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MARZOTTO
GROUP

Consolidated Financial Statements and Financial Statements as at 31 December 2018

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

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[Summary]

Marzotto
CONSOLIDATED FINANCIAL STATEMENTS and FINANCIAL STATEMENTS

Marzotto group
CONSOLIDATED FINANCIAL STATEMENTS

Marzotto S.p.A.
FINANCIAL STATEMENTS

ANNUAL 2018 REPORT

Consolidated Financial Statements as at 31 December 2018

MARZOTTO GROUP

Parent company: MARZOTTO S.p.A.

Company with sole partner

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Report on operations

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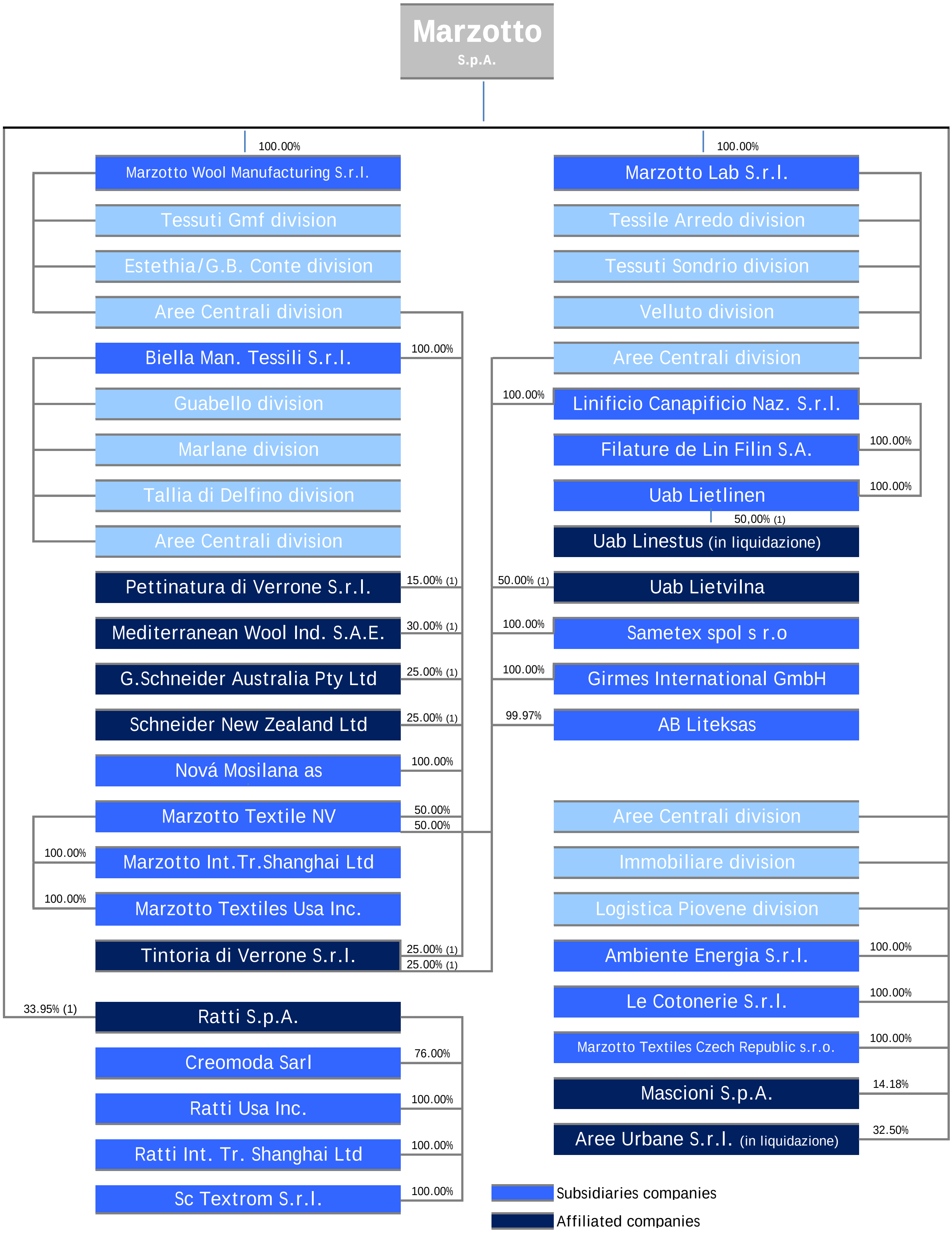
[Group structure dated 31 december 2018]



[1] Consolidated using the equity method

[Report on Operations]

Introduction

Dear Shareholders,

The consolidated financial statements for the Marzotto Group closed 2018 with net revenues of 356.8 million euros and net profit of 15.8 million euros.

Basis of preparation of the financial statements

The consolidated financial statements provided below 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 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 (where the Marzotto Wool Manufacturing group operates) includes the manufacturing and distribution of wool fabrics, mainly under the following brands:

- **Marzotto**: a leading collection by sales volume worldwide, marked out by strong product research, aimed at designers and international markets. The collection is divided into several themes/labels that range from formal dress to sportswear and outerwear.
- **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. The Guabello collection is also divided into multiple capsules/labels ranging from the more classic formal suit with a heritage flavour to a more modern line of fabrics that are comfortable and easy to maintain and transport.
- **Marlane:** The brand offers fabrics primarily focused on market trends, providing the right balance between formal, high-quality and hardworking/comfortable fabrics, with a high level of competitiveness in terms of price and customer service.
- **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** is a specialist collection of carded and combed patterned fabrics for outerwear, boiled wool and jersey. In 2018, the original Harris Tweed carded fabric continued to be marketed in Europe (excluding the UK) through an exclusive distribution agreement with Scottish company Harris Tweed Hebrides, located in the Outer Hebrides.

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 Marzotto Lab 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 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 Home*** brands. These are leading collections in the sector, standing out for their strong level of product research, focused on comfort, environmental sustainability, 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 associates Uab Lietvilna and Tintoria di Verrone S.r.l.

Group activities

The **Other Operations** sector mainly includes coordination and strategic direction activities, as well as service activities (administration and finance, legal and investor relations, human resources management, information technology) performed centrally for the operating sectors. 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. In particular, please note the 33.95% shareholding in the **Ratti** group, through which Marzotto has also been operating since 2010 in the **Silk** sector. The **Ratti group** is a leader in the design and manufacturing of printed fabrics, solid and yarn dyed fabrics for clothing (shirts, ties, intimates, swimwear) and home decor, and in the production and distribution of finished products, mainly men's and women's accessories (such as ties, scarves and *foulards*).

[Report on Operations]

Group performance

2018 confirmed the soundness of the profit performance and financial position of the Marzotto Group, which achieved consolidated revenues of 356.8 million euros during the year (347.2 million in 2017) and net profit of 15.8 million euros (13.3 million in 2017).

Pursuit of a strategy that remains consistent over time, focused 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 the complex outlook and achieve positive revenues and profits.

The consolidated data booked for 2018 show business volumes of 356.8 million euros, up compared with the previous year, and a gross margin of 67.7 million euros (19% of net revenues), compared with a gross margin of 74.8 million euros (21.5% of revenues) a year earlier.

The trend was also positive in EBIT (although strongly influenced by a positive balance of non-recurring income/expenses of 7.2 million euros), which reached 17.4 million euros (4.8% of net revenues), compared with 16.7 million euros (4.8% of net revenues) in 2017.

Financial operations showed a positive balance of 2.6 million euros (compared with a positive 1.3 million in 2017) and mainly included net financial expenses of 1.6 million euros (1.4 million in 2017) and income from the measurement at equity of associates of 4.2 million euros (2.7 million euros in 2017).

The analyses described thus far result in net profit attributable to owners of the parent of 15.8 million euros (compared with net profit of 13.3 million euros as at 31 December 2017).

[Main events of the year]

Before addressing the Group's management activity in 2018, we would first like to note the highlights for the year just ended and the current year.

Acquisition G. Schneider Australia and Schneider New Zealand

As part of the integration strategy upstream of the production chain, on 6 and 9 November 2018, 25% equity investments were acquired in G. Schneider Australia Pty Ltd and Schneider New Zealand Ltd. The aim of the transaction is to achieve greater control over the wool chain, guaranteeing sourcing directly from the most qualified farmers, with the main objective of ensuring the traceability and sustainability of the entire wool processing process.

Environmental certifications

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 the business management approach at the international level.

During the year, substantial sums continued to be invested in environmental certification and protection projects.
More specifically:

- The Marzotto Wool Manufacturing group completed two major certification processes relating to environmental protection (ISO 14001) and social protection (SA 8000). This activity concerned all of the Group’s companies (Bmt S.r.l., Marzotto Wool Manufacturing S.r.l. and Nová Mosilana a.s.) and the relevant plants.
- After obtaining the ISO 14001 and SA 8000 certifications for the Sondrio Fabrics plant in 2017, the Marzotto Lab Group continued this year with ISO 14001 and SA 8000 certifications for the Tunisian plant of subsidiary Filature de Lin Filin.

Praia a Mare litigation

With regard to the Praia a Mare plant, which was acquired by the Company in 1988 and whose activities ceased in 2004, the following proceedings are pending:

1) Appeal for Cassation against the second instance judgement of the Catanzaro General Prosecutor's Office confirming the judgement of the Court of Paola in which the acquittal was pronounced in full form - because there was no case to answer - of all the defendants (plant managers and members of the board of directors from the 1960s to 2004) of offences against the person and the environment. As these third-degree proceedings are still in their initial phase, no predictions can be made at this stage as to the outcome.
2) Pre-trial hearing requested by the Public Prosecutor at the Court of Paola on behalf of the heirs of persons who worked at the Praia a Mare plant before 1988 (the year of purchase by the Company), as well as of former employees of the Company or their heirs, who are claiming that there were functional omissions in relation to the safety conditions of the work carried out at that plant. The expert investigations are still ongoing and it is not possible to predict their progress.
3) Several civil appeals filed before the Court of Paola by the same persons who requested a pre-trial hearing (hence the heirs of persons who worked at the Praia a Mare plant before 1988 and former company workers or their heirs) complaining that the alleged absence of safety conditions for the works carried out there had caused death or serious injury. These proceedings was handled together and, after an attempt at conciliation, the preliminary phase was opened with the hearing being postponed until January 2020. At present, it is not possible to predict how the proceedings will progress.

[Report on Operations]

Income statement and statement of financial position highlights

The table below contains summaries of the Group's main income and financial position indicators for the year ended on 31 December 2018.

(in millions of euro)	2018	2017	change	change %
Consolidated net revenues	**356.8**	**347.2**	**9.6**	**+ 2.8%**
Operating income	17.4	16.7	0.7	+ 4.2%
% of net revenues	*4.8%*	*4.8%*		
EBITDA [(1)]	**33.8**	**32.0**	**1.8**	**+ 5.6%**
% of net revenues	***9.5%***	***9.2%***		
Income before taxes	20.0	18.0	2.0	+ 11.1%
% of net revenues	*5.5%*	*5.2%*		
Group net income	**15.8**	**13.3**	**2.5**	**+ 18.8%**
% of net revenues	***4.3%***	***3.8%***		
Net working capital	**88.5**	**81.5**	**7.0**	**+ 8.6%**
Net employed capital	**219.4**	**212.2**	**7.2**	**+ 3.4%**
Net financial position	**80.6**	**77.6**	**3.0**	**+ 3.9%**
Investments for the period	14.7	15.7	(1.0)	**- 6.4%**
Active staff: persons	3,245	3,209	36	**+ 1.1%**

	2018	2017	change
ROI	7.9%	7.9%	0.1%
ROE	11.4%	9.9%	1.5%
ROS	4.8%	4.8%	0.0%
Debt/Equity	58.1%	57.7%	0.4%
Capitalisation ratio	63.3%	63.4%	-0.2%
Financial coverage rate of assets	51.3%	65.2%	-13.9%
Inventory rotation index	199	189	10
Number of days of credit to clients	66	69	-3

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.
Financial coverage of fixed assets: Fixed assets + ML-term funds/Shareholders' equity + ML-term financial borrowing
Inventory 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

As of 31 December 2018, the Group's net result was positive for 15.8 million euros, compared with a final figure of 13.3 million in 2017.

Summary consolidated income statement data for the period, compared with those for 2017, are as follows(1):

(in millions of euro)	2018		2017	
Net revenues	**356.8**	***100.0%***	**347.2**	***100.0%***
Cost of sales	(289.1)	*(81.0%)*	(272.4)	*(78.5%)*
Gross income	**67.7**	***19.0%***	**74.8**	***21.5%***
R&D and marketing costs	(38.8)	*(10.9%)*	(38.6)	*(11.1%)*
General and administrative costs	(18.7)	*(5.2%)*	(18.2)	*(5.2%)*
Profit from core businesses	**10.2**	***2.9%***	**18.0**	***5.2%***
Non-recurring income/(charges)	7.2	*2.0%*	(1.3)	*(0.4%)*
Operating income	**17.4**	***4.8%***	**16.7**	***4.8%***
Net financial charges	(1.6)	*(0.5%)*	(1.4)	*(0.4%)*
Dividends and valutation at equity	4.2	*1.2%*	2.7	*0.8%*
Other financial income/charges	=	=	=	=
Income before taxes	**20.0**	***5.5%***	**18.0**	***5.2%***
Taxes	(4.2)	*(1.2%)*	(4.7)	*(1.4%)*
Group net income	**15.8**	***4.3%***	**13.3**	***3.8%***

Net revenues(2)

Total turnover of 356.8 million euros was reported for the year just ended, up compared with 2017.

With regard to product type, the Wool Fabrics business (Marzotto Wool group) closed the year with an increase in business volumes of 0.7%, or 1.8 million euros, while the Sundry Textile sector (Marzotto Lab group) booked an increase of 7.6%, or 7.6 million euros.

As regards the outlet market, the Group recorded a positive turnover performance in both the domestic market and other European countries, totalling 277.8 million euros (+3.6% on the final figure for 2017), while on the international market, sales reached 79.0 million euros (in line with 2017).

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)	2018		2017	
Textile Sector	**350.6**	***98.3%***	**341.2**	***98.2%***
Wool fabrics	242.9	*68.1%*	241.1	*69.4%*
Sundry textiles	107.7	30.2%	100.1	*28.8%*
Other Operations	**18.6**	***5.2%***	**17.2**	***5.0%***
Aggregate total	**369.2**	***103.5%***	**358.4**	***103.2%***
Inter-company sales/other	*(12.4)*	*(3.5%)*	*(11.2)*	*(3.2%)*
Consolidated total	**356.8**	***100.0%***	**347.2**	***100.0%***
of which: Italy	110.8	*31.1%*	108.1	*31.1%*
of which: Other markets	246.0	*68.9%*	239.1	*68.9%*

(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 2017, the main foreign currency of interest for the Group had the following trends compared to the euro:
GBP – Pound sterling: 0.885 (2018 average); 0.876 (2017 average);
JPY – Japanese Yen 130.410 (2018 average); 126.655 (2017 average);
USD – US Dollar 1.181 (2018 average); 1.129 (2017 average);
CZK – Czech Crown 25.643 (2018 average); 26.327 (2017 average).

Report on Operations

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)	2018		2017	
Italy	110.8	*31.1%*	108.1	*31.1%*
Other European countries	167.0	*46.8%*	160.0	*46.1%*
North America	12.9	*3.6%*	16.6	*4.8%*
Asia	54.7	*15.3%*	50.1	*14.4%*
Other countries	11.4	*3.2%*	12.4	*3.6%*
Total	**356.8**	***100.0%***	**347.2**	***100.0%***

Operating profit

Turnover results do not have an equal impact on results from ordinary operations, mainly due to the deterioration of the Wool Group's margins, linked to the gradual and significant increase in the costs of raw materials that it has suffered.
The result of ordinary operations reached 10.2 million euros (-7.8 million euros on end 2017), accounting for 2.9% 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

	2018		2017	
(in millions of euro)	Amount	% on rev.	Amount	% on rev.
Textile Sector	**8.7**	***2.5%***	**16.4**	***4.8%***
Wool fabrics	7.8	*3.2%*	17.0	*7.1%*
Sundry textiles	0.9	*0.8%*	(0.6)	*(0.6%)*
Other Operations	**1.5**	***8.1%***	**1.5**	***9.0%***
Adjustments/other	=	=	*0.1*	=
Total	**10.2**	***2.9%***	**18.0**	***5.2%***

Non-recurring income and expenses

In the year in question, non-recurring operations showed a positive balance of 7.2 million euros (compared with a negative balance of 1.3 million euros in 2017), mainly comprising net capital gains on asset sales of 10.1 million euros.
The Parent Company, partly due to difficulties in maintaining an adequate state of maintenance of the artistic works of ownership, has decided to sell the assets most at risk of deterioration. This sale activity, which began during the year just ended, resulted in extraordinary capital gains of 9.7 million euros.

Financial expenses

At the reporting date, net financial expenses amounted to 1.6 million euros, up 0.2 million euros compared with 2017.

Dividends and valuations at equity

Dividends from non-consolidated equity investments and equity measurements (positive for 4.2 million euros) include the economic impact of the measurement at equity of investments in associates.

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 2018.

The impact of the tax burden on the result for the period was a negative 4.2 million euros (compared with a negative 4.7 million euros in 2017), including current tax of 4.9 million euros and deferred tax assets of 0.3 million euros, as well as taxes relating to previous years of 0.4 million euros.

Net result

The analyses performed thus far show net profit for the year of 15.8 million euros (of which 6.8 million euros for extraordinary capital gains net of taxes), compared with a result of 13.3 million euros in 2017.

Consolidated financial position

The Marzotto Group’s financial position is summarised in the table below, compared with the corresponding amounts as of 31 December 2017:

(in millions of euro)	31.12.18	31.12.17
Net trade receivable	59.6	60.2
Other receivables	11.3	15.0
Inventory	160.1	143.0
Commercial suppliers	(108.7)	(104.3)
Other payables	(33.8)	(32.4)
A) Net working capital	**88.5**	**81.5**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyond 12 months	11.0	9.5
Equity investments	28.4	25.4
Tangible fixed assets	114.5	117.3
Intangible fixed assets	9.8	9.8
C) Net fixed assets	**163.7**	**162.0**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(26.2)**	**(25.4)**
E) Deferred taxes reserve	**(6.6)**	**(5.9)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**219.4**	**212.2**
Covered by:		
Short-term financial payables	62.1	79.1
Cash and short-term financial receivables	(97.9)	(67.4)
Medium/long term financial payables	116.5	66.2
Medium/long term financial receivables	(0.1)	(0.3)
G) Net borrowing	**80.6**	**77.6**
H) Group shareholders' net equity	**138.8**	**134.6**
I) Total (G+H) as in F	**219.4**	**212.2**

Net capital employed

As at the reporting date, capital employed net of operating liabilities came to 219.4 million euros, compared with 212.2 million as at 31 December 2017.

The increase of 7.2 million euros reflects the increase in working capital (7.0 million euros), as well as the increase in fixed assets (1.7 million euros) and the decrease in medium/long-term provisions (1.5 million euros).

More specifically, the increase of 1.7 million euros in net fixed assets was due to investments in the period (net of the normal amortisation/depreciation process in the period) of 2.8 million euros, the increase in medium/long-term receivables (essentially prepaid tax) of 1.5 million euros and the 3.0 million increase in the value of equity investments, mainly related to the valuation of associates at equity.

The table below highlights the investments made in each business sector.

(in millions of euro)	2018		2017	
Textile Sector	**14.1**	***95.9%***	**14.6**	***93.0%***
Wool fabrics	10.9	*74.1%*	11.3	*72.0%*
Sundry textiles	3.2	*21.8%*	3.3	*21.0%*
Other Operations/other	0.6	***4.1%***	**1.1**	***7.0%***
Total	**14.7**	***100.0%***	**15.7**	***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 80.6 million euros, with an indebtedness ratio[(1)] of 36.7% of net capital employed (36.6% as at 31 December 2017).

(in millions of euro)	2018	2017
Net income	15.8	13.3
Adjustments to income line items	(2.7)	(2.0)
Depreciation, amortization and write-downs	16.3	15.4
Provision and use of reserve	1.5	(1.5)
Cash Flow	**30.9**	**25.2**
Change in trade receivables	2.1	16.1
Change in inventory	(17.1)	(13.3)
Change in payables	4.0	(9.2)
Cash Flow from current assets	**19.9**	**18.8**
Investment in tangible and intangible fixed assets	(14.7)	(15.7)
Disposals of tangible and intangible fixed assets	0.1	0.1
Acquisitions/change in shareholdings	(0.3)	(0.1)
Cash Flow from investments	**(14.9)**	**(15.7)**
Free Cash Flow	**5.0**	**3.1**
Conversion differences from net borrowing and minority interests	=	=
Free Cash Flow before dividends	**5.0**	**3.1**
Shareholders' dividends	(8.0)	(5.3)
Capital increase in Parent company	=	=
Change in net financial position for the year	**(3.0)**	**(2.2)**
Initial net borrowing	(77.6)	(75.4)
Final net borrowing	(80.6)	(77.6)

Cash flow generated by current assets was positive for 19.9 million euros (18.8 million euros as at 31 December 2017), used in the amount of 14.7 million euros in investments (15.7 million euros as at 31 December 2017).

Shareholders' equity

Group shareholders' equity as at 31 December 2018 was 138.8 million euros, up 4.2 million euros on the previous year. The change was mainly due to the comprehensive result for the period, which was positive for 15.8 million euros, offset by the effect of the distribution of dividends of 8 million euros.

The capitalisation index[(2)], calculated as ratio between shareholders' equity and net invested capital, is 63.3% (also 63.4% in 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 Nová Mosilana a.s. (wholly owned), Biella Manifatture Tessili S.r.l. (100% owned), and associates Pettinatura di Verrone S.r.l. (25% owned) and Pettinatura di Verrone S.r.l. (15% owned), Mediterranean Wool Industries SAE (30% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), and Schneider Australia and Schneider New Zealand (25%).

The total turnover volume achieved in 2018 was 242.9 million euros, with EBIT of 8.6 million euros and a net profit of 6.1 million euros.

As regards the sales outlet market, Italy and the other European countries played a key role, respectively accounting for 24.2% and 48.4% 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 30.5 million.

As concerns the breakdown of turnover by operating business unit, the Lanificio Gmf segment registered turnover of 123.9 million euros (51.0% of the total) and Biella Manifatture Tessili registered 101.5 million euros (41.8%) while Estethia/G.B. Conte closed the year with 17.1 million euros in sales (7.0%).

The table below shows turnover contribution and trends by business.

Net revenues by business

(in millions of euro)	2018		2017	
Lanificio Gmf	123.9	*51.0%*	122.0	*50.6%*
Biella Manifatture Tessili	101.5	*41.8%*	103.9	*43.1%*
Estethia/G.B. Conte	17.1	*7.0%*	14.7	*6.1%*
Other	0.4	*0.2%*	0.5	*0.2%*
Total	**242.9**	***100.0%***	**241.1**	***100.0%***

[Equity investments]

Below are some comments on the performance of the main segments in which the Group operates.

LANIFICIO GMF

The turnover volume generated in 2018 increased slightly compared with 2017. The increase was mainly achieved in the first half of 2018, while in the second half of the year a slowdown began, particularly in some major European markets such as Germany and Italy. The margin was affected even more than in 2017 by the progressive and continuous increase in the cost of raw materials and the increase in labour costs in the Czech Republic, which were not fully recovered from sale prices.

The significant business volumes achieved 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 guaranteeing good 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.

In 2018, the core market was Europe, where the segment reached 70.0% of the total business volume. The positive performance that was again achieved on the American market (although partly relating to Asian destinations), which increased Group turnover to around 23 million euros, was mainly due to the range of highly innovative fashion products.

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

Product innovation: major investments were again made in 2018 in research and innovation of the collections, fulfilling the interests of customers and reinforcing the collaborative relationship with the distribution network. In particular, the new creative proposals of fabrics with high technical and performance features, such as those in the Performance line, met with great interest from the customers, for both the men's and women's collections.

A new "Organic wool & linen" line was then created in late 2018, partly thanks to the agreement with the Schneider group, which directly operates 12 organic wool farms in Patagonia, and to Linificio e Canapificio Nazionale (a subsidiary of Marzotto Group) which guaranteed GOTS (global organisation textile standard) certified organic raw materials.

Sustainability: In 2018, substantial sums continued to be invested in environmental certification and protection projects. In particular, two major certification processes were completed relating to environmental protection (ISO 14001) and social protection (SA 8000). 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 37.4 million euros for the Guabello division (down 1.1% on the previous year), 39.0 million euros for the Marlane division (in line with 2017) and 24.5 million euros for the Tallia di Delfino division (down 8.2% compared with the previous year).

Below are comments on the performance of the individual brands:

Guabello closed 2018 with buoyant sales, with a slight decrease in volumes, offset by an increase in prices that kept sales margins stable. The brand, which strengthened its strategic positioning in the formal high-end sector in the course of the year, aimed to strengthen its relations with its best customers by innovating strongly in its collection. The Middle and Far Eastern markets are the brand's areas of greatest growth opportunities and where efforts will continue to be concentrated in the coming years.

[Equity investments]

Marlane recorded sustained turnover in 2018, although it was affected by a marked slowdown, particularly in the second half of the year in the German and Italian markets. NOS (*Never out of stock*) and*Quick Service* (ex stock availability) continue to represent distinctive activities of Marlane that are not linked to seasonality but have been affected by a contraction of volumes, mainly due to the sharp increase in the cost of the wool raw material, which has led some important customers to introduce synthetic and artificial fibres or wool blends into the highest price range. Targeted commercial activity and an effective quality/service/price ratio increased Marlane's presence in other geographical areas, particularly northern Europe and the Middle and Far East.

In 2017, **Tallia di Delfino** registered a slight decrease in turnover, but strengthened the brand's positioning in the luxury segment in some major markets such as Japan and Asia, where Tallia di Delfino's main key customers are located.

ESTETHIA/G.B. CONTE

In the year under review, the segment recorded net revenues of 17.1 million euros, up by a strong 16% on the previous year, reflecting both higher sales volumes and higher prices.

The performance was very positive on all markets: the American and Asian markets, but also Europe. The increase in the 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)	2018		2017	
Italy	58.8	*24.2%*	55.1	*22.9%*
Other European countries	117.5	*48.4%*	117.0	*48.5%*
North America	10.9	*4.5%*	14.3	*5.9%*
Asia	46.6	*19.2%*	44.0	*18.3%*
Other countries	9.1	*3.7%*	10.7	*4.4%*
Total	**242.9**	***100.0%***	**241.1**	***100.0%***

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

Key indicators

(in millions of euro)	2018	2017	change	change %
Consolidated net revenues	**242.9**	**241.1**	**1.8**	**+ 0.7%**
Profit from core businesses	**7.8**	**17.0**	**(9.2)**	**- 54.1%**
% of net revenues	*3.3%*	*7.0%*	*(3.7%)*	
Operating income	**8.6**	**17.0**	**(8.4)**	**- 49.4%**
% of net revenues	*3.6%*	*7.0%*	*(3.4%)*	
Net income	**6.1**	**11.6**	**(5.5)**	**- 47.4%**
Consolidated net invested capital	**121.9**	**111.4**	**10.5**	**+ 9.4%**
Investments for the period	**10.9**	**11.3**	**(0.4)**	**- 3.5%**
Active staff at 31 December: persons	**1,819**	**1,800**	**19**	**+ 1.1%**

[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 operating businesses).

Turnover volume for the year just ended was 107.7 million euros, up 7.6% on the previous year (2017: 100.1 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2018		2017	
Linen	44.7	*41.5%*	36.9	*36.9%*
Cotton	33.1	*30.7%*	34.6	*34.6%*
Velvet	17.6	*16.4%*	17.0	*17.0%*
Furnishing	9.9	*9.2%*	9.4	*9.4%*
Other	2.4	*2.2%*	2.2	*2.2%*
Total	**107.7**	***100.0%***	**100.1**	***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

The Linificio e Canapificio Nazionale Group reported a significant increase in turnover (+21%) and profit compared with 2017, due to an increase in both volumes and sales prices.

This achievement was partly due to a recovery in the linen market and partly to the efforts made by the Company to improve the quality of its product and its customer service, which improved its reliability and enhanced its reputation.

The effect of this work also had an impact on the order book, which was significantly higher at the end of the year than in the 2017 period, suggesting a positive effect on turnover in the first quarter of 2019.

During the year, production facilities were gradually saturated, resulting in working at full capacity from the last four months.

On the other hand, the main difficulties related to a steady increase in the price of raw materials combined with difficulties in supplying them, due to a lack of availability.

This resulted in Linificio steadily increasing the sale prices of yarns during the year, with consequent tension in the downstream market.

Raw materials prices are expected to continue to rise in 2019.

COTTON

The Sondrio Fabrics division closed the year with reduction in turnover of 5% compared with the previous year, mainly due to a market situation with less demand for cotton fabrics in the winter season.
During the year, interventions continued on the product offering and through the exploitation of synergies within Marzotto Lab aimed at fighting and limiting this unfavourable market situation.
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. In order to meet market needs that are no longer focused on the two classic seasons (winter and summer), Tessuto di Sondrio has launched capsules on an ongoing basis, exploiting the collection's synergies. The market has welcomed this new offering.
Implementation of the efficiency policy at the production plant has continued. Furthermore, action is still being taken to achieve environmentally sustainable products.
The performance of the trade fairs for S/S, which is the main cotton season, were in line with 2018.

[Equity investments]

Net revenues by geographical area

Key indicators

VELVET

Market growth and consolidation continued in 2018, with an increase in turnover and an improvement in results compared with 2017.

There was a significant increase in volumes in the world of furnishings, which is constantly evolving thanks to the contract sector and the market for upholstered furniture, seating and theatre furnishings.

The trend of growth in 2018 continued to benefit from the results of the product development and marketing policies undertaken over the years, as well as the development of new finishes and items in the worlds of both fashion and furnishings.

FURNISHINGS

This division operates in the home furnishing textiles sector, offering a range of finished bedlinen and living room products. The distribution structure, as regards the retail channel, is based on an extensive network of agents both in Italy and abroad. The division's strategy focuses on sales development, particularly in the e-commerce channel, and on major "private label" customers in northern Europe, central Europe, the US and the Far East. Communication on the Lanerossi brand is ongoing and marketing activities are therefore expanding.

At the major trade shows in early 2019, the business unit presented a new collection that was highly innovative in terms of design and successful with customers. An offering of environmentally friendly items was also included.

With regard to the outlet markets, it should be noted that the domestic market accounts for 43.0% of the total (down compared with the 47.7% recorded in the previous year), while the rest of Europe, which covers around an additional 45.9% of the total, was slightly up.

(in millions of euro)	2018		2017	
Italy	46.3	*43.0%*	47.8	*47.7%*
Other European countries	49.4	*45.9%*	42.7	*42.7%*
North America	2.1	*1.9%*	2.2	*2.2%*
Asia	7.6	*7.1%*	5.7	*5.7%*
Other countries	2.3	*2.1%*	1.7	*1.7%*
Total	**107.7**	***100.0%***	**100.1**	***100.0%***

Below are the key indicators of the Marzotto Lab Group.

(in millions of euro)	2018	2017	change	change %
Consolidated net revenues	**107.7**	**100.1**	**7.6**	**+ 7.6%**
Profit from core businesses	**0.9**	**(0.6)**	**1.5**	**n.c.**
% of net revenues	*0.9%*	*(0.6%)*	*1.5%*	
Operating income	**0.7**	**(1.0)**	**1.7**	**n.c.**
% of net revenues	*0.7%*	*(1.0%)*	*1.7%*	
Net income	**0.9**	**(0.2)**	**1.1**	**n.c.**
Consolidated net invested capital	**79.3**	**81.6**	**(2.3)**	**- 2.8%**
Investments for the period	**3.2**	**3.3**	**(0.1)**	**- 3.0%**
Active staff at 31 December: persons	**1,314**	**1,288**	**26**	**+ 2.0%**

Other operations

[Equity investments]

(in millions of euro)	2018	2017	change	change %
Net revenues	**18.6**	**17.2**	**1.4**	**+ 8.1%**
Profit from core businesses	**1.5**	**1.5**	**(0.0)**	**- 2.8%**
Operating income	**8.1**	**0.7**	**7.4**	**>100%**
Investments for the period	**0.6**	**1.1**	**(0.5)**	**- 45.5%**
Active staff at 31 December: persons	**112**	**121**	**(9)**	**- 7.4%**

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 associates held by Marzotto S.p.A., consolidated using the equity method (mainly Ratti S.p.A.).

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 110.5 million euros (100.1 million in FY 2017) and net profit of 10.5 million (6.0 million in 2017).

[Other information]

Industrial relations

In 2018, in application of the Marzotto S.p.A. Company Supplementary Agreement of 29 November 2017 (2nd level agreement) relating to offices at Valdagno (VI) and the logistics/warehouses at Piovene Rocchette (VI), the welfare option was introduced as an alternative to the performance-related premium. The welfare option enables the purchase of goods and services with the amount of the premium excluded from taxable income for both social security and tax purposes.
A number of training sessions were held, which were attended by all staff, to discuss the terms and conditions of membership. In addition, in order to incentivise membership, the company adds a financial supplement of 20% (for the purchase of goods, services or reimbursements) or 22% (in case of conversion of the premium into supplementary pensions).

Marzotto Wool Manufacturing Group

At Marzotto Wool Manufacturing S.r.l. (headquartered at Valdagno - GMF and Estethia G.B Conte Divisions) , as with Marzotto S.p.A., the welfare option was applied with the same methods and conditions as indicated above.

In July, to replace current and expected employee turnover, the integration plan for young workers and workers in production areas (weaving and, to a lesser extent, finishing and dyeing) was completed. In 2018 alone, twenty-five young workers entered the company through the separate pathways of internships, fixed-term contracts and apprenticeship contracts. 70% of the individuals on these schemes were women, including several with technical diplomas in textiles and chemicals from the local Industrial Technical Institute, confirming the partnership that has existed for several years in work-study programmes and other collaborative initiatives. Again in July, five menders were offered employment at the end of their two-year apprenticeship.

As of November 2018, the ordinary wages guarantee fund (*Cassa Integrazione Guadagni Ordinaria* - CIGO) was utilised at the GMF - Valdano division. Its use was concentrated into one/two days a week between November and December; application was partial and did not cover the entire production structure. The CIGO agreement was signed with the regional trade unions (*Organizzazioni Sindacali territoriali* - O.O.S.S.) and the unitary union representative body (*Rappresentanza Sindacale Unitaria aziendale* - RSU) on 30 October 2018.

Consultations continued at the subsidiary Biella Manifatture Tessili S.r.l. to renew the Company Supplementary Agreement, which expired on 31 December 2017. As a result of the meetings, an extension of the previous agreement was agreed for 2018 and on 11 December 2018 a new business experimental agreement was signed for 2019 only. The parties have reserved the right to assess the effects of the agreement, and its possible continuation, during the year.

At the Czech subsidiary Nová Mosilana a.s., the trade union agreement for 2018 was signed on 28 November 2017.

At associate Tintoria di Verrone S.r.l., to reflect the positive results expected 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. This decision was notified to the RSU in December 2018.

Marzotto Lab Group

There was a partial utilisation of the ordinary wages guarantee fund at the Tessuti di Sondrio - NTB Division, a plant at Via Tonale in Sondrio, in the months from January to July, as per agreements signed on 19 December 2017 and 10 April 2018.

On 9 October 2018, an agreement was also reached with the O.O.S.S. and RSU to renew the Company Supplementary Agreement (2nd level agreement) for the Sondrio plant and the Tessuti di Sondrio and Nuova Tessilbrenta divisions until 31 December 2019.

With regard to the Company Supplementary Agreement (2nd level agreement) for the production unit of the Furnishings Division and the Covered Warehouse at the Piovene Rocchette site at Via A. Rossi, 54, the information on the subject of welfare above applies to Marzotto S.p.A. and Marzotto Wool Manufacturing S.r.l.; the Furnishings Division, for historical reasons, has maintained the agreement associated with the parent company.

The annual company collective bargaining agreement was renewed at the Lithuanian companies AB Liteksas, UAB Lietlinen and UAB Lietvilna on 6 December 2018.

With regard to the associate Tintoria di Verrone S.r.l., please see the previous section.

Other information

Training and development of human resources

In 2018, the Marzotto Group (Marzotto Wool Manufacturing and Marzotto Lab) invested in 1,080 hours of financed training (using the Fondimpresa and Fondirigenti interprofessional funds) and 953 hours of unfinanced training in Italy; in addition, 7,380 hours of safety training were delivered. Meanwhile, 20,513 hours of training were delivered in the foreign plants.
The objectives of training and development activities included both strengthening managerial, specialist and linguistic technical skills and increasing the competitiveness of the Marzotto Group within international scenarios.
Marzotto Group invested in the development of individual and community skills and performance: training courses aimed at the individual were delivered (course for managers of customs matters – Master Authorised Economic Operators) and ad hoc training courses were organised for key people and for strategic business communities. Marzotto also organised an innovative course aimed at all IT personnel, which addressed digital transformation in corporate processes.
In 2018, particular attention was also paid to the training of young, newly hired engineers: an academy was organised to address subjects such as the development of soft skills (communication, active inclusion, self-empowerment), project management, finance for non-finance professionals, Industry 4.0 and the history of fashion and textile technologies.
In 2018, the Marzotto Group carried out an assessment of team leaders, involving 39 employees at Valdagno; firstly, a number of skills were explored (operational problem solving, decision making, working planning and organisation, performance orientation, stress and change management, teamwork, guiding and influencing, energy and engagement needs); secondly, various areas of strength and areas for improvement were identified with a view to the development of the individual.
The admission of young university or secondary school graduates to schemes in the various functional areas of the Marzotto plants also continued: in 2018, 52 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 2018, the safety training at Marzotto Wool Manufacturing and Marzotto Lab was as follows:

- Noise risk training and training in the use of ear protectors involving 110 employees at Valdagno;
- Training course for supervisors involving 46 employees at Valdagno and 4 at Villa D'Almè;
- General training course pursuant to the State-Regions agreement under Legislative Decree 81/08 involving 26 employees at Valdagno;
- Training course for the use of the OMI Bluebox Picanol loom, involving 5 employees at Valdagno;
- Department training/support/training activities involving 27 employees at Valdagno;
- Specific low-risk training course pursuant to the State-Regions agreement under Legislative Decree 81/08 involving 15 employees at Valdagno;
- First aid training course involving 1 employee at Valdagno and 15 at Villa D'Almè;
- Provision and explanation of: booklet on the use of compressed air usage, booklet on the use of stairways and stools, booklet on car usage and booklet on phone usage involving 9 employees at Valdagno and 20 at Piovene Rocchette;
- Training courses for employees using self-propelled forklift trucks (man on board) involving 12 employees at Valdagno and 2 at Villa D'Almè;
- Theoretical/practical course on the use of the electrical transpallets (man on board and on the ground) involving 11 employees at Valdagno;
- Provision and explanation of a safety protocol for the management of chemical substances, involving 6 employees at Valdagno;
- Specific refresher course pursuant to the State-Regions agreement under Legislative Decree 81/08 involving 54 employees at Valdagno;
- Refresher course for managers involving 2 employees at Valdagno and 1 at Piovene Rocchette;
- Provision and explanation of the register of stain remover consumption at finished inspection, involving 1 employee at Valdagno;
- Environmental and waste training involving 5 employees at Valdagno;
- Theoretical/practical course on the use of the multiple manipulation forklift involving 15 employees at Valdagno;

[Other information]

- Refresher training in hazardous waste, involving 8 employees at Valdagno;
- Environmental training for occupational safety officers involving 14 employees at Valdagno;
- A course on social responsibility and SA8000 involving 7 employees at Valdagno;
- Provision and explanation of operating instructions for company access and behavioural rules, for use of electrical transpallets, first aid management, incidents and accidents and control of medical equipment, and asbestos training, involving 4 employees at Piovene Rocchette;
- Workers' refresher course pursuant to Article 37, involving 61 employees at Strona and 70 at Mongrando;
- Fire prevention course involving 16 employees at Mongrando, 3 at Strona, 16 at Villa D'Almè and 16 at Sondrio;
- Refresher course for workers' safety representatives involving 2 employees at Valdagno, 1 at Piovene Rocchette, 2 at Strona, 3 at Mongrando and 1 at Villa D'Almè;
- Refresher course for prevention and protection service managers and their trainers, involving 1 employee at Mongrando;
- Provision and explanation of a training booklet about occupational risks for pregnant women involving 6 employees in Valdagno;
- Specific training for high-risk workers involving 21 employees at Valdagno, 2 at Strona, 11 at Mongrando and 2 at Villa D'Almè;
- General training of low-risk workers involving 1 employee at Strona, 2 at Mongrando and 2 at Villa D'Almè;
- Theoretical/practical course on the use of automated external defibrillators involving 6 employees at Piovene Rocchette;
- Training course for managers involving 1 employee at Mongrando, 3 at Valdagno, 1 at Villa D'Almè and 1 at Piovene Rocchette;
- Course for drivers of self-propelled trolleys (man on board) involving 1 employee at Mongrando and 18 at Valdagno;
- General workers' course pursuant to Article 37, involving 6 employees at Mongrando and 7 at Strona;
- Course for employees operating elevating work platforms without stabilisers involving 10 employees at Mongrando;
- Refresher course for employees operating elevating work platforms without stabilisers, involving 3 employees at Mongrando and 1 at Strona;
- Training course for prevention and protection service employees - Module A, involving 1 employee at Mongrando;
- Course on environmental regulations, waste management, the sanctions system, Model 231 and company controls involving 5 employees at Mongrando and 2 at Strona;
- Waste management course involving 47 employees at Mongrando and 5 at Strona;
- Course on updating purification and interruption systems for abatement plants, new waste sheets and summary diagram D-A-004 and part 005, involving 4 employees at Mongrando;
- Training for asbestos managers according to the Piedmont Region presidential order, involving 1 employee at Mongrando;
- Information on the updating of legislation on maintenance of the CIT, involving 2 employees at Mongrando and 1 at Strona;
- Updating of ISO 14001 certification: Another training course on the main SGA procedures, involving 12 employees at Mongrando and 3 at Strona;
- Updating of ISO 14001 certification "Analysis of updated environmental improvement programme, NC 2018 analysis and review of results", involving 1 employee at Mongrando;
- SA8000 "SA8000 and SGRS requirements" certification course, involving 3 employees at Mongrando;
- SA8000 "SA8000 Principles and Social Performance Team requirements" certification course, involving 6 people at Mongrando and 3 at Strona;
- SA8000 "Social Performance Team requirements" certification course which involved 1 employee at Mongrando.
- Refresher course for workers pursuant to State-Regions agreement of 21/12/2011, involving 149 employees at Sondrio;
- "CEI11-27 IV standard, 2014 edition" refresher course, involving 2 employees at Sondrio;
- Fire prevention refresher course, involving 5 employees at Villa D'Almè;
- Forklift truck refresher course, involving 3 employees at Villa D'Almè.

[Other information]

At subsidiary Nová 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, 152 employees also took part in foreign language courses (Italian, Czech and English) for a total of 8,208 hours, while 73 assistants and managers took part in employee management courses. Finally, a technical professional training cycle was delivered to 33 employees.

Other information

Employees by sector

In 2018, the Group increased its operational workforce both nationally (+13 units on FY 2017) and internationally (+23 units on 2017).

The number of active operational staff increased from 3,209 at the end of 2017 to 3,245 at 31 December 2018.

	Year-end staff				Average			
	31.12.2018		31.12.2017		2018		2017	
Wool fabrics	1,819	*56.0%*	1,800	*56.1%*	1,832	*56.2%*	1,788	*55.3%*
Sundry textiles	1,314	*40.5%*	1,288	*40.1%*	1,310	*40.2%*	1,334	*41.2%*
Textile Sector	**3,133**	***96.5%***	**3,088**	***96.2%***	**3,142**	***96.4%***	**3,122**	***96.5%***
Other Operations	112	*3.5%*	121	*3.8%*	117	*3.6%*	113	*3.5%*
Total	**3,245**	***100.0%***	**3,209**	***100.0%***	**3,259**	***100.0%***	**3,235**	***100.0%***
Laid off/dismissed	1		4		1		3	
Total staff year end	**3,246**		**3,213**		**3,260**		**3,238**	

Operational employees by country

	Year-end staff				Average			
	31.12.2018		31.12.2017		2018		2017	
Italy	1,161	*35.8%*	1,148	*35.8%*	1,170	*35.9%*	1,140	*35.2%*
Czech Republic	1,135	*35.0%*	1,126	*35.1%*	1,140	*35.0%*	1,118	*34.6%*
Lithuania	351	*10.8%*	350	*10.9%*	352	*10.8%*	373	*11.5%*
Tunisia	590	*18.2%*	576	*17.9%*	589	*18.1%*	595	*18.4%*
Other countries	8	*0.2%*	9	*0.3%*	8	*0.2%*	9	*0.3%*
Total	**3,245**	***100.0%***	**3,209**	***100.0%***	**3,259**	***100.0%***	**3,235**	***100.0%***

Research and development

The main actions undertaken were:

GMF Fabrics

The search for sustainability and new fabric performance – elasticity, comfort and thermoregulation – led the development of GMF Fabrics collections.The organisation was impacted by the introduction of a product lifecycle management system and, in the manufacturing area, a product traceability test was launched through RFID.

Estethia/G.B. Conte

In the Estethia collection, the urban active section, characterised by total easy care (“WWWool”) and “high-performance” fabrics with waterproof treatments and breathable and anti-wind membranes, was strengthened. In the “G.B. Conte” collection, the search for new blends, finer yarns and new designs enabled the development of a new fabric family (“InnoWWWation”) with a younger, more dynamic image.

Biella Manifatture Tessili

The company continued to increase the sustainability of its offering in 2018. As part of the SILKNET Project – ROP ERDF 2014/2020 call – ASSE I – Action I.1b.1.2. - Innovation Clusters Line A – a collaboration has been undertaken with the ISMAC-CNR Institute for Macromolecular Studies Office of Biella for research on finishing agents and the reuse/recycling of processing scrap.

Other information

Research and development

Furnishing textiles

The Furnishing Textiles Division, with the LANEROSSI and MARZOTTO brands, produces and distributes blankets and throws in cashmere, wool and wool blends and furnishing accessories. In 2018, particular attention was given to research and innovation in style, as well as to the development of printed cotton and jacquard cotton collections.

Cotton

2018 ended with the creation of an energy management system at the Sondrio production site and the ITC4GREENFASHION Project (Smart and Fashion Lombardy Region call) at the Sondrio production site.Development of the offering was characterised by a continuous search for new services and effects, in line with the expectations of the sportswear market.

Velvet

Activities continued in 2018 to develop a fire-resistant velvets system. Research has focused on the study and testing of new functionalities.

Linen

Activities continued in 2018 relating to the SSUCHY Project (EU H2020 call BBI 2016.R7) for the use of Liberian fibres in composites and activities relating to the ETF Project (Eco Textile for Fashion, Smart and Fashion Lombardy Region call) for raw materials analysis. The development of the offering concerned the search for new functionalities and applications of yarns. In the manufacturing area, the company carried out studies and research on the traceability of yarn and the innovation of spinning technology.

Ambiente Energia

This is the Group company that processes and disposes of industrial waste.Analysis, study and research into the monitoring and management of chemicals continued in 2018. The search for innovative solutions for sewage sludge management was carried out in collaboration with the University of Trento.

Other information

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 Group's offering, especially its more basic products, are 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 associate 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 financial means at the 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 parties in a financial instrument may cause a financial loss by not complying with an obligation and it pertains mainly to trade receivables and financial investments of the Group.

- Trade receivables

  The credit risk is partly essentially reduced 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 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)	2018	2017
Financing and cash equivalents	98,003	67,698
Trade and other receivables	71,143	75,699
Total	**169,146**	**143,397**

The ageing of trade receivables at the date of the financial statements was:

	2018		2017	
(thousands of euro)	gross	fund	gross	fund
Current	50,304	(619)	51,704	(1,167)
Overdue from 0 to 90 days	10,856	(3,257)	8,600	(2,983)
Overdue over 90 days	3,588	(1,883)	5,446	(2,115)
Total	**64,748**	**(5,759)**	**65,750**	**(6,265)**

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 variations in the market prices, of exchange rates, tax rates or quotations of the instruments representing the capital.

- *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 reference to the most significant currencies, the table below shows the Group exposure to the exchange rate risk at the date of the financial statements.

Other information

(thousands of euro)	2018 Usd	2018 Jpy	2017 Usd	2017 Jpy
Trade receivables	6,312	(91)	8,331	38,497
Short term financial assets and cash and cash equivalents	1,462	89,346	11,885	88,273
Trade payables	(5,152)	(837)	(4,621)	(13,673)
Total	**2,622**	**88,418**	**15,595**	**113,097**

- *Interest rate risk*

  The Group is exposed to the risk of volatility of interest rates associated both with liquid funds and loans.
  The effects of the possible turmoil, already experienced in the banking system, could potentially represent a risk in relation to the cost of obtaining the financial resource. The benchmark rates and the spreads recognised by lenders call for 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.

  Interest rate hedging contracts are in place on medium/long-term loans at variable rates, through financial derivatives, to avoid market fluctuations.

Environmental and safety risk

The Group 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 Group invests constantly in protecting and ensuring the safety of the workplace, both inside and outside the production facilities.
The activities of the Group are subject to laws and regulations (local, national and international) on the environment. In particular, the production plants are affected by regulations on atmospheric emissions, waste management and water waters management, especially 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, the 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 that same time, the net demand generated by the purchase budget are covered by placing the orders with the suppliers, in order to minimize the effect on the income statement should the 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 44.1 million euros, down by approximately 11% on the 49.4 million recognised for the same period of 2018.

(in millions of euro)	02.2019		02.2018	
Textile Sector	**43.1**	***97.8%***	**48.4**	***97.9%***
Wool fabrics	28.0	63.5%	33.8	68.3%
Sundry textiles	15.1	34.3%	14.6	29.6%
Other Operations	**3.1**	***7.0%***	**3.0**	***6.1%***
Aggregate total	**46.2**	***104.8%***	**51.4**	***104.0%***
Inter-company sales	*(2.1)*	*(4.8%)*	*(2.0)*	*(4.0%)*
Consolidated total	**44.1**	***100.0%***	**49.4**	***100.0%***

Business outlook

Marzotto Wool Manufacturing Group

In the first two months, sales declined in line with the circumstances in the the last few months of 2018, due to a decrease in the sell out of the men's formal clothing stores, as well as very high inventory situations with some customers. The prompt actions undertaken to bring about further streamlining, efficiency and group synergies, along with a possible market recovery, could lead to a recovery of results in the second half of this year.

Marzotto Lab Group

The trend in turnover in the first two months, as well as in orders, which increased by around 7% compared with the same period of the previous year, point to an improvement in expected results compared with the year just ended.

Ratti Group

With regard to 2019, the most recent estimates of the textile-fashion sector show an expectation of moderate growth, with an overall scenario that, at the global level, still shows uncertain outcomes. In this context, the first few months of the year showed a positive trend for the Ratti Group in order collection and turnover, which was higher than in the corresponding period in 2018.

Valdagno (VI), 29 March 2019

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

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 statement of financial position

(thousands of euro)	31.12.2018 Partial	31.12.2018 Total	31.12.2017 Partial	31.12.2017 Total
1. Non-current assets				
1.1 Property, plant and equipment		113,309		115,999
1.2 Civil buildings		1,238		1,281
1.3 Goodwill, trademarks and other intangible assets		9,765		9,819
1.4 Equity Investments		28,180		25,264
1.5 Other investments		174		174
1.6 Long-term receivables		241		529
1.7 Deferred tax assets		10,794		8,929
1.8 Long-term financial receivables third parties	86		143	
Long-term financial receivables affiliates	=	86	167	310
Total non-current assets		**163,787**		**162,305**
2. Non-current assets held for sale		**=**		**=**
3. Current assets				
3.1 Inventories		160,133		143,014
3.2 Trade receivables third parties	58,989		59,484	
Trade receivables affiliates	605	59,594	722	60,206
3.3 Other receivables	11,100		12,845	
Other receivables affiliates	208	11,308	2,119	14,964
3.4 Current financial assets, cash and cash equivalents third parties	96,869		66,387	
Current financial assets, cash and cash equivalents affiliates	1,048	97,917	1,001	67,388
Total current assets		**328,952**		**285,572**
Total assets		**492,739**		**447,877**
4. Shareholders' equity				
4.1 Share capital and reserves		123,050		121,313
4.2 Income/(Loss) for the year		15,764		13,295
Group shareholders' equity		**138,814**		**134,608**
4.3 Non controlling interests		=		=
Total shareholders' equity		**138,814**		**134,608**
5. Non-current liabilities				
5.1 Long-term provisions		26,241		25,388
5.2 Other long-term payables		31		76
5.3 Deferred tax liabilities		6,546		5,773
5.4 Long-term financial payables		116,481		66,217
Total non-current liabilities		**149,299**		**97,454**
6. Non-current liabilities held for sale		**=**		**=**
7. Current liabilities				
7.1 Trade payables and other payables third parties	130,218		125,248	
Trade payables and other payables affiliates	12,288	142,506	11,478	136,726
7.2 Current financial payables		62,120		79,089
Total current liabilities		**204,626**		**215,815**
Total shareholders' equity and liabilities		**492,739**		**447,877**
Net financial debt		**(80,598)**		**(77,608)**

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

		Year 2018		Year 2017	
	(thousands of euro)	Amounts	%	Amounts	%
8.	Net revenues third parties	347,454	97.4	337,129	97.1
	Net revenues affiliates	9,312	2.6	10,070	2.9
	Totale net revenues	**356,766**	**100.0**	**347,199**	**100.0**
	9. Cost of sales third parties	(281,383)	(78.9)	(265,020)	(76.4)
	Cost of sales affiliates	(7,656)	(2.1)	(7,371)	(2.1)
10.	**Gross income**	**67,727**	**19.0**	**74,808**	**21.5**
	11. R&D and marketing costs	(38,804)	(10.9)	(38,584)	(11.1)
	12. General and administrative costs	(18,686)	(5.2)	(18,249)	(5.3)
	13. Other income and charges	7,192	2.0	(1,284)	(0.4)
14.	**Operating income**	**17,429**	**4.9**	**16,691**	**4.8**
	15. Net financial charges third parties	(1,671)	(0.5)	(1,375)	(0.4)
	Net financial charges affiliates	18	=	23	=
	16. Dividends from non consol. equity investments and valuations to equity	4,180	1.2	2,690	0.8
	17. Valuation of equity investments held for sale	=	=	=	=
	18. Other financial income and charges	(4)	=	(23)	=
19.	**Income before taxes**	**19,952**	**5.6**	**18,006**	**5.2**
	20. Taxes	(4,188)	(1.2)	(4,711)	(1.4)
21.	**Net income from continuing operations**	**15,764**	**4.4**	**13,295**	**3.8**
	22. Net profit/(loss) from discontinued operations	=	=	=	=
23.	**Net income (before non controlling interests)**	**15,764**	**4.4**	**13,295**	**3.8**
	24. Income attributable to non-controlling interests	=	=	=	=
25.	**Group net income**	**15,764**	**4.4**	**13,295**	**3.8**
	26. Fair Value adjustments (1)	(1,745)	(0.5)	1,439	0.4
	27. Other adjustments (1)	(1,732)	(0.5)	1,804	0.5
	Items that will be reclassified subsequently to profit and loss	**(3,477)**	**(1.0)**	**3,243**	**0.8**
	28. IAS 19 adjustments (1)	(12)	=	(26)	=
	Items that will not be reclassified subsequently to profit and loss	**(12)**	**=**	**(26)**	**=**
29.	**Total comprehensive income for the period**	**12,275**	**3.4**	**16,512**	**4.7**

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 statement of cash flows

(thousands of euro)	2018	2017
Net income (including non controlling interests)	**15,764**	**13,295**
Amortisation and depreciation	16,329	15,361
Change in provisions	406	2,665
(Gains)/losses on disposal of fixed assets	(10,075)	(692)
Investments valued at equity	(2,729)	(1,767)
Change in inventories	(17,119)	(13,324)
Change in trade receivables and other receivables third parties	4,236	14,989
Change in trade receivables and other receivables affiliates/parent	2,028	(2,085)
Change in trade payables and other payables third parties	3,830	(17,449)
Change in trade payables and other payables affiliates/parent	810	7,275
Change in other long term receivables and payables	357	(908)
Operating cash flow (A)	**13,837**	**17,360**
Investments in intangible and tangible fixed assets	(14,700)	(15,687)
Disposals in intangible and tangible fixed assets	6,938	797
(Investments in) /disposals of other equity investments	(276)	(112)
Cash flow from investments (B)	**(8,038)**	**(15,002)**
Translation exchange differences and other equity changes (C)	(657)	713
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**5,142**	**3,071**
Dividends paid	(8,000)	(5,300)
Increase in capital share of Parent Company	=	=
Change in net financial position	**(2,858)**	**(2,229)**
Change in long-term financial payables	50,132	3,134
Change in current financial payables third parties	(16,969)	20,156
Change in current financial payables affiliates/parent	=	=
Change in long-term financial receivables third parties	57	(6)
Change in long-term financial receivables affiliates/parent	167	108
Total change in current financial assets, cash and cash equivalent	**30,529**	**21,163**
Cash and current financial assets - beginning of the period	**67,388**	**46,225**
Cash and current financial assets - end of the period	**97,917**	**67,388**

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 31.12.2016	**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**
Allocation of net income: 2017										
a dividends									(8,000)	(8,000)
carried forward								5,295	(5,295)	=
Net income for the year 2018									15,764	15,764
Other total profit/ (losses) [1]			(1,732)	=	(1,745)	(12)				(3,489)
Total other income/charges	**=**	**=**	**(1,732)**	**=**	**(1,745)**	**(12)**	**=**	**=**	**15,764**	**12,275**
Other movements							(69)			(69)
Balance as at 31.12.2018	**40,000**	**8,000**	**4,136**	**76**	**(1,049)**	**(468)**	**27,944**	**44,411**	**15,764**	**138,814**

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	31.12.2017		31.12.2017
(k euro)			
B) Fixed assets	100,163	A) Shareholders' equity	100,544
C) Current assets	496	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	117
Total assets	**100,661**	**Total liabilities**	**100,661**

Income statements	Year 2017
(thousands of euro)	
A) Value of production	12
B) Cost of goods sold	(182)
Difference between value and cost of goods sold (A+B)	**(170)**
C) Financial income and charges	2,609
D) Adjustment to value of financial assets	(37)
Income before taxes (A+B+C+D+E)	**2,402**
Income taxes	(18)
Profit (loss) for the year	**2,384**

The consolidated financial statements of the Marzotto Group were approved by the Marzotto S.p.A. Board of Directors on 29 March 2019. Publication will take place in accordance with the law.

Introduction

Notes to the consolidated financial statements

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 by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Financial statements

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

- in the consolidated statement of financial position, 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 statement of cash flows 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 geographic area is given in accordance with that required by 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 sector is primarily organised by product line, as follows:

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

The Group also operates through associates 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.

Going concern

The consolidated financial statements have been prepared on the basis of the accounting records as at 31 December 2018 and on a going concern basis.

Notes to the consolidated financial statements

Change to accounting standards

Accounting standards, amendments and interpretations applicable as from 1 January 2018.

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 2017, except for the new standards, amendments and interpretations in force as from 1 January 2018. The new standards have had no material impact on the Group's consolidated financial statements and are described below.

Accounting standards that entered into force on 1 January 2018

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 coming under 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.

This standard has not had a significant impact.

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 reference to the impairment model, the new standard requires the estimated losses on loans to be prepared on the basis of the model of expected losses (and not on the model of incurred losses) using supported information, available at no cost and without any unreasonable effort that include 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 model of hedge accounting, with the aim of adjusting the requirements envisaged by the current IAS 39, which have at times been considered as overly strict and not able to reflect the company’s 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;
- change in the method of booking forward contracts and options when included in a hedge accounting relationship, so as to reduce the volatility of the income statement;
- 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, an assessment of effectiveness is no longer be required.

This standard has had no material impact on the financial statements.

Notes to the consolidated financial statements

Change to accounting standards

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. Such circumstances do not apply to the Group.
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) 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.
This standard has had no impact on the consolidated financial statements.
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.

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

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 will apply from 1 January 2019.
The application of this standard at the reporting date is still being assessed.

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 from 1 January 2019.

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 come into force.

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 operating 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 sold and/or liabilities accepted and the capital 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 contingent liabilities acquired and identifiable are noted at fair value at the date of acquisition. At each acquisition, the Group decides whether or not to recognise the minority interests of the company acquired at fair value or according to their interest share in the fair value of the net assets acquired. The surplus between 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 minority interest pre-existing in the company acquired with respect to the portion of the buyer in the fair value of the assets and liabilities that can be identified and contingent liabilities, is recorded as goodwill. If the buyer's share of the fair value of the assets and liabilities that can be identified and the contingent liabilities of the business acquired exceeds the cost of the combination, the difference is recognised directly in the income statement.
As regards the accounting treatment of transactions or events that modify the interest shares in subsidiaries and the attribution of the subsidiary's losses pertaining to minorities, IAS 27 (revised 2008) establishes that, once control has been obtained of a business, the transactions in which the parent company acquires or transfers further minority shares without altering the control exerted over the subsidiary are transactions with shareholders and should therefore be recognised as 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 all differences between the amount of the adjustment made to the minority interest and fair value of the price paid or received against this transaction, is noted directly as 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 statement of financial position 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.

Investments in associates

These are equity investments held in companies over whose financial and operational policies the Group exercises significant influence. Equity investments in companies over which significant influence is exerted ("associates"), 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 associate 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 associate equals or exceeds its share pertaining to the associate, 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 associates 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 are companies subject to the joint control of companies over which the Group has the power to govern the operating and financial policies if there is unanimous consent by the other parties with joint control. Investments in joint ventures or companies under joint control are consolidated using the equity method and the homogeneous accounting standards as 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 the changes in fair value are allocated directly to shareholders' equity until sold. Comprehensive profits and losses are booked to the income statement of the year during which the sale is made, 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.

Notes to the consolidated financial statements

Below are the subsidiaries and associates included in the consolidation scope as at 31 December 2018.

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

Company	Reg. office	Share Capital	Currency	% Ownership 2018	% Ownership 2017
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 liquidation	Kaunas (LT)	500.00	K EUR	50.00	50.00

Operating Companies consolidated at equity:

Company	Reg. office	Share Capital	Currency	% Ownership 2018	% Ownership 2017
Mascioni S.p.A.	Milan (I)	10,000.00	K EUR	14.18	28.35
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	9,208.00	K EUR	30.00	30.00
G. Schneider PTY Limited	Greenwich (AUS)	3.00	K AUD	25.00	=
Schneider New Zealand Limited	Christchurch (AUS)	0.10	K NZD	25.00	=
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	33.95	33.90
and it's subisidiaries:					
Creomoda S.a.r.l.	Sousse (TN)	10.00	K TND	25.80	25.61
Ratti USA Inc.	New York (USA)	500.00	K USD	33.95	33.90
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	110.00	K EUR	33.95	33.90
Textrom S.r.l.	Cluj - Napoca (RO)	0.20	K RON	33.95	33.90

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

Company	Reg. office	Share Capital	Currency	% Ownership 2018	% Ownership 2017
Aree Urbane S.r.l. in liquidation	Milan (I)	100.00	K EUR	32.50	32.50

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)		2018	2017	% change
	- for the profit and loss account (average prevailing exchange rates for the year)			
AUD	Australian Dollar	1.580	1.473	7.2
CZK	Czech Crown	25.643	26.327	(2.6)
CNY	China Renmimbi	7.807	7.626	2.4
TND	Tunisian Dinar	3.111	2.729	14.0
RON	New Leu	4.654	4.569	1.9
NZD	New Zeland Dollar	1.707	1.590	7.3
USD	USA Dollar	1.181	1.129	4.6
	- for the balance sheet (year-end prevailing exchange rates)			
AUD	Australian Dollar	1.622	1.535	5.7
CZK	Czech Crown	25.724	25.535	0.7
CNY	China Renmimbi	7.875	7.804	0.9
TND	Tunisian Dinar	3.430	2.974	15.4
RON	New Leu	4.664	4.659	0.1
NZD	New Zeland Dollar	1.706	1.685	1.2
USD	USA Dollar	1.145	1.199	(4.5)

Valuation criteria

[Notes to the consolidated financial statements]

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

1.1 Real estate, plants and machinery
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 recognized at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following twelve 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 fixed 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 recognized at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following twelve months.

Impairment

In application of the reference accounting standards (IAS 36), the Group checks, at every reporting date, whether there is any indication of lasting impairment to assets.

If these indications exist, an estimate is prepared of the value that can be recovered on the asset, i.e. the greater of the fair value of an asset or cash generating unit, less the costs of sale, and its use value. 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.

A reduction in value is recognized 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 estimated realizable value.

Impairment losses are written back if the reasons for generating them no longer exist.

1.4 Investments measured at equity

Equity investments in associates and joint ventures are measured according to the equity method, in which the income statement reflects the share of the company's net profit or loss for the year attributable to the parent. If a company recognises adjustments directly through equity, the Group recognises its share of such adjustments and presents them, where applicable, in the statement of changes in shareholders' equity. Gains and losses arising from transactions between the Group and the associate (or joint venture), are derecognised in proportion to the equity investment in the company.

1.5 Other equity investments

Equity investments in companies other than subsidiaries and associates are measured at fair value, with any profits or losses recognised 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 reporting 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, representative of the fair value, and later recognized at the lower between the book value and the estimated sale 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 statement of financial position.

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

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 estimated realisable value is recognised in special adjustment provisions.

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 statement of financial position 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 296/06, effective from 30 June 2007, 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 a suitable 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 are within 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 carried at fair value net of directly attributable transaction costs. They are later measured using the effective 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 continuous use are shown separately from other assets and liabilities in the statement of financial position.

The 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 carried at fair value net of directly attributable transaction costs.

Derivative financial instruments

Derivatives are carried at fair value. They 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 change in fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; consistently, 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), the changes in fair value are initially recognised in shareholders' equity and later in the income statement, in line with the effects produced by the hedging transaction.

Changes in the fair value of derivatives that do not satisfy the conditions for being qualified as hedges are recognised in the income statement.

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

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.

[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 the assets and liabilities in the statement of financial position and the relevant information, as well as contingent 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 reporting 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 with regard to the value in use, 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 statement of financial position, the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated statement of cash flows 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 2018 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 financial position.

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 344 thousand euros, including 294 thousand for contributions to electricity production (TPA) and 50 thousand for fees for energy produced and sold (TFO). During the year, 328 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 279 thousand euros for contributions (TPA) and 49 thousand euros for energy produced and sold (TFO);
- Income received from Fondirigenti of 6 thousand euros on 13 July 2018;
- Income received from Fondimpresa of 16 thousand euros on 2 March 2018, 23 May 2018, 16 July 2018 and 23 November 2018;
- Contribution relief relating to the issuing of vouchers to employees (2016 Stability Act) of 5 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 period, receivables were used to offset contributions to new capital goods for 72 thousand euros;
- Income received from Fondirigenti of 6 thousand euros on 26 July 2018 and 3 September 2018;
- Income received from Fondimpresa of 18 thousand euros on 7 May 2018 and 16 July 2018;
- Contribution relief relating to the issuing of vouchers to employees (2016 Stability Act) of 10 thousand euros.

Biella Manifatture Tessili S.r.l.

- Income recognised during the period for the production of electricity from solar farms of 82 thousand euros, including 53 thousand for contributions to electricity production (TPA) and 29 thousand for fees for energy produced and sold (TFO). During the year, 80 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 56 thousand euros for contributions (TPA) and 24 thousand euros 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 of 212 thousand euros were used for offsetting;
- Income received from Finpiemonte S.p.A. of 13 thousand euros on 30 October 2018 for the SILKNET Project - Innovation Clusters Line A – Piedmont Region;
- Income received from Fondirigenti of 2 thousand euros on 31 October 2018;
- Income received from Fondimpresa of 2 thousand euros on 28 February 2018 and 31 October 2018.

Marzotto Lab S.r.l.

- Income recognised during the period for the production of electricity from solar farms of 71 thousand euros, including 69 thousand for contributions to electricity production (TPA) and 2 thousand for fees for energy produced and sold (TFO). During the year, 73 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 72 thousand euros for contributions (TPA) and 1 thousand euros 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 in the period for research and development tax credits of 154 thousand euros; 69 thousand euros relating to research and development tax credits in 2016 were used for offsetting during the year;
- Income received from the Lombardy Region of 20 thousand euros on 31 July 2018 for the "ITC4 GREEN FASHION" project (Smart Fashion and Design - Lombardy Region);
- Income received from Fondimpresa of 4 thousand euros on 13 February 2018, 02 March 2018 and 19 October 2018;

Notes to the consolidated financial statements

- Contribution relief relating to the issuing of vouchers to employees (2016 Stability Act) of 1 thousand euros.

Linificio e Canapificio Nazionale S.r.l.

- Income recognised in the period for research and development tax credits of 128 thousand euros; 80 thousand euros relating to research and development tax credits in 2016 were used for offsetting during the year;
- Income received from Fondirigenti of 2 thousand euros on 13 July 2018.

Ambiente Energia S.r.l.

- Income recognised in the period for research and development tax credits of 95 thousand euros; 48 thousand euros relating to research and development tax credits in 2016 were used for offsetting during the year.

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

- Income received from CSEA (Cassa per i Servizi Energetici e Ambientali) of 198 thousand euros, on 22 June 2018, for bonuses on 2016 consumption for energy-intensive companies;
- Subsidised financing from Finpiemonte S.p.A. of 378 thousand euros (regional portion) and 126 thousand euros (banking portion), collected on 22 November 2018 for the photovoltaic project "Energy efficiency and renewable energy in businesses". For the same project, 126 thousand euros was also recorded as a non-repayable grant, which had not yet been collected as at 31 December 2018.

Notes to the consolidated financial statements

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

1.1) Property, plant and machinery

1.2) Civil buildings

	2018	2017	Change
Amounts to:	114,547	117,280	(2,733)

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	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**
Movements during the year:							
Original cost:							
acquisitions	=	2,223	10,780	497	1,426	(683)	14,243
exchange rate differences	=	(1,071)	(2,724)	(28)	(89)	(54)	(3,966)
reclassifications	=	=	=	=	=	=	=
disposals	=	(197)	(16,444)	(300)	(316)	=	(17,257)
Depreciation funds:							
depreciation for the year	(43)	(2,512)	(11,827)	(673)	(776)	=	(15,831)
exchange rate differences	=	434	2,372	28	70	=	2,904
reclassifications	=	=	=	=	=	=	=
disposals	=	139	16,429	299	307	=	17,174
Total movements for the year	**(43)**	**(984)**	**(1,414)**	**(177)**	**622**	**(737)**	**(2,733)**
Original cost (at exchange rate of 31/12)	1,443	123,891	281,118	12,142	15,641	3,388	437,624
Depreciation funds	(205)	(74,173)	(225,071)	(10,919)	(12,709)	=	(323,077)
Balances as at 31.12.2018	**1,238**	**49,718**	**56,047**	**1,223**	**2,932**	**3,388**	**114,547**

The changes that took place pertained to the acquisitions carried out by Marzotto S.p.A. (79 thousand euros), Marzotto Wool Manufacturing S.r.l. (4,360 thousand euros), Marzotto Lab S.r.l. (830 thousand euros), Ambiente Energia S.r.l. (379 thousand euros), Novà Mosilana a.s. (4,192 thousand euros), Sametex spol s r. o (725 thousand euros), AB Liteksas (555 thousand euros), Biella Manifatture Tessili S.r.l. (2,093 thousand euros) and the Linificio Group (1,030 thousand euros).

The sale of assets during the year involved booking net capital gains gross of tax of 10,075 thousand euros (of which gains of 10,107 thousand euros and losses of 32 thousand euros).

As at 31 December 2018, 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 short-term bank loan of 1,916 thousand euros at the reporting date.

Notes to the consolidated financial statements

1.3) Goodwill, trademarks and other intangible assets

	2018	2017	Change
Amounts to:	**9,765**	**9,819**	**(54)**

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	=	6,866	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**
Movements during the year:							
Original cost:							
acquisitions	=	342	34	=	15	66	457
exchange rate differences	=	(36)	=	=	=	(2)	(38)
disposals/depreciations	=	=	=	=	=	=	=
reversal due to amort. being completed	=	=	=	=	=	=	=
Amortisation:							
for the year	=	(471)	(14)	=	(13)	=	(498)
exchange rate differences	=	27	(1)	=	(1)	=	25
reversal due to amort. being completed	=	=	=	=	=	=	=
Total movements for the year	**=**	**(138)**	**19**	**=**	**1**	**64**	**(54)**
Original cost	=	7,172	7,761	167	237	222	15,559
Depreciation funds	=	(5,429)	(256)	=	(109)	=	(5,794)
Balances as at 31.12.2018	**=**	**1,743**	**7,505**	**167**	**128**	**222**	**9,765**

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 457 thousand euros during the period mainly relates to transcriptions of trademarks of 34 thousand euros and licences of 342 thousand euros.

The trademarks, which are considered intangible assets with an undefined useful life, are not amortised but rather are regularly tested for impairment in compliance with IAS 36. Impairment testing of the value of trademarks is carried out by 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 2018 there were no significant events to suggest that the values in the financial statements were permanently impaired.
However, the estimate of the 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

	2018	2017	Change
Amounts to:	**28,180**	**25,264**	**2,916**

made up as follows:

Description	A) Ratti Group	B) Mascioni Group	C) Mediterranean Wool Ind.	D) Pettinatura di Verrone	Sub total
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**
Movements during the year:					
Original cost:					
acquisitions	35	=	=	=	35
devaluations	=	=	=	=	=
Adjustment to equity:					
accrued pro-quota profit/(loss)	3,509	=	33	29	3,571
pro-quota dividends paid in 2017	(1,206)	=	=	=	(1,206)
effect of change in shareholders' equity	(76)	=	36	=	(40)
Total movements for the year	**2,262**	**=**	**69**	**29**	**2,360**
Original cost	10,747	706	2,027	1,667	15,147
Adjustment to equity	8,313	(706)	51	325	7,983
Balances as at 31.12.2018	**19,060**	**=**	**2,078**	**1,992**	**23,130**

Description	E) Schneider Australia	F) Schneider New Zealand	G) Uab Lietvilna	H) Tintoria di Verrone S.r.l.	Total
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**
Movements during the year:					
Original cost:					
acquisitions	52	189	=	=	276
devaluations	=	=	=	=	=
Adjustment to equity:					
accrued pro-quota profit/(loss)	=	=	566	48	4,185
pro-quota dividends paid in 2017	=	=	(250)	=	(1,456)
effect of change in shareholders' equity	(4)	(46)	=	1	(89)
Total movements for the year	**48**	**143**	**316**	**49**	**2,916**
Original cost	52	189	2,848	108	18,344
Adjustment to equity	(4)	(46)	1,659	244	9,836
Balances as at 31.12.2018	**48**	**143**	**4,507**	**352**	**28,180**

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

In compliance with the reference standard (IFRS 11), the Group uses the equity method to account for Ratti S.p.A. companies. (33.945% 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 associates Mascioni S.p.A. (14.18%), Mediterranean Wool Industries Co. S.A.E. (30%) and Pettinatura di Verrone S.r.l. (15%) also measured using the equity method: in November, the equity investments in Schneider Australia PTY Limited (25%) and Schneider New Zealand Limited (25%) were acquired.

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

Notes to the consolidated financial statements

1.5) Other investments

	2018	2017	Change
Amounts to:	**174**	**174**	**=**

1.6) Other medium/long-term receivables

	2018	2017	Change
Amounts to:	**241**	**529**	**(288)**
made up as follows:			
Due from Tax Authorities	=	293	(293)
Other receivables	241	236	5
Total	**241**	**529**	**(288)**

The item **Other medium/long-term receivables** (241 thousand euros) is mainly composed of security deposits paid by the Group companies. The balance of receivables from the tax authorities of the previous year relating to the tax credit for investments in new capital goods, recognised by Marzotto Wool Manufacturing S.r.l. (72 thousand euros), Marzotto Lab S.r.l. (9 thousand euros) and subsidiary Biella Manifatture Tessili S.r.l. (212 thousand euros) was reduced to zero as it related to the last instalment of the medium/long-term receivable, reclassified in the current year to short-term receivables.

1.7) Deferred tax assets

	2018	2017	Change
Amounts to:	**10,794**	**8,929**	**1,865**
made up as follows:			
Depreciation of inventory	3,252	2,287	965
Depreciation of receivables	1,308	1,406	(98)
Accrual for risks and charges	4,432	4,028	404
Forex	358	2	356
Tax losses	187	85	102
Other temporary differences	1,257	1,121	136
Total	**10,794**	**8,929**	**1,865**

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 totalled 10,794 thousand euros, making for an increase of 1,865 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, 3,408 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 2,658 thousand euros, by Biella Manifatture Tessili S.r.l. for 2,067 thousand euros, by Novà Mosilana for 410 thousand euros, by Marzotto Lab S.r.l. for 1,237 thousand euros, by the Linificio e Canapificio Nazionale group for 715 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

	2018	2017	Change
Amounts to:	**86**	**310**	**(224)**
made up as follows:			
Receivables from affiliates companies	=	167	(167)
Guarantee deposits (financial)	72	73	(1)
Other receivables	14	70	(56)
Total	**86**	**310**	**(224)**

2. Assets held for sale/discontinued operations

The item includes the equity investment in the associate Aree Urbane S.r.l. in liquidation, fully written down in previous years.

3.1) Inventory

	2018	2017	Change
Amounts to:	**160,133**	**143,014**	**17,119**
and can be broken down as follows:			
Raw, ancillary and consumable materials	49,385	42,346	7,039
Unfinished, semi-finished goods and work in progress	54,792	45,204	9,588
Finished products and goods for resale	55,956	55,464	492
Total	**160,133**	**143,014**	**17,119**

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 group operates in a sector subject to changes in fashion. It should be noted that unsold seasonal fashion articles still held in inventory at year-end are appropriately written down to their presumed realisable value.

Inventories shows a net increase of 17,119 thousand euros on last year. The breakdown and change in the item is as follows:

- inventories in the Wool Fabrics sector for 114,596 thousand euros (98,664 thousand euros as at 31 December 2017);
- inventories in the Sundry Textile sector for 45,499 thousand euros (44,137 thousand euros as at 31 December 2017);
- inventories in the other/sundry sector for 38 thousand euros (213 thousand euros as at 31 December 2017).

[Notes to the consolidated financial statements]

3.2) Trade receivables

	2018	2017	Change
Amounts to:	**59,594**	**60,206**	**(612)**

and refers to:

	2018		2017	
	Amount	%age	Amount	%age
Active customers receivables	62,048	*100.0*	62,659	*100.0*
- Bad debt provision	(4,035)	*(6.5)*	(4,052)	*(6.5)*
= Net active customers receivables	**58,013**	***93.5***	**58,607**	***93.5***
Bad debt	2,700	*100.0*	3,091	*100.0*
- Bad debt provision	(1,724)	*(63.9)*	(2,213)	*(71.6)*
= Net bad debt	**976**	***36.1***	**878**	***28.4***
Receivables from parent companies	**50**	***100.0***	**33**	**=**
Receivables from affiliates	**555**	***100.0***	**688**	***100.0***
Total face value of receivables	65,353	*100.0*	66,471	*100.0*
- Bad debt provision	(5,759)	*(8.8)*	(6,265)	*(9.4)*
Net receivables from customers	**59,594**	***91.2***	**60,206**	***90.6***

Trade receivables total 59,594 thousand euros, net of the provision for doubtful debt of 5,759 thousand euros (provision of 6,265 thousand euros at 31 December 2017).

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.

In order to provide complete information, please note that as at the reporting date, the impact of the transfer of receivables without recourse is 27,676 thousand euros.

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	37,059	11,875	4,726	4,877	6,211	64,748
Towards parent companies	50	=	=	=	=	50
Towards affiliates	219	154	=	=	182	555
Gross receivables	**37,328**	**12,029**	**4,726**	**4,877**	**6,393**	**65,353**

Trade receivables from associates relate to:

	2018	2017	Change
Tintoria di Verrone S.r.l.	23	16	7
Uab Lievilna	154	154	=
Mediterranean Wool Industries CO. S.A.E.	182	179	3
Ratti S.p.A.	195	278	(83)
Mascioni S.p.A.	1	61	(60)
Total	**555**	**688**	**(133)**

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

3.3) Other receivables

	2018	2017	Change
Amounts to:	**11,308**	**14,964**	**(3,656)**
made up as follows:			
Due from Tax Authorities	7,233	7,314	(81)
Other receivables	2,326	4,180	(1,854)
Other receivables from parent companies	201	2,064	(1,863)
Other receivables from affiliates	7	55	(48)
Accrued income and prepaid expenses	1,541	1,351	190
Total	**11,308**	**14,964**	**(3,656)**

The amount of the item **Other receivables** is 11,308 thousand euros; below are the main items comprising this value.

Receivables from tax authorities relate to:

	2018	2017	Change
Added value tax	2,503	2,784	(281)
Other taxes and interest	4,730	4,530	200
Total	**7,233**	**7,314**	**(81)**

In detail, receivables from the tax authorities for VAT of 2,503 thousand euros comprise 10 thousand euros for the parent company, 374 thousand euros for Marzotto Wool Manufacturing S.r.l., 73 thousand euros for Marzotto Lab S.r.l., 627 thousand euros for the Linificio Group, 701 thousand euro for Novà Mosilana a.s., 124 thousand euros for Sametex spol s r.o, 2 thousand euros for AB Liteksas, 589 thousand euros for Biella Manifatture Tessili S.r.l. and 3 thousand euros for Le Cotonerie S.r.l.

Other tax and interest of 4,730 thousand euros includes receivables for IRAP, IRES and other receivables due from the tax authorities.

Sundry receivables amount to 2,326 thousand euros and mainly include receivables from employees of 774 thousand euros, receivables for contributions accrued on the “Bioinnano” Project from Linificio S.r.l. of 228 thousand euros, receivables relating to the valuation of currency hedging contracts in place at the reporting date of 67 thousand euros and advances to suppliers of 413 thousand euros.

Other receivables from the parent company 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, amounting to 201 thousand euros.

Accrued income and deferred expenses come to 1,541 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

	2018	2017	Change
Amounts to:	**97,917**	**67,388**	**30,529**
and refers to:			
Financial assets			
Due from affiliates	1,048	1,001	47
Other financial receivables	8	2,586	(2,578)
Cash			
Bank and post-office accounts	96,806	63,589	33,217
Cash and cash equivalent on hand	55	212	(157)
Total	**97,917**	**67,388**	**30,529**

The total amount of the Group's **short-term financial assets and cash and cash equivalents** is 97,917 thousand euros, compared with 67,388 thousand euros in the previous year.

More specifically, short-term financial assets include financial receivables from associates of 1,048 thousand euros, in respect of Mediterranean Wool Industries Co. S.A.E.

Liquid funds come to 96,861 thousand euros (63,801 thousand euros in 2017) 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 the 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]

Shareholders' equity as at 31 December 2018 is 138,814 thousand euros, improving by 4,206 thousand euros on last year. The change is mainly due to the comprehensive period result, which is positive for 15,764 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 31.12.2017	Share capital change	Share capital at 31.12.2018
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2018, the fully subscribed and paid-up share capital was 40,000 thousand euros.

Legal reserve

Balances equity as at 31 December 2017	8,000
+/- change	=
Totale	**8,000**

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

Conversion reserve

Balances equity as at 31 December 2017	5,868
+/- change	(1,732)
Totale	**4,136**

The conversion reserve was 4,136 thousand euros, decreasing by 1,732 thousand euros due to exchange rate differences arising from the conversion into euros of the financial statements of the consolidated companies denominated in currencies other than the euro.

Extraordinary reserve

Balances equity as at 31 December 2017	76
+/- change	=
Total	**76**

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

Notes to the consolidated financial statements

IAS Reserve

	2018	2017	Change
IAS 19 Reserve	(468)	(456)	(12)
Fair value Reserve	(949)	696	(1,645)
Fair value IRS Reserve	(100)	=	(100)
Total	**(1,517)**	**240**	**(1,757)**

In order to address the risks of changes in the variable interest rates on medium/long-term loans, the Group carries out interest rate hedging transactions (interest rate swaps to predefine a fixed interest rate.

To address exchange rate risks relating to purchases and sales in foreign currencies, the Group also 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 international accounting standards, the portion of the gain or loss relating to the measurement of such derivatives (mark to market) has been booked net of the tax effect, amongst the items of the statement of comprehensive income, as the effectiveness of the cover guaranteed by these financial instruments has been proven.

The Fair value reserve includes the market value of these transactions, net of tax, which as at the reporting date came to -949 thousand euros relating to "cash flow hedging transactions" (*currency*) and -100 thousand euros relating to interest rate hedges (*IRS*).

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:

	2018		2017	
	Income	**Net equity**	**Income**	**Net equity**
Marzotto S.p.A.	14,082	120,957	13,459	114,878
Elimination of shareholdings consolidated line-by-line	18,834	12,666	19,166	14,560
Valuations at equity	4,151	10,216	2,689	7,608
Intercompany dividends	(18,716)	=	(24,015)	=
Consolidation adjustments	(2,587)	(5,025)	1,996	(2,438)
Total	**15,764**	**138,814**	**13,295**	**134,608**

Notes to the consolidated financial statements

5.1) Long-term provisions

	2018	2017	Change
Amounts to:	**26,241**	**25,388**	**853**
and refers to:			

	2018	2017	Change	due to		
Provision for staff term.indemnities				Accruals	Utilisation	Exch. Diff.
Amounts to:	**9,664**	**9,968**	**(304)**	3,021	(3,325)	=
and refer to:						
Marzotto S.p.A.	714	773	(59)	389	(448)	=
Marzotto Wool S.r.l.	5,181	5,345	(164)	1,159	(1,323)	=
Marzotto Lab S.r.l.	1,065	1,075	(10)	484	(494)	=
B.M.T. S.r.l.	1,977	2,064	(87)	825	(912)	=
Ambiente Energia S.r.l.	93	91	2	33	(31)	=
AB Liteksas	91	79	12	13	(1)	=
Linificio S.r.l.	543	541	2	118	(116)	=

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 2.08% and an annual inflation index of 1.20%.
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	2018	2017	Change
and refer to:	**546**	**590**	**(44)**

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

Statement of financial position

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	2018	2017	Change	due to		
Other provisions				Accruals	Utilisation	Exch. Diff.
Amounts to:	**16,031**	**14,830**	**1,201**	3,340	(2,139)	=
and refer to:						
Agents' severance pay provision	4,742	4,561	181	202	(21)	=
Legal risk fund	1,992	2,830	(838)	115	(953)	=
Restructuring and relocation provisions	2,861	1,861	1,000	1,000	=	=
Tax provisions	88	88	=	=	=	=
Other provisions for risk/charges	6,348	5,490	858	2,023	(1,165)	=

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 **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 **restructuring and relocation provisions** are allocated mainly to offset planned charges and costs related to the industrial reorganisation plan of some production operations.

The **tax provision** includes accruals 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

	2018	2017	Change
Amounts to:	**31**	**76**	**(45)**
and refers to:			
Payables due to social security institutions	31	16	15
Payables to suppliers	=	60	(60)
Total	**31**	**76**	**(45)**

5.3) Deferred taxes payables

	2018	2017	Change
Amounts to:	**6,546**	**5,773**	**773**
and can be broken down as follows:			
Tangible and intangible assets differences	3,730	3,937	(207)
Capitalized installment	1,857	=	1,857
Other temporary differences	959	1,836	(877)
Total	**6,546**	**5,773**	**773**

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.

Notes to the consolidated financial statements

	2018	2017	Change
Amounts to:	**116,481**	**66,217**	**50,264**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	116,200	65,990	50,210
Other medium/long-term debt	281	227	54
Total	**116,481**	**66,217**	**50,264**

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

As at the reporting date, the portion due within 12 months is reclassified to current financial liabilities.

More specifically, the medium/long-term loans item, which amounted to 116,200 thousand euros as at 31 December, consists of the non-current portion of loans and breaks down as follows:

- Banca Montepaschi di Siena loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 5,000 thousand euros, of which 4,375 thousand euros due beyond one year;
- Banca Nazionale del Lavoro loan, nominal value 10,000 thousand euros, drawn down during the year, residual payable of 10,000 thousand euros, of which 8,000 thousand euros due beyond one year;
- Banca Popolare di Sondrio loan, nominal value 4,000 thousand euros, drawn down during the year, residual payable of 4,000 thousand euros, all of which due beyond one year;
- Unicredit loan, nominal value 7,000 thousand euros, drawn down during the year, residual payable of 7,000 thousand euros, of which 5,833 thousand euros due beyond one year;
- Banca Montepaschi di Siena loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 5,000 thousand euros, of which 4,375 thousand euros due beyond one year;
- Banca Nazionale del Lavoro loan, nominal value 4,000 thousand euros, drawn down during the year, residual payable of 4,000 thousand euros, of which 3,200 thousand euros due beyond one year;
- Banca Popolare di Sondrio loan, nominal value 4,000 thousand euros, drawn down during the year, residual payable of 4,000 thousand euros, of which 3,781 thousand euros due beyond one year;
- Banca Popolare dell'Emilia Romagna loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 5,000 thousand euros, of which 4,017 thousand euros due beyond one year;
- Banca Sella loan, nominal value 6,000 thousand euros, drawn down during the year, all of which due beyond one year;
- Banco BPM loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 5,000 thousand euros, of which 4,500 thousand euros due beyond one year;
- Friuladria Credit Agricole loan, nominal value 5,000 thousand euros, residual payable of 4,000 thousand euros, of which 3,000 thousand euros due beyond one year;
- Mediocredito Italiano loan, nominal value 10,000 thousand euros, residual payable of 6,111 thousand euros, of which 3,889 thousand euros due beyond one year;
- Banco BPM loan, nominal value 14,000 thousand euros, of which 10,000 thousand drawn down during the year, residual payable of 12,500 thousand euros, of which 10,500 thousand euros due beyond one year;
- UBI Banca loan, nominal value 7,500 thousand euros, residual payable of 7,500 thousand euros, all of which due beyond one year;
- Friuladria Credit Agricole loan, nominal value 4,000 thousand euros, residual payable of 3,200 thousand euros, of which 2,400 thousand euros due beyond one year;
- Biver Banca loan, nominal value 5,000 thousand euros, residual payable of 5,000 thousand euros, of which 4,017 thousand euros due beyond one year;

Notes to the consolidated financial statements

- Vub Bank loan in CZK, nominal value 1,594 thousand euros, residual payable of 896 thousand euros;
- Ucb Bank loan, nominal value 4,000 thousand euros, residual payable of 1,950 thousand euros;
- Banco BPM loan, nominal value 11,000 thousand euros, of which 5,000 thousand drawn down during the year, residual payable of 8,750 thousand euros, of which 6,750 thousand euros due beyond one year;
- Banca Nazionale del Lavoro loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 5,000 thousand euros, of which 3,750 thousand euros due beyond one year;
- Unicredit loan, nominal value 3,000 thousand euros, drawn down during the year, residual payable of 3,000 thousand euros, of which 2,500 thousand euros due beyond one year;
- Friuladria Credit Agricole loan, nominal value 5,000 thousand euros, drawn down during the year, residual payable of 4,850 thousand euros, of which 4,300 thousand euros due beyond one year;
- Banca Popolare dell'Emilia loan, nominal value 4,000 thousand euros, drawn down during the year, residual payable of 4,000 thousand euros, of which 3,214 thousand euros due beyond one year;
- Mediocredito Italiano loan, nominal value 5,000 thousand euros, residual payable of 3,056 thousand, of which 1,944 thousand euros due beyond one year;
- Banco Popolare di Sondrio loan, nominal value 3,000 thousand euros, residual payable of 3,000 thousand euros, of which 2,405 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 di Sondrio loan, nominal value 5,000 thousand euros, residual payable of 2,587 thousand euros, of which 1,604 thousand euros due beyond one year.

There are no debts backed by collateral over company assets.

Other medium/long-term financial payables of 281 thousand euros include 132 thousand euros of fair value relating to financial derivatives (interest rate swaps) booked using hedge accounting.

In order to stabilise future flows relating to hedged loans, interest rate swaps were entered into during the year, with characteristics completely symmetrical to those of the related loans: the hedge relationship is therefore effective.

The interest rate swaps relate to:

- Marzotto Wool Manufacturing S.r.l.: Banca Montepaschi di Siena, notional 5,000 thousand euros, fixed rate 0.70% and Banca Nazionale del Lavoro, notional 10,000 thousand euros, fixed rate 0.89%;
- Biella Manifatture Tessili S.r.l.: Banca Montepaschi di Siena, notional 5,000 thousand euros, fixed rate 0.70% and Banca Nazionale del Lavoro, notional 4,000 thousand euros, fixed rate 0.89%.

Notes to the consolidated financial statements

	2018	2017	Change
Amounts to:	**142,506**	**136,726**	**5,780**
and can be broken down as follows:			
Trade payables	107,001	102,878	4,123
Trade payables due to affiliates	637	524	113
Advance payments received	1,083	855	228
Payables due to Inland Revenue	5,027	4,235	792
Payables due to social security institutions	3,901	3,756	145
Payables due to employees	10,940	11,589	(649)
Other payables	1,776	391	1,385
Other payables to parent companies	10,698	10,954	(256)
Accrued liabilities and deferred income	1,443	1,544	(101)
Total	**142,506**	**136,726**	**5,780**

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 associates relate to:

	2018	2017	Change
Mediterranean Wool Industries Co. S.A.E.	393	251	142
Pettinatura di Verrone S.r.l.	241	251	(10)
Ratti S.p.A.	3	=	3
Tintoria di Verrone S.r.l.	=	22	(22)
Total	**637**	**524**	**113**

Advance payments from customers are advances received from customers on supplies.

Payables to tax authorities can be broken down as follows:

	2018	2017	Change
Taxes withheld	2,519	2,628	(110)
Income taxes	781	613	168
Regional manufacturing tax	855	238	617
Value added tax	106	13	93
Other amounts due to Inland Revenue	767	742	25
Total	**5,027**	**4,235**	**792**

Other payables to tax authorities, in the amount of 5,027 thousand euros, represent an increase of 792 thousand euros.

Payables to social security institutions relate to:

	2018	2017	Change
INPS	2,499	2,509	(10)
Other Italian institutions	690	552	138
Foreign social security agencies	712	695	17
Total	**3,901**	**3,756**	**145**

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

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

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Payables to employees can be broken down as follows:

	2018	2017	Change
December salaries paid in January	2,500	2,555	(55)
Staff termination indemnities paid after year-end	24	28	(4)
Deferred salaries	8,054	8,610	(556)
Miscellaneous amounts due	362	396	(34)
Total	**10,940**	**11,589**	**(649)**

Other payables to parent companies of 10,698 thousand euros mainly include payables to parent company Wizard S.r.l. for dividends resolved upon by the Shareholders' Meeting held in May 2018, 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 2,698 thousand euros.

Other payables, amounting to 1,776 thousand euros, include payables relating to the valuation of the currency hedging contracts in place at the reporting date of 1,471 thousand euros.

Accrued liabilities and deferred income include 507 thousand euros contributions on capital account, granted by local public entities in favour of the subsidiary Filature de Lin Filin S.A.

7.2) Short-term financial payables

	2018	2017	Change
Amounts to:	**62,120**	**79,089**	**(16,969)**
and can be broken down as follows:			
Payables due to bank and other lenders	60,124	76,611	(16,487)
Secured financing received	1,916	2,398	(482)
Other amounts due to third parties	80	80	=
Total	**62,120**	**79,089**	**(16,969)**

Short-term financial payables, equal to 62,120 thousand euros as at the reporting date, include amounts payable to banks and other lenders for 60,124 thousand euros for the use of facilities and the current portion of medium/long-term loans.

Collateralised loans, amounting to 1,916 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 2018, showing changes occurring during the year in question.

Net financial position

	2018	2017	Change
Amounts to:	**(80,598)**	**(77,608)**	**(2,990)**
and can be broken down as follows:			
1.8 Long term financial receivables	86	310	(224)
3.4 Current financial assets	97,917	67,388	30,529
5.4 Long term financial payables	(116,481)	(66,217)	(50,264)
7.2 Current financial payables	(62,120)	(79,089)	16,969
Total	**(80,598)**	**(77,608)**	**(2,990)**

Net borrowing totals -80,598 million euros.
Please see the statement of cash flows for evidence of the individual factors that went towards determining the change during the period.

Notes to the consolidated financial statements

Contractual commitments and guarantees (memorandum accounts)

Comments on the memorandum accounts and commitments at 31 December 2018 are provided below:

"***Guarantees to subsidiaries and associates***" were given:

- by the parent company to subsidiary Marzotto Lab S.r.l. for 16,000 thousand euros for transfers of receivables without recourse;
- by the parent company to subsidiary Marzotto Lab S.r.l. for 40,500 thousand euros to guarantee loans;
- by the parent company to subsidiary Marzotto Lab S.r.l. for 28,850 thousand euros for lines of credit;
- by the parent company to subsidiaries Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. for 38,500 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/associates to guarantee lines of credit of 8,460 thousand euros and to guarantee miscellaneous securities of 357 thousand euros.

"***Guarantees received from third parties***" were given:

- to subsidiaries/associates for 889 thousand euros to guarantee miscellaneous securities;
- to the parent company to guarantee miscellaneous securities for 122 thousand euros.

"Foreign currency hedging contracts" relate to forward purchasing contracts of 73,904 thousand euros and forward sale agreements of 26,048 thousand euros.

As of 31 December 2018, currency forward purchasing contracts totalled 29,200 thousand US dollars, with an equivalent value of 24,271 thousand euros, and 230,000 thousand Japanese yen, with an equivalent value of 1,777 thousand euros. Currency forward purchasing contracts amount to 1,080,000 thousand CZK, equating to 41,633 thousand euros, 51,250 thousand AUD, equating to 31,642 thousand euros, and 800 thousand USD, equating to 629 thousand euros.
Currency forward purchasing agreements for the foreign companies were 200 thousand EUR, with an equivalent value of 5,079 thousand CZK.

The fair value of the contracts for the term sale and purchase of foreign currency at the end of the period, negative and equal to 1,404 thousand euros, was established based on the quotes given by the banks.

"***Interest rate hedging contracts"*** relate to:

- Marzotto Wool Manufacturing S.r.l. has two Interest rate swaps on a notional amount of 15,000 thousand euros. As of 31 December 2018, the fair value of these instruments is a loss of 73 thousand euros;

- Biella Manifatture Tessili S.r.l. has two Interest rate swaps on a notional amount of 9,000 thousand euros. As of 31 December 2018, the fair value of these instruments is a loss of 59 thousand euros.

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 sector.

	2018	2017	% change
Marzotto Wool M.	242,854	241,059	0.7
Marzotto Lab	107,738	100,128	7.6
Other operations	18,549	17,182	8.0
Eliminations/adjustments	(12,375)	(11,170)	10.8
Total	**356,766**	**347,199**	**2.8**

Net revenues earned by the Group during the year amounted to 356,766 thousand euros, up by 2.8% compared with the previous year.

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

	2018	2017	% change
Amounts to:	**17,224**	**16,634**	**3.5**
and refers to:			
Real estate income	1,139	1,045	9.0
Contribution to operating expenses	464	363	27.8
Other revenues and miscellaneous income	15,621	15,226	2.6
Total	**17,224**	**16,634**	**3.5**

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 of 377 thousand euros, contributions received from the subsidiary Biella Manifatture Tessili S.r.l. of 13 thousand euros (Finpiemonte S.p.A.) and contributions received from the subsidiary Filature de Lin Filin S.A. of 74 thousand euros (portion for the year).

9. Cost of goods sold

	2018	2017	% change
Amounts to:	**(289,039)**	**(272,391)**	**6.1**
and refers to:			
Third party production	(14,726)	(17,302)	(14.9)
In house manufacturing	(99,007)	(93,430)	6.0
Purchase of raw materials, finished and semi-finished products	(162,901)	(150,995)	7.9
Change in stock of raw materials, finished and semi-finished products	10,789	9,731	10.9
Commercial exchange differences	(137)	1,838	n.c.
Other logistic and industrial costs	(23,057)	(22,233)	3.7
Total	**(289,039)**	**(272,391)**	**6.1**

[Notes to the consolidated financial statements]

Trade exchange rate differences are detailed below:

Trade exchange rate differences	2018	2017	% change
Amounts to:	**(137)**	**1,838**	**n.c.**
and refers to:			
Exchange rate on cash from customers in foreign currency	280	52	
Exchange rate gains on payments to suppliers in foreign currency	406	(777)	
Exchange rate on extinguishing of trade financing in foreign currency	(823)	2,563	
Total	**(137)**	**1,838**	**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 2018 is given in the table below:

	2018	2017	% change
Amounts to:	**(38,804)**	**(38,584)**	**0.6**
and refers to:			
Variable sales costs	(12,292)	(12,341)	(0.4)
Losses, write-down, accounts receivables	(970)	(1,269)	(23.6)
Product research and development	(12,551)	(12,303)	2.0
Advertising, marketing and public relations	(2,868)	(2,805)	2.2
Other fixed sales and marketing costs	(10,123)	(9,866)	2.6
Total	**(38,804)**	**(38,584)**	**0.6**

Variable selling costs of 12,292 thousand euros include:

- premiums, commission and agent contributions for 7,753 thousand euros;
- transport and transport insurance costs for 4,509 thousand euros;
- costs for royalties and agent indemnities for 30 thousand euros.

Losses, impairment and credit management, amounting to 970 thousand euros, includes the change in provisions for doubtful debt and losses on loans recorded during the period (for -291 thousand euros), insurance costs (for -507 thousand euros) and other credit management expenses (for -172 thousand euros).

Other fixed commercial costs of 10,123 thousand euros mainly include commercial staff costs, expenses incurred for travel and transfers and other minor expenses.

12. General and administrative costs

	2018	2017	% change
Amounts to:	**(18,686)**	**(18,249)**	**2.4**

General and administrative costs as at 31 December 2018 include payroll costs (around 10,098 thousand euros), consultancy costs and fees (legal, administrative and other minor), third-party costs (2,811 thousand euros), insurance expenses (541 thousand euros) and other costs (maintenance, depreciation/amortisation, utilities and transport) of 5,236 thousand euros.

13. Other income and expenses

	2018	2017	% change
Amounts to:	**7,192**	**(1,284)**	**n.c.**
and refers to:			
Gain on disposal of tangible and intangible assets	10,107	781	
Loss on disposal of tangible and intangible assets	(32)	(89)	
Allocation/use to legal risk fund and future charges	(2,111)	(642)	
Other income/charges	(772)	(1,334)	
Total other income/charges	**7,192**	**(1,284)**	**n.c.**

The balance of other income and expenses is a positive 7,192 thousand euros and mainly consists of net capital gains realised of 10,075 thousand euros, with the remainder relating to income components accrued in previous years or whose source is extraneous to the company’s ordinary operations.
As already mentioned in the report on these financial statements, capital gains include 9,673 thousand euros related to the sale of the artistic works owned by the Parent Company that began during the year and was prompted by the Company's difficulty in maintaining the works in an adequate state of repair.

14. EBIT

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

	2018	2017	% change
Amounts to:	**17,429**	**16,691**	**4.4**
and refers to:			
Marzotto Wool M.	8,650	17,006	(49.1)
Marzotto Lab	718	(1,033)	n.c.
Other operations	8,061	656	n.c.
Eliminations/Adjustments	=	62	n.c.
Total	**17,429**	**16,691**	**4.4**

EBIT amounts to 17,429 thousand euros, up by 738 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:

	2018	2017	% change
Amounts to:	**(83,605)**	**(79,872)**	**4.7**
and refers to:			
Marzotto Wool M.	(53,705)	(50,741)	5.8
Marzotto Lab	(21,159)	(20,455)	3.4
Other operations	(8,741)	(8,676)	0.7
Total	**(83,605)**	**(79,872)**	**4.7**

The number of active **employees** had the following trend:

	Year End Staff			Average		
	31.12.2018	31.12.2017	% change	2018	2017	% change
Blue-collar workers	2,584	2,555	1.1	2,599	2,587	0.5
White-collar workers	625	621	0.6	624	615	1.5
Managers	37	37	0.0	37	36	2.8
Total	**3,246**	**3,213**	**1.0**	**3,260**	**3,238**	**0.7**

Amortisation and depreciation was as follows:

	2018	2017	% change
Amounts to:	**(16,329)**	**(15,361)**	**6.3**
and refers to:			
amortization of intangible fixed assets	(498)	(540)	
depreciation of tangible fixed assets	(15,831)	(14,821)	

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15. Net financial expenses

	2018	2017	% change
Amounts to:	**(1,653)**	**(1,352)**	**22.3**
and refers to:			
Financial income			
Interests received from affiliates	18	23	(21.7)
Interests received from banks	132	86	53.5
Interests received from other	=	7	n.c.
Exchange rate gains on financial transactions	1,097	2,330	(52.9)
Total financial income	**1,247**	**2,446**	**(49.0)**
Financial charges			
Interests payable to banks	(802)	(534)	50.2
Bank charges	(535)	(547)	(2.2)
Exchange rate losses on financial transactions	(1,507)	(2,599)	(42.0)
Other financial charges	(56)	(118)	(52.5)
Total financial charges	**(2,900)**	**(3,798)**	**(23.6)**
Total	**(1,653)**	**(1,352)**	**22.3**

The balance of financial operations as at 31 December 2018 is a loss of 1,653 thousand euros, increased by 301 thousand euros.

In addition, it should be noted that interest income from associates relates to Mediterranean Wool Industries Co. Conte for 18 thousand euros.

16. Dividends from unconsolidated equity investments and valuations at equity

	2018	2017	% change
Amounts to:	**4,180**	**2,690**	**55.4**
and refer to:			
Valuations to equity			
Ratti Group	3,509	2,017	
Uab Linestus	28	=	
Pettinatura di Verrone S.r.l.	29	108	
Uab Lietvilna	566	554	
Tintoria di Verrone S.r.l.	48	11	
Total valuations to equity	**4,180**	**2,690**	**55.4**
Total	**4,180**	**2,690**	**55.4**

The above investments are measured according to the equity method; accordingly, 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

	2018	2017	% change
Amounts to:	**(4)**	**(23)**	**(82.6)**
and refers to:			
Adjustment TFR IAS 19	(4)	(10)	
Other income/charges	=	(13)	
Total	**(4)**	**(23)**	**(82.6)**

The item **Other financial income and charges**, equal to -4 thousand euros, includes the financial component of the adjustment of employee termination indemnities, in application of standard IAS 19.

20. Income taxes

	2018	2017	% change
Amounts to:	**(4,188)**	**(4,711)**	**(11.1)**
and refer to:			
Current taxes	(4,904)	(3,680)	
Deferred taxes receivable	1,751	(205)	
Deferred taxes payable	(1,411)	(1,209)	
Other variations	376	383	
Total	**(4,188)**	**(4,711)**	**(11.1)**

Estimated taxes for 2018 were negative for 4,188 thousand euros, down by 523 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.

	2018		2017	
	Amount	%age	Amount	%age
Pre-tax profit	**19,952**		**18,006**	
Theoretical taxes	(4,788)	(24.0)	(4,321)	(24.0)
IRAP	(1,163)	(5.8)	(623)	(3.5)
Deferred taxes	340	1.7	(1,414)	(7.9)
Other variations	1,423	7.1	1,647	9.1
Total taxes	**(4,188)**	**(21.0)**	**(4,711)**	**(26.2)**

Other information

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 2018. 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	Milan (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milan (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%
G. Schneider PTY Limited	Greenwich (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Schneider New Zealand Limited	Christchurch (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
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.	**33.95%**	**33.95%**
Creomoda S.a.r.l.	Soussa (TN)	Ratti S.p.A.	76.00%	25.80%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	33.95%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	33.95%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	33.95%

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, associates 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 associates are shown in the financial schedules 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	1,139	43	**1,182**

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	215	**231**

Other information

During the financial year there were no atypical or unusual transactions.

Events after the date of these financial statements

During the period following 31 December 2018, 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 2018

(thousands of euro)

Segment reporting Income statement	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Total
Other revenues	238,289	102,153	7,011	9,313	**356,766**
Inter-sector revenues	4,565	5,585	11,538	(21,688)	**=**
Totale revenues	**242,854**	**107,738**	**18,549**	**(12,375)**	**356,766**
Sector costs	(234,204)	(107,020)	(10,488)	12,375	**(339,337)**
of which depreciation & amortization	(11,151)	(3,559)	(1,617)	(2)	**(16,329)**
of which other non monetary costs	(162)	(132)	4	=	**(291)**
Operating income	**8,650**	**718**	**8,061**	**=**	**17,429**
Financial charges net	=	=	=	=	**(1,653)**
Dividends from non cons. equity invest. and valuation to equity	=	=	=	=	**4,180**
Other financial income/charges	=	=	=	=	**(4)**
Pre-tax profit	**=**	**=**	**=**	**=**	**19,952**
Taxes	=	=	=	=	**(4,188)**
Net profit	**=**	**=**	**=**	**=**	**15,764**

Segment reporting Balance sheet	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Totale
Assets by segment	130,020	54,269	2,225	180,042	**366,556**
Equity investments in subsidiaries companies	93,317	56,356	100,837	(250,510)	**=**
Equity investments in affiliated companies	4,592	4,839	18,749	=	**28,180**
Non-allocated assets	=	=	=	=	**98,003**
Total assets	**227,929**	**115,464**	**121,811**	**(70,468)**	**492,739**
Shareholders' equity	=	=	=	=	**138,814**
Liabilities by segment	110,585	41,068	29,552	(5,876)	**175,329**
Non-allocated liabilities	=	=	=	=	**178,596**
Total liabilities and shareholders' equity	**110,585**	**41,068**	**29,552**	**(5,876)**	**492,739**
Investments	**10,886**	**3,241**	**573**	**=**	**14,700**

Information by geographical area	Italy	Other Europ. Countries	North America	Asia	Other Countries	Total
Revenues	110,722	167,006	12,914	54,699	11,425	**356,766**
Fixed assets	352,731	126,814	73	377	12,744	**492,739**
Investments	8,392	5,830	=	=	478	**14,700**

Please note that the unallocated assets and liabilities respectively correspond to the assets and liabilities making up the net borrowing.

Notes to the consolidated financial statements

Segment reporting 2017

(thousands of euro)

Segment reporting Income statement	Marzotto Wool M.	Marzotto Lab	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**

Segment reporting Balance sheet	Marzotto Wool M.	Marzotto Lab	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	308,573	128,324	249	618	10,113	**447,877**
Investments	8,996	6,271	=	=	420	**15,687**

Please note that the unallocated assets and liabilities respectively correspond to the assets and liabilities making up the net borrowing.

Valdagno (VI), 29 March 2019

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

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

Tel: +39 049 7707411
Fax: +39 049 7707428
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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 Shareholders of
Manifattura Lane Gaetano Marzotto & Figli 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 statement of financial position as at December 31, 2018, and the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated statement of cash flow for the year then ended, the consolidated statement of changes in shareholders' 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, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 Group 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 Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the 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.

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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. are responsible for the preparation of the Report on Operations of Marzotto Group as at December 31, 2018, 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 Group as at December 31, 2018 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 Group as at December 31, 2018 and complies 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 11, 2019

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.

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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 2018

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

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MARZOTTO

GROUP

General information

[Corporate management and shareholders]

Corporate management

Board of Directors

Chairman

Antonio Favrin [(1)]

Deputy Chairman

Andrea Donà dalle Rose [(1)]

Board Members

Federica Favrin

Andrea Guaccero

Vittorio Marzotto

Donatella Ratti

Chief Executive Officer

Davide Favrin [(1)]

1. Members of Executive Committee

Board of statutory auditors

Acting Auditors

Sandro Miotto - Chairman

Marco Della Putta

Federico Giorgione

Substitute Auditors

Paolo Corgnati

Stefano Rudelli

Indipendent auditors

EY S.p.A.

Shareholders

As at 31.12.2018 the share capital amounted to 40,000,000 Euros, totally owned by the **Sole Shareholder Wizard S.r.l.**

Report on operations

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

[Report on Operations]

Dear Shareholders,

The financial statements for the year ended 31 December 2018, submitted herewith for your approval, close recording revenues of 12.1 million euros and a profit of 14.1 million 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 in 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 2018, we would first note the key events that took place in the year just ended and this year.

Praia a Mare litigation

With regard to the Praia a Mare plant, which was acquired by the Company in 1988 and whose activities ceased in 2004, the following proceedings are pending:

1) Appeal for Cassation against the second instance judgement of the Catanzaro General Prosecutor's Office confirming the judgement of the Court of Paola in which the acquittal was pronounced in full form - because there was no case to answer - of all the defendants (plant managers and members of the board of directors from the 1960s to 2004) of offences against the person and the environment. As these third-degree proceedings are still in their initial phase, no predictions can be made at this stage as to the outcome.
2) Pre-trial hearing requested by the Public Prosecutor at the Court of Paola on behalf of the heirs of persons who worked at the Praia a Mare plant before 1988 (the year of purchase by the Company), as well as of former employees of the Company or their heirs, who are claiming that there were functional omissions in relation to the safety conditions of the work carried out at that plant. The expert investigations are still ongoing and it is not possible to predict their progress.
3) Several civil appeals filed before the Court of Paola by the same persons who requested a pre-trial hearing (hence the heirs of persons who worked at the Praia a Mare plant before 1988 and former company workers or their heirs) complaining that the alleged absence of safety conditions for the works carried out there had caused death or serious injury. These proceedings was handled together and, after an attempt at conciliation, the preliminary phase was opened with the hearing being postponed until January 2020. At present, it is not possible to predict how the proceedings will progress.

Income statement and statement of financial position highlights

The table below contains summaries of the Company's main income and financial position items for the year ended 31 December 2018.

(in millions of euro)	2018	2017	change	change %
Net revenues	**12.1**	**12.2**	**(0.1)**	**- 0.8%**
Operating income	6.9	(0.4)	7.3	n.c.
% of net revenues	*57.0%*	*(3.3%)*		
EBITDA (1)	**7.9**	**0.9**	**7.0**	**>100%**
% of net revenues	***65.3%***	***7.4%***		
Income before taxes	16.5	13.9	2.6	+ 18.7%
% of net revenues	*136.4%*	*113.9%*		
Net income	**14.1**	**13.5**	**0.6**	**+ 4.4%**
% of net revenues	***116.6%***	***110.6%***		
Net working capital	**(4.6)**	**(5.6)**	**1.0**	**- 17.9%**
Net employed capital	**107.8**	**110.8**	**(3.0)**	**- 2.7%**
Net financial position	**(13.1)**	**(4.1)**	**(9.0)**	**>100%**
Investments for the period	0.2	0.4	(0.2)	**- 50.0%**
Active staff: persons	93	99	(6)	**- 6.1%**

	2018	2017	change
ROI	6.4%	-0.4%	6.8%
ROE	11.7%	11.7%	-0.1%
ROS	57.0%	-3.3%	60.3%
Debt/Equity	-10.8%	-3.6%	-7.3%
Capitalisation ratio	112.2%	103.7%	8.5%
Financial coverage rate of assets	93.0%	99.8%	-6.9%
Inventory rotation index	=	=	=
Number of days of credit to clients	229	133	96

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.
Financial coverage of fixed assets: Fixed assets + ML-term provisions/Shareholders' equity + ML-term financial borrowing
Inventory 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.

Income statement

The income statement is summarised below.

(in millons of euro)	2018		2017	
Net revenues	**12.1**	***100.0%***	**12.2**	***100.0%***
Cost of sales	(2.4)	*(19.8%)*	(2.6)	*(21.3%)*
Gross income	**9.7**	***80.2%***	**9.6**	***78.7%***
R&D and marketing costs	=	=	=	=
General and administrative costs	(9.3)	*(76.9%)*	(9.2)	*(75.4%)*
Profit from core businesses	**0.4**	***3.3%***	**0.4**	***3.3%***
Non-recurring income/(charges)	6.5	*53.7%*	(0.8)	*(6.6%)*
Operating income	**6.9**	***57.0%***	**(0.4)**	***(3.3%)***
Net financial charges	(0.1)	*(0.8%)*	(0.1)	*(0.8%)*
Dividends	9.7	*80.2%*	14.4	*118.0%*
Other financial income/charges	=	=	=	=
Income before taxes	**16.5**	***136.4%***	**13.9**	***113.9%***
Taxes	(2.4)	*(19.8%)*	(0.4)	*(3.3%)*
Net income	**14.1**	***116.6%***	**13.5**	***110.6%***

Net revenues

Net revenues achieved by the Company in FY 2018 come to 12.1 million euros and relate to the following businesses:

(in millions of euro)	2018		2017	
Holding and coordination	8.6	*71.1%*	8.5	*69.7%*
Real estate	1.1	*9.1%*	1.2	*9.8%*
Logistics	1.8	*14.9%*	1.7	*13.9%*
Other	0.6	*4.9%*	0.8	*6.6%*
Total	**12.1**	***100.0%***	**12.2**	***100.0%***

by geographical area

(in millions of euro)	2018		2017	
Italy	10.9	*90.1%*	10.8	*88.5%*
Other European Countries	1.2	*9.9%*	1.4	*11.5%*
Total	**12.1**	***100.0%***	**12.2**	***100.0%***

Operating profit

The result from ordinary operations as at 31 December 2018 was positive for 0.4 million euros, deriving from revenues achieved during the period of 12.1 million euros, net of the cost of goods sold (2.4 million euros) and general and administrative costs (9.3 million euros).

Non-recurring income and expenses

At the reporting date, the net balance of non-recurring operations was 6.5 million euros (mainly comprising net capital gains realised on asset sales of 9.7 million euros), compared with a negative balance of 0.8 million euros in 2017.
The Parent Company, partly due to difficulties in maintaining the artistic works it owns in an adequate state of repair, has decided to sell the assets most at risk of deterioration. These sales, which began during the year just ended, resulted in extraordinary capital gains of 9.7 million euros.

Net financial expenses

In FY 2018, 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 9.7 million euros and comprised 8.0 million in dividends approved by Marzotto Wool Manufacturing S.r.l., 0.5 million in dividends approved by Ambiente Energia S.r.l. and 1.2 million euros from the associate Ratti S.p.A.
In 2017, this item 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 associate 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 2018.

The balance of tax operations for the period is negative for 2.4 million euros (-0.4 million as at 31 December 2017).

Net result

On the basis of the aforementioned analyses, net profit for the year was 14.1 million (deriving mainly from the 9.7 million in dividends previously described, and 6.8 million euros of extraordinary capital gains, net of the relevant tax), compared with net profit of 13.5 million in 2017.

Financial position

The Company’s financial position as at 31 December 2018 is summarised in the table below, compared with the corresponding amounts for the previous year.

(in millions of euro)	31.12.2018	31.12.2017
Net trade receivable	7.6	4.4
Other receivables	1.6	2.9
Inventory	=	=
Commercial suppliers	(1.7)	(1.7)
Other payables	(12.1)	(11.2)
A) Net working capital	**(4.6)**	**(5.6)**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyound 12 months	3.4	2.8
Equity investments	111.7	111.7
Tangible fixed assets	9.7	10.4
Intangible fixed assets	1.4	1.6
C) Net fixed assets	**126.2**	**126.5**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(11.8)**	**(9.9)**
E) Deferred taxes reserve	**(2.0)**	**(0.2)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**107.8**	**110.8**
Covered by:		
Short-term financial payables	=	4.8
Cash and short-term financial receivables	(13.1)	(10.6)
Medium/long term financial payables	=	1.7
Medium/long term financial receivables	=	=
G) Net borrowing	**(13.1)**	**(4.1)**
H) Shareholders' net equity	**120.9**	**114.9**
I) Total (G+H) as in F	**107.8**	**110.8**

Net capital employed

Capital employed, net of operating liabilities, came to 107.8 million euros, including net fixed assets of 126.2 million euros and provisions for employee termination indemnities and other non-financial medium/long-term liabilities of 11.8 million euros.

In detail, fixed assets include long-term receivables in the amount of 3.4 million euros, which represent prepaid tax receivables deemed likely to be recovered; investments for 111.7 million euros, which include the book value of equity investments in subsidiaries and associates (see paragraph 1.5 of the notes); fixed assets for 11.1 million euros, of which land and buildings for 5.5 million euros and plant, machinery and equipment (mainly relating to the logistics business of Piovene) for 4.1 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 0.5 million euros; the provision for restructuring and delocalisation for 2.9 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 5.9 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 13.1 million euros at the reporting date, compared with a positive balance of 4.1 million euros in 2017.

Shareholders’ equity

Shareholders' equity came in at 120.9 million euros, up 6.0 million euros on 2017. 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 103.7% at the end of 2017 to 112.2% at the end of 2018.

[Equity investments]

Equity investments in subsidiaries

The main news and information on the performance of subsidiaries and associates is provided below. Transactions with subsidiaries and associates and other related parties are presented in the financial schedules 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. (100% owned), and associates 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), and Schneider Australia and Schneider New Zealand (25%).

The total turnover volume achieved in 2018 was 242.9 million euros, with EBIT of 8.6 million and net profit of 6.1 million euros.

As regards the sales outlet market, Italy and the other European countries played a key role, respectively accounting for 24.2% and 48.4% 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 30.5 million.

As concerns the breakdown of turnover by operating business unit, the Lanificio Gmf segment registered turnover of 123.9 million euros (51.0% of the total) and Biella Manifatture Tessili registered 101.5 million euros (41.8%), while Estethia/G.B. Conte closed the year with 17.1 million euros in turnover (7.0%).

The table below shows turnover contribution and trends by business.

Net revenues by business

(in millions of euro)	2018		2017	
Lanificio Gmf	123.9	*51.0%*	122.0	*50.6%*
Biella Manifatture Tessili	101.5	*41.8%*	103.9	*43.1%*
Estethia/G.B. Conte	17.1	*7.0%*	14.7	*6.1%*
Other	0.4	*0.2%*	0.5	*0.2%*
Total	**242.9**	***100.0%***	**241.1**	***100.0%***

[Equity investments]

Below are some comments on the performance of the main segments in which the Group operates.

LANIFICIO GMF

The turnover volume achieved in 2018 was up slightly compared with 2017. This was mainly achieved in the first half of 2018, while in the second half of the year a slowdown began, particularly in some major European markets such as Germany and Italy. The margin was affected even more than in 2017 by the steady increase in the cost of raw materials and rising labour costs in the Czech Republic, which were not fully recovered from sales prices.

The significant business volumes recorded during the year mainly relate not only to the quality of the product and services 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.

In 2018, the core market was Europe, where the segment reached 70.0% 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 23 million euros, is mainly due to the range of highly innovative fashion products.

The main factors that have particularly marked 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 2018 in research and innovation of 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.

A new line was then implemented at the end of 2018 "*Organic wool&linen*was also produced by agreement with the Schneider group, which directly manages 12 organic wool farms in Patagonia, and Linificio e Canapificio Nazionale (a company controlled by the Marzotto Group) which guaranteed GOTS certified organic raw materials (*global organization textile standard*).

Sustainability: In 2018, substantial sums continued to be invested in environmental certification and protection projects. In particular, two major certification processes were completed relating to environmental protection (ISO 14001) and social protection (SA 8000). 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 steady improvement in 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 37.4 million euros for the Guabello division (down 1.1% on the previous year), 39.0 million euros for the Marlane division (in line with 2017) and 24.5 million euros for the Tallia di Delfino division (down 8.2% compared with the previous year).

[Equity investments]

Comments on the performance of the individual brands are provided below:

Guabello closed 2018 with buoyant sales, with a slight decrease in volumes, offset by an increase in prices that kept our sales margins steady. 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 areas of greatest growth opportunities and where efforts will continue to be concentrated in the coming years.

Marlane recorded sustained turnover in 2018, although it was affected by a marked slowdown, particularly in the second half of the year in the German and Italian markets. NOS (Never out of stock) and Quick Service (ex stock availability) continue to represent distinctive activities of Marlane that are not linked to seasonality but have been affected by a contraction of volumes, mainly due to the sharp increase in the cost of the wool raw material, which has led some important customers to introduce synthetic and artificial fibres or wool blends into the highest price range. Targeted commercial activity and an effective quality/service/price ratio increased Marlane's presence in other geographical areas, particularly northern Europe and the Middle and Far East.

In 2017, **Tallia di Delfino** registered a slight decrease in turnover, but strengthened the brand's positioning in the luxury segment in some major markets such as Japan and Asia, where Tallia di Delfino's main key customers are located.

ESTETHIA/G.B. CONTE

In the year under review, the segment recorded net revenues of 17.1 million euros, up by a strong 16% on the previous year, reflecting both higher sales volumes and higher prices.

The performance was very positive on all markets: the American and Asian markets, but also Europe. The increase in the 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)	2018		2017	
Italy	58.8	*24.2%*	55.1	*22.9%*
Other European countries	117.5	*48.4%*	117.0	*48.5%*
North America	10.9	*4.5%*	14.3	*5.9%*
Asia	46.6	*19.2%*	44.0	*18.3%*
Other countries	9.1	*3.7%*	10.7	*4.4%*
Total	**242.9**	***100.0%***	**241.1**	***100.0%***

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

Key indicators

(in millions of euro)	2018	2017	change	change %
Consolidated net revenues	**242.9**	**241.1**	**1.8**	**+ 0.7%**
Profit from core businesses	**7.8**	**17.0**	**(9.2)**	**- 54.1%**
% of net revenues	*3.3%*	*7.0%*	*(3.7%)*	
Operating income	**8.6**	**17.0**	**(8.4)**	**- 49.4%**
% of net revenues	*3.6%*	*7.0%*	*(3.4%)*	
Net income	**6.1**	**11.6**	**(5.5)**	**- 47.4%**
Consolidated net invested capital	**121.9**	**111.4**	**10.5**	**+ 9.4%**
Investments for the period	**10.9**	**11.3**	**(0.4)**	**- 3.5%**
Active staff at 31 December: persons	**1,819**	**1,800**	**19**	**+ 1.1%**

[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 GmbH (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 operating businesses).

Turnover volume for the year just ended was 107.7 million euros, up 7.6% on the previous year (2017: 100.1 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2018		2017	
Linen	44.7	*41.5%*	36.9	*36.9%*
Cotton	33.1	*30.7%*	34.6	*34.6%*
Velvet	17.6	*16.4%*	17.0	*17.0%*
Furnishing	9.9	*9.2%*	9.4	*9.4%*
Other	2.4	*2.2%*	2.2	*2.2%*
Total	**107.7**	***100.0%***	**100.1**	***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

The Linificio e Canapificio Nazionale Group reported a significant increase in turnover (+21%) and profit compared with 2017, due to an increase in both volumes and sales prices.

This achievement was partly due to a recovery in the linen market and partly to the efforts made by the Company to improve the quality of its product and its customer service, which improved its reliability and enhanced its reputation.

The effect of this work also had an impact on the order book, which was significantly higher at the end of the year than in the 2017 period, suggesting a positive effect on turnover in the first quarter of 2019.

During the year, production facilities were gradually saturated, resulting in working at full capacity from the last four months.

On the other hand, the main difficulties related to a steady increase in the price of raw materials combined with difficulties in supplying them, due to a lack of availability.

This resulted in Linificio steadily increasing the sale prices of yarns during the year, with consequent tension in the downstream market.

Raw materials prices are expected to continue to rise in 2019.

COTTON

The Sondrio Fabrics division closed the year with reduction in turnover of 5% compared with the previous year, mainly due to a market situation with less demand for cotton fabrics in the winter season.

During the year, interventions continued on the product offering and through the exploitation of synergies within Marzotto Lab aimed at fighting and limiting this unfavourable market situation.

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. In order to meet market needs that are no longer focused on the two classic seasons (winter and summer), Tessuto di Sondrio has launched capsules on an ongoing basis, exploiting the collection's synergies.

The market has welcomed this new offering. Implementation of the efficiency policy at the production plant has continued. In particular, action is still being taken to achieve environmentally sustainable products.
The results of the trade fairs for S/S, which is the main cotton season, were in line with 2018.

VELVET

Market growth and consolidation continued in 2018, with an increase in turnover and an improvement in results compared with 2017.
There was a significant increase in volumes in the world of furnishings, which is constantly evolving thanks to the contract sector and the market for upholstered furniture, seating and theatre furnishings.
The trend of growth in 2018 continued to benefit from the results of the product development and marketing policies undertaken over the years, as well as the development of new finishes and items in the worlds of both fashion and furnishings.

FURNISHINGS

This division operates in the home furnishing textiles sector, offering a range of finished bedlinen and living room products. The distribution structure, as regards the retail channel, is based on an extensive network of agents both in Italy and abroad. The division's strategy focuses on sales development, particularly in the e-commerce channel, and on major “private label” customers in northern Europe, central Europe, the US and the Far East. Communication on the Lanerossi brand is ongoing and marketing activities are therefore expanding.

At the major trade shows in early 2019, the business unit presented a new collection that was highly innovative in terms of design and successful with customers. An offering of environmentally friendly items was also included.

With regard to the outlet markets, it should be noted that the domestic market accounts for 43.0% of the total (down compared with the 47.7% recorded in the previous year), while the rest of Europe, which covers around an additional 45.9% of the total, was slightly up.

Net revenues by geographical area

(in millions of euro)	2018		2017	
Italy	46.3	*43.0%*	47.8	*47.7%*
Other European countries	49.4	*45.9%*	42.7	*42.7%*
North America	2.1	*1.9%*	2.2	*2.2%*
Asia	7.6	*7.1%*	5.7	*5.7%*
Other countries	2.3	*2.1%*	1.7	*1.7%*
Total	**107.7**	***100.0%***	**100.1**	***100.0%***

Below are the key indicators of the Marzotto Lab Group.

Key indicators

(in millions of euro)	2018	2017	change	change %
Consolidated net revenues	**107.7**	**100.1**	**7.6**	**+ 7.6%**
Profit from core businesses	**0.9**	**(0.6)**	**1.5**	**n.c.**
% of net revenues	*0.9%*	*(0.6%)*	*1.5%*	
Operating income	**0.7**	**(1.0)**	**1.7**	**n.c.**
% of net revenues	*0.7%*	*(1.0%)*	*1.7%*	
Net income	**0.9**	**(0.2)**	**1.1**	**n.c.**
Consolidated net invested capital	**79.3**	**81.6**	**(2.3)**	**- 2.8%**
Investments for the period	**3.2**	**3.3**	**(0.1)**	**- 3.0%**
Active staff at 31 December: persons	**1,314**	**1,288**	**26**	**+ 2.0%**

[Equity investments]

Ambiente Energia S.r.l.
Share capital
100,000 euros

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 5.2 million euros, (4.7 million euros in 2017) and a net result of 0.7 million euros (0.5 million euros in 2017).

[Equity investments]

Equity investments in associates

Below is a summary of other equity investments in associates:

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

	2018	2017
Equity investments	33.95%	33.90%
no. of shares owned	9,283,900	9,271,000
Marzotto S.p.A. book value	10.7 euro/millions	10.7 euro/millions

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 110.5 million euros (100.1 million in FY 2017) and net profit of 10.5 million (6.0 million in 2017).

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

	2018	2017
Equity investments	14.18%	14.18%
no. of shares owned	283,500	283,500
Marzotto S.p.A. book value	=	=

The financial statements as at 31 December 2017 of associate Mascioni S.p.A. show revenues of 40 million euros, EBIT of -3.9 million and net profit of 5.1 million euros. It should be recalled that the company entered into composition proceedings in 2015.
The equity investment was written off.

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

	2018	2017
Equity investments	32.50%	32.50%
Marzotto S.p.A. book value	=	=

[Other information]

Employees

As of 31 December 2018, the Company had 94 active employees, compared with 100 in the previous year.

	Year-end staff				Average staff			
	31.12.2018		31.12.2017		2018		2017	
Fabrics	7	*7.5%*	8	*8.1%*	7	*7.2%*	7	*7.5%*
Other Operations	86	*92.5%*	91	*91.9%*	90	*92.8%*	86	*92.5%*
Total	**93**	***100.0%***	**99**	***100.0%***	**97**	***100.0%***	**93**	***100.0%***
Laid off/dismissed	1		1		1		1	
Total staff year end	**94**		**100**		**98**		**94**	

Industrial relations

In 2018, in application of the Marzotto S.p.A. Company Supplementary Agreement of 29 November 2017 (2nd level agreement) relating to offices at Valdagno (VI) and the logistics/warehouses at Piovene Rocchette (VI), the welfare option was introduced as an alternative to the performance-related premium. The welfare option enables the purchase of goods and services with the amount of the premium excluded from taxable income for both social security and tax purposes.
A number of training sessions were held, which were attended by all staff, to discuss the terms and conditions of membership. In addition, in order to incentivise membership, the company adds a financial supplement of 20% (for the purchase of goods, services or reimbursements) or 22% (in case of conversion of the premium into supplementary pensions).

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 financial means at 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 intrinsically lower 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 ageing of trade receivables at the date of the financial statements was:

	2018		2017	
(thousands of euro)	gross	fund	gross	fund
Current	3,435	(69)	273	(83)
Overdue from 0 to 90 days	155	=	100	=
Overdue over 90 days	62	(4)	58	=
Total	**3,652**	**(73)**	**431**	**(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 the possible turmoil, already experienced in the banking system, could potentially represent a risk in relation to the cost of obtaining the financial resource. The benchmark rates and the spreads recognised by lenders call for 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 risk and safety

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, the 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.

Business outlook

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 44.1 million euros, down by around 11% on the 49.4 million booked for the same period of 2018.
Please see the comments already made in the report on the consolidated financial statements.

Valdagno (VI), 29 March 2019

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

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

Company statement of financial position

(thousands of euro)	31.12.2018 Partial	31.12.2018 Total	31.12.2017 Partial	31.12.2017 Total
1. Non-current assets				
1.1 Property, plant and machinery		8,837		9,560
1.2 Civil buildings		807		837
1.3 Goodwill, trademarks and other intangible assets		1,425		1,563
1.5 Other investments (participations)		111,738		111,704
1.6 Long-term receivables		11		11
1.7 Deferred tax assets		3,408		2,818
1.8 Long-term financial receivables third parties	41		43	
Long-term financial receivables subsidiaries and affiliates	=	41	=	43
Total non-current assets		**126,267**		**126,536**
2. Non-currents assets held for sale		**=**		**=**
3. Current assets				
3.1 Inventories		=		45
3.2 Trade receivables third parties	3,579		348	
Trade receivables subsidiaries and affiliates	4,011	7,590	3,996	4,344
3.3 Other receivables third parties	1,631		2,136	
Other receivables subsidiaries and affiliates	8	1,639	774	2,910
3.4 Current financial assets, cash and cash equivalents third parties	12,939		10,362	
Current financial assets, cash and cash equivalents subs. and affiliates	162	13,101	149	10,511
Total current assets		**22,330**		**17,810**
Total assets		**148,597**		**144,346**
4. Shareholders' equity				
4.1 Share capital and reserves		106,875		101,419
4.2 Income/(Loss) for the year		14,082		13,459
Shareholders' equity		**120,957**		**114,878**
5. Non-current liabilities				
5.1 Long-term provisions		11,783		9,888
5.2 Other long-term payables		=		=
5.3 Deferred tax liabilities		2,014		153
5.4 Long-term financial payables		11		1,693
Total non-current liabilities		**13,808**		**11,734**
6. Current liabilities				
6.1 Trade payables and other payables third parties	5,353		4,818	
Trade payables and other payables subsidiaries and affiliates	8,474	13,827	8,128	12,946
6.2 Current financial payables third parties	5		4,788	
Current financial payables subsidiaries and affiliates	=	5	=	4,788
Total current liabilities		**13,832**		**17,734**
Total shareholders' equity and liabilities		**148,597**		**144,346**
Net financial debt		**13,126**		**4,073**

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

(thousand euro)	Year 2018 Amounts	Year 2018 %	Year 2017 Amounts	Year 2017 %
7. Net revenues third parties	1,330	11.0	1,393	11.4
Net revenues subsidiaries and affiliates	10,771	89.0	10,817	88.6
Total net revenues	**12,101**	**100.0**	**12,210**	**100.0**
8. Cost of sales third parties	(2,422)	(20.0)	(2,570)	(21.0)
Cost of sales subsidiaries and affiliates	(15)	(0.1)	(21)	(0.2)
9. Gross income	**9,664**	**79.9**	**9,619**	**78.8**
10. R&D and marketing costs	(14)	(0.1)	(39)	(0.3)
11. General and administrative costs	(9,266)	(76.6)	(9,141)	(74.9)
12. Other income and charges	6,481	53.6	(800)	(6.6)
13. Operating income	**6,865**	**56.8**	**(361)**	**(3.0)**
14. Net financial charges third parties	(60)	(0.5)	(155)	(1.3)
Net financial charges subsidiaries and affiliates	7	0.1	37	0.3
15. Dividends	9,706	80.2	14,376	117.7
16. Valuation of equity investments held for sale	=	=	=	=
17. Other financial income and charges	(1)	=	(1)	=
18. Income before taxes	**16,517**	**136.6**	**13,896**	**113.7**
19. Taxes	(2,435)	(20.1)	(437)	(3.6)
20. Net income	**14,082**	**116.5**	**13,459**	**110.1**
21. Fair Value adjustments [(1)]	=	=	=	=
22. Other adjustments [(1)]	=	=	=	=
Items that will be reclassified subsequently to profit and loss	**=**	**=**	**=**	**=**
23. IAS 19 adjustments [(1)]	(3)	=	(4)	=
Items that will not be reclassified subsequently to profit and loss	**(3)**	**=**	**(4)**	**=**
24. Total comprehensive income for the period	**14,079**	**116.3**	**13,455**	**110.1**

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.

[Company statement of cash flows]

(thousands of euro)	2018	2017
Net income	**14,082**	**13,459**
Amortisation and depreciation	1,080	1,241
Change in provisions	3,163	349
Gain/(losses) on disposal of fixed assets	(9,675)	(7)
Change in inventories	45	=
Change in trade receivables and other receivables third parties	488	25
Change in trade receivables and other receivables subsidiaries and affiliates	751	2,612
Change in trade payables and other payables third parties	541	(7)
Change in trade payables and other payables subsidiaries and affiliates	346	54
Change in long-term other financial receivables and payables	=	=
Operating cash flow (A)	**10,821**	**17,726**
Investments in intangible and tangible fixed assets	(194)	(350)
Disposals in intangible and tangible fixed assets	6,460	11
Investments in equity investments	(34)	(112)
Disposals of other equity investments	=	=
Cash flow from investments (B)	**6,232**	**(451)**
Translation exchange differences and other equity changes (C)	=	=
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**17,053**	**17,275**
Dividends paid	(8,000)	(5,300)
Increase in share capital of Parent Company	=	=
Change in net financial position	**9,053**	**11,975**
Change in long-term financial payables	(1,682)	(4,775)
Change in current financial payables third parties	(4,783)	36
Change in current financial payables subsidiaries and affiliates	=	(2,916)
Change in long-term financial receivables third parties	2	(1)
Change in long-term financial receivables subsidiaries and affiliates	=	=
Total Change in current financial assets, cash and cash equivalent	**2,590**	**4,319**
Cash and current financial assets - beginning of the period	**10,511**	**6,192**
Cash and current financial assets - end of the period	**13,101**	**10,511**

Company statement of changes in shareholders' equity

(thousand euro)	Share capital	Legal reserve	Extra-ordinary reserve	Fair value reserve	Transfer reserve	Capital grants	IAS 19 reserve	Sundry reserves	Profits carried forward	Income for the year	Total share-holders' equity
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**
Net income for the year 2018										14,082	14,082
Other total profit/(losses) (1)							(3)				(3)
Total other income/charges	**=**	**=**	**=**	**=**	**=**	**=**	**(3)**	**=**	**=**	**14,082**	**14,079**
Allocation of net income 2017											
Dividends										(8,000)	(8,000)
carried forward									5,459	(5,459)	=
Balances as at 31.12.2018	**40,000**	**8,000**	**76**	**=**	**51,998**	**=**	**(9)**	**=**	**6,810**	**14,082**	**120,957**

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

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	31.12.2017		31.12.2017
(thousands of euro)			
B) Fixed assets	100,163	A) Shareholders' equity	100,544
C) Current assets	496	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	117
Total assets	**100,661**	**Total liabilities**	**100,661**

Income statements	Year 2017
(thousands of euro)	
A) Value of production	12
B) Cost of goods sold	(182)
Difference between value and cost of goods sold (A+B)	**(170)**
C) Financial income and charges	2,609
D) Adjustment to value of financial assets	(37)
Income before taxes (A+B+C+D+E)	**2,402**
Income taxes	(18)
Profit (loss) for the year	**2,384**

Publication

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

Introduction

Notes to the Company's financial statements

Change to accounting standards

These separate 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 by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Accounting standards that entered into force on 1 January 2018

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 coming under 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.

This standard has not had a significant impact.

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. According to the new standard, these changes must be noted as “Other comprehensive income” and no longer on the income statement.
With reference to the impairment model, the new standard requires the estimated losses on loans to be prepared on the basis of the model of expected losses (and not on the model of incurred losses) using supported information, available at no cost and without any unreasonable effort that include 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 model of hedge accounting, with the aim of adjusting the requirements envisaged by the current IAS 39, which have at times been considered as overly strict and not able to reflect the company’s 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;
- change in the method of booking forward contracts and options when included in a hedge accounting relationship, so as to reduce the volatility of the income statement;
- 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, an assessment of effectiveness is no longer be required.

This principle has had no significant impact on the financial statements.

[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. Such circumstances do not apply to the Group.

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) 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.
This standard has had no impact on the separate financial statements.

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.

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

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 will apply from 1 January 2019.
The application of this standard at the reporting date is still being assessed.

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 from 1 January 2019.
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 Company's separate financial statements when they come into force.

Introduction

Notes to the Company's financial statements

Compliance with IFRS/IAS

These separate 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 38/2005.
IFRS also means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Financial statements

This document consists of the statement of financial position, 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 statement of financial position, 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 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 statement of cash flows, the indirect method has been used.

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.

Going concern

The separate financial statements have been prepared on the basis of the accounting records as at 31 December 2018 and on a going concern basis.

Valuation criteria

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 fixed 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 reporting date, whether there are any indicators of lasting impairment to assets.
If these indications exist, an estimate is prepared of the value that can be recovered on the asset, i.e. the greater of the fair value of an asset or cash generating unit, less the costs of sale, and its use value. 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.
A reduction in value is recognized 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 estimated realizable value.
Impairment losses are written back if the reasons for generating them no longer exist.

[Notes to the Company's financial statements]

1.5 Equity investments

Equity investments in subsidiaries, joint ventures and associates that represent long-term investments are shown at the cost of acquisition or establishment, insofar as it is representative of the fair value. At every reporting 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 associates 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 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 associates 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 assets

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.

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 statement of financial position.
Non-current assets or groups of assets and liabilities held for sale are recognised at the lower between the book value and the fair value net of the costs of sale.

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 recognized 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 statement of financial position 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 carried 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 carried at fair value net of directly attributable transaction costs.

[Notes to the Company's financial statements]

Derivative financial instruments

Derivatives are carried at fair value. They 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 change in fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; consistently, 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), the changes in fair value are initially recognised in shareholders' equity and later in the income statement, in line with the effects produced by the hedging transaction.
Changes in the fair value of derivatives that do not satisfy the conditions for being qualified as hedges are recognised in the income statement.
The fair values used to prepare the financial statements, relating to the valuation of term purchases and sales of foreign currency, foreign exchange options and interest rate swaps, were established based on the rates provided by the banking system.

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.

[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 assets and liabilities in the statement of financial position and the relevant information, as well as contingent 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.
At every reporting 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 with regard to the value in use, 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 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 statement of financial position, the statement of profit/(loss) for the year and items of other comprehensive income, the statement of cash flows 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 2018 financial year;
- events after the close of the financial year;
- outlook (IFRS 7);
- other relevant information on operating performance and financial position.

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 344 thousand euros, including 294 thousand for contributions to electricity production (TPA) and 50 thousand for fees for energy produced and sold (TFO). During the year, 328 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 279 thousand euros for contributions (TPA) and 49 thousand euros for energy produced and sold (TFO);
- Income received from Fondirigenti of 6 thousand euros on 13 July 2018;
- Income received from Fondimpresa of 16 thousand euros on 2 March 2018, 23 May 2018, 16 July 2018 and 23 November 2018;
- Contribution relief relating to the issuing of vouchers to employees (2016 Stability Act) of 5 thousand euros.

[Notes to the Company's financial statements]

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

1.1) Property, plant and machinery

1.2) Civil building

	2018	2017	Change
Amounts to:	**9,644**	**10,397**	**(753)**

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	11,397	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**
Movements during the year:							
Original cost:							
acquisitions	=	1	9	26	30	13	79
gross disposal	=	=	=	(9)	(16)	=	(25)
Depreciation funds:							
depreciation for the year	(30)	(240)	(433)	(85)	(39)	=	(827)
gross disposal	=	=	=	6	14	=	20
Totale movimenti dell'esercizio	**(30)**	**(239)**	**(424)**	**(62)**	**(11)**	**13**	**(753)**
Original cost	982	11,398	8,100	728	1,143	13	22,364
Depreciation funds	(175)	(6,721)	(4,084)	(656)	(1,084)	=	(12,720)
Balances as at 31.12.2018	**807**	**4,677**	**4,016**	**72**	**59**	**13**	**9,644**

Tangible fixed assets as at 31 December 2018 are 9,644 thousand euros, down by 753 thousand euros.

In detail, the increases for investments in the period (79 thousand euros) mainly relate to the following categories of assets:

- **Industrial land and buildings** for 1 thousand euros. These expenses relate to work on the Piovene building;
- **Plants and machinery** for 9 thousand euros. These capitalisations refer to office building facilities at Piovene warehouse for 3 thousand euros, the Piovene photovoltaic plant for 4 thousand euros and the heating plant at Valdagno for 2 thousand euros;
- **Industrial and commercial equipment** for 26 thousand euros. These investments mainly related to the purchase of shelving for the Piovene warehouse.

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

As of 31 December 2018, 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

	2018	2017	Change
Amounts to:	1,425	1,563	(138)

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	4,094	540	167	=	25	4,826
Accumulated depreciation	(3,021)	(242)	=	=	=	(3,263)
Balances as at 31.12.2017	**1,073**	**298**	**167**	**=**	**25**	**1,563**
Movements during the year:						
Original cost:						
acquisitions	78	2	=	=	35	115
disposals/depreciations	=	=	=	=	=	=
Amortisation:						
for the year	(241)	(12)	=	=	=	(253)
disposals/depreciations	=	=	=	=	=	=
Total movements for the year	**(163)**	**(10)**	**=**	**=**	**35**	**(138)**
Original cost	4,172	542	167	=	60	4,941
Depreciation funds	(3,262)	(254)	=	=	=	(3,516)
Balances as at 31.12.2018	**910**	**288**	**167**	**=**	**60**	**1,425**

Intangible assets as at 31 December 2018 came to 1,425 thousand euros and recorded a change of 138 thousand euros on the previous year (which included 253 thousand euros of amortisation in the period).

The main increases in the period relate to industrial patent rights and intellectual property rights for 78 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:

	2018
Software	12.00%
Concessions, licenses and similar rights	10.60%

Notes to the Company's financial statements

	2018	2017	Change
Amounts to:	**111,738**	**111,704**	**34**

made up as follows:

Description	A) Shareholdings in Subsidiaries	B) Shareholdings in Affiliates	C) Shareholdings in other companies	Total
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**
Movements during the year:				
Original cost:				
acquisitions	=	34	=	34
disposal	=	=	=	=
Total movements for the year	**=**	**34**	**=**	**34**
Original cost	100,837	10,746	206	111,789
Adjust. for permanent decrease in value	=	=	(51)	(51)
Balances as at 31.12.2018	**100,837**	**10,746**	**155**	**111,738**

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. Evidence of impairment may be represented by indicators such as financial difficulties, inability to honour 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 be observed shows that there is a measurable decline in estimated future cash flows, such as changes in the circumstances 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 2018, the item is 111,738 thousand euros, having booked increases for 34 thousand euros. The change relates to the purchase of 12,900 shares in the associate Ratti S.p.A.

Notes to the Company's financial statements

1.6) Other medium/long-term receivables

	2018	2017	Change
Amounts to:	**11**	**11**	**=**
made up as follows:			
Other receivables	11	11	=
Total	**11**	**11**	**=**

Sundry medium/long-term receivables, of 11 thousand euros, include the caution deposits paid and still in place as at 31 December 2018.

1.7) Deferred tax assets

	2018	2017	Change
Amounts to:	**3,408**	**2,818**	**590**
made up as follows:			
Depreciation of receivables	17	17	=
Accrual for risk and charges	3,190	2,594	596
Other temporary differences	201	207	(6)
Total	**3,408**	**2,818**	**590**

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

	2018	2017	Change
Amounts to:	**41**	**43**	**(2)**
made up as follows:			
Guarantee deposits (financial)	41	43	(2)
Total	**41**	**43**	**(2)**

Medium/long-term financial receivables amount to 41 thousand euros and relate to interest-bearing caution deposits.

3.1) Inventory

	2018	2017	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

	2018	2017	Change
Amounts to:	7,590	4,344	3,246

and refer to:

	2018		2017	
	Amount	%age	Amount	%age
Active customers receivables	3,648	*100.0*	417	*100.0*
– Bad debt provision	(69)	*(1.9)*	(69)	*(16.5)*
= Net active customers receivables	**3,579**	***98.1***	**348**	***83.5***
Bad debt	4	*100.0*	14	*100.0*
– Bad debt provision	(4)	*(100.0)*	(14)	*(100.0)*
= Net bad debt	**=**	**=**	**=**	**=**
Receivables from subsidiaries	**3,639**	***100.0***	**3,563**	***100.0***
Receivables from parent	**50**	***100.0***	**33**	***100.0***
Receivables from affiliates	**322**	***100.0***	**400**	***100.0***
Total face value of receivables	7,663	*100.0*	4,427	*100.0*
– Bad debt provision	(73)	*(1.0)*	(83)	*(1.9)*
Net receivables from customers	**7,590**	***99.0***	**4,344**	***98.1***

Trade receivables totalled 7,590 thousand euros, net of a provision for doubtful debt of 73 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.

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

Trade receivables by geographic area is as follows:

	Italy	Other European Countries	North America	Asia	Other Countries	Total
Towards customers	3,613	23	=	=	16	3,652
Towards subsidiaries	3,334	290	=	4	11	3,639
Towards parent	50	=	=	=	=	50
Towards affiliates	208	114	=	=	=	322
Gross receivables	**7,205**	**427**	**=**	**4**	**27**	**7,663**

Notes to the Company's financial statements

Trade receivables due from subsidiaries relate to:

	2018	2017	Change
Novà Mosilana a.s.	103	92	11
AB Liteksas	12	15	(3)
Marzotto Textiles USA Inc.	=	5	(5)
Marzotto Int. Trading Shanghai Ltd.	4	4	=
Marzotto Textile NV	=	1	(1)
Ambiente Energia S.r.l.	172	172	=
Sametex spol s r. o	169	148	21
Girmes International G.m.b.h.	=	1	(1)
Marzotto Wool Manufacturing S.r.l.	917	868	49
Marzotto Lab S.r.l.	607	607	=
Biella Manifatture Tessili S.r.l.	925	1,002	(77)
Linificio S.r.l.	713	635	78
UAB Lietlinen	6	4	2
Filature de Lin Filin s.a.	11	9	2
Total	**3,639**	**3,563**	**76**

Trade receivables due from lead companies relate to:

	2018	2017	Change
Trenora S.r.l.	17	17	=
Wizard S.r.l.	33	16	17
Total	**50**	**33**	**17**

Trade receivables from associates relate to:

	2018	2017	Change
Tintoria di Verrone S.r.l.	12	7	5
Uab Lietvilna	114	114	=
Ratti S.p.A.	195	278	(83)
Mascioni S.p.A.	1	1	=
Total	**322**	**400**	**(78)**

Trade receivables from parent companies, subsidiaries and associates result from business relations and are settled under normal market conditions.

Notes to the Company's financial statements

3.3) Other receivables

	2018	2017	Change
Amounts to:	**1,639**	**2,910**	**(1,271)**
made up as follows:			
Due from Tax Authorities	1,267	1,706	(439)
Other receivables	174	971	(797)
Accrued income and prepaid expenses	198	233	(35)
Total	**1,639**	**2,910**	**(1,271)**

Receivables from tax authorities relate to:

	2018	2017	Change
Added value tax	10	370	(360)
Income taxes	416	416	=
Interest due	35	35	=
Advance payments	339	386	(47)
Credits for taxes withheld	10	8	2
Other items	457	491	(34)
Total	**1,267**	**1,706**	**(439)**

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

Other receivables relate to:

	2018	2017	Change
Due from State pension funds	40	67	(27)
Due from employees	107	110	(3)
Other receivables from parent companies	=	762	(762)
Other receivables from affiliates	8	12	(4)
Other receivables	19	20	(1)
Total	**174**	**971**	**(797)**

As at 31 December 2018, the item amounted to 174 thousand euros, including 8 thousand euros from the associate Mascioni S.p.A. In the previous year, other receivables from the parent company of 762 thousand related to receivables from parent company Wizard S.r.l. deriving from the national tax consolidation scheme.

Notes to the Company's financial statements

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

	2018	2017	Change
Amounts to:	**13,101**	**10,511**	**2,590**
and refers to:			
Financial assets			
Due from subsidiaries	162	149	13
Other financial receivables	3	3	=
Cash			
Bank and post-office accounts	12,927	10,356	2,571
Cash and cash equivalent on hand	9	3	6
Total	**13,101**	**10,511**	**2,590**

The total amount of the Company’s short-term financial assets and cash and cash equivalents is 13,101 thousand euros.

Liquid funds come to 12,936 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 2018.

Financial receivables due from subsidiaries relate to:

	2018	2017	Change
Marzotto Textile N.V.	162	132	30
Marzotto Lab S.r.l.	=	17	(17)
Total	**162**	**149**	**13**

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 2018 is 120,957 thousand euros, improving by 6,079 thousand euros on last year.

Share capital

Number of Shares	Share capital at 31.12.2017	Share capital change	Share capital at 31.12.2018
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2018, the fully subscribed and paid-up **share capital** was 40,000 thousand euros.

Extraordinary reserve

Balances equity as at 31 December 2017	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 2017	8,000
+/- change	=
Total	**8,000**

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

Trasfer reserve

Balances equity as at 31 December 2017	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.

	2018	2017	Change
IAS 19 reserve	(9)	(6)	(3)
Profits carried forward	6,810	1,351	5,459
Total	**6,801**	**1,345**	**5,456**

Notes to the Company's financial statements

Statutory and tax regulations to which share capital and reserves outstanding at 31 December 2018 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	(9)	=	=	(9)
Transfer reserve	51,998	=	=	51,998
Profits carried forward	6,810	=	=	6,810
Total	**62,142**	**884**	**43,849**	**106,875**

Following the demerger operation carried out in the 2010 tax period, the tax values recognised in shareholders' equity differ from those of the financial statements; in particular, the tax value of the share capital is higher, by 10,850 thousand euros, than the value shown in the table above, while "other reserves" show a lower tax value.

Capital and reserves with tax constraints

The equity constraint as at 31 December 2018 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	31/12/2018	Possibility of use	Notes
Share capital	40,000		
Legal reserve	8,000	B	
Extraordinary reserve	76	A B C	
IAS 19 reserve	(9)		
Transfer reserve	51,998	A B C	
Profits carried forward	6,810	A B C	
Total	**106,875**		

A: for capital increase
B: to cover losses
C: for distribution to shareholders
D: for other statutory constraints

Notes to the Company's financial statements

5.1) Long-term provisions

	2018	2017	Change
Amounts to:	**11,783**	**9,888**	**1,895**
and refer to:			

Provision for staff termination indemnities	2018	2017	Change
Amounts to:	**714**	**773**	**(59)**
the change is due to:			
Accrual in income statement	389	392	(3)
Disbursements for terminations	(78)	=	(78)
Disbursements for advances	=	(47)	47
0.50% contributions on accruals for the year	(25)	(24)	(1)
Transfer to other reserves/other companies	(347)	(363)	16
Transfer to tax authorities for personal income taxes ("IRPEF")	(3)	(3)	=
Adjustment as per IAS 19	5	7	(2)
Total	**(59)**	**(38)**	**(21)**

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 2.08% and an annual inflation index of 1.20%.
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.

Notes to the Company's financial statements

Pension	2018	2017	Change
Amounts to:	**546**	**590**	**(44)**

The provision relates to supplementary pension schemes currently in place for the secondary beneficiary.

	2018	2017	Change	due to	
Other provisions				Accrual	Utilization
Amounts to:	**10,523**	**8,525**	**1,998**	3,005	(1,007)
and refers to:					
Legal risk fund	1,774	1,776	(2)	=	(2)
Restructuring and relocation provisions	2,861	1,861	1,000	1,000	=
Other provisions for risk/charges	5,888	4,888	1,000	2,005	(1,005)

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 **restructuring and relocation provisions** are allocated mainly to offset planned charges and costs related to the industrial reorganisation plan of 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

	2018	2017	Change
Amounts to:	**2,014**	**153**	**1,861**
and can be broken down as follows:			
Tangible and intangible assets differences	157	153	4
Deferred tax liabilities	1,857	=	1,857
Total	**2,014**	**153**	**1,861**

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

	2018	2017	Change
Amounts to:	**11**	**1,693**	**(1,682)**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	=	1,682	(1,682)
Due to other lenders	11	11	=
Total	**11**	**1,693**	**(1,682)**

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

All outstanding loans were extinguished during the year.

Notes to the Company's financial statements

6.1) Trade payables and other payables

	2018	2017	Change
Amounts to:	**13,827**	**12,946**	**881**
and can be broken down as follows:			
Trade payables	1,694	1,663	31
Trade payables due to parent companies	45	64	(19)
Trade payables due to subsidiaries	3	=	3
Payables due to Inland Revenue	1,308	732	576
Payables due to social security institutions	364	403	(39)
Payables due to employees	1,702	1,726	(24)
Other payables	201	206	(5)
Other payables due to parent companies	8,371	8,000	371
Other payables due to subsidiaries	55	64	(9)
Accrued liabilities and deferred income	84	88	(4)
Total	**13,827**	**12,946**	**881**

The balance of the item **Trade payables and other payables**, in the amount of 13,827 thousand euros at 31 December 2018, increased by 881 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:

	2018	2017	Change
Novà Mosilana a.s.	=	16	(16)
Marzotto Wool Manufacturing S.r.l.	40	39	1
Sametex spol s r. o	5	5	=
Ambiente Energia S.r.l.	=	2	(2)
Linificio S.r.l.	=	2	(2)
Total	**45**	**64**	**(19)**

Trade payables to associates relate to:

	2018	2017	Change
Ratti S.p.A.	3	=	3
Total	**3**	**=**	**3**

Payables to tax authorities can be broken down as follows:

	2018	2017	Change
Regional manufacturing tax	602	48	554
Withholding taxes	541	597	(56)
Other amounts due	165	87	78
Total	**1,308**	**732**	**576**

Payables to tax authorities, amounting to 1,308 thousand euros, mainly consist of tax withholdings on income from employment and other taxes for the period.

Payables to social security institutions relate to:

	2018	2017	Change
INPS for current taxes	270	305	(35)
Due to other institutions	94	98	(4)
Total	**364**	**403**	**(39)**

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

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

Payables to employees can be broken down as follows:

	2018	2017	Change
December salaries paid in January	446	466	(20)
Deferred salaries for vacation days accrued and not taken	1,124	1,103	21
Deferred salaries for other deferrals	125	148	(23)
Other items	7	9	(2)
Total	**1,702**	**1,726**	**(24)**

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:

	2018	2017	Change
Other payables due to parent companies	8,371	8,000	371
Other payables due to subsidiaries	55	64	(9)
Other amounts due to third parties	201	206	(5)
Total	**8,627**	**8,270**	**357**

Other payables to parent companies of 8,371 thousand euros relate to the dividends resolved upon by the Shareholders' Meeting of May 2018 (8,000 thousand euros) and payables to the parent company Wizard S.r.l. deriving from tax consolidation (371 thousand euros).
Other payables to subsidiaries of 55 thousand euros included 53 thousand euros to Marzotto Wool Manufacturing S.r.l. and 2 thousand euros to Marzotto Lab S.r.l.

Notes to the Company's financial statements

6.2) Short-term financial payables

	2018	2017	Change
Amounts to:	**5**	**4,788**	**(4,783)**
and can be broken down as follows:			
Payables due to banks and other lenders	5	4,788	(4,783)
Total	**5**	**4,788**	**(4,783)**

Payables to banks and other lenders relate to the use of facilities, short-term loans and the current portion of medium/long-term loans.

The table below gives the breakdown of net borrowing.

Net financial position

	2018	2017	Change
Amounts to:	**13,126**	**4,073**	**9,053**
and can be broken down as follows:			
1.8 Long term financial receivables	41	43	(2)
3.4 Current financial assets, cash and cash equivalents	13,101	10,511	2,590
5.4 Long term financial payables	(11)	(1,693)	1,682
6.2 Current financial payables	(5)	(4,788)	4,783
Total	**13,126**	**4,073**	**9,053**

The net financial position at the reporting date was positive for 13,126 thousand euros, representing an improvement of 9,053 thousand euros.
Please see the statement of cash flows for evidence of the individual factors that went towards determining the change during the period.

Contractual commitments and guarantees (memorandum accounts)

Comments on the memorandum accounts and commitments at 31 December 2018 are provided below:

"***Guarantees to subsidiaries and associates***" were given:

- in favour of the subsidiary Marzotto Lab S.r.l. for 16,000 thousand euros for transfers of receivables without recourse;
- to subsidiary Marzotto Lab S.r.l. for 40,500 thousand euros as a guarantee of loans granted;
- to subsidiary Marzotto Lab S.r.l. for 28,850 thousand euros for lines of credit;
- to subsidiaries Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. for 38,500 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. or as a guarantee of credit lines for 3,460 thousand euros.

"***Guarantees received from third parties***" were given:

- 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 gives the breakdown of Net revenues according to business sector.

	2018	2017	% change
Holding/coordination	8,552	8,552	=
Real estate	1,150	1,180	(2.5)
Logistics	1,774	1,701	4.3
Other	625	777	(19.6)
Total	**12,101**	**12,210**	**(0.9)**

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

	2018	2017	% change
Amounts to:	**(2,437)**	**(2,591)**	**(5.9)**
and refers to:			
Other costs	(42)	(1)	+ 100,0
Other logistic and industrial costs	(2,395)	(2,590)	(7.5)
Total	**(2,437)**	**(2,591)**	**(5.9)**

The item in question totals 2,437 thousand euros and mainly comprises costs relating to the Logistics business at Piovene (VI) site for 1,590 thousand euros.

Notes to the Company's financial statements

11. General and administrative costs

	2018	2017	% change
Amounts to:	**(9,266)**	**(9,141)**	**1.4**

General and administrative costs as at 31 December 2018 mainly include payroll costs for 5,623 thousand euros, costs for directors and auditors for 954 thousand euros, consultancy costs and fees (legal, administrative and other minor) for 196 thousand euros, insurance expenses for 123 thousand euros and maintenance, utilities and transport costs for 2,370 thousand euros.

12. Other income and expenses

	2018	2017	% change
Amounts to:	**6,481**	**(800)**	**>100%**
and refers to:			
Disposal of tangible and intangible assets	9,678	7	
Loss on disposal of investment	(3)	=	
Allocation/use to legal risk fund and future charges	(3,005)	(596)	
Other income/charges	(189)	(211)	
Total other income/charges	**6,481**	**(800)**	**>100%**

The balance of other income and expenses is a positive 6,481 thousand euros and mainly consists of net capital gains realised of 9,675 thousand euros, with the remainder relating to income components accrued in previous years or whose source is extraneous to the the company’s ordinary operations.
As already mentioned in the report on these financial statements, capital gains include 9,673 thousand euros related to the sale of the artistic works owned by the Company that began during the year and was prompted by the Company's difficulty in maintaining the works in an adequate state of repair.
The provision for risks relates to the Praia dispute described above, while the income components accrued in previous years or whose source is extraneous to the the company’s ordinary operations.

Notes to the Company's financial statements

13. EBIT

	2018	2017	% change
Amounts to:	**6,865**	**(361)**	**>100%**

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

Payroll costs

	2018	2017	% change
Amounts to:	**(7,235)**	**(7,197)**	**0.5**
and refers to:			
Wages and salaries	(5,300)	(5,236)	1.2
Social security contributions	(1,505)	(1,479)	1.8
Staff termination indemnities	(390)	(392)	(0.5)
Pension funds and similar liabilities	(15)	(14)	7.1
Other labour costs	(25)	(76)	(67.1)

The table above gives the costs relating to employees. Salaries and wages also include labour costs for temporary staff.

The number of active **employees** had the following trend:

	Year End Staff			Average		
	31.12.2018	31.12.2017	% change	2018	2017	% change
Blue-collar workers	13	15	*(13.3)*	14	15	*(6.7)*
White-collar workers	71	71	=	72	67	*7.5*
Managers	10	14	*(28.6)*	12	12	=
Total	**94**	**100**	***(6.0)***	**98**	**94**	***4.3***

Amortisation and depreciation was as follows:

Ammortization	2018	2017	% change
Amounts to:	**(1,080)**	**(1,241)**	**(13.0)**
and refers to:			
amortization of intangible fixed assets	(253)	(347)	
depreciation of tangible fixed assets	(827)	(894)	

Notes to the Company's financial statements

14. Net financial expenses

	2018	2017	% change
Amounts to:	**(53)**	**(118)**	**(55.1)**
and refer to:			
Financial income			
Interest received from subsidiaries	7	76	(91)
Interest received from affiliates	=	1	n.c.
Interessi attivi bancari	3	=	n.c.
Total financial income	**10**	**77**	**(87.0)**
Financial charges			
Interest payable to subsidiaries	=	(40)	n.c.
Interest payable to banks	(20)	(51)	(60.8)
Bank services	(26)	(40)	(35.0)
Other financial charges	(17)	(64)	(73.4)
Total financial charges	**(63)**	**(195)**	**(67.7)**
Total	**(53)**	**(118)**	**(55.1)**

Interest received from subsidiaries is detailed as follows:

	2018	2017	% change
Amounts to:	**7**	**76**	**(91)**
and refers to:			
Marzotto Lab S.r.l.	6	75	(92)
Marzotto Textile N.V.	1	1	=
Total	**7**	**76**	**(91)**

Interest payable to subsidiaries:

	2018	2017	% change
Amounts to:	**=**	**(40)**	**n.c.**
and refers to:			
Marzotto Wool Manufacturing S.r.l.	=	(28)	n.c.
Ambiente Energia S.r.l.	=	(12)	n.c.
Total	**=**	**(40)**	**n.c.**

Notes to the Company's financial statements

15. Dividends from investees

	2018	2017	% change
Amounts to:	**9,706**	**14,376**	**(32.5)**
and refers to:			
Dividends from subsidiary companies			
Marzotto Wool Manufacturing S.r.l.	8,000	13,000	
Ambiente Energia S.r.l.	500	450	
Dividends from affiliates companies			
Ratti S.p.A.	1,206	926	
Dividends from other companies	=	=	
Total dividends	**9,706**	**14,376**	**(32.5)**

17. Other financial income and expenses

	2018	2017	% change
Amounts to:	**(1)**	**(1)**	**=**
and refers to:			
Adjustement TFR IAS 19	(1)	(1)	
Total	**(1)**	**(1)**	**=**

19. Income taxes

	2018	2017	% change
Amounts to:	**(2,435)**	**(437)**	**>100,0**
and refers to:			
Current taxes	(1,164)	(124)	
Deferred taxes	(1,270)	(352)	
Other variations	(1)	39	
Total	**(2,435)**	**(437)**	**>100,0**

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

	2018		2017	
	Amount	%age	Amount	%age
Pre-tax profit	**16,517**		**13,896**	
Theoretical taxes	(3,964)	(24.0)	(3,335)	(24.0)
Exemption on dividens	2,213	13.4	3,278	23.6
Other permanent changes	(144)	(0.9)	(148)	(1.1)
IRAP	(603)	(3.7)	(47)	(0.3)
Other variations	63	0.4	(185)	(1.3)
Total taxes	**(2,435)**	**(14.7)**	**(437)**	**(3.1)**

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 schedules and the notes.

The tables below detail the equity and economic values of the transactions performed with parent companies, subsidiaries, associates and affiliates as at 31 December 2018.

Receivables and payables existing with Group Companies as at 31 December 2018

	Receivables				Payables			
Company	Trade	Other	Financial	Total	Trade	Other	Financial	Total
Biella ManifattureTessili S.r.l.	925	=	=	925	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	917	=	=	917	40	53	=	93
Marzotto Lab S.r.l.	607	=	=	607	=	2	=	2
Ambiente Energia S.r.l.	172	=	=	172	=	=	=	=
Marzotto Textile NV	=	=	162	162	=	=	=	=
Novà Mosilana a.s.	103	=	=	103	(17)	=	=	(17)
AB Liteksas	12	=	=	12	=	=	=	=
Marzotto Int. Tr. Shanghai Co. Ltd	4	=	=	4	=	=	=	=
Sametex spol s r. o	169	=	=	169	5	=	=	5
UAB Lietlinen	6	=	=	6	=	=	=	=
Linificio S.r.l.	713	=	=	713	=	=	=	=
Filature de Lin Filin s.a.	11	=	=	11	=	=	=	=
Uab Lietvilna	114	=	=	114	=	=	=	=
Tintoria di Verrone S.r.l.	12	=	=	12	=	=	=	=
Ratti S.p.A.	195	=	=	195	3	=	=	3
Mascioni S.p.A.	1	8	=	9	=	=	=	=
Trenora S.r.l.	17	=	=	17	=	=	=	=
Wizard S.r.l.	33	=	=	33	=	8,371	=	8,371
Total	**4,011**	**8**	**162**	**4,181**	**31**	**8,426**	**=**	**8,457**

Revenues, income, costs and charges with the Group Companies for the year 2018

	Revenues and other income				Costs and charges			
Company	Products	Services	Finance	Total	Products	Services	Finance	Total
Biella Manifatture Tessili S.r.l.	2,098	=	=	2,098	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	3,413	=	=	3,413	=	352	=	352
Marzotto Lab S.r.l.	2,165	=	6	2,171	=	=	=	=
Ambiente Energia S.r.l.	280	=	=	280	=	=	=	=
Marzotto Textile NV	=	=	1	1	=	=	=	=
Novà Mosilana a.s.	382	=	=	382	=	=	=	=
AB Liteksas	42	=	=	42	=	=	=	=
Sametex spol s r. o	401	=	=	401	=	5	=	5
Linificio S.r.l.	1,264	=	=	1,264	=	=	=	=
UAB Lietlinen	13	=	=	13	=	=	=	=
Filature de Lin Filin s.a.	17	=	=	17	=	=	=	=
Uab Lietvilna	226	=	=	226	=	=	=	=
Tintoria di Verrone S.r.l.	10	=	=	10	=	=	=	=
Ratti S.p.A.	405	=	=	405	=	4	=	4
Trenora S.r.l.	28	=	=	28	=	=	=	=
Wizard S.r.l.	27	=	=	27	=	=	=	=
Total	**10,771**	**=**	**7**	**10,778**	**=**	**361**	**=**	**361**

[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	913	41	**954**

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 2018, 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 2018, 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 2018. 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.	Milan (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milan (I)	Marzotto S.p.A.	14.18%	14.18%
G. Schneider PTY Limited	Greenwich (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Schneider New Zealand Limited	Christchurch (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
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.	**33.95%**	**33.95%**
Creomoda S.a.r.l.	Sousse (TN)	Ratti S.p.A.	76.00%	25.80%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	33.95%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	33.95%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	33.95%

Notes to the Company's financial statements

We provide further details on the equity investments held by the Company below.

Company	Reg. office	Share Capital	Currency	% Ownership 2018	% Ownership 2017
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 liquidation	Kaunas (LT)	500.00	K EUR	50.00	50.00
Mascioni S.p.A.	Milan (I)	10,000.00	K EUR	14.18	28.35
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	9,208.00	K EUR	30.00	30.00
G. Schneider PTY Limited	Greenwich (AUS)	3.00	K AUD	25.00	=
Schneider New Zealand Limited	Christchurch (AUS)	0.10	K NZD	25.00	=
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	33.95	33.90
and it's subisidiaries:					
Creomoda S.a.r.l.	Sousse (TN)	10.00	K TND	25.80	25.61
Ratti USA Inc.	New York (USA)	500.00	K USD	33.95	33.90
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	110.00	K EUR	33.95	33.90
Textrom S.r.l.	Cluj - Napoca (RO)	0.20	K RON	33.95	33.90
Aree Urbane S.r.l. in liquidation	Milan (I)	100.00	K EUR	32.50	32.50

[Notes to the Company's financial statements]

(importi in K euro)	Situation as at 31.12.2017				Changes during the year 2018			
	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*	14	47	=	=	=	=
Ambiente Energia S.r.l.	1	*100.00*	8,575	8,010	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	1	*100.00*	73,429	49,371	=	=	=	=
Mrzotto Lab S.r.l.	1	*100.00*	35,703	43,401	=	=	=	=
Marzotto Textiles Czech Rep. s r.o	1	*100.00*	96	7	=	=	=	=
Shareholdings in subsidiaries			**117,817**	**100,836**	**=**	**=**	**=**	**=**
Mascioni S.p.A.	283,500	*14.18*	271	=	=	=	=	=
Aree Urbane S.r.l. in liquidation	1	*32.50*	(20,031)	=	=	=	=	=
Ratti S.p.A.	9,271,000	*33.90*	15,390	10,712	12,900	35	=	=
Shareholding in affiliates			**(4,370)**	**10,712**	**12,900**	**35**	**=**	**=**
Società Editrice Il Mulino S.p.A.	224,989	*3.00*	126	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			**138**	**155**	**=**	**=**	**=**	**=**
Total equity investments			**113,585**	**111,703**	**12,900**	**35**	**=**	**=**

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.

Situation as at 31.12.2018						
Net equity as of	Number of shares owned	% owned	Pro-quota Net Income	Pro-quota net equity (1)	Net book value	Description
Dec. 2018	1	*100.00*	(3)	10	47	Le Cotonerie S.r.l.
Dec. 2018	1	*100.00*	666	8,742	8,010	Ambiente Energia S.r.l.
Dec. 2018	1	*100.00*	9,592	69,887	49,371	Marzotto Wool Manufacturing S.r.l.
Dec. 2018	1	*100.00*	266	40,045	43,401	Marzotto Lab S.r.l.
Dec. 2018	1	*100.00*	21	115	7	Marzotto Textiles Czech Rep. s r.o
			10,542	**118,799**	**100,836**	**Shareholdings in subsidiaries**
Dec. 2017	283,500	*14.18*	732	1,471	=	Mascioni S.p.A.
Dec. 2017	1	*32.50*	(382)	(29,954)	=	Aree Urbane S.r.l. in liquidation
Dec. 2018	9,283,900	*33.95*	3,509	17,637	10,747	Ratti S.p.A.
			3,859	**(10,846)**	**10,747**	**Shareholding in affiliates**
Dec. 2017	224,989	*4.79*	7	132	143	Società Editrice Il Mulino S.p.A.
Dec. 2017	19,968	*1.58*	=	8	10	Next Technology Tecnotessile S.r.l.
Dec. 2017	2,270	*0.01*	=	3	1	Tollegno Holding S.p.A.
Dec. 2012	1	*11.11*	n.d.	1	1	Consorzio Ivrea Energia (in liquidation)
			7	**144**	**155**	**Shareholdings in other companies**
			14,408	**108,097**	**111,738**	**Total equity investments**

Proposals to the Shareholders' Meeting

Allocation of earnings for the year

Dear Shareholders,

We invite you to approve the presented financial statements and propose to allocate the profits for the period of 14,081,743.82 euros as follows:

- dividend: 8,000,000.00 euros;
- retained: 6,081,743.82 euros.

After this allocation, retained earnings net of losses will amount to 12,892,008.38 euros.

For operational reasons, it is proposed to make the payment at the shareholder's request from April 2020.

Valdagno (VI), 29 March 2019

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

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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
Manifattura Lane Gaetano Marzotto & Figli S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manifattura Lane Gaetano Marzotto & Figli S.p.A (the Company) which comprise the statement of financial position as at December 31, 2018, the statement of profit/(loss) and items of other comprehensive income, the statement of cash flow of the Company for the year then ended, 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, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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.

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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. are responsible for the preparation of the Report on Operations of Manifattura Lane Gaetano Marzotto & Figli S.p.A. as at December 31, 2018, 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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. as at December 31, 2018 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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. as at December 31, 2018 and complies 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 11, 2019

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.

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REPORT PURSUANT TO ARTICLE 2429(2) OF THE ITALIAN CIVIL CODE OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF MARZOTTO S.P.A.

To the Shareholders' Meeting of Marzotto S.p.A.

Introduction

During the year ended 31 December 2018, the Board of Statutory Auditors performed the duties set forth in Articles 2403 et seq. of the Civil Code, as EY S.p.A. is required to perform the duties set forth in Article 2409-bis of the Civil Code.

During the year ended 31 December 2018, our activities were based on the provisions of law and the Code of Conduct of the Board of Statutory Auditors issued by the National Council of Chartered Accountants and Accounting Experts, with respect to which we conducted a positive self-assessment for each member of the Board of Statutory Auditors.

Supervisory activities pursuant to Article 2403 et seq. of the Civil Code

We monitored compliance with the law and the articles of association and respect for the principles of proper administration.

We attended shareholders' meetings, and meetings of the board of directors and of the executive committee, in relation to which, on the basis of the information available, we did not detect any breaches of the law or the articles of association, nor any manifestly imprudent or risky transactions, nor any transactions that might give rise to a conflict of interest or were such as to compromise the integrity of the company's assets.

We obtained information from the directors during the meetings held on general business performance and business outlook, as well as on the most significant transactions, due to their size or characteristics, carried out by the company and its subsidiaries and, based on the information obtained, we have no particular observations to make.

We exchanged information with the independent auditors and no data and information arose requiring disclosure in this report.

We acted as a supervisory body, based on the board of directors' resolution of 29 June 2018 and, in performing this function, the verifications carried out did not reveal any significant risks or hazardous situations and no actions have emerged that constitute breaches of the Organisational Model adopted, as indicated in the report issued on 29 March 2019. At its meeting of 29 March 2019, the board of directors resolved on some amendments to the Organisational Model, which had been last updated in 2016. The need for this update arose from objective situations such as *(i)*alignment with the current organisation, *(ii)* legislative developments that have introduced new predicate offences that may affect the company, and *(iii)* the implementation of a system to protect reports of significant breaches pursuant to Legislative Decree 231/2001 or in any case conduct that could constitute breaches of the OM (the whistleblowing system).

We have acquired knowledge and supervised, to the extent of our competence, the adequacy and functioning of the company's organisational structure, including through the collection of information from the department managers, and we have no particular observations to report in this regard.

We have acquired knowledge and supervised, to the extent of our competence, the adequacy and functioning of the administrative and accounting system, as well as the reliability of the latter in correctly representing operating events, by obtaining information from the department managers and the examination of company documents, and we have no particular observations to report in this regard.

No reports were received from shareholders pursuant to Article 2408 of the Italian Civil Code.

The Board of Statutory Auditors did not issue any opinions required by law during the year.

In the course of the supervisory activity described above, no other material facts emerged requiring mention in this report.

Observations concerning the financial statements

As far as we are aware, the directors did not derogate from the provisions of law pursuant to Article 2423, paragraph 5, of the Civil Code.

With regard to the matters within our competence, we acknowledge that:

a) we have monitored the general layout of the financial statements and ascertained that their structure and the documents comprising them, the drafting principles and the valuation criteria adopted are consistent with the requirements of current legislation; we have no particular observations to report in this regard;

b) the financial statements have been prepared, as in the previous year, in application of the international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as the orders issued in implementation of Legislative Decree 38/2005.

c) the measurement policies followed in preparing the financial statements and the content of the individual items are thoroughly described by the administrative body in the explanatory notes;

d) the explanatory notes contain all the information necessary to provide a correct understanding of the financial statements; the administrative body also provides adequate information about transactions with third parties and related parties and intercompany transactions;

e) We have verified compliance with the provisions of law relating to the preparation of the report on operations and we have no observations to make in this regard.

The directors also prepared the consolidated financial statements for the year ended 31 December 2018.

As indicated in the introduction, the statutory audit is entrusted to the independent auditor EY S.p.A, which on the date of yesterday, 11 April 2019, issued its reports to the separate and consolidated financial statements for the year ended 31 December 2018, pursuant to Article 14 of Legislative Decree 39 of 27 January 2010, both of which express positive opinions without remarks or requests for information.

Comments and proposals regarding the approval of the financial statements

Considering the results of our work, the Board of Statutory Auditors proposes that the shareholders' meeting approve the financial statements for the year ended 31 December 2018, as drafted by the directors.

The Board of Statutory Auditors agrees with the proposal for allocation of the profit for the year made by the directors in the notes.

Valdagno (VI), 12 April 2019

The Board of Statutory Auditors

Sandro Miotto
Marco Della Putta
Federico Giorgione

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

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)	
	2018	2017	2018	2017	2018	2017
1. Non-current assets						
1.1 Property, plant and equipment	16,997	15,695	5,294	5,617	6,135	6,467
1.2 Civil buildings	41	42	390	402	15	15
1.3 Goodwill, trademarks and other intangible assets	256	138	3,756	3,741	931	1,027
1.4 Equity Investments	=	=	=	=	1	=
1.5 Other investments	97,465	97,224	59,410	58,422		=
1.6 Long-term receivables	25	97	10	15	1	1
1.7 Deferred tax assets	2,658	2,075	1,237	1,022	24	20
1.8 Long-term financial receivables	1	1	2,391	2,400	12	12
Total non-current assets	**117,443**	**115,272**	**72,488**	**71,619**	**7,119**	**7,542**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**	**=**	**=**
3. Current assets						
3.1 Inventories	38,634	34,551	17,569	15,882	=	=
3.2 Trade receivables	49,726	45,955	14,328	15,792	1,758	1,580
3.3 Other receivables	1,440	3,385	943	617	230	193
3.4 Current financial assets, cash and cash equivalents	28,919	25,934	14,381	11,947	2,519	2,053
Total current assets	**118,719**	**109,825**	**47,221**	**44,238**	**4,507**	**3,826**
Total assets	**236,162**	**225,097**	**119,709**	**115,857**	**11,626**	**11,368**
4. Shareholders' equity						
4.1 Share capital and reserves	60,295	60,155	39,779	39,989	8,076	8,036
4.2 Income/(Loss) for the year	9,592	9,678	266	(250)	666	539
4.3 Non controlling interests	=	=	=	=	=	=
Total shareholders' equity	**69,887**	**69,833**	**40,045**	**39,739**	**8,742**	**8,575**
5. Non-current liabilities						
5.1 Long-term provisions	6,706	7,138	2,368	2,386	97	96
5.2 Other long-term payables	=	=	=	=	=	=
5.3 Deferred tax liabilities	707	1,033	345	276	1,215	1,290
5.4 Long-term financial payables	47,170	30,554	32,363	17,306	=	=
Total non-current liabilities	**54,583**	**38,725**	**35,076**	**19,968**	**1,312**	**1,386**
6. Non-current liabilities held for sale	**=**	**=**	**=**	**=**	**=**	**=**
7. Current liabilities						
7.1 Trade payables and other payables	84,108	83,435	22,141	22,562	1,572	1,407
7.2 Current financial payables	27,584	33,104	22,447	33,588	=	=
Total current liabilities	**111,692**	**116,539**	**44,588**	**56,150**	**1,572**	**1,407**
Total shareholders' equity and liabilities	**236,162**	**225,097**	**119,709**	**115,857**	**11,626**	**11,368**
Net financial debt	**(45,834)**	**(37,723)**	**(38,038)**	**(36,547)**	**2,531**	**2,065**

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)	
		2018	2017	2018	2017	2018	2017
8.	**Net revenues**	**136,741**	**132,907**	**59,697**	**59,017**	**5,171**	**4,710**
9.	Cost of sales	(115,745)	(112,336)	(46,261)	(45,159)	(3,866)	(3,466)
10.	**Gross income**	**20,996**	**20,571**	**13,436**	**13,858**	**1,305**	**1,244**
11.	Product development and marketing costs	(13,683)	(13,683)	(10,016)	(9,886)	(12)	(36)
12.	General and administrative costs	(5,200)	(5,049)	(3,920)	(4,030)	(314)	(302)
13.	Other income and charges	240	(245)	(170)	(395)	(95)	(180)
14.	**Operating income**	**2,353**	**1,594**	**(670)**	**(453)**	**884**	**726**
15.	Net financial charges	(249)	(420)	(153)	(37)	(7)	4
16.	Dividends from non-consolidated equity investments and valuations to equity	8,110	9,309	900	330	=	=
17.	Other financial income and charges	(2)	(5)	=	(2)	=	=
18.	**Income before taxes**	**10,212**	**10,478**	**77**	**(162)**	**877**	**730**
18.	Taxes	(620)	(800)	189	(88)	(211)	(191)
20.	**Net income from continuing operations**	**9,592**	**9,678**	**266**	**(250)**	**666**	**539**
21.	Net income from discontinued operations	=	=	=	=	=	=
22.	**Net income**	**9,592**	**9,678**	**266**	**(250)**	**666**	**539**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand Czk)			
	2018	2017	2018	2017	2018	2017
1. Non-current assets						
1.1 Property, plant and equipment	=	=	=	=		
1.2 Civil buildings	=	=	=	=		
1.3 Goodwill, trademarks and other intangible assets	=	=	(17)	(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	**=**	**=**	**(17)**	**(8)**	**=**	**=**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**		
3. Current assets						
3.1 Inventories	=	=	=	=		
3.2 Trade receivables	=	=	1,271	1,313		
3.3 Other receivables	4	4	60	52		
3.4 Current financial assets, cash and cash equivalents	9	11	3,192	2,841		
Total current assets	**13**	**15**	**4,523**	**4,206**	**=**	**=**
Total assets	**13**	**15**	**4,506**	**4,198**	**=**	**=**
4. Shareholders' equity						
4.1 Share capital and reserves	13	15	2,423	1,879		
4.2 Income/(Loss) for the year	(3)	(2)	529	561		
4.3 Non controlling interests	=	=	=	=		
Total shareholders' equity	**10**	**13**	**2,952**	**2,440**	**=**	**=**
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	3	2	1,554	1,758		
7.2 Current financial payables	=	=	=	=		
Total current liabilities	**3**	**2**	**1,554**	**1,758**	**=**	**=**
Total shareholders' equity and liabilities	**13**	**15**	**4,506**	**4,198**	**=**	**=**
Net financial debt	**9**	**11**	**3,192**	**2,841**	**=**	**=**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand Czk)			
	2018	2017	2018	2017	2018	2017
8. Net revenues	**=**	**=**	**14,400**	**14,231**		
9. Cost of sales	=	=	(12,472)	(11,730)		
10. Gross income	**=**	**=**	**1,928**	**2,501**	**=**	**=**
11. Product development and marketing costs	=	=	=	=		
12. General and administrative costs	(4)	(4)	(1,267)	(1,794)		
13. Other income and charges	=	=	=	=		
14. Operating income	**(4)**	**(4)**	**661**	**707**	**=**	**=**
15. Net financial charges	=	=	(8)	(7)		
16. Dividends from non-consolidated equity investments and valuations to equity	=	=	=	=		
17. Other financial income and charges	=	=	=	=		
18. Income before taxes	**(4)**	**(4)**	**653**	**700**	**=**	**=**
18. Taxes	1	2	(124)	(139)		
20. Net income from continuing operations	**(3)**	**(2)**	**529**	**561**	**=**	**=**
21. Net income from discontinued operations	=	=	=	=		
22. Net income	**(3)**	**(2)**	**529**	**561**	**=**	**=**

[Summary of the main resolutions of the Shareholders' Meeting]

With regard to the financial statements for the year ended 31 December 2018, the Marzotto S.p.A. Shareholders' Meeting of 30 April 2019 resolved:

- to approve the Company's Financial Statements and the Report on Operations as at 31 December 2018 and the presentation of the Consolidated Financial Statements as at 31 December 2018 of the Marzotto Group, along with the related reports;
- to allocate the profit for the period of 14,081,743.82 euros as follows:
  - dividend: 8,000,000.00 euros;
  - retained: 6,081,743.82 euros.

After this allocation, retained profit net of losses will amount to 12,892,008.38 euros.

For operational reasons, the payment will be made at the shareholder's request from April 2020.

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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:

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Tel. 0445 429411

Secondary offices:

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