables	2.9	6.1
Inventory	=	=
Commercial suppliers	(1.7)	(1.7)
Other payables	(11.2)	(8.5)
A) Net working capital	**(5.6)**	**(0.3)**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyound 12 months	2.8	4.4
Equity investments	111.7	111.6
Tangible fixed assets	10.4	11.1
Intangible fixed assets	1.6	1.7
C) Net fixed assets	**126.5**	**128.8**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(9.9)**	**(10.3)**
E) Deferred taxes reserve	**(0.2)**	**(0.9)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**110.8**	**117.3**
Covered by:		
Short-term financial payables	4.8	7.7
Cash and short-term financial receivables	(10.6)	(6.2)
Medium/long term financial payables	1.7	6.4
Medium/long term financial receivables	=	=
G) Net borrowing	**(4.1)**	**7.9**
H) Shareholders' net equity	**114.9**	**109.4**
I) Total (G+H) as in F	**110.8**	**117.3**

Net capital employed

Capital employed, net of operating liabilities, came to 110.8 million euros, including net fixed assets of 126.5 million euros and provisions for employee termination indemnities and other non-financial medium/long-term liabilities of 10.1 million euros.

In detail, fixed assets include long-term receivables in the amount of 2.8 million euros, which represent prepaid tax receivables deemed likely to be recovered; investments for 111.7 million euros, which include the book value of investments in subsidiaries and affiliates (see paragraph 1.5 of the notes); fixed assets for 12.0 million euros, of which land and buildings for 5.8 million euros and plant, machinery and equipment (mainly relating to the logistics business of Piovene) for 4.6 million euros.

The item “Employee termination indemnities and other non-financial medium/long-term liabilities” includes the indemnity, calculated in accordance with current legislation, accrued by employees up until 31 December 2006 for 0.7 million euros; the pension provision for 0.6 million euros; the provision for restructuring and delocalisation for 1.9 million euros, intended to cover expenses connected with the plan to restructure some industrial activities; the provision for legal risks and disputes for 1.8 million euros, intended to cover liabilities that may ensue from legal and other disputes; and other provisions for risks and charges for 4.9 million euros, related to the foreseeable risks consequent to the operations relating to the company Aree Urbane S.r.l. and the plant at Praia a Mare.

Net borrowing

The Company's net borrowings were positive for 4.1 million euros at the balance sheet date, compared with a negative 7.9 million euros in 2016.

Shareholders’ equity

Shareholders' equity came in at 114.9 million euros, up 5.5 million euros on 2016. The change was due to the result for the period, as well as a decrease of 8.0 million euros due to the distribution of dividends to shareholder Wizard S.r.l.

To aid comprehension of the Company’s equity position, we should point out that the index measuring the ratio of own funds and net capital employed increased from 93.3% at the end of 2016 to 103.7% at the end of 2017.

[Equity investments]

Below are the main news and information on the performance of subsidiaries and affiliates. Transactions with subsidiaries and affiliates and other related parties are presented in the financial statements and the relevant notes.

Marzotto Wool Manufacturing Group

The main object of Marzotto Wool Manufacturing Group, with parent company Marzotto Wool Manufacturing S.r.l., which has its registered office in Valdagno (VI), is the development, production and distribution of high-end fabrics for men's and women's collections, mainly in wool, but also in wool blends and other fine fibres.

The Marzotto Wool Group includes subsidiaries Novà Mosilana a.s. (wholly owned), Biella Manifatture Tessili S.r.l. (wholly owned) and affiliates Tintoria di Verrone S.r.l. (25% owned), Pettinatura di Verrone S.r.l. (15% owned), Mediterranean Wool Industries SAE (30% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned).

The total turnover volume achieved in 2017 was 241.1 million euros, with EBIT of 17.0 million and a net profit of 11.6 million euros.

As regards the sales outlet market, Italy and the other European countries played a key role, respectively accounting for 22.9% and and 48.5% of total turnover. Reflecting the fact that part of its turnover with Asian destinations relates to US corporate groups, the final turnover figure for the North American market was 32.8 million, an increase of approximately 25% on 2016.

As concerns the breakdown of turnover by operative business unit, the Lanificio Gmf segment registered turnover of 122.0 million euros (50.6% of the total) and Biella Manifatture Tessili registered 103.9 million euros (43.1%) while Estethia/G.B. Conte closed the year with 14.7 million euros in sales (6.1%).

The table below shows turnover contribution and trends by brand.

Net revenues by business

(in millions of euro)	2017		2016	
Lanificio Gmf	122.0	*50.6%*	124.8	*52.4%*
Biella Manifatture Tessili	103.9	*43.1%*	98.9	*41.5%*
Estethia/G.B. Conte	14.7	*6.1%*	14.3	*6.0%*
Other	0.5	*0.2%*	0.3	*0.1%*
Total	**241.1**	*100.0%*	**238.3**	*100.0%*

[Equity investments]

Below are some comments on the trends in the main segments in which the Marzotto Wool Manufacturing Group operates.

LANIFICIO GMF

The turnover volume achieved in 2017 was broadly in line with 2016; however, the margin was partially affected by the gradual increase in the cost of raw materials.

The significant business volumes recorded during the year mainly relate not only to the quality of the product and service offered, which has always been a distinctive feature of **Lanificio GMF** in the market in which it operates, but also to the correct product mix offered in the collections. More specifically, the diverse nature of its collections means that the Group can offer international players both fabrics suitable for classic clothing and fabrics that are more fashion-focused, while maintaining the best value for money. This diversification of the range and relative flexibility of production both mitigate the risks relating to a potential slowdown in the trend of certain segments and enable opportunities arising from changes in the market or emerging market segments to be grasped. High numbers of customers spread throughout the main world markets also allows for the best possible management of problems relating to local economic or other crises.

In 2017, the core market was Europe, where the segment reached 69.5% of the total business volume. The very positive performance achieved on the American market (although partly relating to Asian destinations), which increased Group turnover to around 24 million euros, is mainly due to the range of highly innovative fashion products. The development of business volumes and the conquest of new market share in this geographical area were also facilitated by the presence of a commercial branch in New York.

The main factors that particularly marked out the year in question can be summarised as follows:

Product innovation: in line with our mission, which has grown stronger over the years, major investments were again made in 2017 in research and innovation for the collections, fulfilling the interests of customers and reinforcing the collaborative relationship with the distribution network. In particular, the new creative offerings of fabrics with high technical and performance features, such as those in the Performance line, met with great interest from customers, for both the men's and women's collections.

Sustainability: in 2017, substantial sums continued to be invested in environmental certification and protection projects. In particular, two important environmental (ISO 14001) and social (SA8000) certification processes were launched; ISO 14001 certification was obtained in December 2017, while SA8000 certification is being implemented and the process is expected to be completed by December 2018. The focus on environmental and social issues is, on the one hand, fully integrated within the time-honoured system of principles and values defined in the Group's Code of Ethics, and on the other is becoming a key factor in assessing customer service at international level.

Quality and service for customers: significant investments aimed at ensuring the continuous technological improvement of the plants in order to guarantee quality, competitiveness and flexibility in production, with a simultaneous continuous, progressive improvement of customer services. Major investments made in both processes and new technologies now enable rapid adaptation of production models to align with new demand from world markets, in terms of both product innovation and the service offered.

BIELLA MANIFATTURE TESSILI

The results achieved by the business unit summarise the various performances of the corporate brands, which include turnover of 37.8 million euros for the Guabello division (down 4.3% on the previous year), 39.0 million euros for the Marlane division (up 17.1%) and 26.7 million euros for the Tallia di Delfino division (up 3.9%).
Below are comments on the performance of the individual brands:

Guabello ended 2017 with slightly lower turnover, influenced by a decrease in volumes, offset - in part - by a higher margin on sales. The brand, which strengthened its strategic positioning in the luxury sector in the course of the year, aimed to strengthen its relations with its best customers by innovating strongly in its collection and reading market trends in advance. The Middle and Far Eastern markets are the brand’s strongest growth areas.

[Equity investments]

In 2017, **Marlane** registered both a significant increase in turnover and growth in margins, partly due to a more specialised product mix. The NOS (Never Out of Stock) and Quick Service programmes, which are distinctive activities of Marlane that are not seasonal in nature, registered growth in volumes, demonstrating customer appreciation for this type of service. Targeted commercial activity and an effective quality/service/price ratio increased Marlane's presence in all geographical areas, from Europe to the Middle and Far East. In 2017, the development of partnerships also continued with many big retailers and undisputed international players.

In 2017, **Tallia di Delfino** registered turnover growth that strengthened the brand's positioning in some major markets such as Japan and Asia, where Tallia di Delfino's key customers are located. The other markets performed in line with the previous year.

ESTETHIA/G.B. CONTE

In the year under review, the segment recorded net revenues of 14.7 million euros, up 2.8% on the previous year, reflecting both higher sales volumes and improved margins.
The US and Asian market performance was very positive, while volumes on the European market fell slightly, particularly in Germany and Italy.

The increase in the comprehensive result was due to investments made at both the product and marketing levels.

The table below shows turnover contributions and trends by brand.

Net revenues by geographical area

(in millions of euro)	2017		2016	
Italy	55.1	*22.9%*	58.9	*24.7%*
Other European countries	117.0	*48.5%*	120.7	*50.7%*
North America	14.3	*5.9%*	7.5	*3.1%*
Asia	44.0	*18.3%*	40.1	*16.8%*
Other countries	10.7	*4.4%*	11.1	*4.7%*
Total	**241.1**	*100.0%*	**238.3**	*100.0%*

Below are the key indicators of the Marzotto Wool Manufacturing Group.

Key indicators

(in millions of euro)	2017	2016	change	change %
Consolidated net revenues	**241.1**	**238.3**	**2.8**	**+ 1.2%**
Profit from core businesses	**17.0**	**21.5**	**(4.5)**	**- 20.9%**
% of net revenues	*7.0%*	*9.0%*	*(2.0%)*	
Operating income	**17.0**	**21.8**	**(4.8)**	**- 22.0%**
% of net revenues	*7.0%*	*9.1%*	*(2.1%)*	
Net income	**11.6**	**14.3**	**(2.7)**	**- 18.9%**
Consolidated net invested capital	**111.4**	**96.5**	**14.9**	**+ 15.4%**
Investments for the period	**11.3**	**13.1**	**(1.8)**	**- 13.7%**
Active staff at 31 December: persons	**1,800**	**1,771**	**29**	**+ 1.6%**

[Equity investments]

Marzotto Lab Group

The main object of the Marzotto Lab Group, with parent company Marzotto Lab S.r.l., which has its registered office in Valdagno (VI), is to carry out industrial and commercial operations relating to the purchase, and main and accessory manufacture, of textile fibres of all kinds.

The Lab Group, which comprises parent company Marzotto Lab S.r.l., its subsidiary, Linificio e Canapificio Nazionale S.r.l. (wholly owned) and the relative investee companies, AB Liteksas (99.97% owned), Uab Lietvilna (50% owned), Sametex spol s r.o (wholly owned), Girmes G.m.b.H. (wholly owned), Tintoria di Verrone S.r.l. (25% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), is active in the Linen, Cotton, Velvet, Furnishings and Other segments (mainly including coordination functions and service activities carried out by the parent company for the operative businesses).

Turnover volume for the year just ended was 100.1 million euros, down 2.9% on the previous year (2016: 103.1 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2017		2016	
Linen	36.9	*36.9%*	42.4	*41.1%*
Cotton	34.6	*34.5%*	36.2	*35.1%*
Velvet	17.0	*17.0%*	13.5	*13.1%*
Furnishing	9.4	*9.4%*	8.9	*8.6%*
Other	2.2	*2.2%*	2.1	*2.0%*
Total	**100.1**	*100.0%*	**103.1**	*100.0%*

The activities of the Marzotto Lab Group involve divisions and companies relative to diversified textile sectors, even if partially complementary or belonging to a single chain.

LINEN

As described in the company's financial statements, the Linificio e Canapificio Nazionale Group reported a fall in turnover due to the trend in the use of linen in the clothing sector.
Both turnover and orders recovered during the early months of 2018.
Orders rose by more than 80% in the first two months, with plants returning to a production load that ensured saturation levels.
In the first few months of the year, in order to cope with the rapid growth in volumes, overtime was used extensively, until staffing levels could be raised sufficiently to work at full capacity.
These volumes indicated that the 2018 result will be higher than that of 2017.

COTTON

The Sondrio Fabrics division closed the year with a slight reduction in turnover compared with the previous year, mainly due to a market situation with less demand for cotton fabrics in favour of wool fabrics or wool blends.
During the year, initiatives continued to be taken in terms of both product structure and the exploitation of synergies within Marzotto Lab aimed at counteracting and limiting this unfavourable market situation for cotton fabrics.

In particular, the collection was strengthened further in the area of fine natural fibres such as linen and wool blends, including by exploiting synergies with the production capacity for linen yarns and carded and combed wool yarns. New finishes were also introduced with innovative processes and machinery for the processing of fabrics in natural fibres.

New orders were down by around 5% in the winter season due to a delay in orders from the main retailers; meanwhile, sales margins increased, as in 2017.

The results of the trade fairs for S/S, which is the main cotton season, were in line with 2017.

Equity investments

VELVET

This division has continued to grow by further developing its market positioning.
In 2017, it achieved marked growth in volumes in both clothing and in the furnishings segment, which is constantly evolving due to the strategies implemented and a successful entry into the area of theatre and contract furnishings.

The trend of growth has also continued in 2018, not only due to the product development and marketing policies undertaken over the years, but also the development of new finishes and specific items in furnishings.

The order performance in the first two months of 2018 was more than 30% higher than the same period of 2017, and turnover in early 2018 showed the same trend.

The plant is performing in line with the budget, and in weaving, production hours are increasing with use of overtime to maintain flexibility in the second half of the year.

Fashion market trends and investments in the furnishings segment suggest a significant improvement on the 2017 results.

FURNISHINGS

This division, which operates in the furnishing accessories market with finished products and capillary distribution throughout Italy, and is more focussed on major customers in the northern European, Far East and North American markets, continued to register turnover growth.
The division's strategy of reducing its supply of commodities products and increasing its presence in wool products, but also fine fibres such as cashmere, silk and linen, produced its first results in 2017.
Marketing activities and product range expansion resulted in a further increase in turnover in the internet channel.

In early 2018, at the major European trade fairs, the presence of a line of products with the Marzotto LAB label, mainly dedicated to the luxury contract world, was extended.

The company increased its hires by more than 30% in the early months of 2018, despite this being a period of low seasonality.

Feedback from trade fairs at the beginning of the year and the above performance are positive indications that the budget will be achieved.

With regard to the outlet markets, it should be noted that the domestic market accounts for 47.7% of the total (up 46.5% compared with the previous year), while the rest of Europe, which covers around an additional 42.7% of the total, was slightly down.

Net revenues by geographical area

(in millions of euro)	2017		2016	
Italy	47.8	*47.7%*	47.9	*46.5%*
Other European countries	42.7	*42.7%*	44.6	*43.3%*
North America	2.2	*2.2%*	2.4	*2.3%*
Asia	5.7	*5.7%*	6.2	*6.0%*
Other countries	1.7	*1.7%*	2.0	*1.9%*
Total	**100.1**	*100.0%*	**103.1**	*100.0%*

Below are the key indicators of the Marzotto Lab Group.

Key indicators

(in millions of euro)	2017	2016	change	change %
Consolidated net revenues	**100.1**	**103.1**	**(3.0)**	**- 2.9%**
Profit from core businesses	**(0.6)**	**(1.6)**	**1.0**	**+ 62.5%**
% of net revenues	*(0.6%)*	*(1.6%)*	*1.0%*	
Operating income	**(1.0)**	**(2.4)**	**1.4**	**+ 58.3%**
% of net revenues	*(1.0%)*	*(2.4%)*	*1.4%*	
Net income	**(0.2)**	**(2.3)**	**2.1**	**+ 91.3%**
Consolidated net invested capital	**81.6**	**81.2**	**0.4**	**+ 0.5%**
Investments for the period	**3.3**	**5.7**	**(2.4)**	**- 42.1%**
Active staff at 31 December: persons	**1,288**	**1,382**	**-94**	**- 6.8%**

[Equity investments]

Ambiente Energia S.r.l.

Established on 22 May 2009, Ambiente Energia S.r.l. is a limited liability company with its registered office at Viale dell'Industria, Schio (VI).
The Company, which operates independently with a single director vested with full powers, mainly carries out integrated industrial and other waste management activities, in the capture, collection, supply, purification and drainage phases, and carries out waste, water, sludge treatment and similar activities.
The subsidiary closes the year with revenues of 4.7 million euros, (4.7 million euros in 2016) and a net result of 0.5 million euros (0.5 million euros in 2016).

[Equity investments]

Equity investments in Affiliates

Below is a summary of other equity investments in affiliates:

Ratti S.p.A.
Share capital
11,115,000 euros

	2017	2016
Equity investments	33.90%	33.70%
no. of shares owned	9,271,000	9,217,550
Marzotto S.p.A. book value	10.7 euro/milioni	10.6 euro/milioni

In 2010, Marzotto S.p.A. purchased an initial equity investment of 33.36% in Ratti S.p.A., a company listed on the Milan stock exchange with its registered office in Guanzate (CO).

The Ratti Group operates in the silk sector, producing and marketing printed, solid-colour or yarn-dyed fabrics for clothing and furnishing and develops and distributes finished products, mainly men's and women's accessories.

The Ratti Group achieved revenues of 100.1 million euros (92.1 million in FY 2016) and net profit of 6.0 million (3.6 million in 2016).

Mascioni S.p.A. (MI)
Share capital
10,000,000 euros

	2017	2016
Equity investments	14.18%	28.35%
no. of shares owned	283,500	283,500
Marzotto S.p.A. book value	=	=

The change in the percentage shareholding recorded during the period (from 28.35% to 14.18%) was due to the capital increase in the investee company, to which Marzotto did not subscribe, thereby diluting its ownership percentage.
The 2017 draft financial statements of affiliate Mascioni S.p.A., which entered a conciliation procedure in the previous year, show turnover of 40 million euros, up by around 5% compared with the previous year.
The equity investment was written off in 2014.

Aree Urbane S.r.l. (MI)
in liquidation
Share capital
100,000 euros

	2017	2016
Equity investments	32.50%	32.50%
Marzotto S.p.A. book value	=	=

Other information

Employees

As of 31 December 2017 the active employees of the Company were 100, compared to 94 the previous year.

	Year-end staff				Average staff			
	31.12.2017		31.12.2016		2017		2016	
Fabrics	8	*8.1%*	8	*8.6%*	7	*7.5%*	9	*9.3%*
Other Operations	91	*91.9%*	85	*91.4%*	86	*92.5%*	88	*90.7%*
Total	**99**	*100.0%*	**93**	*100.0%*	**93**	*100.0%*	**97**	*100.0%*
Laid off/dismissed	1		1		1		1	
Total staff year end	**100**		**94**		**94**		**98**	

Industrial relations

Following the approval of the renewal of the National Collective Labour Agreement (new National Collective Labour Agreement on 5 July 2017), consultations resumed with the trade unions and trade union representatives for the Company Supplementary Agreement (2nd level agreement) relating to the Marzotto S.p.A. Offices unit with its registered office in Valdagno and the Logistics/Warehouses unit with its registered office in Piovene Rocchette. The agreement was reached on 29 November 2017 and is valid from 1 January 2017 until 31 December 2019.
The new agreement includes a series of new chapters in the regulatory part, incorporating new cases; the economic part was modified by the insertion of a new accident index in addition to the economic parameters (operating performance) and productivity parameters. Subject to changes in amounts and percentage levels for bonus calculation. Welfare and/or supplementary pension options were introduced.

Secondary offices

In accordance with the provisions of Article 2428, para. 5, of the Italian Civil Code, evidence is provided of the secondary operating offices at which the Company carries out its activities:

- Piovene Rocchette (VI), Via A. Rossi 50

Other information

Risk factors (IFRS 7)

The Company acts to identify and assess risk, thereafter implementing procedures for managing any risk factors that may influence company results.

Internal risks (processing risks)

Risks related to financing sources and liquidity risk

The effects of the possible turmoil in the global financial system could represent a risk factor in relation to the possibility of obtaining further financing under current conditions.

However, the Company believes that the present debt structure, in particular the immediately available financial resources (deposits) and unused lines of credit, will limit the negative effects of any difficulty in obtaining credit.

Credit risk

Credit risk is the risk that a customer or one of the counterparties to a financial instrument may cause a financial loss by not complying with an obligation, and mainly pertains to the Company's trade receivables and financial investments.

The *commercial credit risk* is also essentially reduced in view of the type of customers, which are diversified and not significantly concentrated in the outlet markets.
Through a specific department, the Company adopts procedures for verifying the credit rating of its customers when they request extended payments. Exposure is regularly monitored and suitable action is taken to combat delays, minimise exposure and reduce the risk of loss.
With regard to *financial credit risk*, the Company limits its exposure to credit risk by investing exclusively in high liquidity deposits/securities and only with counterparties with high credit ratings.

The ages of the trade receivables due from third parties at the reporting date were as follows:

	2017		2016	
(thousands of euro)	gross	fund	gross	fund
Current	273	(83)	291	(83)
Overdue from 0 to 90 days	100	=	110	=
Overdue over 90 days	58	=	31	=
Total	**431**	**(83)**	**432**	**(83)**

Interest rate risk

The Company is exposed to the risk of volatility of interest rates associated both with liquid funds and loans.

The effects of possible turmoil, already experienced in the banking system, could potentially represent a risk in relation to the cost of obtaining financial resources. The decrease in the benchmark rates and the spreads recognised by the banks resulted in constant monitoring of the risk described above; however, this risk is not believed to be significant in terms of impact, given the current level of net debt.

[Other information]

Environmental and safety risk

The Company manages the environmental risk and safety with suitable staff training according to new legislation and by introducing systems to prevent and improve health and safety at work.
In terms of safety, the Company invests constantly in protecting and ensuring the safety of the workplace, both inside and outside the production facilities.
The organisation is always committed to respecting environmental standards in compliance with the environmental regulations in force in each local area with regard to the specific business segments.
New investments are being considered, also in view of the environmental impact, potential savings in resources and energy consumption during operations as well as the reduction of total waste material produced.

Considering the sector in which the Company operates and its financial structure, there are no other significant risks.

With regard to the risks of the Group, of which Marzotto is the parent, please see the report on operations for the consolidated financial statements. With regard to the specific risks of the subsidiaries, please see the risks described in the consolidated financial statements.

Significant events after the close of the year

At the date of this document, there are no significant events to report after the close of the year.

The management of Marzotto S.p.A., whose purpose is to manage the operative Companies, is influenced by the performance of the investee companies.
As regards economic performance during the first two months of this year, we note that the consolidated net revenues of the Marzotto Group came to 49.4 million euros, up by around 13% on the 43.8 million booked for the same period of 2017.

[Proposals to the Shareholders' Meeting]

Dear Shareholders,

We invite you to approve the presented financial statements and propose to allocate the profits for the period of 13,458,974.41 euros as follows:

- dividend: 8,000,000.00 euros;
- retained: 5,458,974.41 euros.

After this allocation, retained profit net of losses will amount to 6,810,264.56 euros.

For operational reasons, it is proposed to make the payment at the shareholder's request from February 2019.

Valdagno (VI), 23 March 2018

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
SERGIO TAMBORINI

Financial statements

Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

Balance sheet of the Company

(thousands of euro)	31.12.2017 Partial	31.12.2017 Total	31.12.2016 Partial	31.12.2016 Total
1. Non-current assets				
1.1 Property, plant and machinery		9,560		10,277
1.2 Civil buildings		837		866
1.3 Goodwill, trademarks and other intangible assets		1,563		1,712
1.5 Other investments (participations)		111,704		111,592
1.6 Long-term receivables		11		11
1.7 Deferred tax assets		2,818		4,388
1.8 Long-term financial receivables third parties	43		42	
Long-term financial receivables subsidiaries and affiliates	=	43	=	42
Total non-current assets		**126,536**		**128,888**
2. Non-currents assets held for sale		**=**		**=**
3. Current assets				
3.1 Inventories		45		45
3.2 Trade receivables third parties	348		349	
Trade receivables subsidiaries and affiliates	3,996	4,344	3,468	3,817
3.3 Other receivables third parties	2,136		2,154	
Other receivables subsidiaries and affiliates	774	2,910	3,914	6,068
3.4 Current financial assets, cash and cash equivalents third parties	10,362		400	
Current financial assets, cash and cash equivalents subs. and affiliates	149	10,511	5,792	6,192
Total current assets		**17,810**		**16,122**
Total assets		**144,346**		**145,010**
4. Shareholders' equity				
4.1 Share capital and reserves		101,419		99,152
4.2 Income/(Loss) for the year		13,459		10,271
Shareholders' equity		**114,878**		**109,423**
5. Non-current liabilities				
5.1 Long-term provisions		9,888		11,087
5.2 Other long-term payables		=		=
5.3 Deferred tax liabilities		153		171
5.4 Long-term financial payables		1,693		6,468
Total non-current liabilities		**11,734**		**17,726**
6. Current liabilities				
6.1 Trade payables and other payables third parties	4,818		4,819	
Trade payables and other payables subsidiaries and affiliates	8,128	12,946	5,374	10,193
6.2 Current financial payables third parties	4,788		4,752	
Current financial payables subsidiaries and affiliates	=	4,788	2,916	7,668
Total current liabilities		**17,734**		**17,861**
Total shareholders' equity and liabilities		**144,346**		**145,010**
Net financial debt		**4,073**		**(7,902)**

Company statement of profit/(loss) for the year and items of other comprehensive income

(thousand euro)	Year 2017 Amounts	%	Year 2016 Amounts	%
7. Net revenues third parties	1,393	11.4	1,427	11.4
Net revenues subsidiaries and affiliates	10,817	88.6	11,108	88.6
Total net revenues	**12,210**	**100.0**	**12,535**	**100.0**
8. Cost of sales third parties	(2,570)	(21.0)	(2,729)	(21.8)
Cost of sales subsidiaries and affiliates	(21)	(0.2)	(13)	(0.1)
9. Gross income	**9,619**	**78.8**	**9,793**	**78.1**
10. R&D and marketing costs	(39)	(0.3)	(45)	(0.4)
11. General and administrative costs	(9,141)	(74.9)	(9,501)	(75.8)
12. Other income and charges	(800)	(6.6)	(24)	(0.2)
13. Operating income	**(361)**	**(3.0)**	**223**	**1.8**
14. Net financial charges third parties	(155)	(1.3)	(133)	(1.1)
Net financial charges subsidiaries and affiliates	37	0.3	25	0.2
15. Dividends	14,376	117.7	10,916	87.1
16. Valuation of equity investments held for sale	=	=	=	=
17. Other financial income and charges	(1)	=	(8)	(0.1)
18. Income before taxes	**13,896**	**113.7**	**11,023**	**87.9**
19. Taxes	(437)	(3.6)	(752)	(6.0)
20. Net income	**13,459**	**110.1**	**10,271**	**81.9**
21. Fair Value adjustments [1]	=	=	=	=
22. Other adjustments [1]	=	=	=	=
Items that will be reclassified subsequently to profit and loss	**=**	**=**	**=**	**=**
23. IAS 19 adjustments [1]	(4)	=	(4)	=
Items that will not be reclassified subsequently to profit and loss	**(4)**	**=**	**(4)**	**=**
24. Total comprehensive income for the period	**13,455**	**110.1**	**10,267**	**81.9**

1. The Change in Fair Value Reserve, IAS 19 Reserve and the Other adjustments are components of the comprehensive income statement accounted for in equity.

Cash flow statement of the Company

(thousands of euro)	2017	2016
Net income	**13,459**	**10,271**
Amortisation and depreciation	1,241	1,211
Change in provisions	349	2,512
Gain/(losses) on disposal of fixed assets	(7)	(302)
Change in inventories	=	58
Change in trade receivables and other receivables third parties	25	(193)
Change in trade receivables and other receivables subsidiaries and affiliates	2,612	(215)
Change in trade payables and other payables third parties	(7)	(1,878)
Change in trade payables and other payables subsidiaries and affiliates	54	(438)
Change in long-term other financial receivables and payables	=	=
Operating cash flow (A)	**17,726**	**11,026**
Investments in intangible and tangible fixed assets	(350)	(654)
Disposals in intangible and tangible fixed assets	11	682
Investments in equity investments	(112)	(194)
Disposals of other equity investments	=	=
Cash flow from investments (B)	**(451)**	**(166)**
Translation exchange differences and other equity changes (C)	=	=
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**17,275**	**10,860**
Dividends paid	(5,300)	(8,000)
Increase in share capital of Parent Company	=	=
Change in net financial position	**11,975**	**2,860**
Change in long-term financial payables	(4,775)	(4,749)
Change in current financial payables third parties	36	1,668
Change in current financial payables subsidiaries and affiliates	(2,916)	(5,090)
Change in long-term financial receivables third parties	(1)	=
Change in long-term financial receivables subsidiaries and affiliates	=	=
Total Change in current financial assets, cash and cash equivalent	**4,319**	**(5,311)**
Cash and current financial assets - beginning of the period	**6,192**	**11,503**
Cash and current financial assets - end of the period	**10,511**	**6,192**

Company statement of changes in shareholders' equity

(thousand euro)	Share capital	Revalua-tion reserve	Legal reserve	Extra-ordinary reserve	Fair value reserve	Conferral reserve	Capital grants	IAS 19 reserve	Sundry reserves	Profits carried forward	Income for the year	Total share-holders' equity
Balances as at 31.12.2015	**40,000**	**=**	**8,000**	**5,876**	**=**	**51,998**	**=**	**2**	**(950)**	**=**	**30**	**104,956**
Net income for the year 2016											10,271	10,271
Other total profit/(losses) (1)								(4)				(4)
Total other income/charges	**=**	**=**	**=**	**=**	**=**	**=**	**=**	**(4)**	**=**	**=**	**10,271**	**10,267**
Dividends				(5,800)								(5,800)
Allocation of net income 2015:												
carried forward										30	(30)	=
Balances as at 31.12.2016	**40,000**	**=**	**8,000**	**76**	**=**	**51,998**	**=**	**(2)**	**(950)**	**30**	**10,271**	**109,423**
Net income for the year 2017											13,459	13,459
Other total profit/(losses) (1)								(4)				(4)
Total other income/charges	**=**	**=**	**=**	**=**	**=**	**=**	**=**	**(4)**	**=**	**=**	**13,459**	**13,455**
Dividends										(8,000)		(8,000)
Allocation of net income 2016:												
carried forward									950	9,321	(10,271)	=
Balances as at 31.12.2017	**40,000**	**=**	**8,000**	**76**	**=**	**51,998**	**=**	**(6)**	**=**	**1,351**	**13,459**	**114,878**

1. Profits and Losses of the Comprehensive Income Statement recognized in Shareholders' Equity.

Introduction

Notes to the Company's financial statements

General information

Marzotto S.p.A. is a joint stock company with sole shareholder and registered office in Valdagno (VI).

As of 2015, Marzotto S.p.A. has mainly been providing strategic management and coordination activities in support of the operative companies (administration and finance, legal and corporate, human resource management and information systems) and distribution logistics activities at the site of Piovene Rocchette (VI), on behalf of the Group companies and third parties.

Management and coordination activities

Marzotto S.p.A. is managed and coordinated by Trenora S.r.l. (Valdagno); a summary table of key data for this company from the last approved financial statements is shown below.

Balance sheet (thousands of euro)	31.12.2016		31.12.2016
B) Fixed assets	100,200	A) Shareholders' equity	100,259
C) Current assets	279	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	222
Total assets	**100,481**	**Total liabilities**	**100,481**

Income statements (thousands of euro)	Year 2016
A) Value of production	=
B) Cost of goods sold	(313)
Difference between value and cost of goods sold (A+B)	**(313)**
C) Financial income and charges	(10)
D) Adjustment to value of financial assets	=
Income before taxes (A+B+C+D+E)	**(323)**
Income taxes	(4)
Profit (loss) for the year	**(327)**

Publication

The Company, which has equity investments in subsidiaries and affiliates, has prepared Group consolidated financial statements at the same time as the separate financial statements. Publication will take place in accordance with the law.

Notes to the Company's financial statements

Accounting principles

These separate financial statements for FY 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, and orders issued in implementation of Italian Legislative Decree no. 38/2005.
IFRS also means all revised international accounting standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Accounting standards, amendments and interpretations applicable as from 1 January 2017

The same accounting standards and drafting criteria were used in the preparation of this document as in the preparation of the financial statements for the year ended 31 December 2016.

There are no new IFRS or amendments that entered into force on 1 January 2017 applicable to the Company.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company

On 28 May 2014, the IASB issued IFRS 15 - Revenue from Contracts with Customers. The standard replaces IAS 18 - Revenues, IAS 11 - Construction Contracts, IFRIC 13 - Customer Loyalty Programmes, IFRIC 15 - Agreements for the Construction of Real Estate, IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue-Barter Transactions Involving Advertising Services. The standard establishes a new model for the recognition of revenues, which will apply to all contracts stipulated with clients, apart from those falling within the scope of application of other IAS/IFRS standards, such as leasing, insurance contracts and financial instruments.

The essential steps for the booking of revenues according to the new model are:

- identification of the contract with the customer;
- identification of the contract performance obligations;
- determination of the price;
- the allocation of the price to the contract performance obligations;
- the criteria for recording revenues when the entity satisfies each performance obligation.

The provisions of IFRS 15 take effect as from the financial years that start on or after 01 January 2018, unless subsequent deferred during approval by the European Union.
On 24 July 2014, the IASB published the final version of IFRS 9 - Financial Instruments.
The document incorporates the results of the classification and measurement, impairment and hedge accounting phases of the IASB's plan to replace IAS 39.
The standard introduces new criteria for the classification and valuation of financial assets and liabilities. In particular, for financial assets, the new standard uses a single approach based on methods of managing financial instruments and on the characteristics of the contractual cash flows of the financial assets themselves to determine the measurement criterion, replacing the various rules set forth in IAS 39. For financial liabilities, meanwhile, the main change relates to the accounting treatment of changes in the fair value of a financial liability that is designated as a financial liability measured at fair value through profit or loss, if these changes are due to changes in the creditworthiness of the issuer of the liability. Under the new standard, these changes must be recognised as “Other comprehensive income” and no longer on the income statement.
With regard to the impairment model, the new standard requires estimates of losses on loans to be based on the expected losses model (rather than the incurred losses model) using information that can be supported and is available at no cost and without any unreasonable effort, including historic, current and prospective data. The standard stipulates that this impairment model shall apply to all financial instruments, i.e. financial assets valued at amortised cost, those measured at fair value through other comprehensive income, receivables deriving from leases and trade receivables.

Notes to the Company's financial statements

Finally, the standard introduces a new hedge accounting model, with the aim of adjusting the requirements envisaged by the current IAS 39, which have at times been regarded as overly strict and not appropriately reflecting companies' risk management policies.

The key changes introduced by the document are as follows:

- an increase in the types of transactions eligible for hedge accounting, also including the risks of non-financial assets/liabilities eligible for management under hedge accounting;
- a change in the method of booking forward contracts and options when included in a hedge accounting relationship, so as to reduce income statement volatility;
- changes to the efficacy test through the replacement of the current methods based on the parameter of 80 - 125% with the principle of “economic relationship” between the hedged item and the hedging instrument; moreover, assessment of the retrospective effectiveness of the hedging relationship will no longer be required.

The new standard must be applied for annual periods starting on or after 1 January 2018.
The Company will adopt these new standards and amendments on the basis of the expected application date, and is assessing their potential impacts. Based on the analyses performed, it is not expected that their application will result in significant impacts on the Company’s consolidated financial statements.

Accounting standards, amendments and interpretations not yet approved by the European Union

As at the date of this document, moreover, the competent bodies of the European Union have not yet completed the approval process necessary for the adoption of the following accounting standards and amendments.
On 13 January 2016, the IASB published IFRS 16 - Leases, which is intended to replace IAS 17 - Leases and the interpretations 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 a lease and introduces a control-based criterion (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors;
the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the agreement.
The standard establishes a single model for the recognition and measurement of lease agreements for the lessee, which provides for the recognition of the leased asset (including in operating leases) in assets, with a financial payable as a contra-entry, also providing for the possibility of not recognising as leases agreements involving low-value assets and leases with a term of 12 months or less. Conversely, the standard does not include significant changes for lessors. The standard applies from 1 January 2019 but early application is permitted, only for companies that have applied IFRS 15 - Revenue from Contracts with Customers in advance.
On 19 January 2016, the IASB published the document “Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)”, which contains amendments to IAS 12. The document aims to provide some clarification on the recognition of deferred tax assets on unrealised losses in the event of certain circumstances and the estimate of taxable income for future years. The amendments were applicable from 1 January 2017, but as they have not yet been approved by the European Union, they were not adopted by the Company at 31 December 2017.
On 29 January 2016, the IASB published the document “Disclosure Initiative (Amendments to IAS 7)” which contains amendments to IAS 7. The purpose of the document is to provide some clarification to improve the disclosure of financial liabilities. In particular, the amendments require a disclosure enabling users of the financial statements to understand changes in liabilities arising from financing transactions. The amendments were applicable from 1 January 2017, but as they have not yet been approved by the European Union, they were not adopted by the Company at 31 December 2017.

[Notes to the Company's financial statements]

On 20 June 2016, the IASB published the document "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)" which contains clarifications regarding the recognition of the effects of vesting conditions in the presence of cash-settled share-based payments, the classification of share-based payments with characteristics of net settlement and accounting for changes to the terms and conditions of one share-based payment that change its classification from cash-settled to equity-settled. The amendments apply as from 1 January 2018, but early application is permitted.
On 8 December 2016, the IASB published the document "Annual Improvements to IFRSs: 2014-2016 Cycle" (including IFRS 1 - First-Time Adoption of International Financial Reporting Standards - Deletion of short-term challenges for first-time adopters, IAS 28 - Investments in Associates and Joint Ventures – Measuring investments at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 - Disclosure of Interests in Other Entities – Clarification of the scope of the Standard) which partially supplements the existing standards.
On 8 December 2016, the IASB published the IFRIC 22 interpretation "Foreign Currency Transactions and Advance Consideration". The purpose of the interpretation is to provide guidelines for transactions carried out in foreign currencies where non-cash advances or down payments are recorded in the financial statements before the relative assets, costs or revenues are recognised.
This document provides an indication of how an entity must determine the date of a transaction, and therefore the spot exchange rate to be used when foreign currency transactions occur in which payment is made or received in advance. IFRIC 22 applies as from 1 January 2018, but early application is permitted.
On 8 December 2016, the IASB published the amendment to IAS 40 "Transfers of Investment Property". These amendments clarify transfers of a property to or from property investments. In particular, an entity must reclassify a property to or from property investments only when there is evidence of a change in use of the property. This change must be due to a specific event that has happened and must not, therefore, be limited to a change in the intentions of the management of an entity. The amendments apply as from 1 January 2018, but early application is permitted.
On 7 June 2017, the IASB published IFRIC Interpretative Document 23 – Uncertainty over Income Tax Treatments. It addresses the issue of uncertainty about the tax treatment to be adopted with regard to income taxes. The document provides that uncertainties in determining tax liabilities or assets will only be reflected in the financial statements when it is probable that the entity will pay or recover the amount in question.
Furthermore, the document does not contain any new disclosure obligations but points out that the entity will have to determine whether it will be necessary to provide information on considerations made by management relating to uncertainty regarding the recognition of taxes, in accordance with IAS 1. The new interpretation applies as from 1 January 2019, but early application is permitted.
The Company will adopt these new standards and amendments, on the basis of the envisaged date of application, and will assess their potential impact on the financial statements, when they are approved by the European Union.

Notes to the Company's financial statements

Financial statements

This document consists of the balance sheet, the statement of profit/(loss) for the year and items of other comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and the relative explanatory notes.

With regard to the presentation of the financial statements, the Company has made the following choices:

- in the balance sheet we have presented current and non-current assets and current and non-current liabilities separately. Current assets are expected to be realised, transferred or consumed during the Company's normal operating cycle; current liabilities are expected to be paid off during the Company's normal operating cycle or in the 12 months following the end of the period;
- for the statement of profit/(loss) for the period and items of other comprehensive income, costs are allocated according to their intended purpose;
- for the cash flow statement we have used the indirect method.

Identification of the segments

Disclosure according to business segment and geographical area is provided in accordance with IFRS 8 - Operating Segments.
The criteria applied to identify these segments are based on the ways in which the management manages the Group and attributes managerial responsibilities.

The information by segment is primarily organised by business type, as follows:

- Holding and coordination;
- Real estate;
- Logistics;
- Other.

Notes to the Company's financial statements

The most significant valuation criteria adopted in preparing the financial statements are indicated below:

1.1 Property, plant and equipment
1.2 Civil real estate

Property, plant and equipment is carried at historical cost, including directly attributable accessory costs.
Land, both vacant and annexed to civil or industrial buildings, has not been amortised since its useful life is indefinite.
Some assets that had been revalued in previous periods are recognised on the basis of the revalued amount, regarded as the substitute amount of the cost at the date of transition to IAS.
Maintenance and repair expenses that do not increase the value or prolong the remaining useful life of assets are recognised as expenses in the period in which they are incurred.
Tangible assets are shown net of accumulated depreciation and any impairment, determined in accordance with the methods described below. Depreciation is straight-line, based on the estimated useful life of the asset.
The estimated useful life of the main property, plant and equipment is as follows:

Land	indefinite
Buildings	10/33 years
Plant and machinery:	
- Textiles	8 years
- Textiles in corrosive environment	5/6 years
- Other	6/25 years
Industrial and commercial equipment	4/7 years
Other assets:	
- Electronic office machinery	5 years
- Office furniture and fixtures	7/9 years
- Vehicles	4/5 years

1.3 Goodwill, trademarks and other intangible assets

Intangible assets with a “finite useful life” are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation and any lasting impairment, determined according to the methods described below.
Intangible assets with an “indefinite useful life” (e.g. trademarks) are not amortised.

Impairment

The Company checks, at every balance sheet date, whether there are any indicators of lasting impairment to assets.
If such indicators exist, an estimate is made of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit, minus selling costs, and its value in use. In determining its value in use, estimated future cash flows are discounted to present value, using a rate gross of tax that reflects current market appraisals of the value of money and the specific risks of the asset.
Impairment is recognised in the income statement when the book value of the asset or of the related cash generating unit to which it is allocated is greater than the recoverable value.
Impairment losses are written back if the reasons for generating them no longer exist.

Valuation criteria

[Notes to the Company's financial statements]

1.5 Equity investments

Equity investments in subsidiaries, joint ventures and affiliates that represent long-term investments are recognised at the cost incurred to acquire or create them as representative of fair value. At every balance sheet date, the Company checks whether there are any indicators of lasting impairment for all equity investments in respect of their value at initial recognition.
Equity investments in subsidiaries, joint ventures and affiliates that represent long-term investments therefore maintain their value at initial recognition unless there is lasting impairment.
Equity investments in other companies are measured at fair value, with any profits or losses recognised directly in equity. At the time of their sale, such accumulated profits and losses are recognised in the income statement. When the fair value cannot be reliably determined, equity investments in other companies are measured at cost adjusted for impairment, with the difference recognised in the income statement.
In particular, equity investments in subsidiaries and affiliates are tested for impairment at least once a year; this test requires an estimate of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit less selling costs and value in use.

1.8 Medium/long-term financial receivables

Financial assets are initially recognised at the amount incurred, which is representative of fair value, and later recognised at the lower of the book value and the presumed realisable value (IAS 39).

2. Non-current assets held for sale

Assets or groups of assets and liabilities whose value will be recovered mainly through sale rather than ongoing use are recognised separately from other assets and liabilities in the balance sheet. Non-current assets classed as held for sale are recognised at the lower of the book value and the fair value net of selling costs.

3.1 Inventory

Inventories are measured at the lower of cost and the presumed net realisable value, using the weighted average cost criterion to determine the cost. The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.

3.2 Trade receivables
3.3 Other receivables

Trade receivables due within standard business terms and other operating receivables (other receivables) are not discounted and are carried at nominal value net of any write-downs (fair value). The adjustment to the estimated realisable value is recognised in a special adjustment reserve.

3.4 Short-term financial assets and cash and cash equivalents

Financial assets held for trading are recognised at the fair value shown in the income statement.

Cash and cash equivalents are made up of cash in hand, i.e. cash that is readily available or available in the very short term, successfully, and without collection expenses.

A financial asset (or, if applicable, a portion of a financial asset or portion of a group of similar financial assets) is cancelled from the balance sheet when:

- the rights to receive cash flows from the asset expire;
- the Company has transferred the right to receive cash flows from the asset or has taken over the contractual obligation to pay them fully and without delay to a third party and (a) it has substantially transferred all risks and benefits of the ownership of the financial asset or (b) it has not substantially transferred nor retained all risks and benefits of the asset, but has transferred control of the same.

Notes to the Company's financial statements

5.1 Long-term provisions

Allocations to long-term provisions are recognised when there is a legal or implicit obligation towards a third party and it is likely that there will be an outlay of resources, the amount of which can be reliably estimated. If the effect is significant, the allocations are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market value of the cost of money in relation to time.
When the amount is discounted, the increase in the provision due to the passing of time is recognised as a financial expense.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and has no legal or implicit obligation to pay additional contributions. The contributions to be paid into defined contribution plans are recorded as a cost in the result of the period in which they are incurred. Contributions paid in advance are recorded amongst assets to the extent to which the advance payment will determine a reduction in future payments or a refund.

Defined benefit plans

The amount payable for employee termination indemnities falls within the scope of defined benefit pension plans, which are plans based on the working life of employees and on the remuneration received by the employee during a pre-determined period of service.
More specifically, the liability relating to the employee termination indemnity is booked at its actuarial value, insofar as it can be classified as an employee benefit due on the basis of a defined benefit plan. The booking of defined benefit plans requires an estimate using actuarial techniques of the amount of the benefits accrued by employees in exchange for work performed during the current and previous years, and the discounting of these benefits in order to determine the current value of the company's commitments (IAS 19).
According to Law No. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, according to the instructions of the employee, to an appropriate supplementary pension fund. With these payments, the item relating to employee termination indemnities is no longer subject to allocations, unlike employee termination indemnities accrued by 31 December 2006, which come under the scope of defined benefit pension plans.

In June 2012, IAS 19 was amended to provide for the recording of changes to actuarial gains/losses of defined benefit plans, including employee termination indemnities, to other comprehensive income as from 1 January 2013. The Company decided to apply this amendment early, as from the financial statements as at 31 December 2012.

5.4 Medium/long-term financial payables

Financial liabilities, except for derivatives, are initially recognised at fair value net of directly attributable transaction costs. They are later measured using the effective interest rate method.

6.1 Trade payables and other payables

Trade payables due within standard business terms, and other operating payables, are not discounted and are carried at nominal value.

6.2 Short-term financial payables

Financial liabilities, except for derivatives, are recognised at fair value net of directly attributable transaction costs.

Notes to the Company's financial statements

Derivative financial instruments

Derivatives are measured at fair value and are designated as hedging instruments when the relationship between the derivative and the underlying instrument is formally documented and the effectiveness of the hedge, which is verified periodically, is adequate.
When the derivatives cover the risk of a change in the fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; accordingly, the underlying instruments are adjusted to reflect the change in fair value associated with the hedged risk, and the difference is also recognised in the income statement.
When derivatives cover the risk of changes in cash flows from the underlying instruments (cash flow hedge), changes in fair value are initially recognised in shareholders' equity and later in the income statement, according to the effects produced by the hedging transaction.
Changes in the fair value of derivatives that do not meet the conditions to qualify as hedging instruments are recognised in the income statement.

Translation of items in foreign currency

Transactions in foreign currencies are recorded at the exchange rate prevailing on the day of the transaction.
At the closing date, trade and financial receivables and payables are adjusted to the exchange rate at end of the year.
Instruments used to hedge the exchange rate risk, in relation to specific assets and liabilities or groups of assets and liabilities, are shown in the income statement on an accrual basis.

Contributions

Contributions from both government agencies and private third parties are carried at fair value when there is the reasonable certainty that they will be received and the prescribed conditions for obtaining them are satisfied.
Contributions received for specific expenses are recognised among other liabilities and credited to the income statement on a straight-line basis throughout the same period in which the related costs accrue.
Contributions received for specific assets whose value is stated among tangible and intangible assets are shown among liabilities and credited to the income statement in relation to the depreciation period for the assets to which they refer.
Operating contributions are fully recognised in the income statement when the conditions for recognising them are satisfied.

Fair value

The fair values used to prepare the financial statements, relating to the valuation of forward purchases and sales of foreign currency and foreign exchange options, were established based on rates provided by the banking system.

[Notes to the Company's financial statements]

7. Revenues

Depending on the type of transaction, revenues are recognised based on specific criteria indicated below:

- revenues from the sale of goods are recognised when the significant risks and benefits of ownership are transferred to the purchaser (typically at the time of shipment);
- revenues for services provided are recognised based on the status of completion of the assets.

14. Net financial expenses

Financial income and expenses are recognised on the basis of accrued interest on the net value of the relevant financial assets and liabilities using the effective interest rate.

15. Dividends

Dividends are recognised when the right to receive payment is established.
Dividends payable to third parties are shown as changes in shareholders' equity on the date of approval by the Shareholders' Meeting.

19. Taxes

Current income taxes for the financial year are determined based on estimates of taxable income and according to law.
Deferred and advance income taxes are calculated on the basis of the temporary differences between the recorded asset values and the respective recognised values for tax purposes, applying the tax rate in effect at the date on which the temporary difference will be reversed, calculated on the basis of the tax rates provided by law or substantively in force at the reference date.
The asset entry for advance tax payments is made when recovery is likely, that is when it is estimated that in the future there will be taxable amounts sufficient to recover the asset. The ability to recover assets for advance tax payments is reassessed at the end of each accounting period.

Use of estimates

In application of IFRS, preparing the financial statements requires the use of estimates and assumptions that affect the values of balance sheet assets and liabilities and the relevant information, as well as potential assets and liabilities at the reference date.
The estimates and assumptions are made by the directors with the support of the company departments and, where appropriate, by independent specialists; they are revised regularly, booking the effects of each change to the income statement.
Actual results may differ from these estimates.
Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement.

A significant discretionary valuation is required from the directors to establish the amount of deferred tax assets that may be booked. They have to estimate the likely time of occurrence and the amount of future profit subject to tax as well as a planning strategy for future taxes.
Estimates are also used to record provisions for bad debt, inventory obsolescence, amortisation and depreciation, employee benefits and provisions for risks and charges.

Lasting impairment

The Company checks, at every balance sheet date, whether there are any indicators of lasting impairment to fixed assets.
Impairment exists when the book value of an asset or cash generating unit exceeds its recoverable value, which is the greater of its fair value less selling costs and its value in use. Fair value, less selling costs, is calculated on the basis of data available on binding sales made between free, independent parties, of similar assets or observable market prices, less the greater costs relating to the disposal of the asset. The calculation of the value in use is based on a discounted cash flow model. Cash flow is obtained from the business plans approved by the Board of Directors, which represent the best estimate that can be prepared by the Company of the economic conditions envisaged during the period of the plan. The plan forecasts normally cover a time frame of three financial years. The long-term growth rate (g) used to estimate the end value of the asset is, for reasons of prudence, less than the long-term growth rate of the sector, country or market of reference.
This verification also involves the choice of an appropriate discount rate to calculate the present value of the expected cash flows.

Notes to the Company's financial statements

Tax consolidation

The Company, together with other companies of the Marzotto Group, joined the national tax consolidation scheme with Wizard S.r.l. as the parent company.
Economic relations, as well as mutual responsibilities and obligations, between the consolidating company and the above subsidiaries are defined in the consolidation regulations.
Subsidiaries which have positive taxable income for the years concerned pay Wizard S.r.l. the greater tax payable by the latter. The taxable income of the subsidiaries used to determine this higher tax was that declared in the tax return referred to in Article 121(a) of the TUIR.
Consolidated companies with negative taxable income receive compensation amounting to 100% of the tax saving achieved on a Group level and corresponding to the tax generated by the subsidiary from Wizard S.r.l. This compensation is due at the time of effective use by Wizard S.r.l.

Consolidated companies with interest expense not deducted pursuant to Article 96 of the TUIR and transferred to the tax consolidation scheme receive from Wizard S.r.l. compensation corresponding to 100% of the tax savings achieved at the Group level and corresponding to the tax generated by the subsidiary in relation to its interest expense. This compensation is due at the time of actual use of the EBIT surplus transferred to the tax consolidation. Assuming that the EBIT surpluses transferred cannot offset the amount of the non-deductible interest payable by the consolidated companies, interest expense is deemed to be offset in proportion to the ratio between the non-deductible interest generated during the period by each company and the total non-deductible interest of the consolidated companies in the same tax period.
In the event that the consolidated companies have surpluses of ACE (Support for Economic Growth pursuant to Article 1 of Legislative Decree No. 201/2011) to be transferred to the Group, within the limits of the Group's comprehensive income, these companies receive compensation corresponding to 100% of the tax savings achieved at Group level from Wizard S.r.l. If several consolidated companies have a surplus of ACE that may be transferred to the Group and the Group's overall comprehensive income is not sufficient to deduct it, a proportional criterion must be applied.

Tax payables are recognised under tax payables net of payments on account, withholding taxes and, in general, tax receivables. The same item includes the current IRES calculated on the basis of the calculation of the positive and negative taxable amounts of the subsidiaries that have adhered to the national tax consolidation scheme, net of the payments on account, withholding taxes and tax receivables accrued by the companies themselves. As a contra-entry to the tax payable, the corresponding receivables of the consolidating company from the Group companies are recognised for the current tax corresponding to the positive taxable amounts transferred as part of the national tax consolidation scheme.
The payable for compensation due to subsidiaries with negative taxable income is recognised under “Payables to subsidiaries”.
Deferred and advance corporation tax is calculated on the temporary differences between the values of assets and liabilities determined according to statutory criteria and the corresponding tax values exclusively with reference to the company.
Current, deferred and advance IRAP is determined exclusively with reference to the company.

Other information

For ease of reading, all figures in the consolidated balance sheet, the statement of profit/(loss) for the year and items of other comprehensive income statement, the cash flow statement and the statement of changes in shareholders’ equity, as well as in the notes, are expressed in thousands of euros.

For ease of comparison, the figures for the previous year have been reclassified as needed, and adequate information has been provided.

Please refer to the Report on Operations for further information regarding:

- main events of the 2017 financial year;
- events after the close of the financial year;
- outlook (IFRS 7);
- other relevant information on operating performance and the balance sheet structure.

Notes to the Company's financial statements

With regard to the disclosure obligations established by Law 124 of 4 August 2017, we report for Marzotto S.p.A.:

- Income recognised during the period for the production of electricity from solar farms of 362 thousand euros, including 315 thousand for contributions to electricity production (TPA) and 47 thousand for fees for energy produced and sold (TFO). Income for the year relating to the production of electricity from solar farms came to 344 thousand euros (net of withholding tax), including 294 thousand for contributions (TPA) and 50 thousand for energy produced and sold (TFO);
- Income recognised during the period for contributions pursuant to Article 13 of Law 68/99 (hiring incentives) for 11 thousand euros, with 10 thousand euros collected during the year (net of withholding taxes).

[Notes to the Company's financial statements]

1.1) Property, plant and machinery
1.2) Civil building

The tables below are shown in thousands of euros.

	2017	2016	Change
Amounts to:	**10,397**	**11,143**	**(746)**
broken down as follows:			

Descrption	A) Civil land and buildings	B) Industrial land and buildings	C) Plant and machinery	D) Industrial and comm. equipment	E) Other tangible fixed assets	F) Tangible fixed assets under cons./ advances	Total
Original cost	982	11,374	7,990	697	1,124	5	22,172
Depreciation funds	(116)	(6,242)	(3,188)	(465)	(1,018)	=	(11,029)
Balances as at 31.12.2016	**866**	**5,132**	**4,802**	**232**	**106**	**5**	**11,143**
Movements during the year:							
Original cost:							
acquisitions	=	23	108	14	12	(5)	152
gross disposal	=	=	(7)	=	(7)	=	(14)
Depreciation funds:							
depreciation for the year	(29)	(239)	(469)	(112)	(45)	=	(894)
gross disposal	=	=	6	=	4	=	10
Total movements for the year	**(29)**	**(216)**	**(362)**	**(98)**	**(36)**	**(5)**	**(746)**
Original cost	982	11,397	8,091	711	1,129	=	22,310
Depreciation funds	(145)	(6,481)	(3,651)	(577)	(1,059)	=	(11,913)
Balances as at 31.12.2017	**837**	**4,916**	**4,440**	**134**	**70**	**=**	**10,397**

Tangible fixed assets as at 31 December 2017 are 10,397 thousand euros, down by 746 thousand euros.

In detail, the increases for investments in the period (152 thousand euros) mainly relate to the following categories of assets:

- **Industrial land and buildings** for 23 thousand euros. These expenses relate to work on the Piovene building;

- **Plant and machinery** for 108 thousand euros. These capitalisations refer to office building facilities at Piovene warehouse for 35 thousand euros, the Piovene heating plant for 13 thousand euros and the revamping of the automatic warehouse at Piovene for 60 thousand euros;
- **Industrial and commercial equipment** for 14 thousand euros. These investments mainly related to the purchase of fabric bolt benches for the Piovene automated warehouse.

Work in progress in the previous year had been reclassified to the relevant categories.

As of 31 December 2017, the fixed assets of the Company were not encumbered by mortgages or third party liens.

Notes to the Company's financial statements

1.3) Goodwill, trademarks and other intangible assets

	2017	2016	Change
Amounts to:	**1,563**	**1,712**	**(149)**

made up us follows:

Description	A) Ind. patent and intellectual property rights	B) Concessions, licenses, trade-marks and similar rights	C) Goodwill	D) Other intangible fixed assets	E) Intangible fixed assets being developed and advances	Total
Original cost	3,853	488	167	=	120	4,628
Accumulated depreciation	(2,686)	(230)	=	=	=	(2,916)
Balances as at 31.12.2016	**1,167**	**258**	**167**	**=**	**120**	**1,712**
Movements during the year:						
Original cost:						
acquisitions	241	52	=	=	(95)	198
disposals/depreciations	=	=	=	=	=	=
Amortisation:						
for the year	(335)	(12)	=	=	=	(347)
disposals/depreciations	=	=	=	=	=	=
Total movements for the year	**(94)**	**40**	**=**	**=**	**(95)**	**(149)**
Original cost	4,094	540	167	=	25	4,826
Depreciation funds	(3,021)	(242)	=	=	=	(3,263)
Balances as at 31.12.2017	**1,073**	**298**	**167**	**=**	**25**	**1,563**

Intangible assets as at 31 December 2017 came to 1,563 thousand euros and recorded a change of 149 thousand euros on the previous year (of which -347 thousand euros for amortisation in the period).

The main increases in the period relate to industrial patent rights and rights to use intellectual works for 241 thousand euros (mainly software and EDP applications).

Goodwill relates to the “Logistics Services” business unit of Piovene in 2011.

Research and development expenses paid during the year, mainly pertaining to product innovation and applications for the rationalisation of production and logistics, have been charged to the income statement.

Intangible assets with a “finite useful life” are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation.

The average amortisation rates applied are shown, by individual category, in the following table:

	2017
Software	12.00%
Concessions, licenses and similar rights	10.60%

Notes to the Company's financial statements

1.5) Equity investments

	2017	2016	Change
Amounts to:	**111,704**	**111,592**	**112**

made up as follows:

Description	A) Shareholdings in Subsidiaries	B) Shareholdings in Affiliates	C) Shareholdings in other companies	Total
Original cost	100,837	10,600	206	111,643
Adjust. for permanent decrease in value	=	=	(51)	(51)
Balances as at 31.12.2016	**100,837**	**10,600**	**155**	**111,592**
Movements during the year:				
Original cost:				
acquisitions	=	112	=	112
disposal	=	=	=	=
Total movements for the year	**=**	**112**	**=**	**112**
Original cost	100,837	10,712	206	111,755
Adjust. for permanent decrease in value	=	=	(51)	(51)
Balances as at 31.12.2017	**100,837**	**10,712**	**155**	**111,704**

The investments are intended to be strategic and long-term for the Company and are measured, in compliance with the principle of continuity of measurement criteria, at purchase or subscription cost.

Equity investments are valued pursuant to IAS 36 (Impairment of assets), on which basis the Company checks whether there is any indication of lasting impairment.

A financial asset or group of financial assets should be regarded as impaired if, and only if, there is objective evidence of impairment as a result of one or more events that took place after initial recognition (when a loss event occurs) and this loss event has an impact, which can be reliably estimated, on the estimated future cash flows of the financial asset or group of financial assets. The evidence of loss of value can be represented by indicators such as financial difficulties, the incapacity to cope with obligations, insolvency in paying interest or making major payments, by debtors or a group of debtors; the probability of default or subjection to another form of financial reorganisation, and where the data that can observed shows that there is a measurable decline in estimated future cash flows, such as changes of contexts or economic conditions connected with obligations.

In particular, where the conditions are met, material equity investments are tested for impairment using an estimate of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit less selling costs and value in use.

The parameters used for the valuations are in line with current market standards for the valuation of equity investments in industrial contexts with a long-term time frame.

For details of the equity investments, please see the tables below.

As at 31 December 2017, the item is 111,704 thousand euros, having booked increases for 112 thousand euros. The change relates to the purchase of 53,450 shares in the affiliate Ratti S.p.A.

Notes to the Company's financial statements

1.6) Other medium/long-term receivables

	2017	2016	Change
Amounts to:	**11**	**11**	**=**
made up as follows:			
Other receivables	11	11	=
Total	**11**	**11**	**=**

Other medium/long-term receivables, of 11 thousand euros, include security deposits paid and still in place as at 31 December 2017.

1.7) Deferred tax assets

	2017	2016	Change
Amounts to:	**2,818**	**4,388**	**(1,570)**
made up as follows:			
Depreciation of receivables	17	17	=
Accrual for risk and charges	2,594	2,850	(256)
Taxes losses	=	1,195	(1,195)
Other temporary differences	207	326	(119)
Total	**2,818**	**4,388**	**(1,570)**

As at the reporting date, receivables for prepaid tax totalled 2,818 thousand euros, down by 1,570 thousand euros. This change includes the recovery of previous losses recognised by parent company Wizard S.r.l. in accordance with current tax law on the consolidation of taxable income.
The table above gives details of the items involved by temporary differences on which prepaid tax assets have been calculated.

1.8) Medium/long-term financial receivables

	2017	2016	Change
Amounts to:	**43**	**42**	**1**
made up as follows:			
Guarantee deposits (financial)	43	42	1
Total	**43**	**42**	**1**

Medium/long-term financial receivables amounted to 43 thousand euros and related to interest-bearing security deposits.

3.1) Inventory

	2017	2016	Change
Amounts to:	**45**	**45**	**=**
and can be broken down as follows:			
Raw, ancillary and consumable materials	45	45	=
Total	**45**	**45**	**=**

Warehouse inventory is indicated at the lower between the purchase or production cost, determined using the weighted average cost method, and the estimated net sale value.

Notes to the Company's financial statements

3.2) Trade receivables

	2017	2016	Change
Amounts to:	**4,344**	**3,817**	**527**

and refer to:

	2017		2016	
	Importi	%li	Importi	%li
Active customers receivables	417	*100.0*	418	*100.0*
- Bad debt provision	(69)	*(16.5)*	(69)	*(16.5)*
= Net active customers receivables	**348**	*83.5*	**349**	*83.5*
Bad debt	14	*100.0*	14	*100.0*
- Bad debt provision	(14)	*(100.0)*	(14)	*(100.0)*
= Net bad debt	**=**	=	**=**	=
Receivables from subsidiaries	**3,563**	*100.0*	**3,061**	*100.0*
Receivables from parent	**33**	*100.0*	**24**	*100.0*
Receivables from affiliates	**400**	*100.0*	**383**	*100.0*
Total face value of receivables	4,427	*100.0*	3,900	*100.0*
- Bad debt provision	(83)	*(1.9)*	(83)	*(2.1)*
Net receivables from customers	**4,344**	*98.1*	**3,817**	*97.9*

Trade receivables totalled 4,344 thousand euros, net of a provision for doubtful debt of 83 thousand euros.

The value of the provision booked is considered appropriate in terms of bringing the nominal value of receivables in line with the presumed realisable value and is consistent with the provisions of the reference accounting standard. This provision was determined by performing a timely analysis of all positions suggesting a risk of doubtful recovery and of all positions relating to disputed receivables, considering the current market position.

We believe that the book value of the trade receivables, settled under normal market conditions, approximates their fair value.

The breakdown of trade receivables by geographical area is as follows:

	Italy	Other European Countries	North America	Asia	Other Countries	Total
Towards customers	371	49	=	=	11	431
Towards subsidiaries	3,284	261	5	4	9	3,563
Towards parent	33	=	=	=	=	33
Towards affiliates	286	114	=	=	=	400
Gross receivables	**3,974**	**424**	**5**	**4**	**20**	**4,427**

Notes to the Company's financial statements

Trade receivables from subsidiaries relate to:

	2017	2016	Change
Novà Mosilana a.s.	92	112	(20)
AB Liteksas	15	10	5
Marzotto Textiles USA Inc.	5	2	3
Marzotto Int. Trading Shanghai Ltd.	4	2	2
Marzotto Textile NV	1	=	1
Ambiente Energia S.r.l.	172	169	3
Sametex spol s r. o	148	104	44
Girmes International G.m.b.h.	1	1	=
Marzotto Wool Manufacturing S.r.l.	868	677	191
Marzotto Lab S.r.l.	607	516	91
Biella Manifatture Tessili S.r.l.	1,002	764	238
Linificio S.r.l.	635	694	(59)
UAB Lietlinen	4	2	2
Filature de Lin Filin s.a.	9	8	1
Total	**3,563**	**3,061**	**502**

Trade receivables from parent companies relate to:

	2017	2016	Change
Trenora S.r.l.	17	13	4
Wizard S.r.l.	16	11	5
Total	**33**	**24**	**9**

Trade receivables from affiliates relate to:

	2017	2016	Change
Tintoria di Verrone S.r.l.	7	8	(1)
Uab Lietvilna	114	108	6
Ratti S.p.A.	278	266	12
Mascioni S.p.A.	1	1	=
Total	**400**	**383**	**17**

Trade receivables from affiliates result from business relations and are settled under normal market conditions.

Notes to the Company's financial statements

3.3) Other receivables

	2017	2016	Change
Amounts to:	**2,910**	**6,068**	**(3,158)**
made up as follows:			
Due from Tax Authorities	1,706	1,820	(114)
Other receivables	971	4,112	(3,141)
Accrued income and prepaid expenses	233	136	97
Total	**2,910**	**6,068**	**(3,158)**

Receivables from tax authorities relate to:

	2017	2016	Change
Added value tax	370	451	(81)
Income taxes	416	416	=
Interest due	35	35	=
Advance payments	386	412	(26)
Credits for taxes withheld	8	8	=
Other items	491	498	(7)
Total	**1,706**	**1,820**	**(114)**

Income taxes of 416 thousand relate, for 373 thousand, to an IRES credit from tax consolidation.

Other receivables break down as follows:

	2017	2016	Change
Due from State pension funds	67	70	(3)
Due from employees	110	117	(7)
Other receivables from parent companies	762	3,906	(3,144)
Other receivables from affiliates	12	8	4
Other receivables	20	11	9
Total	**971**	**4,112**	**(3,141)**

As at 31 December 2017, the item totalled 971 thousand euros and included 762 thousand euros for receivables due from parent company Wizard S.r.l. deriving from the national tax consolidation scheme (3,906 thousand euros in the previous year).

Notes to the Company's financial statements

3.4) Short-term financial assets and cash and cash equivalents

	2017	2016	Change
Amounts to:	**10,511**	**6,192**	**4,319**
and refers to:			
Financial assets			
Due from subsidiaries	149	5,792	(5,643)
Other financial receivables	1,892	5	1,887
Cash			
Bank and post-office accounts	8,467	389	8,078
Cash and cash equivalent on hand	3	6	(3)
Total	**10,511**	**6,192**	**4,319**

The total amount of the Company's Short-term financial assets and cash and cash equivalents is 10,511 thousand euros.

Liquid funds come to 8,470 thousand euros and include temporary funds available on bank accounts and amounts held as cash for future use.

The values stated can be converted readily into cash and are subject to insignificant value risk.

Please see the cash flow statement for details of the sources of funds and uses that gave rise to the change in available cash as at 31 December 2017.

Financial receivables from subsidiaries relate to:

	2017	2016	Change
Marzotto Textile N.V.	132	87	45
Marzotto Lab S.r.l.	17	5,705	(5,688)
Total	**149**	**5,792**	**(5,643)**

Financial receivables from subsidiaries include giro accounts held under market conditions.

Notes to the Company's financial statements

4. Shareholders' equity

Shareholders' equity as at 31 December 2017 is 114,878 thousand euros, improving by 5,455 thousand euros on last year.

Share capital

Number of Shares	Share capital at 31.12.2016	Share capital change	Share capital at 31.12.2017
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2017, the fully subscribed and paid-up **share capital** was 40,000 thousand euros.

Extraordinary reserve

Balances equity as at 31 December 2016	76
+/- change	=
Total	**76**

The **extraordinary reserve**, amounting to 76 thousand euros, did not change during the year.

Legal reserve

Balances equity as at 31 December 2016	8,000
+/- change	=
Total	**8,000**

The **legal reserve**, amounting to 8,000 thousand euros, did not change during the year.

Transfer reserve

Balances equity as at 31 December 2016	51,998
+/- change	=
Total	**51,998**

The **transfer reserve,** amounting to 51,998 thousand euros, includes capital gains arising as part of the reorganisation due to the transfer.

	2017	2016	Change
IAS 19 reserve	(6)	(2)	(4)
FTA reserve	=	(239)	239
Other reserves	=	(711)	711
Profits carried forward	1,351	30	1,321
Total	**1,345**	**(922)**	**2,267**

In May 2017, when the positive result was allocated, the Shareholders' Meeting resolved to cancel the FTA reserve and other reserves, totalling 950 thousand.

Civil and tax regulations to which share capital and reserves outstanding at 31 December 2017 are subject, in case of reimbursement

Description	Total amount of reserves and undistributed profits	Capital reserves which represent income for the Company	Capital and reserves which are not income for the Company or Shareholder	Total
Share capital	=	=	40,000	40,000
Legal reserve	3,267	884	3,849	8,000
Extraordinary reserve	76	=	=	76
IAS 19 reserve	(6)	=	=	(6)
Transfer reserve	51,998	=	=	51,998
Profits carried forward	1,351	=	=	1,351
Total	**56,686**	**884**	**43,849**	**101,419**

Following the demerger operation carried out in the 2010 tax period, the tax values of the shareholders' equity are different than the financial statements values; in particular the tax value of the share capital is higher, by 10,850 thousand euros, compared to the value shown on the table above, while other reserves show a lower tax value.

Capital and reserves with tax constraints

The equity constraint as at 31 December 2017 can be broken down as follows:

- the equity constraint for IRES purposes amounts to 281 thousand euros, consisting of the tax reversal made in 2004 and higher tax amortisation than accounting amortisation in 2007.

Capital and reserves with statutory constraints

Description	31/12/2017	Possibility of use	Notes
Share capital	40,000		
Legal reserve	8,000	B	
Extraordinary reserve	76	A B C	
IAS 19 reserve	(6)		
Transfer reserve	51,998	A B C	
Profits carried forward	1,351	A B C	
Total	**101,419**		

A: for capital increase

B: to cover losses

C: for distribution to shareholders

Notes to the Company's financial statements

5.1) Long-term provisions

	2017	2016	Change
Amounts to:	**9,888**	**11,087**	**(1,199)**

and refer to:

Provision for staff termination indemnities	2017	2016	Change
Amounts to:	**773**	**811**	**(38)**
the change is due to:			
Accrual in income statement	392	415	(23)
Disbursements for terminations	=	(27)	27
Disbursements for advances	(47)	=	(47)
0.50% contributions on accruals for the year	(24)	(28)	4
Transfer to other reserves/other companies	(363)	(395)	32
Transfer to tax authorities for personal income taxes ("IRPEF")	(3)	(3)	=
Adjustment as per IAS 19	7	13	(6)
Total	**(38)**	**(25)**	**(13)**

Employee termination indemnities reflect the indemnity, calculated in accordance with current legislation, accrued by employees as at 31 December 2006, which will be liquidated when they leave. Where specific conditions apply, they may be partially advanced to employees during the course of their working life.
The provision for employee termination indemnities is treated from an accounting point of view as a defined benefit and as such is recalculated at the end of each period according to a statistical and actuarial criterion which also takes account of financial discounting.
This liability has been calculated according to the actuarial criterion of the “projected unit credit method” which “considers each working period as the source of one additional unit of right to the benefits and measures each unit separately to calculate the final obligation”.
The following parameters are used: an annual discount rate of 2.05% and an annual inflation index of 1.0%.
Employee benefits are booked in accordance with IAS 19 for defined benefits plans; the Company opted for early application of the amendments introduced by IAS 19, as from the financial statements as at 31 December 2012, with the consequent recognition of changes in actuarial gains/losses amongst items of other comprehensive income, whilst financial gains/losses are recognised in the income statement.
According to Law no. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, according to the instructions of the employee, to an appropriate supplementary pension fund. With these payments, the item for employee termination indemnities is no longer affected by provisions.

Notes to the Company's financial statements

Pension	2017	2016	Change
Amounts to:	**590**	**634**	**(44)**

The provision relates to supplementary pension schemes currently in place for the secondary beneficiary.

	2017	2016	Change	due to	
Other provisions				Accrual	Utilization
Amounts to:	**8,525**	**9,642**	**(1,117)**	578	(1,695)
and refers to:					
Legal risk fund	1,776	1,849	(73)	=	(73)
Restructuring and relocation provisions	1,861	2,013	(152)	=	(152)
Tax provisions	=	746	(746)	=	(746)
Other provisions for risk/charges	4,888	5,034	(146)	578	(724)

Allocations to provisions for risks and charges during the year relate to the management's best estimate of the contingent liabilities connected to disputes in progress. Where applicable, their estimate takes account of the opinion of legal advisors and other experts, previous experience in the history of the company and other entities in similar situations and the company's intention as regards taking further action.

Below are comments on the main provisions booked.

The **provision for litigation risk** is intended to cover liabilities that may arise from litigation or other disputes. It includes an estimate of charges from litigation arising during the year and a review of allowances relating to cases which arose in previous years, updated based on the indications of our internal and external legal experts.

The **provision for restructuring and relocation** is mainly allocated to offset planned charges and costs related to the industrial reorganisation plan for some production operations.

Other provisions for risks and charges include foreseeable risks following operations in relation to Aree Urbane S.r.l., in addition to expenses associated with the former Praia a Mare plant. Reference is made to the Report on operations for more information.

Notes to the Company's financial statements

5.3) Deferred taxes payables

	2017	2016	Change
Amounts to:	**153**	**171**	**(18)**
and can be broken down as follows:			
Tangible and intangible assets differences	153	150	3
Other temporary differences	=	21	(21)
Total	**153**	**171**	**(18)**

This item includes deferred taxes reported by the Company, mainly attributable to the difference between depreciation and amortisation based on tax rates and on the useful life of the asset.

5.4) Medium/long term financial payables

	2017	2016	Change
Amounts to:	**1,693**	**6,468**	**(4,775)**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	1,682	6,457	(4,775)
Due to other lenders	11	11	=
Total	**1,693**	**6,468**	**(4,775)**

Medium/long-term financial payables are financial liabilities due to banks and other lenders maturing beyond 12 months.

More specifically, the medium/long-term loans item, which amounted to 1,682 thousand euros as at 31 December, consists of the non-current portion of loans and breaks down as follows:

- Banca Popolare di Bergamo loan, nominal value 10,000 thousand euros, residual payable of 5,028 thousand euros, of which 1,682 thousand euros due beyond one year.

There are no debts backed by collateral over company assets.

[Notes to the Company's financial statements]

6.1) Trade payables and other payables

	2017	2016	Change
Amounts to:	**12,946**	**10,193**	**2,753**
and can be broken down as follows:			
Trade payables	1,663	1,663	=
Trade payables due to subsidiaries	64	74	(10)
Payables due to Inland Revenue	732	805	(73)
Payables due to social security institutions	403	348	55
Payables due to employees	1,726	1,714	12
Other payables	206	200	6
Other payables due to parent companies	8,000	5,300	2,700
Other payables due to subsidiaries	64	=	64
Accrued liabilities and deferred income	88	89	(1)
Total	**12,946**	**10,193**	**2,753**

The balance of the item **Trade payables and other payables**, in the amount of 12,946 thousand euros at 31 December 2017, increased by 2,753 thousand euros.

Trade payables consist of trade payables arising from transactions with third party supplies and with Group companies registered net of commercial discounts and billing adjustments (returns and/or bonuses) in the amount corresponding to the amount defined with the counterparty.

The value of the trade payables as at the reporting date is a consequence, in particular, of the trend of purchases and investments of the latter part of the year in question.

Trade payables are due within the year, and pertain to debts for the purchase of goods and services relating to ordinary operations and settled under normal market conditions.

Trade payables to subsidiaries relate to:

	2017	2016	Change
Novà Mosilana a.s.	16	13	3
Marzotto Lab S.r.l.	=	9	(9)
Marzotto Wool Manufacturing S.r.l.	39	48	(9)
Sametex spol s r. o	5	=	5
Ambiente Energia S.r.l.	2	4	(2)
Linificio S.r.l.	2	=	2
Total	**64**	**74**	**(10)**

Payables to tax authorities can be broken down as follows:

	2017	2016	Change
Regional manufacturing tax	48	99	(51)
Withholding taxes	597	609	(12)
Other amounts due	87	97	(10)
Total	**732**	**805**	**(73)**

Payables to tax authorities, amounting to 732 thousand euros, mainly consist of tax withholdings on income from employment and other taxes for the period.

Payables to social security institutions relate to:

	2017	2016	Change
INPS for current taxes	305	268	37
Due to other institutions	98	80	18
Total	**403**	**348**	**55**

Payables to social security institutions reflect non-matured positions at the end of the financial year, duly paid upon maturity.

The position **payables to other institutions** includes amounts due to supplementary pension funds.

Payables to employees can be broken down as follows:

	2017	2016	Change
December salaries paid in January	466	432	34
Staff termination indemnities paid after year-end	=	51	(51)
Deferred salaries for vacation days accrued and not taken	1,103	1,010	93
Deferred salaries for other deferrals	148	200	(52)
Other items	9	21	(12)
Total	**1,726**	**1,714**	**12**

These debt positions mainly relate to salaries and wages for December, to accrued holiday entitlement not yet taken and other deferred remuneration.

Other payables relate to:

	2017	2016	Change
Other payables due to parent companies	8,000	5,300	2,700
Other payables due to subsidiaries	64	=	64
Other amounts due to third parties	206	200	6
Total	**8,270**	**5,500**	**2,770**

Other payables to parent companies, of 8,000 thousand euros, relate to the dividends resolved upon by the Shareholders' Meeting in December 2017.

Notes to the Company's financial statements

6.2) Short-term financial payables

	2017	2016	Change
Amounts to:	**4,788**	**7,668**	**(2,880)**
and can be broken down as follows:			
Payables due to banks and other lenders	4,788	4,752	36
Payables due to subsidiaries	=	2,916	(2,916)
Total	**4,788**	**7,668**	**(2,880)**

Payables to banks and other lenders relate to the use of facilities, short-term loans and the current portion of medium/long-term loans.

Financial payables to subsidiaries relate to:

	2017	2016	Change
Marzotto Wool Manufacturing S.r.l.	=	2,916	(2,916)
Total	**=**	**2,916**	**(2,916)**

The table below gives the breakdown of net borrowing.

Net financial position

	2017	2016	Change
Amounts to:	**4,073**	**(7,902)**	**11,975**
and can be broken down as follows:			
1.8 Long term financial receivables	43	42	1
3.4 Current financial assets, cash and cash equivalents	10,511	6,192	4,319
5.4 Long term financial payables	(1,693)	(6,468)	4,775
6.2 Current financial payables	(4,788)	(7,668)	2,880
Total	**4,073**	**(7,902)**	**11,975**

The net financial position at the balance sheet date was positive for 4,073 thousand euros, representing an improvement of 11,975 thousand euros.
Please see the cash flow statement for evidence of the individual factors that went towards determining the change during the period.

Notes to the Company's financial statements

Contractual commitments and guarantees (memorandum accounts)

Comments on the memorandum accounts and commitments at 31 December 2017 are provided below:

"Guarantees to subsidiaries and affiliates" were issued:

- in favour of the subsidiary Marzotto Lab S.r.l. for 42,850 thousand euros for transfers of receivables without recourse;
- to subsidiary Marzotto Lab S.r.l. for 23,500 thousand euros as a guarantee of loans granted;
- to subsidiaries Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. for 54,000 thousand euros for lines of credit;
- to subsidiary Linificio e Canapificio Nazionale S.r.l. for 2,000 thousand euros transfers of receivables without recourse;
- to Mediterranean Wool Industries Co. S.A.E. to guarantee loans granted for 1,650 thousand euros;
- in the interest of Sametex Spol s r. o as a guarantee of credit lines for 5,294 thousand euros.

"Guarantees received from third parties" were issued:

- to the Company to guarantee rental income for 122 thousand euros.

Notes to the Company's financial statements

For comments on the income performance of the Company during the year in question, reference is also made to the specific paragraph of the Report on Operations.

7. Net revenues

The table below shows the breakdown of net revenues by business segment.

	2017	2016	% change
Holding/coordination	8,552	8,776	(2.6)
Real estate	1,180	1,094	7.9
Logistics	1,701	1,734	(1.9)
Other	777	931	(16.5)
Total	**12,210**	**12,535**	**(2.6)**

Revenues relating to the holding and coordination business mainly include proceeds from the billing of services provided by the Company to Group companies for support and assistance in defining operative guidelines, administrative management, financial management and control, legal consulting and advisory services on corporate law, purchases service and IT services.
The revenues included in the Real Estate sector relate to proceeds deriving from property management, such a rental income for the lease of the portion of the property situated in Piovene Rocchette (VI).

8. Cost of goods sold

	2017	2016	% change
Amounts to:	**(2,591)**	**(2,742)**	**(5.5)**
and refers to:			
Change in stock of finished and semi-finished products	=	(58)	n.c.
Other costs	(1)	(2)	(50.0)
Other logistic and industrial costs	(2,590)	(2,682)	(3.4)
Total	**(2,591)**	**(2,742)**	**(5.5)**

The item in question totalled 2,591 thousand euros, and mainly comprised costs relating to the Logistics business at the Piovene (VI) site for 1,590 thousand euros.

Notes to the Company's financial statements

11. General and administrative costs

	2017	2016	% change
Amounts to:	**(9,141)**	**(9,501)**	**(3.8)**

General and administrative costs as at 31 December 2017 mainly include payroll costs for 5,352 thousand euros, costs for directors and auditors for 920 thousand euros, consultancy costs and fees (legal, administrative and other minor) for 159 thousand euros, insurance expenses for 134 thousand euros and maintenance, utilities and transport costs for 2,576 thousand euros.

12. Other income and expenses

	2017	2016	% change
Amounts to:	**(800)**	**(24)**	**>100%**
and refers to:			
Disposal of tangible and intangible assets	7	359	
Loss on disposal of investment	=	(57)	
Allocation/use to legal risk fund and future charges	(596)	(287)	
Other income/charges	(211)	(39)	
Total other income/charges	**(800)**	**(24)**	**>100%**

The item shows a negative balance of 800 thousand euros and mainly includes a provision for risks relating to the Praia dispute described above and income components that relate to previous years or the source of which is extraneous to the ordinary management of the company.

13. EBIT

	2017	2016	% change
Amounts to:	**(361)**	**223**	**>100%**

Below are the details of payroll costs and depreciation and amortisation included in the EBIT calculation.

Payroll costs

	2017	2016	% change
Amounts to:	**(7,197)**	**(7,647)**	**(5.9)**
and refers to:			
Wages and salaries	(5,236)	(5,437)	(3.7)
Social security contributions	(1,479)	(1,601)	(7.6)
Staff termination indemnities	(392)	(418)	(6.2)
Pension funds and similar liabilities	(14)	(13)	7.7
Other labour costs	(76)	(178)	(57.3)

The table above gives the costs relating to employees. Salaries and wages also include labour costs for temporary staff.

The trend in the active **workforce** was as follows:

	Year End Staff			Average		
	31.12.2017	31.12.2016	% change	2017	2016	% change
Blue-collar workers	15	15	=	15	16	*(6.3)*
White-collar workers	71	68	*4.4*	67	70	*(4.3)*
Managers	14	11	*27.3*	12	12	=
Total	**100**	**94**	*6.4*	**94**	**98**	*(4.1)*

Depreciation and amortisation was as follows:

Ammortization	2017	2016	% change
Amounts to:	**(1,241)**	**(1,211)**	**2.5**
and refers to:			
amortization of intangible fixed assets	(347)	(340)	
depreciation of tangible fixed assets	(894)	(871)	

Notes to the Company's financial statements

14. Net financial expenses

	2017	2016	% change
Amounts to:	**(118)**	**(108)**	**9.3**
and refer to:			
Financial income			
Interest received from subsidiaries	76	76	=
Interest received from affiliates	1	=	n.c.
Other financial income	=	25	n.c.
Total financial income	**77**	**101**	**(23.8)**
Financial charges			
Interest payable to subsidiaries	(40)	(51)	(21.6)
Interest payable to banks	(51)	(91)	(44.0)
Bank services	(40)	(46)	(13.0)
Other financial charges	(64)	(21)	>100,0
Total financial charges	**(195)**	**(209)**	**(6.7)**
Total	**(118)**	**(108)**	**9.3**

Interest income relating to subsidiaries can be broken down as follows:

	2017	2016	% change
Amounts to:	**76**	**76**	**=**
and refers to:			
Marzotto Lab S.r.l.	75	75	=
Marzotto Textile N.V.	1	1	=
Total	**76**	**76**	**=**

Interest expenses relating to subsidiaries:

	2017	2016	% change
Amounts to:	**(40)**	**(51)**	**(21.6)**
and refers to:			
Marzotto Wool Manufacturing S.r.l.	(28)	(40)	(30.0)
Ambiente Energia S.r.l.	(12)	(11)	9.1
Total	**(40)**	**(51)**	**(21.6)**

Notes to the Company's financial statements

15. Dividends from investees

	2017	2016	% change
Amounts to:	**14,376**	**10,916**	**31.7**
and refers to:			
Dividends from subsidiary companies			
Marzotto Wool Manufacturing S.r.l.	13,000	10,000	
Ambiente Energia S.r.l.	450	=	
Dividends from affiliates companies			
Ratti S.p.A.	926	916	
Dividends from other companies	=	=	
Total dividends	**14,376**	**10,916**	**31.7**

17. Other financial income and expenses

	2017	2016	% change
Amounts to:	**(1)**	**(8)**	**(87.5)**
and refers to:			
Adjustement TFR IAS 19	(1)	(8)	
Total	**(1)**	**(8)**	**(87.5)**

Other financial income and expenses was negative for 1 thousand euros as at 31 December 2017. The period provision relates to the adjustment of employee termination indemnities in application of standard IAS 19.

19. Income taxes

	2017	2016	% change
Amounts to:	**(437)**	**(752)**	**(41.9)**
and refers to:			
Current taxes	(124)	143	
Deferred taxes	(352)	(1,006)	
Other variations	39	111	
Total	**(437)**	**(752)**	**(41.9)**

The reconciliation of the theoretical tax rate with the effective tax rate on income before taxes is set out in the table below.

	2017		2016	
	Amount	%age	Amount	%age
Pre-tax profit	**13,896**		**11,023**	
Theoretical taxes	(3,335)	(24.0)	(3,031)	(27.5)
Exemption on dividens	3,278	23.6	2,852	25.9
Other permanent changes	(147)	(1.1)	(205)	(1.9)
IRAP	(47)	(0.3)	(99)	(0.9)
Other variations	41	0.3	99	0.9
Deferred taxes	(227)	(1.6)	(368)	(3.3)
Total taxes	**(437)**	**(3.1)**	**(752)**	**(6.8)**

Notes to the Company's financial statements

Related parties

It is in the economic interest of the single participating entities to carry out operations with related parties.

All transactions with subsidiaries, affiliates and other related parties, whether in relation to the exchange of goods and services or to financial operations, are carried out at arm's length.

Relations with subsidiaries and affiliates are also shown in the financial statements and the notes.

The tables below detail the equity and economic values of the transactions performed with parent companies, subsidiaries, affiliates and associates as at 31 December 2017.

Receivables and payables existing with Group Companies as at 31 December 2017

	Receivables				Payables			
Company	Trade	Other	Financial	Total	Trade	Other	Financial	Total
Biella ManifattureTessili S.r.l.	1,002	=	=	1,002	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	868	=	=	868	39	31	=	70
Marzotto Lab S.r.l.	607	=	17	624	=	33	=	33
Ambiente Energia S.r.l.	172	=	=	172	2	=	=	2
Marzotto Textile NV	1	=	132	133	=	=	=	=
Novà Mosilana a.s.	92	=	=	92	16	=	=	16
AB Liteksas	15	=	=	15	=	=	=	=
Marzotto Int. Tr. Shanghai Co. Ltd	4	=	=	4	=	=	=	=
Marzotto Textiles U.S.A. Inc.	5	=	=	5	=	=	=	=
Sametex spol s r. o	148	=	=	148	5	=	=	5
Girmes International G.m.b.h.	1	=	=	1	=	=	=	=
UAB Lietlinen	4	=	=	4	=	=	=	=
Linificio S.r.l.	635	=	=	635	2	=	=	2
Filature de Lin Filin s.a.	9	=	=	9	=	=	=	=
Uab Lietvilna	114	=	=	114	=	=	=	=
Tintoria di Verrone S.r.l.	7	4	=	11	=	=	=	=
Ratti S.p.A.	278	=	=	278	=	=	=	=
Mascioni S.p.A.	1	8	=	9	=	=	=	=
Trenora S.r.l.	17	=	=	17	=	=	=	=
Wizard S.r.l.	16	762	=	778	=	8,000	=	8,000
Total	**3,996**	**774**	**149**	**4,919**	**64**	**8,064**	**=**	**8,128**

Revenues, income, costs and charges with the Group Companies for the year 2017

	Revenues and other income				Costs and charges			
Company	Products	Services	Finance	Total	Products	Services	Finance	Total
Biella Manifatture Tessili S.r.l.	=	1,920	=	1,920	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	=	3,361	=	3,361	=	346	28	374
Marzotto Lab S.r.l.	=	2,257	75	2,332	=	=	=	=
Ambiente Energia S.r.l.	=	279	=	279	=	=	12	12
Marzotto Textile NV	=	=	1	1	=	=	=	=
Novà Mosilana a.s.	=	592	=	592	=	16	=	16
AB Liteksas	=	45	=	45	=	=	=	=
Sametex spol s r. o	=	361	=	361	=	5	=	5
Linificio S.r.l.	=	1,196	=	1,196	=	=	=	=
UAB Lietlinen	=	14	=	14	=	=	=	=
Filature de Lin Filin s.a.	=	17	=	17	=	=	=	=
Uab Lietvilna	=	226	1	227	=	=	=	=
Tintoria di Verrone S.r.l.	=	14	=	14	=	=	=	=
Ratti S.p.A.	=	480	=	480	=	=	=	=
Trenora S.r.l.	=	28	=	28	=	=	=	=
Wizard S.r.l.	=	27	=	27	=	=	=	=
Total	**=**	**10,817**	**77**	**10,894**	**=**	**367**	**40**	**407**

Notes to the Company's financial statements

Directors and Statutory Auditors

Remuneration paid to the Directors and Statutory Auditors of Marzotto S.p.A.

	Office		
(thousand of euro)	Directors	Auditors	Total
Remuneration	880	40	**920**

Independent Auditors

Remuneration due for the financial year for services provided by the Independent Auditors

		Company	
(thousand of euro)	Marzotto S.p.A.	Subsidiaries	Total
Auditing services	16	220	**236**

Non-typical/unusual operations

During FY 2017, the Company has implemented no non-typical and/or unusual operations.

Events after the date of these financial statements

During the period following 31 December 2017, no events are recorded as worthy of note or potentially able to significantly influence the data contained in this document.

[Notes to the Company's financial statements]

Equity investments held directly and indirectly by the Company

Below is the list of equity investments in which Marzotto S.p.A. directly or indirectly holds more than 10% of the voting shares as at 31 December 2017. All equity investments represent ownership:

Company name	Head office	Direct investor	% direct owned	% Marzotto S.p.A. owned
Marzotto Wool Manufacturing S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
Biella Manifatture Tessili S.r.l.	Valdagno (I)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Nová Mosilana a.s.	Brno (CZ)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Marzotto Textile N.V.	Amsterdam (NL)	Marzotto Wool/Marzotto Lab	**100.00%**	**100.00%**
Marzotto Textiles USA Inc.	New York (USA)	Marzotto Textile N.V.	100.00%	100.00%
Marzotto Inter. Tr. (Shanghai) Co. Ltd.	Shanghai (RPC)	Marzotto Textile N.V.	100.00%	100.00%
Le Cotonerie S.r.l.	Valdagno (I)	Marzotto S.p.A.	100.00%	100.00%
Ambiente Energia S.r.l.	Schio (I)	Marzotto S.p.A.	100.00%	100.00%
Marzotto Lab S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
AB Liteksas	Kaunas (LT)	Marzotto Lab S.r.l.	99.97%	99.97%
Sametex spol s r. o	Kraslice (CZ)	Marzotto Lab S.r.l.	100.00%	100.00%
Girmes International G.m.b.h.	Tonisvorst (DE)	Marzotto Lab S.r.l.	100.00%	100.00%
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	Marzotto S.p.A.	100.00%	100.00%
Pettinatura Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	15.00%	15.00%
UAB Lietvilna	Kaunas (LT)	Marzotto Lab S.r.l.	50.00%	50.00%
Tintoria di Verrone S.r.l.	Verrone (BI)	Marzotto Wool/Marzotto Lab	50.00%	50.00%
Aree Urbane S.r.l.	Milano (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milano (I)	Marzotto S.p.A.	14.18%	14.18%
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	Marzotto Wool Manufacturing S.r.l.	30.00%	30.00%
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Filature de Lin Filin S.A.	Chbedda (TN)	Linificio e Canapificio N. S.r.l.	100.00%	100.00%
UAB Lietlinen	Kaunas (LT)	Linificio e Canapificio N. S.r.l.	100.00%	100.00%
UAB Linestus in liquidation	Kaunas (LT)	UAB Lietlinen	50.00%	50.00%
Ratti S.p.A.	Guanzate (I)	Marzotto S.p.A.	**33.90%**	**33.90%**
Creomoda S.a.r.l.	Sousse (TN)	Ratti S.p.A.	76.00%	25.76%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	33.90%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	33.90%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	33.90%

Notes to the Company's financial statements

At the end of these notes we provide further details on the equity investments held by the Company.

[Notes to the Company's financial statements]

(thousands of euro)	Situation as at 31.12.2016				Changes during the year 2017			
	Number		Pro-quota	Net	Number	Gross book value		
	of shares	%	net	book	of shares			Adjust-
Description	owned	owned	equity (1)	value	(+/-)	Increases	Decreases	ments
Le Cotonerie S.r.l.	1	*100.00*	15	47	=	=	=	=
Ambiente Energia S.r.l.	1	*100.00*	8,485	8,010	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	1	*100.00*	70,060	49,371	=	=	=	=
Mrzotto Lab S.r.l.	1	*100.00*	37,420	43,401	=	=	=	=
Marzotto Textiles Czech Rep. s r.o	1	*100.00*	70	8	=	=	=	=
Shareholdings in subsidiaries			**116,050**	**100,837**	**=**	**=**	**=**	**=**
Mascioni S.p.A. (2)	283,500	*28.35*	2,022	=	=	=	=	=
Aree Urbane S.r.l. in liquidation	1	*32.50*	(7,276)	=	=	=	=	=
Ratti S.p.A.	9,217,550	*33.70*	14,088	10,600	53,450	112	=	=
Shareholding in affiliates			**8,834**	**10,600**	**53,450**	**112**	**=**	**=**
Società Editrice Il Mulino S.p.A.	224,989	*3.00*	78	143	=	=	=	=
Next Technology Tecnotessile S.r.l.	19,968	*1.58*	8	10	=	=	=	=
Tollegno Holding S.p.A.	2,270	*0.01*	3	1	=	=	=	=
Consorzio Ivrea Energia (in liquid.)	1	*11.11*	1	1	=	=	=	=
Shareholdings in other companies			**90**	**155**	**=**	**=**	**=**	**=**
Total equity investments			**124,974**	**111,592**	**53,450**	**112**	**=**	**=**

1. For subsidiary and affiliated companies, the net equity attributable to Marzotto is shown in the Parent Company's Financial Statements, or in the consolidated Financial Statements if prepared.
2. The change in the percentage of participation recorded in the period (from 28.35% to 14.18%) is to be attributed the increase in capital took place in the investee company, to which Marzotto S.p.A. has not joined, consequently diluting its share of ownership.

Situation as at 31.12.2017					
Net equity as of	Number of shares owned	% owned	Pro-quota net equity (1)	Net book value	Description
Dec. 2017	1	*100.00*	14	47	Le Cotonerie S.r.l.
Dec. 2017	1	*100.00*	8,575	8,010	Ambiente Energia S.r.l.
Dec. 2017	1	*100.00*	73,429	49,371	Marzotto Wool Manufacturing S.r.l.
Dec. 2017	1	*100.00*	35,703	43,401	Marzotto Lab S.r.l.
Dec. 2017	1	*100.00*	96	8	Marzotto Textiles Czech Rep. s r.o
			117,817	**100,837**	**Shareholdings in subsidiaries**
Dec. 2016	283,500	*14.18*	271	=	(2) Mascioni S.p.A.
Dec. 2012	1	*32.50*	(20,031)	=	Aree Urbane S.r.l. in liquidation
Dec. 2017	9,271,000	*33.90*	15,390	10,712	Ratti S.p.A.
			(4,370)	**10,712**	**Shareholding in affiliates**
Dec. 2016	224,989	*4.79*	126	143	Società Editrice Il Mulino S.p.A.
Dec. 2016	19,968	*1.58*	8	10	Next Technology Tecnotessile S.r.l.
Dec. 2016	2,270	*0.01*	3	1	Tollegno Holding S.p.A.
Dec. 2012	1	*11.11*	1	1	Consorzio Ivrea Energia (in liquidation)
			138	**155**	**Shareholdings in other companies**
			113,585	**111,704**	**Total equity investments**

Valdagno (VI), 23 March 2018

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
SERGIO TAMBORINI

EY S.p.A.
Via San Crispino, 106
35129 Padova

Tel: +39 049 7707411
Fax: +39 049 7707428
ey.com

Building a better working world

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January (Translation from the original Italian text)

To the Sole Shareholder of
Marzotto S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Marzotto S.p.A. (the Company) which comprise the balance sheet as at December 31, 2017, the statement of profit/(loss) for the year and items of other comprehensive income, the cash flow statement of the Company, the Company statement of changes in shareholders' equity, and notes to the Company's financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, 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.

Basis for Opinion

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Marzotto S.p.A. are responsible for the preparation of the Report on Operations of Marzotto S.p.A. as at December 31, 2017, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Marzotto S.p.A. as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Marzotto S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Padova, April 13th 2018

EY S.p.A.
Signed by: Stefano Marchesin, partner

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

Marzotto S.p.A.
Single shareholder company
Registered office: 1, Largo Santa Margherita – Valdagno (VI), Italy
Share capital 40,000,000 fully paid up
Vicenza Companies' Register no. 00166580241
Company managed and coordinated by Trenora S.r.l.

Report of the Board of Statutory Auditors

This report summarises activities relating to disclosure pursuant to Art. 2429 of the Italian Civil Code of:

- the results for the financial year;
- action taken to fulfil the duties set forth in law;
- observations and proposals relating to the financial statements, particularly with regard to any use by the management body of the exemption pursuant to Art. 2423 of the Civil Code;
- receipt of any complaints from shareholders pursuant to Art. 2408 of the Civil Code.

In terms of time, the Board's activities related to the entire financial year, during which meetings were regularly held pursuant to Art. 2404 of the Civil Code, documented by appropriate minutes duly signed for unanimous approval.

<u>Supervisory activities</u>

1 Pursuant to Art. 2429, para. 2, of the Civil Code, we carried out supervisory activities on the basis of the code of conduct for the Board of Statutory Auditors recommended by the Italian National Council of Accountants and Tax Advisers.

2 We report the following with regard to the activities carried out during the year:

a) we supervised observance of the law and the articles of association and compliance with the principles of proper administration;

b) we attended Shareholders' Meetings and meetings of the Board of Directors, which took place in accordance with statutory, legislative and regulatory rules governing their proceedings, and we can reasonably state that the operations resolved upon comply with the law and the articles of association and are not clearly imprudent, hazardous, in potential conflict of interest or likely to compromise the integrity of the corporate assets;

c) we oversaw the adequacy and functioning of the company's organisational structure and administration and accounting system, and the reliability of this system in accurately representing management-related issues. Our work was mainly based on information obtained from the management body and the administrative manager and the critical analysis of such information and the corporate documents requested. We have no particular observations to make in this regard;

d) we periodically obtained from the managers, during the meetings that took place, information on general management performance and outlook and on the transactions carried out by the company that were significant due to their size or characteristics, and, based on the information obtained, we have no particular observations to report;

e) we saw and obtained information regarding the organisational and procedural activities carried out pursuant to Legislative Decree 231/01 on the administrative liability of entities for the offences provided for in this legislation, as subsequently amended and supplemented;

f) we held periodic meetings with the individual responsible for performing the statutory audit of the financial statements in order to exchange data and information, during which no data or facts emerged that were relevant for the purposes of this report;

g) we considered the attention paid by the company and the Group companies to the themes of safety in the workplace (pursuant to Legislative Decree 81/2008);

h) we carried out the role of Supervisory Body pursuant to Legislative Decree 231/2001 conferred upon us by the Board of Directors on 29 September 2015, and no problems arose during the performance of this office.

3 We are also able to attest that:

a) we were kept continuously informed about matters within our remit;

b) the periodic checks and controls that we carried out on the company did not show evidence of any atypical and/or unusual transactions with third parties or related parties or within the Group;

c) we verified and monitored the independence of the individual responsible for performing the statutory audit of the financial statements;

d) we did not receive any complaints pursuant to Art. 2408 of the Civil Code, and were not notified of any other petitions;

e) during the year, we did not issue opinions within the meaning of the law;

f) when the above supervisory activities were carried out, no other significant issues arose that are worthy of mention in this report.

Separate financial statements

We examined the draft financial statements for the year ended 31 December 2017, which were made available to us within the deadlines prescribed by Art. 2429 of the Civil Code and to which we refer below.

1 The independent auditor, Ernst & Young S.p.A., informed us that during its activity of confirming and verifying the data for the annual financial statements, and during its quarterly checks, it had not become aware of any censurable or noteworthy acts or circumstances; there are no exceptions or reservations in this regard in its report.

2 As we are not required to perform the statutory audit, we hereby inform you that, with regard to those matters within our remit:

a) we oversaw the general preparation of the financial statements and ascertained that their structure and the documents they comprise, and the preparation principles and valuation criteria used, comply with the provision of the applicable regulations; we have no particular observations to make in this regard;

b) the financial statements were prepared, as in the previous year, in application of the international financial reporting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union pursuant to EC Regulation 1606/2002.
The Company therefore opted for exemption from the obligation to prepare explanatory notes with the "XBRL taxonomy".

c) the valuation criteria used to prepare the financial statements and the contents of the individual items are exhaustively described by the management body in the explanatory notes. To the best of our knowledge, none of the derogations referred to in Art. 2423 of the Civil Code was used;

d) the explanatory notes contain all the information required to provide a proper interpretation of the financial statements; the management body also provides adequate disclosure regarding transactions carried out with third parties and related parties and within the Group;

e) we have verified compliance with the law with regard to the preparation of the report on operations and we have no observations to make in this regard;

Consolidated financial statements

We also examined the draft consolidated financial statements for the year ended 31 December 2017, within the deadlines prescribed by Art. 2429 of the Civil Code, in conjunction with the draft financial statements of the parent company and the relative reports on operations:

a) the closing date of the financial statements of the companies included within the scope of consolidation is the same as that of the financial statements of the consolidating company;

b) the consolidated financial statements were prepared pursuant to Legislative Decree no. 127 of 9 April 1991, and the explanatory notes contain analyses of the criteria and scope of consolidation;

c) the full and global consolidation method was adopted for the valuation of controlling investments; the equity method was used for affiliates.

d) with regard to the report on operations, disclosure was complete and the data congruent with the results in the consolidated financial statements.

Independent Auditors' report

We can report that the Independent Auditor, which is tasked with auditing the separate financial statements and consolidated financial statements, today issued its own reports on the annual financial statements and consolidated financial statements as at 31 December 2017. Both reports express a positive opinion that complies with IFRS/IAS, with no requests for information.

Conclusions

In light of the above, the Board of Statutory Auditors, for those matters within its remit, has not found any grounds to prevent the approval of the annual financial statements of Marzotto S.p.A. as at 31 December 2017, and the proposed allocation of the profit for the year formulated by the Board of Directors.

Valdagno, 13 April 2018

For the Board of Statutory Auditors
The Chairman
Dott. Franco Corgnati

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

1836

MARZOTTO

GROUP

Reclassified financial statements of subsidiaries

	Marzotto Wool Manufacturing S.r.l. (thousand euro)		Marzotto Lab S.r.l. (thousand euro)		Ambiente Energia S.r.l. (thousand euro)	
	2017	2016	2017	2016	2017	2016
1. Non-current assets						
1.1 Property, plant and equipment	15,695	13,936	5,617	5,572	6,467	6,465
1.2 Civil buildings	42	43	402	413	15	15
1.3 Goodwill, trademarks and other intangible assets	138	104	3,741	3,678	1,027	1,133
1.4 Equity Investments	=	=	=	=	=	=
1.5 Other investments	97,224	97,224	58,422	56,666	=	=
1.6 Long-term receivables	97	169	15	24	1	1
1.7 Deferred tax assets	2,075	2,258	1,022	1,063	20	4
1.8 Long-term financial receivables	1	1	2,400	2,326	12	12
Total non-current assets	**115,272**	**113,735**	**71,619**	**69,742**	**7,542**	**7,630**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**	**=**	**=**
3. Current assets						
3.1 Inventories	34,551	30,111	15,882	14,118	=	=
3.2 Trade receivables	45,955	50,201	15,792	16,008	1,580	1,462
3.3 Other receivables	3,385	1,558	617	1,883	193	154
3.4 Current financial assets, cash and cash equivalents	25,934	18,129	11,947	10,493	2,053	2,640
Total current assets	**109,825**	**99,999**	**44,238**	**42,502**	**3,826**	**4,256**
Total assets	**225,097**	**213,734**	**115,857**	**112,244**	**11,368**	**11,886**
4. Shareholders' equity						
4.1 Share capital and reserves	60,155	55,693	39,989	43,438	8,036	7,996
4.2 Income/(Loss) for the year	9,678	16,311	(250)	(3,444)	539	489
4.3 Non controlling interests	=	=	=	=	=	=
Total shareholders' equity	**69,833**	**72,004**	**39,739**	**39,994**	**8,575**	**8,485**
5. Non-current liabilities						
5.1 Long-term provisions	7,138	7,215	2,386	2,465	96	109
5.2 Other long-term payables	=	=	=	=	=	=
5.3 Deferred tax liabilities	1,033	666	276	198	1,290	1,365
5.4 Long-term financial payables	30,554	35,785	17,306	6,354	=	=
Total non-current liabilities	**38,725**	**43,666**	**19,968**	**9,017**	**1,386**	**1,474**
6. Non-current liabilities held for sale	**=**	**=**	**=**	**=**	**=**	**=**
7. Current liabilities						
7.1 Trade payables and other payables	83,435	85,209	22,562	23,655	1,407	1,927
7.2 Current financial payables	33,104	12,855	33,588	39,578	=	=
Total current liabilities	**116,539**	**98,064**	**56,150**	**63,233**	**1,407**	**1,927**
Total shareholders' equity and liabilities	**225,097**	**213,734**	**115,857**	**112,244**	**11,368**	**11,886**
Net financial debt	**(37,723)**	**(30,510)**	**(36,547)**	**(33,113)**	**2,065**	**2,652**

[Reclassified financial statements of subsidiaries]

	Marzotto Wool Manufacturing S.r.l. (thousand euro)		Marzotto Lab S.r.l. (thousand euro)		Ambiente Energia S.r.l. (thousand euro)	
	2017	2016	2017	2016	2017	2016
8. Net revenues	**132,907**	**133,241**	**59,017**	**56,805**	**4,710**	**4,710**
9. Cost of sales	(112,336)	(105,799)	(45,159)	(44,765)	(3,466)	(3,629)
10. Gross income	**20,571**	**27,442**	**13,858**	**12,040**	**1,244**	**1,081**
11. Product development and marketing costs	(13,683)	(13,493)	(9,886)	(9,940)	(36)	(5)
12. General and administrative costs	(5,049)	(4,929)	(4,030)	(3,993)	(302)	(292)
13. Other income and charges	(245)	(146)	(395)	(629)	(180)	(97)
14. Operating income	**1,594**	**8,874**	**(453)**	**(2,522)**	**726**	**687**
15. Net financial charges	(420)	(294)	(37)	(178)	4	3
16. Dividends from non-consolidated equity investments and valuations to equity	9,309	11,044	330	945	=	=
17. Other financial income and charges	(5)	(45)	(2)	(1,612)	=	=
18. Income before taxes	**10,478**	**19,579**	**(162)**	**(3,367)**	**730**	**690**
18. Taxes	(800)	(3,268)	(88)	(77)	(191)	(201)
20. Net income from continuing operations	**9,678**	**16,311**	**(250)**	**(3,444)**	**539**	**489**
21. Net income from discontinued operations	=	=	=	=	=	=
22. Net income	**9,678**	**16,311**	**(250)**	**(3,444)**	**539**	**489**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand czk)			
	2017	2016	2017	2016	2017	2016
1. Non-current assets						
1.1 Property, plant and equipment	=	=	=	=		
1.2 Civil buildings	=	=	=	=		
1.3 Goodwill, trademarks and other intangible assets	=	=	(8)	(8)		
1.4 Equity Investments	=	=	=	=		
1.5 Other investments	=	=	=	=		
1.6 Long-term receivables	=	=	=	=		
1.7 Deferred tax assets	=	=	=	=		
1.8 Long-term financial receivables	=	=	=	=		
Total non-current assets	**=**	**=**	**(8)**	**(8)**	**=**	**=**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**		
3. Current assets						
3.1 Inventories	=	=	=	=		
3.2 Trade receivables	=	=	1,313	1,739		
3.3 Other receivables	4	7	52	13		
3.4 Current financial assets, cash and cash equivalents	11	11	2,841	1,996		
Total current assets	**15**	**18**	**4,206**	**3,748**	**=**	**=**
Total assets	**15**	**18**	**4,198**	**3,740**	**=**	**=**
4. Shareholders' equity						
4.1 Share capital and reserves	15	16	1,879	1,312		
4.2 Income/(Loss) for the year	(2)	(1)	561	567		
4.3 Non controlling interests	=	=	=	=		
Total shareholders' equity	**13**	**15**	**2,440**	**1,879**	**=**	**=**
5. Non-current liabilities						
5.1 Long-term provisions	=	=	=	=		
5.2 Other long-term payables	=	=	=	=		
5.3 Deferred tax liabilities	=	=	=	=		
5.4 Long-term financial payables	=	=	=	=		
Total non-current liabilities	**=**	**=**	**=**	**=**	**=**	**=**
6. Non-current liabilities held for sale	**=**	**=**	**=**	**=**	**=**	**=**
7. Current liabilities						
7.1 Trade payables and other payables	2	3	1,758	1,861		
7.2 Current financial payables	=	=	=	=		
Total current liabilities	**2**	**3**	**1,758**	**1,861**	**=**	**=**
Total shareholders' equity and liabilities	**15**	**18**	**4,198**	**3,740**	**=**	**=**
Net financial debt	**11**	**11**	**2,841**	**1,996**	**=**	**=**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand czk)			
	2017	2016	2017	2016	2017	2016
8. Net revenues	**=**	**=**	**14,231**	**16,130**		
9. Cost of sales	=	=	(11,730)	(13,620)		
10. Gross income	**=**	**=**	**2,501**	**2,510**	**=**	**=**
11. Product development and marketing costs	=	=	=	=		
12. General and administrative costs	(4)	(3)	(1,794)	(1,801)		
13. Other income and charges	=	=	=	=		
14. Operating income	**(4)**	**(3)**	**707**	**709**	**=**	**=**
15. Net financial charges	=	=	(7)	(11)		
16. Dividends from non-consolidated equity investments and valuations to equity	=	=	=	=		
17. Other financial income and charges	=	=	=	=		
18. Income before taxes	**(4)**	**(3)**	**700**	**698**	**=**	**=**
18. Taxes	2	2	(139)	(131)		
20. Net income from continuing operations	**(2)**	**(1)**	**561**	**567**	**=**	**=**
21. Net income from discontinued operations	=	=	=	=		
22. Net income	**(2)**	**(1)**	**561**	**567**	**=**	**=**

[Summary of the main resolutions of the Shareholders' Meeting]

With regard to the financial statements for the year ended 31 December 2017, the Marzotto S.p.A. Shareholders' Meeting of 22 May 2018 resolved:

- to approve the Company's financial statements and the Report on Operations as at 31 December 2017 and the presentation of the consolidated financial statements as at 31 December 2017 of the Marzotto Group, along with the related reports;
- to allocate the profit for the period of 13,458,974.41 euros as follows:
  - dividend: 8,000,000.00 euros;
  - retained: 5,458,974.41 euros.

After this allocation, retained profit net of losses will amount to 6,810,264.56 euros.

1836
MARZOTTO
GROUP

MARZOTTO S.p.A.
Company with Sole Shareholder - subject to management and coordination by Trenora S.r.l.

Tax ID and V.A.T. registration number 00166580241
REA Vicenza nr. 801
PEC: Marzotto@legalmail.it

Registered and Administrative office:

Largo S. Margherita, 1
36078 Valdagno (VI)
Tel. 0445 429411

Secondary offices:

Piovene Rocchette (VI), Via A. Rossi 50