Emak

our power, your passion

2017 Annual Report

Annual report at
31 December 2017

These financial statements were approved by the Board of Directors on 16 March 2018.

This report is available on the Internet at the address www.emakgroup.it

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

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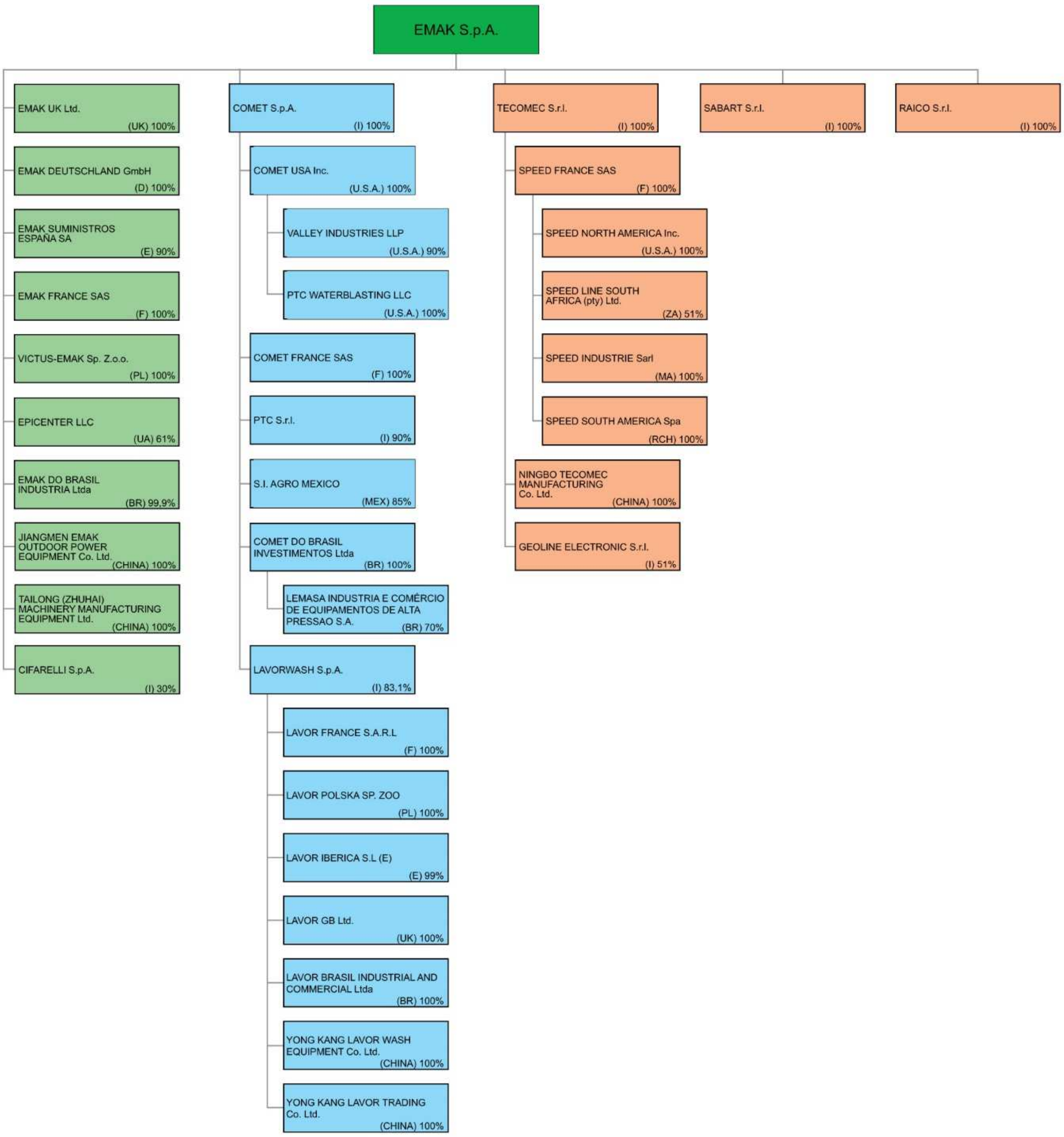
Organizational chart of Emak Group as at 31 December 2017



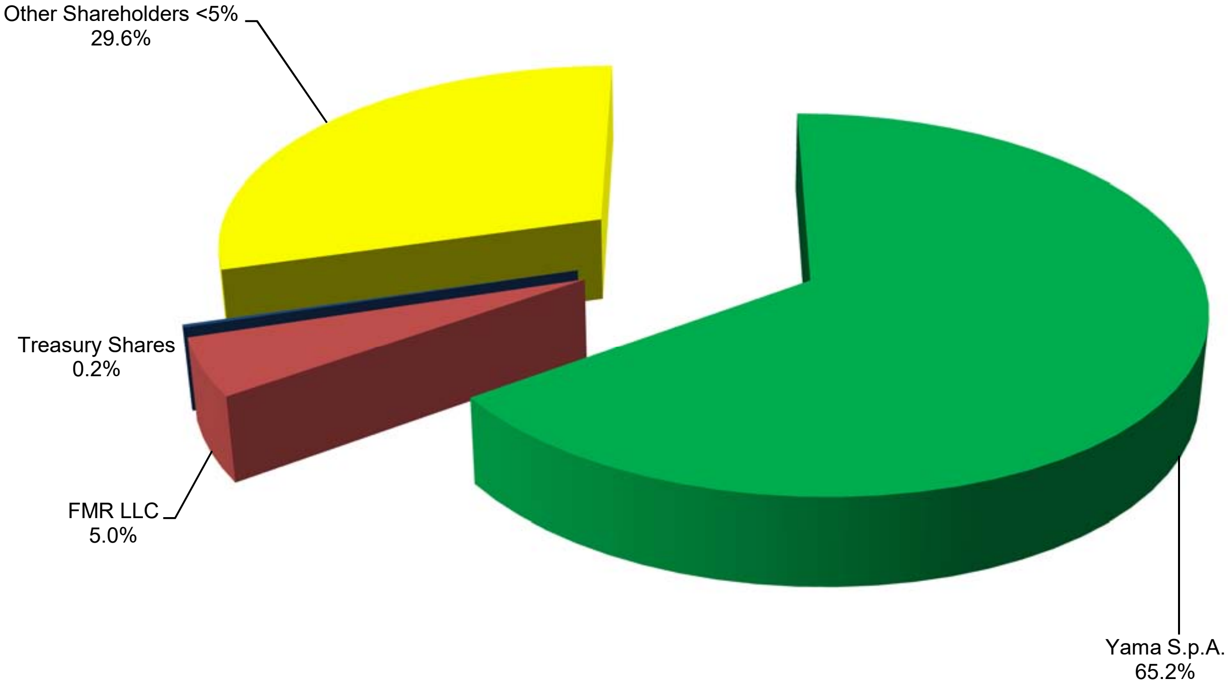
1. Valley Industries LLP is consolidated at 100% as a results of the "Put and Call Option Agreement" that governs the purchase of the remaining 10%.
2. Lemasa is consolidated at 100% as a results of the "Put and Call Option Agreement" that governs the purchase of the remaining 30%.
3. P.T.C. S.r.l. is consolidated at 100% as a results of the "Put and Call Option Agreement" that governs the purchase of the remaining 10%.
4. Comet do Brasil Investimentos Ltda is owned for 99.63% by Comet S.p.A .and 0.37% by P.T.C. S.r.l.
5. Lavorwash S.p.A is consolidated at 97.78% as a results of the "Put and Call Option Agreement" that governs the purchase of the 14.67% remaining

Main shareholders of Emak S.p.A.

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

On May 23, 2017, the majority shareholder Yama S.p.A., through an accelerated bookbuilding procedure, completed the placement of a stake of approximately 10% of Emak S.p.A.'s share capital. Following completion of the transaction, Yama holds the 65.181% of Emak's share capital.

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



Corporate Bodies of Emak S.p.A.

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

Board of Directors

Chairman and Chief Executive Officer	Fausto Bellamico
Deputy Chairman	Aimone Burani
Executive Director	Stefano Slanzi
Lead Independent Director	Massimo Livatino
Independent Director	Alessandra Lanza
	Elena Iotti
Directors	Francesca Baldi
	Ariello Bartoli
	Luigi Bartoli
	Paola Becchi
	Giuliano Ferrari
	Vilmo Spaggiari
	Guerrino Zambelli
	Marzia Salsapariglia

Audit Committee and Remuneration Committee

Chairman	Massimo Livatino
Components	Alessandra Lanza
	Elena Iotti

Nomination Committee (established February 28, 2018)

Chairman	Massimo Livatino
Components	Alessandra Lanza
	Luigi Bartoli

Financial Reporting Officer	Aimone Burani

Supervisory Body as per Legislative Decree 231/01

Chairman	Sara Mandelli
Acting member	Roberto Bertuzzi

Board of Statutory Auditors

Chairman	Paolo Caselli
Acting auditors	Gianluca Bartoli
	Francesca Benassi
Alternate auditor	Maria Cristina Mescoli
	Federico Cattini

Independent Auditor	Deloitte & Touche S.p.A.

Emak Group Profile

The Emak Group operates on the global market with a direct presence in 13 countries and a distribution network covering 5 continents.

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

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

The **Outdoor Power Equipment** segment includes activities for the development, manufacture and marketing of products for gardening and forestry activities and small machines for agriculture, such as brush cutters, lawnmowers, garden tractors, chainsaws, motor hoes and walking tractors. The Group distributes its own products with the main trademarks: Oleo-Mac, Efco, Bertolini, Nibbi and Staub (the latter only to the French market). The Group's offer is directed to professionals and to private users with high expectations. The Group mainly operates in the specialised dealer channel, distributing its products through its own sales branches and, where not present directly, through a network of 150 distributors in more than 100 countries throughout the world.
The Group's reference market (considered as the channel of specialised dealers, excluding the large-scale retail trade) has an estimated value of 7-8 billion Euros. In mature markets such as North America and Western Europe, demand is predominantly relates to replacement: the main driver is the trend of the economy and of the "gardening" culture. In emerging markets, such as the Far East, Eastern Europe and South America, demand is predominantly for the "first buy": the main driver in these areas is economic growth, the evolution of agricultural mechanisation and the relative policies of support. A further factor that influences demand is the price of commodities: the trend in the price of oil can influence the demand for

alternative energy sources, such as wood for heating and consequently a demand for chainsaws; the trend in the price of agricultural commodities influences investments ion agricultural machinery.
Weather conditions are a factor that can influence the trend in demand for products in the segment (brush-cutters, lawnmowers and garden tractors in spring-summer and chainsaws in autumn-winter).

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

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

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

Production structure

The production model is flexible, focused on the high added value phases of engineering, industrialisation and assembly. The production plant are oriented towards “lean manufacturing”, with the involvement of the supply chain on the basis of the extended factory model.
With particular reference to the *Outdoor Power Equipment* segment, in portable products (such as brush-cutters and chainsaws), the motor is integrated in the machine and is entirely designed and drawn by the Group. The components are then made by external suppliers and then assembled internally. With regards to products on wheels (lawnmowers, garden tractors, motor hoes and rotary cultivators), the motor is acquired from primary producers and the machine is then assembled internally. With regards to lawnmowers, the Group produces the body of its products internally with a vertical process that goes from the processing of the metal sheet to the painting and final assembly.
With regards to the products in the *Pumps and High Pressure Water Jetting* section, the pumps for agriculture and those for industry are fully designed in the Group’s Research and Development structure; the components are made externally by selected suppliers and then assembled internally. The pumps are the core of the high pressure cleaners and other high pressure plant, while the motor and other mechanical components and the frame are acquired and then assembled internally.
As regards the *Components and Accessories* sector, the production model varies according to the product. The wire for brush-cutters follows an entirely vertical process, from the purchase of the raw material to the processing, to the packaging of the finished product. The heads for brush-cutters and the pistols for high pressure cleaners are partly produced internally, with regards to the plastic moulding, followed by assembly of the mechanical components purchased from external suppliers. The precision farming line involves the design of the electronic parts and development of the software, which are the added value parts of the product, carried out internally, as is the final assembly. The most significant parts of the forestry line are designed and developed by the Group, with assembly of the components made externally. Other products, considering the type of processing required, which makes internal manufacture inefficient, are made and assembled by specific suppliers on the basis of the designs developed by the Group’s R&D department.
Production volumes can easily change to adapt to fluctuations in demand through flexible management, and seasonal peaks can be satisfied through overtime or additional shifts, without the need for additional investments.

Every production site has specific characteristics that vary according to the production carried on inside. Overall, the Group uses 19 production sites.

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

2017 Annual Directors' Report

Main strategic lines of action

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Main economic and financial figures for the Group

Income statement (€/000)

	Y 2017	Y 2016
Revenues from sales	422,155	391,879
EBITDA before non ordinary expenses (*)	45,612	40,479
EBITDA (*)	43,932	39,469
EBIT	29,977	21,869
Net profit	16,435	17,683

Investment and free cash flow (€/000)

	Y 2017	Y 2016
Investment in property, plant and equipment	14,802	12,159
Investment in intangible assets	2,626	2,386
Free cash flow from operations (*)	30,390	35,283

Statement of financial position (€/000)

	31.12.2017	31.12.2016
Net capital employed	312,799	261,751
Net debt	(125,294)	(80,083)
Total equity	187,505	181,668

Other statistics

	Y 2017	Y 2016
EBITDA / Net sales (%)	10.4%	10.1%
EBIT / Net sales (%)	7.1%	5.6%
Net profit / Net sales (%)	3.9%	4.5%
EBIT / Net capital employed (%)	9.6%	8.4%
Debt / Equity	0.67	0.44
Number of employees at period end	2,029	1,686

Share information and prices

	31.12.2017	31.12.2016
Earnings per share (€)	0.099	0.108
Equity per share (€) (*)	1.13	1.10
Official price (€)	1.44	0.91
Maximum share price in period (€)	2.08	0.91
Minimum share price in period (€)	0.90	0.60
Stockmarket capitalization (€ / million)	236	149
Average number of outstanding shares	163,537,602	163,537,602
Number of shares comprising share capital	163,934,835	163,934,835
Cash flow per share: net profit + amortization/depreciation (€) (*)	0.186	0.216
Dividend per share (€)	0.035	0.035

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

2. Scope of consolidation

Compared to 31 December 2016, the Lavorwash Group, acquired on 3 July 2017, entered the consolidation area, the economic data for the second half of the year and the balance sheet as at 31 December 2017 are included in the data of this annual financial report. For more information on the acquisition of the Lavorwash Group, please refer to the explanatory notes to this report.
In paragraph 4 "Results of Group companies", adequate information is also provided, pursuant to IFRS 3 Business Combinations, in order to represent the consolidated economic data of the Emak Group, including the companies belonging to the new scope, as if they had operated as a single Group since 1 January 2016.

3. Economic and financial results of Emak Group

Comments on economic figures

Revenues from sales

Emak Group achieved a consolidated turnover of € 422,155 thousand, compared to € 391,879 thousand of last year, an increase of 7.7%. This improvement is due to the contribution of the change in the scope of consolidation by 7.5%, to the negative effect of the exchange rate by 0.1% and to an organic growth of 0.3%.

The change in scope of consolidation contributed to the increase in turnover in the amount of € 29,610 thousand.

EBITDA

Ebitda for the period reached € 43,932 thousand (an incidence of 10.4% on sales) compared to € 39,469 thousand in 2016 (an incidence of 10.1% on sales), with an increase of 11.3% (a decrease of 1% on an equal area).

The increase in the result for the period is attributable to the favorable sales mix between the three segments of the Group and to the effect of the change in the scope of consolidation which had an impact of € 4,842 thousand.

Personnel costs increased compared to the previous year, mainly due to the change in the scope of consolidation, which entailed the entry of no. 322 employees on 3 July 2017. Overall, the Group employed an average of no. 2,047 resources (no. 1,830 in 2016).

During the year, non-ordinary revenues were recorded for € 150 thousand and non-ordinary charges for € 1,830 thousand mainly related to the expenses for the acquisition of the Lavorwash Group and for company reorganizations. Non-ordinary charges recognized in 2016 amounted to € 1,010 thousand.

By adjusting the figure for both years from the amounts mentioned above, EBITDA would be equal to € 45,612 thousands equal to 10.8% of revenues, compared to € 40,479 thousand in the previous year, with a margin of 10.3%

Operating result

Operating result for 2017 amounts to € 29,977 thousand, with a margin on revenues of 7.1% compared to € 21,869 thousand (5.6% of revenues) of 2016, an increase of 37.1% (19.8% on an equal consolidation basis).

The figure “Amortization and depreciation” amount to € 13,955 thousand against € 17,600 thousand in the previous year
The 2017 figure includes the devaluation of the value of the goodwill of the company Geoline Electronic for a total of € 590 thousand, while the previous year included the devaluation of the goodwill of Lemasa LTDA for an amount of € 4,811 thousand.

The ratio of operating profit to invested capital is 9.6% (10.1% excluding the above mentioned non ordinary charges) compared to 8.4% of 2016 (8.7% excluding the non ordinary charges).

Net result

The net profit for the year is € 16,435 thousand against € 17,683 thousand for the previous financial year.

Figure “Financial income” is € 1,807 thousand compared to € 7,105 thousand of last year. Amounts include income arising from the estimate of the liability for the commitment to purchase the remaining stake in Lemasa for € 281 thousand in 2017 and € 5,115 thousand in 2016.

Item “Financial expenses” amounts to € 4,820 thousand compared to € 6,056 thousand in 2016. The average annual exposure to the banking system in line with the same period - despite the increase in the last quarter due to the acquisition of the Lavorwash Group -, the lower interest rate applied to the Group on loans and lower charges for the discounting of payables for the future purchase of equity investments contributed to the decline. 2016 figure also included higher charges for € 360 thousand as a major consideration paid in settlement of the pro-rata price for the purchase of the shareholding in the subsidiary S.I.Agro Mexico

2017 currency management is negative for € 4,218 thousand compared to a profit of € 3,407 thousand of last year. The result is affected by the unfavourable trend in the US dollar / Euro exchange rate which led to a negative valuation of the Group's currency position at the end of the period.

The balance recorded in 2016 had benefited from a positive exchange rate difference of a financial nature for € 1,685 thousand emerging from the conversion into share capital of the intercompany loan previously granted by the company Comet S.p.A. to the subsidiary Comet do Brasil and the revaluation of the US dollar against the euro.

The tax rate amounted to 29.0% compared to 33.3% in the previous year, influenced by the reduction to 24% of the IRES tax rate for Italian companies in force from 2017 and from the change in the tax rate in force from the financial year 2018 for the US controlled companies which impacted on the early and deferred taxation.

Comment to consolidated statement of financial position

€/000	31.12.2017	31.12.2016
Net non-current assets (*)	150,962	116,128
Net working capital (*)	161,837	145,623
Total net capital employed	**312,799**	**261,751**
Equity attributable to the Group	184,783	180,173
Equity attributable to non controlling interests	2,722	1,495
Net debt	(125,294)	(80,083)

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

Net non-current assets

Net non-current assets at December 31, 2017 amount to € 150,962 thousand compared to € 116,128 thousand at December 31, 2016.

During 2017 Emak Group invested € 17,428 thousand in property, plant and equipment and intangible assets, as follows:

- € 4,634 thousand for product innovation;
- € 5,887 thousand for adjustment of production capacity and for process innovation;
- € 2,081 thousand for upgrading the computer network system and ongoing activities for implementation of the new ERP management system;
- € 3,910 thousand for ongoing works for the construction of the new parent company's R&D center and modernization of industrial buildings;
- € 916 thousand for other investments in operating activities.

Investments broken down by geographical area are as follows:
- € 11,505 thousand in Italy;
- € 2,195 thousand in Europe;
- € 2,151 thousand in the Americas;
- € 1,577 thousand in Asia, Africa and Oceania.

Net working capital

Net working capital moves from € 145,623 thousand at December 31, 2016 to € 161,837 thousand, with an decrease of € 16,214 thousand. The ratio of net working capital is 38.3% compared to 37.2% of last year. The net working capital on 2017 "pro forma" turnover is 35%.

The following table reports the change in net working capital in 2017 compared with the previous year:

€/000	**Y 2017**	**Y 2016**
Net working capital at 1 January 2017	**145,623**	**154,508**
Increase/(decrease) in inventories	10,264	(11,281)
Increase/(decrease) in trade receivables	(6,323)	(131)
(Increase)/decrease in trade payables	(7,685)	2,166
Change in scope of consolidation (acquisition)	16,829	140
Other changes	3,129	221
Net working capital at 31 December 2017	**161,837**	**145,623**

The increase in net working capital is mainly due to the impact of the acquisition of Lavorwash Group.

Net financial position

Net financial position is € 125,294 thousand at December 31, 2017 against € 80,083 thousand at December 31, 2016.

The following table shows the movements in the net financial position of 2017:

€/000	Y 2017	Y 2016
Opening NFP	**(80,083)**	**(99,383)**
Ebtida	43,932	39,469
Financial income and expenses	(3,013)	1,049
Income from/(expenses on) equity investment	389	205
Exchange gains and losses	(4,218)	3,407
Income taxes	(6,700)	(8,847)
Cash flow from operations, excluding changes in operating assets and liabilities	**30,390**	**35,283**
Changes in operating assets and liabilities	(4,348)	11,892
Cash flow from operations	**26,042**	**47,175**
Change in tangible and intangible assets	**(16,308)**	**(17,600)**
Other equity changes	**(6,426)**	**(4,313)**
Changes from exchange rates and translation reserve	**3,301**	**(5,450)**
Change in scope of consolidation	**(51,820)**	**(512)**
Closing NFP	**(125,294)**	**(80,083)**

Item "change in scope of consolidation" refers to the acquisition of Lavorwash Group and the business A1 Mist Sprayers Resources. For more information, see the explanatory note 7 of the consolidated financial statements. Operating cash flow, net of taxes, is € 30,390 thousand in spite of € 35,283 thousand of the previous year. The positive result at Ebitda level and lower taxes for the period have only partially compensated the negative currency management (mainly attributable to the end-of-period valuation of open items in foreign currency).

Details of the net financial position is analyzed as follows:

Net financial position	31/12/2017	31/12/2016
A. Cash	40,812	32,545
B. Other cash at bank and on hand (held-to-maturity investments)	-	-
C. Financial instruments held for trading	-	-
D. Liquidity funds (A+B+C)	**40,812**	**32,545**
E. Current financial receivables	**7,549**	**545**
F. Current payables to banks	(36,570)	(11,833)
G. Current portion of non current indebtedness	(31,956)	(32,862)
H. Other current financial debts	(10,151)	(2,469)
I. Current financial indebtedness (F+G+H)	**(78,677)**	**(47,164)**
J. Current financial indebtedness, net (I+E+D)	**(30,316)**	**(14,074)**
K. Non-current payables to banks	(80,084)	(63,249)
L. Bonds issued	-	-
M. Other non-current financial debts	(15,646)	(12,858)
N. Non-current financial indebtedness (K+L+M)	**(95,730)**	**(76,107)**
O. Net financial indebtedness (J+N)	**(126,046)**	**(90,181)**
P. Non current financial receivables	752	10,098
Q. Net financial position (O+P)	**(125,294)**	**(80,083)**

Short-term debt mainly includes:
- Bank overdrafts;
- Mortgage repayments due by December 31, 2018;
- Debts to other financial institutions due by December 31, 2018;
- Payables for acquisition of investments in the amount of € 9,304 thousand.

Long-term financial payables include, further the non-current portion of loan principal repayments, debt for the purchase of the remaining minority shares in the amount of € 14,587 thousand

Actualized financial liabilities (short term and medium-long term) for the purchase of the remaining minority shares and for the regulation of acquisition operations with deferred price subject to contractual constraints, in the amount of € 23,891 thousand related to the following companies:
- Lemasa for € 11,321 thousand;
- Lavorwash for € 10,941 thousand;
- Valley LLP for € 1,370 thousand;
- P.T.C S.r.l for € 176 thousand;
- Business A1 Mist Sprayers Resources for € 83 thousand.

Equity

Equity at December 31, 2017 is € 187,505 thousand against € 181,668 thousand at December 31, 2106.

Summary of annual consolidated figures broken down by operating sector

	OUTDOOR POWER EQUIPMENT		PUMPS AND HIGH PRESSURE WATER JETTING		COMPONENTS AND ACCESSORIES		Other not allocated / Netting		Consolidated	
€/000	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Sales to third parties	168,402	177,006	138,770	102,916	114,983	111,957	-	-	**422,155**	**391,879**
Intersegment sales	1,851	1,522	1,456	1,411	7,767	6,674	- 11,074	- 9,607		
Revenues from sales	170,253	178,528	140,226	104,327	122,750	118,631	- 11,074	- 9,607	**422,155**	**391,879**
Ebitda	9,400	10,996	19,546	14,008	17,372	17,009	- 2,386	- 2,544	**43,932**	**39,469**
Ebitda/Total Revenues %	*5.5%*	*6.2%*	*13.9%*	*13.4%*	*14.2%*	*14.3%*			***10.4%***	***10.1%***
Operating result	3,787	4,827	15,503	6,306	13,073	13,280	- 2,386	- 2,544	**29,977**	**21,869**
Operating result/Totale Revenues %	*2.2%*	*2.7%*	*11.1%*	*6.0%*	*10.7%*	*11.2%*			***7.1%***	***5.6%***
Net financial expenses									**- 3,013**	**1,049**
Profit befor tax									**23,135**	**26,530**

Comment on results by operating sector

The table below shows the breakdown of "sales to third parties" in 2017 by business sector and geographic area, compared with the same period last year.

	OUTDOOR POWER EQUIPMENT			PUMPS AND HIGH PRESSURE WATER JETTING			COMPONENTS AND ACCESSORIES			TOTAL		
€/000	**Y 2017**	**Y 2016**	**Var. %**	**Y 2017**	**Y 2016**	**Var. %**	**Y 2017**	**Y 2016**	**Var. %**	**Y 2017**	**Y 2016**	**Var. %**
Europe	140,968	148,692	(5.2)	64,766	44,560	45.3	76,500	72,167	6.0	282,234	265,419	6.3
Americas	8,104	7,192	12.7	57,086	47,784	19.5	25,829	28,717	(10.1)	91,019	83,693	8.8
Asia, Africa and Oceania	19,330	21,122	(8.5)	16,918	10,572	60.0	12,654	11,073	14.3	48,902	42,767	14.3
Total	**168,402**	**177,006**	**(4.9)**	**138,770**	**102,916**	**34.8**	**114,983**	**111,957**	**2.7**	**422,155**	**391,879**	**7.7**

Outdoor Power Equipment

Sales on the European market were characterized by good performance in Eastern countries, while in the Western European countries the weakness of the first nine months, mainly due to unfavourable weather conditions, was only partially mitigated by signs of recovery during the course of the last quarter.
In the Americas area, Latin American markets made the biggest contribution to growth. In the Asia, Africa and Oceania area the negative trend of the first nine months continued due to lower sales in the Middle East.

EBITDA for the segment was impacted by the decrease in sales, only partially mitigated by the recovery of the contribution margin and the decrease of fixed costs. The item also recorded non-recurring costs for € 440 thousand.

Pumps and High Pressure Water Jetting

The segment's turnover includes the contribution of the Lavorwash Group in all areas for a total amount, starting from 3 July 2017, of € 29,610 thousand.
Sales in Europe benefited from the contribution of the consolidation of Lavorwash and the good performance at the organic level, especially in the Eastern countries. Sales in the Americas area recorded a general increase. In the Asia, Africa and Oceania area, the increase in sales was driven by the markets of the Middle East and the Far East.

The increase in EBITDA was mainly due to the increase in sales and the expansion of the scope of consolidation. EBITDA for the period includes non-recurring costs for an amount of € 1,258 thousand.

Components and Accessories

Sales on the European market were generally growing, especially in Western European countries. The Americas area saw sales growth in South American markets and a decline, concentrated in the fourth quarter, in those of the North. In the Asia, Africa and Oceania area, the increase in sales is mainly attributable to the Far East, Australia and South Africa markets.

Ebitda in absolute terms increased due to the increase in revenues, despite the increase in the cost of raw materials.

4. Results of Group companies

4.1 Emak S.p.A. – Parent Company

The Parent Company achieved net revenues of € 125,426 thousand against € 128,001 thousand in 2016, a decrease of 2%.
Sales were penalized mainly by lower sales in Italy and in the Far East countries. The trend registered on the European markets and in America was positive.

Ebitda of the year amounts to € 3,812 thousand, compared to € 4,590 thousand of last year. The result was mainly affected by lower sales volumes.

Operating result is negative for € 1,133 thousand compared to a negative result of € 1,508 thousand in 2016; the figure of 2017 includes the devaluation of the value of the goodwill of the Brazilian company Emak do Brasil for an amount of € 780 thousand; in 2016 this figure included the goodwill devaluation of the Brazilian company Emak Do Brasil and of the German company Emak Deutschland for a total amount of € 1,725 thousand.

The company ends the year with a net profit of € 2,759 thousand compared to € 7,010 thousand in 2016.
Compared to 2016, the result was affected by:
- lower dividends received by the controlled companies;
- currency management negative for € 2,288 thousand in spite of a positive value of € 1,420 thousand in 2016;
- the recognition of tax revenues relating to previous years.

The net negative financial position moves from € 17,206 thousand at 31 December 2016 to € 18,689 thousand, mainly due to higher investments made, the lower amount of dividends received and the higher amount of dividends paid during the year.

4.2 Società controllate

At 31 December 2017 the Emak Group was organized in a structure with Emak S.p.A. at the top, possessing direct and indirect controlling interests in the equity of 36 companies.

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

Company	Head office	31/12/2017 Net sales	31/12/2017 Net profit	31/12/2016 Net sales	31/12/2016 Net profit	
Parent company						
Emak S.p.A.	Bagnolo in Piano (Italy)	125,426	2,759	128,001	7,010	
Fully consolidated companies						
Emak France Sas	Rixheim (France)	27,712	55	30,344	257	
Jiangmen Emak Outdoor Power Equipment Co. Ltd	Jiangmen City (China)	24,532	549	23,474	43	
Victus Emak Sp. Z o.o.	Poznam (Poland)	14,248	388	12,954	359	
Emak Deutschland GmbH	Fellbach-Oeffingen (Germany)	10,340	(711)	11,914	(843)	
Emak Suministros Espana SA	Madrid (Spain)	8,532	558	7,327	340	
Emak U.K. LTD	Burntwood (UK)	3,828	4	5,499	130	
Tailong (Zhuhai) Machinery Equipment Ltd.	Zhuhai (China)	4,113	319	3,682	357	
Epicenter LLC	Kiev (Ukraine)	4,032	168	3,830	236	
Emak Do Brasil Industria LTDA	Curitiba (Brazil)	1,939	(539)	1,793	290	
Tecomec Srl	Reggio Emilia (Italy)	50,522	3,355	47,989	3,423	
Speed France Sas	Arnax (France)	20,833	2,557	21,593	2,877	
Speed North America Inc.	Wooster, Ohio (USA)	11,458	944	10,513	658	
Speed Line South Africa (Pty) Ltd.	Pietermaritzburg (South Africa)	1,481	233	1,154	144	
Ningbo Tecomec Manufacturing Co. Ltd.	Ningbo City (China)	11,628	434	11,754	375	
Geoline Electronic S.r.l.	Poggio Rusco, Mantova (Italy)	877	(225)	1,324	(139)	
Speed Industrie Sarl	Mohammedia (Marocco)	2,144	39	2,074	221	
Speed Line South America	Providencia (RCH)	1,506	(146)	936	(178)	
Comet Spa	Reggio Emilia (Italy)	60,220	2,709	58,702	1,077	
Comet France Sas	Wolfisheim (France)	5,723	229	5,238	242	
Comet USA	Burnsville, Minnesota (USA)	9,354	2,351	8,775	1,390	*
Valley Industries LLP	Paynesville, Minnesota (USA)	22,272	2,186	20,651	2,426	*
PTC Srl	Rubiera, Reggio Emilia (Italy)	10,660	408	8,018	287	
S.I. Agro Mexico	Guadalajara (Mexico)	5,230	453	5,084	197	
Comet do Brasil Investimentos LTDA	Indaiatuba (Brazil)	0	(1,531)	-	745	
Lemasa S.A.	Indaiatuba (Brazil)	12,645	2,246	9,726	1,038	
Sabart Srl	Reggio Emilia (Italy)	22,879	1,673	23,272	1,820	
Raico Srl	Reggio Emilia (Italy)	12,798	226	12,544	103	
Ptc Waterblasting	Burnsville - Minnesota (USA)	53	(217)			
Lavorwash S.p.a	Pegognaga - MN (I)	24,085	3,681			1
Lavorwash France S.a.r.l.	La Courneuve (F)	1,316	(140)			1
Lavorwash GB Ltd	St. Helens Merseyside (UK)	372	(0)			1
Lavorwash Iberica S.l.	Tarragona (E)	710	75			1
Lavorwash Polska SP ZOO	Bydgoszcz (PL)	946	4			1
Lavorwash Brazil Ind. E Com. Ltda	Ribeirao Preto (BR)	702	(359)			1
Yong Kang Lavorwash Equipment Co. Ltd	Yongkang City (RPC)	7,351	832			1
Yongkang Lavor Trading Co. Ltd.	Yongkang City (RPC)	637	51			1

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

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

It should also be noted that the net income of the individual companies includes any dividends collected during each year.

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

The company Emak Deutschland recorded a turnover that was down compared to the previous year which, despite a better product mix and costs in line with the same period, led to a loss at the end of the year.

Despite the increase in turnover and intermediate margins, the company Emak do Brasil closed the year 2017 with a loss. There was an exchange rate loss relating to the valuation of payables.

The company Geoline Electronic S.r.l. recorded a lower turnover than last year which caused the loss at the end of the year.

The company Speed South America S.p.A. has developed higher sales than last year but not yet sufficient to cover the entire cost structure. The company's business prospects leave the expectation of achieving positive results in future years.

Comet do Brasil was incorporated as a financial holding company for the acquisition of the company, Lemasa. The loss is due to the recognition of the implicit interests deriving from the discounting of the debt for the acquisition of equity investments.

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

The company Lavorwash Brasil closes with a loss following the low turnover volumes achieved in semester that do not cover the structural costs.

4.3 Group's pro forma consolidated income statement (includes all the companies of the scope as of December 31, 2017)

The following consolidated figures have been prepared in line with the information required pursuant to IFRS 3-*Business Combinations* in order to provide shareholders, other stakeholders and the financial market with a better perception of the significant income size of the new Emak Group, in the its configuration subsequent to the acquisition of the Lavorwash Group, which took place on 3 July 2017. For this purpose and for information purposes only, the consolidated economic data of the Emak Group have been prepared to represent the economic situation of the New Emak Group as a result of the acquisition, as if the Emak Group and the companies belonging to the new perimeter they operated as a single group attributable to Emak S.p.A. as of 1 January 2016 It should however be pointed out that if the income statement of the companies subject to the acquisition were included in the Emak Group, in those periods, the same economic results as shown below would not necessarily have occurred.

Thousand of Euro	Year 2017	Year 2016
Revenues from sales	461,764	461,828
Other operating incomes	3,983	3,320
Change in inventories	14,225	(14,656)
Raw materials, consumable and goods	(255,038)	(233,360)
Personnel expenses	(85,598)	(82,989)
Other operating costs	(88,934)	(84,981)
Ebitda (*)	**50,402**	**49,162**
Amortization, depreciation and impairment losses	(14,415)	(18,628)
Operating result	**35,987**	**30,534**
Financial income and expenses	(2,994)	1,064
Exchange gains and losses	(4,010)	4,012
Income from equity investments	389	205
Profit before taxes	**29,372**	**35,815**
Income taxes	(8,771)	(12,328)
Net Profit	**20,601**	**23,487**
Ebitda % (*)	**10.9%**	**10.6%**
EBITDA before non ordinary expenses (*)	**52,507**	**50,172**
EBITDA before non ordinary expenses % (*)	**11.4%**	**10.9%**

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

5. Research and development

Research and development is one of the fundamental pillars on which to base the strategy of continuous growth and success for the Group. The Group, in fact, considers investment in research as a means for obtaining competitive advantage in national and international markets to be of strategic importance. For this reason, where possible, the Group covers its products with **international patents**.

The activity focuses on product innovation, considered as the development of new, more efficient technologies in terms of performance, less energy consuming and with lower impacts from an environmental point of view. In addition, the Group has for some years set up **cooperation projects with the academic world,** with the aim of the reciprocal exchange of know-how from a continuous improvement point of view for its products and performance levels.

The main activities carried out by the Group companies during 2017, subdivided by business lines, are shown below.

Outdoor Power Equipment

Besides the consolidation of the sales of the products launched in the second half of 2016, including the new professional 25cc top handle chainsaw (developed for pruning olives and fruit trees and characterised by an excellent weight/power ratio), a 40cc brush-cutter for developing markets and a compact rotary cultivator for private use, in 2017 there was the launch of a series of important products for the company. These included, in particular, a further professional top handle chainsaw with 35cc for pruning operations on tall plants, a chainsaw lime of 51cc and 56cc designed for developing markets and a renewed line of professional rotary cultivators for intensive use in agriculture.
The development of important technologies for the future also continued during the year, such as:

- **catalytic technology** for small two-stroke motors on portable devices for reducing polluting emissions. In 2017 the Group completed the development programme of a new type of motor fitted with an EGR (Exhaust Gas Recirculation) system which makes it possible to reduce the machine's consumption and emissions by recirculating exhaust gas. The Group has registered a patent on this new technology, which will be applied on a number of product families starting from 2018.
    - **electronic control system for "Engine Management" of the engine**: self-adaptive engines able to stabilize on the optimum conditions of efficiency, thereby reducing energy consumption and therefore emissions. The reasons that have led to the development of this technology are the following:
        - reduction in emissions (estimated reduction - 5%)
        - elimination of any manual intervention to correct carburation;
        - ease of use;
        - optimisation of performance in any condition.
- **electric battery technology** for the reduction of emissions generated by combustion engines, which will get off the ground in the later part of 2018 with the first 5 applications.
- **biodegradable plastic materials** (e.g. plastics deriving from the activity of sugar cane bacteria) which will allow for the sustainable disposal of end-of-life products thanks to their biodegradability in the environment (in around 3 months); analyses are currently being carried on this issue to verify the possible application on the Group's machines.
- **methodological activities** (based on numerical simulations) with the aim of creating cutting-edge instruments in the product research, design and development phase. After the research PhD in cooperation with the University of Modena completed in 2017, the Group has set up new cooperation projects with the University of Modena and the University of Bologna for the development of predictive models for engine cooling and simulation.

Pumps and High Pressure Water Jetting

Within the sphere of the range of products for **agriculture**, the development of centrifugal pumps intended for sale in the North and South American markets has been completed. The main feature of these products is a high flow rate of water at low pressure with very contained dimensions. In addition, the new series of membrane pumps intended to be fitted on sprayers has been completed and industrialised. The modular design and the development of the internal fluid dynamics have made it possible to obtain high performance levels in terms of flow and priming capability with a high level of efficiency and low noise. With regards to the **industrial products,** the development of pumps in the medium-high pressure fields with the HPP brand has been completed. In the field of very high pressure pumps, the Group has invested in new simulation software for analysing vibrations, hydrodynamics and working under stress in order to better understand the physical phenomena relating to hydrodynamic units. This software has also helped in the study of the life-cycle of fourth generation high pressure valves, besides enabling a reduction in the number of real prototypes that contribute significantly to a reduction in environmental impact. Finally, a new rotating nozzle fitted with an efficient speed regulation system, controllable by means of a magnetic brake, has been developed. Specially developed for treating surfaces, it can be used manually or with a pistol or automated.
With regards to the **washing products**, in 2017 the Group created a series of new products that will renew and extend the product range. In particular, a new pressure washer has been developed for amateur use fitted with an electronic system to regulate engine speed, which makes it possible to regulate the pressure according to circumstances, thereby controlling energy consumption and avoiding the wasting of water. In the professional range, three new cold water pressure washers have been launched, replacing the previous models, characterised by a renewed design and new solutions that ensure greater efficiency at the same performance levels. An ash separator powered by a rechargeable 18V lithium-ion battery has been launched on the market during the year, fitted with a switch to select speed, saving energy or at maximum power. Developed with the aim of extending the range, a product has been introduced with a compact design but, most of all, with a lower environmental impact thanks to the energy-saving function.

Components and accessories

The development and implementation of cutting systems for brush-cutters, electric and battery trimmers continued during the year, in cooperation with leading global manufacturers. The projects developed were mainly focused on the research of new material for wires, heads and blades, besides the identification of new aerodynamic forms with the aim of reducing energy consumption, noise and vibrations, as required by new international standards. With regards to machines and accessories dedicated to the maintenance of chainsaws, developed continues on the range of professional products.

With regards to the line of accessories intended for the agricultural sector, research and development was further directed towards projects for the feeding/farming integration of electronic control systems. The objective was to obtain, with this new generation of products, the development of solutions for managing soil treatments according to the efficiency of crop production. In addition, the range of flowmeters and sensors intended for spraying and weeding machines was completed. Finally, with the support of Italian universities, a research project was launched for the collection of data for the generation of work maps for the development of applications for cloud platforms.

As part of the development of products for the industrial washing sector, further investments were made in research aimed at implementing and extending the range of pressure regulating valves. This initiative was carried out in cooperation with the University of Modena and Reggio Emilia, which tested and supported the project in the study and experimental phase for various technical solutions, also involving the registration of industrial patents. Moreover, in 2017, development continued on the professional range with the introduction of a catalogue of new products for high pressure and flow uses. The line intended for heads and rotary nozzles for industrial applications was also further extended.

6. Human resources

The breakdown of personnel by country as at 31 December 2017, compared with the previous year, is shown in the following table:

Employees at	31.12.2016	Ch. in scope of consolidation	Other movements	31.12.2017
Italy	850	192	4	1,046
France	142	5	(4)	143
UK	10	5	1	16
Spain	20	1	3	24
Germany	23	-	2	25
Poland	38	5	(8)	35
China	307	88	6	401
Usa	92	-	8	100
Ukraine	34	-	(1)	33
South Africa	6	-	4	10
Brasil	112	19	3	134
Mexico	13	-	1	14
Morocco	30	-	2	32
Chile	9	-	7	16
Total	**1,686**	**315**	**28**	**2,029**

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

7. Dealings with related parties

Emak S.p.A. is controlled by Yama S.p.A., which holds 65.181% of its share capital and which, as a non-operating holding company, is at the head of a larger group of companies operating mainly in the production of machinery and equipment for agriculture and gardening and of components for motors, and in real estate. The Emak Group has limited supply and industrial service dealings with such companies, as well as dealings of a financial nature deriving from the equity investment of a number of companies in the Emak Group in the tax consolidation headed by Yama S.p.A..

Professional services of legal and fiscal nature, provided by entities subject to significant influence of certain directors, are another type of related party transactions.

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

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

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

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

At December 31, 2017, the Company held 397,233 treasury shares in portfolio for an equivalent value of € 2,029 thousand.

On April 28, 2017, the Shareholders' Meeting renewed the authorization to purchase and dispose of treasury shares for the purposes laid down by it. During 2017 there were no purchases or sales of own shares, leaving the balances at beginning of year unchanged.
Even after the end of the period and until the date of approval by the Board of Directors, of this report are no changes in the consistency of the portfolio of treasury shares.

9. Corporate governance and other information required by Issuers Regulations

Emak S.p.A. adopted the Code of Conduct, approved by the Committee established at the Italian Stock Exchange as reformulated in July 2015 and available on the website www.borsaitaliana.it. Details of Emak's compliance with the Code's provisions are set out in the "Report on corporate governance and ownership structures", provided for by arts. 123-bis of Legislative Decree 58/98, according to the "comply or explain" scheme.

As already mentioned, the "Remuneration Report" prepared pursuant to art. 123-ter of Legislative Decree 58/98, shows the remuneration policy adopted by the company to its directors and executives with strategic responsibilities. The document also describes in detail by type and quantified entities the fees paid to them, even by subsidiaries, as well as stocks and movements of Emak titles in their possession during the year.

Both reports are available to the public at the company's registered office and on the website: www.emakgroup.it, in the section "Investor Relations > Corporate Governance"

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Leg. Dec. 231/2001

It has to be underlined the adoption by the most important companies of the Group, of the Organization and Management Model, art. 6, Legislative Decree 231/01, calibrated on individual specific reality and periodically expanded in a modular form, in line with the extension of the liability of companies for ever new crimes.

The Model makes use, in the different companies of the Group, of Supervisory Committees, furnished with autonomous powers of action and control regarding its effective and efficient application.

* * * * * * *

Ethical Code

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

* * * * * * *

Significant operations: derogation from disclosure obligations

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

* * * * * * *

Sale of Emak S.p.A shares by Yama S.p.A

On May 23, 2017, the major shareholder, Yama S.p.A, sold approximately 10% of the share capital of Emak SpA. As a result of this transaction, it currently holds 65.181% of the Issuer's share capital.

* * * * * * *

Disclosure of consolidated non financial information

The consolidated non-financial declaration of Emak S.p.A. for 2017, prepared in accordance with Legislative Decree. 254/16, constitutes a separate report ("Sustainability Report") with respect to this management report, as provided for by Art. 5 paragraph 3, letter b) of Legislative Decree 254/16, and is available on the website www.emakgroup.it, in the "Sustainability" section.

10. Disputes

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

11. Other information

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

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

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

12. Business outlook

Emak Group has initiated a process of technological innovation and unification of the information systems to the Microsoft Dynamics AX platform, with the aim of streamlining group’s processes in support of an increasingly international business development. At the same time, it will continue to pursue its value creation objectives by focusing on operating costs and working capital efficiency. Investments in support of innovation and new technologies applied to both products and production processes, but above all for the benefit of end customers, are expected to increase. Finally, on the short term, the Group will commit itself to achieving all the synergies deriving from the recent acquisition of Lavorwash.

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

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

14. Subsequent events

Acquisition of remaining 39% of Epicenter

On January 29, 2018, the parent company Emak S.p.A. it acquired the remaining 39%, still held by the founder, of the Ukrainian subsidiary Epicenter LLC, bringing its stake to 100%. The price for the acquisition of this stake amounts to € 340 thousand.

Reorganization of commercial activities in U.S.A.

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

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

On March 6, 2018 the parent company Emak S.p.A. has signed a binding agreement for the sale of 100% of the share capital of Raico S.r.l. for a consideration of € 5,500 thousand. The closing of the transaction, with payment and transfer of shares, is expected by the end of March.

Raico is specialised in the distribution of spare parts and accessories for agricultural tractors, industrial and construction machines, with a turnover of around € 12.8 million, EBITDA of € 0.5 million and a net negative financial position of € 0.7 million at 31 December 2017.

Personal reorganization plan Emak S.p.A.

In the last part of the year, the Parent Company, following an assessment aimed at improving the organization at the Bagnolo in Piano (RE) headquarters, due to the logic of efficiency and renewal, initiated a procedure relating to a plan to early retirement on voluntary basis referred to in articles 4, 5 and 24 of law n. 223/91. On December 13, 2017, trade union consultation was carried out and was signed with the Trade Unions. and company RSU an Agreement, aimed primarily at employees who have acquired the right to a pension within 24 months following the termination of the employment relationship, envisaging, during 2018, the possibility of leaving, on a voluntary basis, the staff who respect this requirement.
In February 2018, the first individual conciliation agreements were signed for 12 people and 20 more people are expected to be released by the end of 2018.

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

In accordance with the CONSOB Communication dated July 28 2006, the following table provides a reconciliation between net income for 2017 and shareholders' equity at December 31, 2017 of the Group (Group share), with the corresponding values of the parent company Emak S.p.A.

€/000	Equity at 31.12.2017	Result for the year ending 31.12.2017	Equity at 31.12.2016	Result for the year ending 31.12.2016
Equity and result of Emak S.p.A.	**150,487**	**2,759**	**153,600**	**7,010**
Equity and result of consolidated subsidiaries	257,912	22,859	197,184	17,875
Effect of the elimination of the accounting value of shareholdings	(235,316)	1,282	(167,939)	3,917
Elimination of dividends	-	(10,600)	-	(11,286)
Elimination of other intergroup items and profits	13,888	(194)	(1,382)	(38)
Evaluation of equity investment in associated	534	329	205	205
Total consolidated amount	**187,505**	**16,435**	**181,668**	**17,683**
Non controlling interest	**(2,722)**	**(270)**	**(1,495)**	**(88)**
Equity and result attributable to the Group	**184,783**	**16,165**	**180,173**	**17,595**

16. Proposal for the allocation of profit for the financial year and dividend

Shareholders,
We submit for your approval the financial statements at December 31, 2017, which reports a profit of € 2,759,434.00. We also propose the distribution of a dividend of € 0.035 for each share outstanding.

We invite you to approve this resolution:

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

with regard to point 1.1 to the agenda

resolves

a) to approve the Directors' Report and the financial statements at December 31, 2017, showing a net profit of € 2,759,434.00;

with regard to point 1.2 to the agenda

resolves

a) to allocate the net profit of € 2,759,434.00, as follows:
- € 137,971.70 to the statutory reserve;
- to the Shareholders, in the form of dividends, the amount of € 0.015, gross of legal deductions, for each share outstanding, with the exclusion of treasury shares held by the company;
- the entire remaining amount to extraordinary reserve;

b) to allocate to the Shareholders, as dividend, the additional amount of € 3,270,752.04 by assigning € 0.020, gross of withholding taxes, for each outstanding share, with the exclusion of treasury shares held by the company, withdrawing it from the reserve "Retained earnings", which is therefore reduced from € 30,162,696.19 to € 26,891,944.15;
c) to authorize the Chairman, if the number of treasury shares changes before the coupon detachment date, to adjust the amount of the item "retained earnings" to take into account the treasury shares purchased or sold in the meantime;
d) to pay the total dividend of € 0.035 per share (coupon no. 21) on 6 June 2018, with ex-dividend date June 4, and the *record date* June 5.>>

Bagnolo in Piano (RE), 16 March 2018

On behalf of the Board of Directors
The Chairman
Fausto Bellamico

Definitions of alternative performance indicators

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

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

Emak Group
Consolidated Financial Statements 2017

Emak

our power, your passion

Consolidated financial statements

Consolidated Income Statement

Thousand of Euro

CONSOLIDATED INCOME STATEMENT	Notes	Year 2017	of which to related parties	Year 2016	of which to related parties
Revenues from sales	**10**	**422,155**	**1,308**	**391,879**	**1,788**
Other operating incomes	10	3,684		2,589	
Change in inventories		14,168		(12,116)	
Raw materials, consumable and goods	11	(234,565)	(6,640)	(198,172)	(3,157)
Personnel expenses	12	(80,055)		(73,039)	
Other operating costs and provisions	13	(81,455)	(2,531)	(71,672)	(2,995)
Amortization, depreciation and impairment losses	14	(13,955)		(17,600)	
Operating result		**29,977**		**21,869**	
Financial income	15	1,807	8	7,105	12
Financial expenses	15	(4,820)		(6,056)	
Exchange gains and losses	15	(4,218)		3,407	
Income from/(expenses on) equity investment	21	389		205	
Profit befor taxes		**23,135**		**26,530**	
Income taxes	16	(6,700)		(8,847)	
Net profit (A)		**16,435**		**17,683**	
(Profit)/loss attributable to non controlling interests		(270)		(88)	
Net profit attributable to the Group		**16,165**		**17,595**	
Basic earnings per share	**17**	**0.099**		**0.108**	
Diluted earnings per share	**17**	**0.099**		**0.108**	

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME	Notes	Year 2017	Year 2016
Net profit (A)		**16,435**	**17,683**
Profits/(losses) deriving from the conversion of foreign company accounts		(5,330)	(190)
Actuarial profits/(losses) deriving from defined benefit plans (*)		(470)	(137)
Income taxes on OCI (*)		133	1
Total other components to be included in the comprehensive income statement (B)		**(5,667)**	**(326)**
Total comprehensive income for the perdiod (A)+(B)		**10,768**	**17,357**
Comprehensive net profit attributable to non controlling interests		(166)	(88)
Comprehensive net profit attributable to the Group		10,602	17,269

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

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

Statement of consolidated financial position

Thousand of Euro

ASSETS	Notes	31.12.2017	of which to related parties	31.12.2016	of which to related parties
Non-current assets					
Property, plant and equipment	18	73,275		61,651	
Intangible assets	19	20,327		8,380	
Goodwill	20	67,112	14,670	52,241	14,847
Equity investments in other companies	21	230		230	
Equity investments in associates	21	4,284		3,955	
Deferred tax assets	30	9,068		7,370	
Other financial assets	26	752	297	10,098	334
Other assets	23	65		63	
Total non-current assets		**175,113**	**14,967**	**143,988**	**15,181**
Current assets					
Inventories	24	155,727		127,362	
Trade and other receivables	23	109,394	1,227	96,940	1,681
Current tax receivables	30	5,428		4,791	
Other financial assets	26	7,348	449	468	449
Derivative financial instruments	22	201		77	
Cash and cash equivalents	25	40,812		32,545	
Total current assets		**318,910**	**1,676**	**262,183**	**2,130**
TOTAL ASSETS		**494,023**	**16,643**	**406,171**	**17,311**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2017	of which to related parties	31.12.2016	of which to related parties
Shareholders' Equity					
Shareholders' Equity of the Group	27	184,783		180,173	
Non-controlling interest		2,722		1,495	
Total Shareholders' Equity		**187,505**		**181,668**	
Non-current liabilities					
Loans and borrowings due to banks and other lenders	29	95,730		76,107	
Deferred tax liabilities	30	9,622		6,391	
Employee benefits	31	10,932		9,137	
Provisions for risks and charges	32	2,265		1,566	
Other non-current liabilities	33	579		668	
Total non-current liabilities		**119,128**		**93,869**	
Current liabilities					
Trade and other payables	28	101,515	3,444	77,849	3,425
Current tax liabilities	30	4,676		4,184	
Loans and borrowings due to banks and other lenders	29	78,469		46,770	
Derivative financial instruments	22	208		394	
Provisions for risks and charges	32	2,522		1,437	
Total current liabilities		**187,390**	**3,444**	**130,634**	**3,425**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**494,023**	**3,444**	**406,171**	**3,425**

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

Statement of changes in consolidated equity for the Emak Group at 31.12.2016 and at 31.12.2017

Thousand of Euro	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES					RETAINED EARNINGS		TOTAL GROUP	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	TOTAL
			Legal reserve	Revaluation reserve	Cumulative translation adjustment	Reserve IAS 19	Other reserves	Retained earnings	Net profit of the period			
Balance at 31.12.2015	**42,519**	**40,529**	**2,361**	**1,138**	**6,882**	**(832)**	**30,900**	**34,649**	**8,846**	**166,992**	**1,496**	**168,488**
Profit reclassification			348					4,410	(8,846)	**(4,088)**	(89)	**(4,177)**
Net profit for the period					(190)	(136)			17,595	**17,269**	88	**17,357**
Balance at 31.12.2016	**42,519**	**40,529**	**2,709**	**1,138**	**6,692**	**(968)**	**30,900**	**39,059**	**17,595**	**180,173**	**1,495**	**181,668**
Profit reclassification			350					11,521	(17,595)	**(5,724)**	(91)	**(5,815)**
Other changes								(268)		**(268)**	1,152	**884**
Net profit for the period					(5,226)	(337)			16,165	**10,602**	166	**10,768**
Balance at 31.12.2017	**42,519**	**40,529**	**3,059**	**1,138**	**1,466**	**(1,305)**	**30,900**	**50,312**	**16,165**	**184,783**	**2,722**	**187,505**

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

Consolidated Cash Flow Statement

(€/000)	Notes	1 Y 2017	1 Y 2016 (1)
Cash flow from operations			
Net profit for the period		**16,435**	**17,683**
Amortization, depreciation and impairment losses	14	13,955	17,600
Financial expenses from discounting of debts	15	1,691	2,023
Income from equity investment	21	(389)	(205)
Financial income from adjustment of estimated liabilities for outstanding commitment associates' shares	15	(281)	(5,115)
Capital (gains)/losses on disposal of property, plant and equipment		(184)	(115)
Decreases/(increases) in trade and other receivables		4,336	2,903
Decreases/(increases) in inventories		(13,713)	12,127
(Decreases)/increases in trade and other payables		5,269	(2,871)
Change in employee benefits		(44)	168
(Decreases)/increases in provisions for risks and charges		(12)	(320)
Change in derivative financial instruments		(297)	(102)
Cash flow from operations		**26,766**	**43,776**
Cash flow from investing activities			
Change in property, plant and equipment and intangible assets		(16,164)	(13,816)
(Increases) and decreases in financial assets		1,257	(4,145)
Proceeds from disposal of property, plant and equipment		184	115
Change in scope of consolidation		(40,905)	(443)
Cash flow from investing activities		**(55,628)**	**(18,289)**
Cash flow from financing activities			
Change in equity		(612)	(136)
Change in short and long-term loans and borrowings		35,201	(26,970)
Change in finance leases		-	(26)
Dividends paid		(5,815)	(4,177)
Cash flow from financing activities		**28,774**	**(31,309)**
Total cash flow from operations, investing and financing activities		**(88)**	**(5,822)**
Net exchange differences		**836**	**(2,172)**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**748**	**(7,994)**
OPENING CASH AND CASH EQUIVALENTS		**27,020**	**35,014**
CLOSING CASH AND CASH EQUIVALENTS		**27,768**	**27,020**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

(€/000)		1 Y 2017	1 Y 2016 (1)
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Opening cash and cash equivalents, detailed as follows:	25	**27,020**	**35,014**
Cash and cash equivalents		32,545	42,518
Overdrafts		(5,525)	(7,504)
Closing cash and cash equivalents, detailed as follows:	25	**27,768**	**27,020**
Cash and cash equivalents		40,812	32,545
Overdrafts		(13,044)	(5,525)
Other information:			
Income taxes paid		(11,419)	(5,890)
Financial interest income		304	1,010
Financial expenses paid		(1,802)	(2,808)
Change in related party receivables and service transactions		454	254
Change in related party payables and service transactions		19	158
Change in trade and other receivables related to tax assets		(451)	2,216
Change in trade payables and other liabilities related to tax liabilities		(920)	832
Change in related party financial assets		37	38
Change in related party financial loans and borrowings		-	-

(1) Some items have been reclassified to make them comparable to December 31, 2017

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

Explanatory notes to the consolidated financial statements of Emak Group

Contents

1. General Information

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

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

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

The Board of Directors of Emak S.p.A. on March 16, 2018 approved the Financial Report to December 31, 2017, and ordered his immediate notification under Art. 154-ter, paragraph 1-ter TUF, to the Board of Auditors and to the Auditing firm in order for them to carry out their relative duties. In connection with this communication, the company has issued an appropriate press release with the key figures of the financial statements and the dividend proposal made to the General Meeting of Shareholders.

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

2. Summary of principal accounting policies

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

2.1 General methods of preparation

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

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

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

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

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

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

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

2.2 Methods of consolidation

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

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

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

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

It is noted that:
- The subsidiary Valley LLP, owned by Comet Usa Inc with a share of 90%, is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 10% held by a company linked to the current Managing Director of the subsidiary;
- The subsidiary Lemasa, owned by Comet do Brasil LTDA with a share of 70%, is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 30%;
- The subsidiary P.T.C. S.r.l., owned by Comet S.p.A. with a share of 90%, is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 10%.
- The Lavorwash Group, headed by Lavorwash SpA, participated by Comet S.p.A. with a share of 83.11%, is consolidated at 97.78% on the basis of the "Put and Call Option Agreement" which regulates the purchase of the remaining 14.67%.

Compared to 31 December 2016, entered in the scope of consolidation:
- The companies of the Lavorwash Group, headed by Lavorwash S.p.A.. The acquisition led to the consolidation of the economic and equity effects at 3 July 2017, acquisition date. As a consequence, the economic effects are included in the consolidated financial statements starting from this date;
- The net assets of A1 Mist Sprayers Resources Inc. acquired on January 27, 2017 by Valley Industries LLP;
- The company PTC Waterblasting LLC established at the end of 2016 (which became operational starting from the current year) whose assets and liabilities have been consolidated since 2017.

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

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

Scope of consolidation

The scope of consolidation at December 31, 2017 following the acquisitions and mergers during the year include the following companies consolidated using the full consolidation method:

Name	Head office	Share capitale	Currency	% consolidated	Held by	% of equity investment
Parent company						
Emak S.p.A.	Bagnolo in Piano - RE (I)	42,623,057	€			
Italy						
Comet S.p.A.	Reggio Emilia (I)	2,600,000	€	100.00	Emak S.p.A.	100.00
PTC S.r.l. (1)	Rubiera - RE (I)	55,556	€	100.00	Comet S.p.A.	90.00
Raico S.r.l.	Reggio Emilia (I)	20,000	€	100.00	Emak S.p.A.	100.00
Sabart S.r.l.	Reggio Emilia (I)	1,900,000	€	100.00	Emak S.p.A.	100.00
Tecomec S.r.l.	Reggio Emilia (I)	1,580,000	€	100.00	Emak S.p.A.	100.00
Geoline Electronic S.r.l.	Poggio Rusco - MN (I)	100,000	€	51.00	Tecomec S.r.l.	51.00
Lavorwash S.p.A. (4)	Pegognaga - MN (I)	3,186,161	€	97.78	Comet S.p.A.	83.11
Europe						
Emak Suministros Espana SA	Getafe - Madrid (E)	270,459	€	90.00	Emak S.p.A.	90.00
Comet France SAS	Wolfisheim (F)	320,000	€	100.00	Comet S.p.A.	100.00
Emak Deutschland Gmbh	Fellbach - Oeffingen (D)	553,218	€	100.00	Emak S.p.A.	100.00
Emak France SAS	Rixheim (F)	2,000,000	€	100.00	Emak S.p.A.	100.00
Emak U.K. Ltd	Burntwood (UK)	342,090	GBP	100.00	Emak S.p.A.	100.00
Epicenter LLC	Kiev (UA)	19,026,200	UAH	61.00	Emak S.p.A.	61.00
Speed France SAS	Arnas (F)	300,000	€	100.00	Tecomec S.r.l.	100.00
Victus-Emak Sp. Z o.o.	Poznan (PL)	10,168,000	PLN	100.00	Emak S.p.A.	100.00
Lavorwash France S.A.R.L.	La Courneuve (F)	37,000	€	100.00	Lavorwash S.p.A.	100.00
Lavorwash GB Ltd	St. Helens Merseyside (UK)	900,000	GBP	100.00	Lavorwash S.p.A.	100.00
Lavorwash Polska SP.ZOO	Bydgoszcz (PL)	163,500	PLN	100.00	Lavorwash S.p.A.	100.00
Lavorwash Iberica S.L.	Tarragona (E)	80,000	€	99.00	Lavorwash S.p.A.	99.00
America						
Comet Usa Inc	Burnsville - Minnesota (USA)	231,090	USD	100.00	Comet S.p.A.	100.00
Comet do Brasil Investimentos LTDA	Indaiatuba (BR)	51,777,052	BRL	100.00	Comet S.p.A.	99.63
					PTC S.r.l.	0.37
Emak do Brasil Industria LTDA	Curitiba (BR)	8,518,200	BRL	99.98	Emak S.p.A.	99.98
Lemasa industria e comércio de equipamentos de alta pressao S.A. (2)	Indaiatuba (BR)	14,040,000	BRL	100.00	Comet do Brasil LTDA	70.00
PTC Waterblasting LLC	Burnsville - Minnesota (USA)	100,000	USD	100.00	Comet Usa Inc	100.00
S.I. Agro Mexico	Guadalajara (MEX)	1,000,000	MXM	85.00	Comet S.p.A.	85.00
Speed South America S.p.A.	Providencia - Santiago (RCH)	444,850,860	CLP	100.00	Speed France SAS	100.00
Valley Industries LLP (3)	Paynesville - Minnesota (USA)	-	USD	100.00	Comet Usa Inc	90.00
Speed North America Inc.	Wooster - Ohio (USA)	10	USD	100.00	Speed France SAS	100.00
Lavorwash Brasil Ind. Ltda	Ribeirao Preto (BR)	8,305,769	BRL	100.00	Lavorwash S.p.A.	99.99
					Comet do Brasil LTDA	0.01
Rest of the Word						
Jiangmen Emak Outdoor Power Equipment Co.Ltd	Jiangmen (RPC)	25,532,493	RMB	100.00	Emak S.p.A.	100.00
Ningbo Tecomec Manufacturing Co. Ltd	Ningbo City (RPC)	8,029,494	RMB	100.00	Tecomec S.r.l.	100.00
Speed Industrie Sarl	Mohammedia (MA)	1,445,000	MAD	100.00	Speed France SAS	100.00
Tai Long (Zhuhai) Machinery Manufacturing Ltd	Zhuhai (RPC)	16,353,001	RMB	100.00	Emak S.p.A.	100.00
Speed Line South Africa Ltd	Pietermaritzburg (ZA)	100	ZAR	51.00	Speed France SAS	51.00
Yongkang Lavor Wash Equipment Co. Ltd	Yongkang City (RPC)	63,016,019	RMB	100.00	Lavorwash S.p.A.	100.00
Yongkang Lavor Trading Co. Ltd	Yongkang City (RPC)	3,930,579	RMB	100.00	Lavorwash S.p.A.	100.00

(1) P.T.C. S.r.l. is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 10%.
(2) Lemasa is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 30%.
(3) Valley Industries LLP is consolidated at 100% as a result of the "Put and Call Option Agreement" which regulates the acquisition of the remaining 10%.
(4) Lavorwash S.p.A. is consolidated at 97.78% as a result of the “Put and Call Option Agreement” which regulates the acquisition of the remaining 14.67%.

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

2.3 Translation differences

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

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

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

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

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

Amount of foreign for 1 Euro	Average 2017	31.12.2017	Average 2016	31.12.2016
GB Pounds (UK)	0.88	0.89	0.82	0.86
Renminbi (China)	7.63	7.80	7.35	7.32
Dollar (Usa)	1.13	1.20	1.11	1.05
Zloty (Poland)	4.26	4.18	4.36	4.41
Zar (South Africa)	15.05	14.81	16.26	14.46
Uah (Ukraine)	30.02	33.73	28.28	28.74
Real (Brazil)	3.61	3.97	3.86	3.43
Dirham (Morocco)	10.95	11.24	10.85	10.66
Peso Mexican (Mexico)	21.33	23.66	20.67	21.77
Peso Chilean (Chile)	732.61	737.29	748.48	704.95

2.4 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.5 Intangible assets

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

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

Development costs include only that expenditure which can be attributed directly to the development process and do not include costs for internal resources.
Development costs are amortized on the base of an estimate of the period in which it is expected that such activities generate cash flows and for any period not exceeding 5 years from commencement of production of the developed products.
All other development costs are charged to the income statement as incurred.

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

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

2.6 Goodwill

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

2.7 Impairment of assets

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

2.8 Investment property

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

2.9 Financial assets and equity investments

The Group classifies financial assets and investments into the following categories: financial assets at fair value (with changes reported through the income statement), loans and receivables, held-to-maturity investments and financial assets held for sale. The classification depends on the purpose for which the investment has been made. The classification is made upon the asset's initial recognition and is reviewed at every statement of financial position date.

(a) Marketable financial assets at fair value (with the value of fluctuations posted in the income statement)

This category includes securities that have been acquired principally for the purpose of generating a profit from short-term fluctuations in price (or for temporarily investing surplus cash balances), this category is classified in current assets on the basis of the period-end price, with gains and losses recognized directly in the income statement. Unless derivative financial instruments are also classified as held for trading, if not defined as hedging instruments.

(b) Other financial assets

This balance includes loans given, securities held to maturity and other receivables deriving from financial activities that the Group has the intention and ability to hold to maturity. They are classified as non-current assets except those falling due within 12 months which are reclassified to current assets.
These financial assets are characterized by determinable payments with fixed maturities. These assets are valued using the amortized cost method, with gains recognized directly in the income statement using the effective yield method.

(c) Equity investments

Investments in associates are accounted for using the equity method in accordance with IAS 28.
The item also includes minority interests in corporations, valued at amortized cost, adjusted for any impairment losses.

(d) Financial assets available-for-sale

Financial assets available-for-sale is a residual category relating to those assets not belonging to the previous three categories. They are reported as non-current assets unless management intends to sell them within 12 months of the statement of financial position date.
Purchases and sales of these assets are recognized on the transaction date, which is the date on which the Group commits to purchase or sell the asset.
Unrealized gains and losses arising on changes in the fair value of non-monetary securities classified as available for sale are recorded in the comprehensive income statement. When these instruments are sold or written down, the cumulative fair value adjustments are recorded in the income statement as gains or losses on investments in securities.
Investments in all financial assets not recorded at fair value through the income statement are recognized initially at fair value plus the related transaction costs. An investment is eliminated from the accounting records when the right to its cash flows is extinguished or when the Group has transferred substantially all the risks and rewards of its ownership to third parties.

The fair value of listed investments is determined with reference to the market price reported at the close of trading on the statement of financial position date. In the absence of an active market for a financial asset or if the securities have been suspended from listing, the Group establishes fair value using valuation techniques. These techniques include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, bearing in mind the issuer's specific characteristics.

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists for the available-for-sale assets, the amount of the loss – measured as the difference between the asset's acquisition cost and current fair value less any impairment loss previously recognized in net profit or loss – is removed from equity and posted to the income statement. Impairment losses recognized in the income statement for equity instruments are not recovered through subsequent credits to the income statement.

2.10 Non-current assets and liabilities held for sale

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

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

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

2.11 Inventories

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

2.12 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at depreciated cost, using the effective interest method. They are recorded net of a bad debt provision, deducted directly from accounts receivable to bring the evaluation at their estimated realizable value.
A provision for the impairment of trade receivables is recognized when there is objective evidence that the Group will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.13 Trade payables

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

2.14 Cash and cash equivalents

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

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

2.15 Share capital

Ordinary shares are classified under equity.

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

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

2.16 Loans and borrowings

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

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

2.17 Taxes

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

2.18 Employee benefits

The employee termination indemnity comes within the sphere of defined benefit plans, subject to actuarial evaluations (deaths, the probability of terminations, etc.) and expresses the current value of the benefit, payable at the termination of employment, which employees have accrued up to the statement of financial position date.
The costs relating to the increase in the current value of the liability, arising as the time of payment approaches, are included among financial charges. All other costs included in the provision are posted to the income statement as a staff cost. Actuarial gains and losses are accounted for in the statement of changes in comprehensive income in the year in which they occur.

2.19 Provisions for risks and charges

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

2.20 Revenues

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

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

- are substantially transferred the risks and rewards of ownership of the property;

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

2.21 Government grants

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

2.22 Financial income and expenses

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

2.23 Payment of dividends

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

2.24 Earnings per share

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

2.25 Cash flow statement

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

2.26 Changes in accounting standards and new accounting standards

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group starting January 1, 2017:

- Amendments to **IAS 7 “Disclosure Initiative”** (issued on 29 January 2016). The document aims at clarifying and improving disclosures to improve the disclosure on financial liabilities. In particular, the amendments require to disclose information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions. The Group provide that disclosure on paragraph 29.
- Amendment to **IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses**” (published on 19 January 2016). This document provides clarifications on the recognition of deferred tax assets for unrealised losses on the valuation of financial activities registered in “Available for Sale” upon occurrence of certain circumstances and on the estimation of taxable income for future periods. Adoption of these amendments had not effect on consolidated financial statements.

Accounting standards, amendments and IFRS/IFRIC interpretations endorsed by the European Union, but not yet mandatory applicable and not early adopted from the Group on 31 December 2017

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

  This standard is applicable as from 1 January 2018. The amendments to IFRS 15, Clarifications to IFRS 15 – Revenue from Contracts with Customers, it's been approved by European Union on 6 November 2017.
  On basis of the carried out analysis, Directors expect that application of IFRS 15 will not have any significant effect on revenue amounts and on disclosure reported in consolidated financial statements.
- Final version of **IFRS 9 – Financial instruments** (issued on 24 July 2014). The standard includes the results of IASB project pending the replacement of IAS 39:
- it introduces new criteria to classify and measure financial assets and liabilities;
- with reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using acceptable informations that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data;
- a new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

  The new standard must be applied to reporting period beginning on 1 January 2018 and thereafter.
  On basis of the carried out analysis, Directors expect that application of IFRS 9 will not have any significant effect on amounts and on disclosure reported in consolidated financial statements. In particular, overall estimated effect by the application of the new accounting standard could produce an overall negative impact on the Net Equity at December 31, 2017 not more than € 200 thousand, mainly attributable to fair value measurements of other investment in other companies.

- **IFRS 16 – Leases** (issued on 13 January 2016) intended to replace IAS 17 – *Leases*, as well as IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.
  The new standard provides a new definition of *lease* and introduces a criteria based on the control (*right of use*) of an asset to differentiate between lease and service agreements identifying which distinctive: asset identification, right of replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.

  The standard introduces a single lessee accounting model for recognizing and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognized in the statement of financial position as assets and lease financial liability providing the possibility to not recognize as lease the agreements concerning "*low-value assets*" and agreements with a duration equal and/or less 12 months. To the opposite, no significant changes are introduced by the Standard for lessor accounting.
  The standard applies for reporting period beginning on or after 1 January 2019. Early adoption is only allowed for early adopters of IFRS 15 – *Revenue from Contracts with Customers*. Directors expect that adoption of IFRS 16 could have a significant effect on amounts and on disclosure reported in consolidated financial statements. However, is not possible to provide a reasonable estimate as long as

the Company will complete a detail analysis on agreements. The effect will mainly concern the accounting of the related real estate leases and the operating leases of cars and means of transport.

- Document **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"** (issued on 12 September 2016). The amendment provides entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 (from 1 January 2018) to financial activities, before the IASB replaces current IFRS 4 with the new standard currently being prepared, based on which financial liabilities are assessed. Directors do not expect a significant effect on consolidated financial statements by adopting of these changes.

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

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- On 18 May 2017 IASB issued the new principle **IFRS 17 – *Insurance Contracts*** that will replace IFRS 4 – *Insurance Contracts*. The objective of the Standard is to ensure that an entity provides relevant information that faithfully represents rights and obligations from insurance contracts it issues. The IASB developed the Standard to eliminate inconsistencies and weaknesses in existing accounting practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The Standard is applicable for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contracts with Customers*. Directors do not expect a significant effect on consolidated financial statements by adopting of this principle.

- Amendments to ***IFRS 2 - Classification and measurement of share-based payment*** transactions (issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. The amendments apply as from 1 January 2018. Directors do not expect a significant effect on consolidated financial statements by adopting of these changes.

- Document **Annual Improvements to IFRSs: 2014-2016 Cycle**, issued on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard)* partially supplements existing standards. The most of the amendments apply as from 1 January 2018. Directors do not expect a significant effect on consolidated financial statements by adopting of these amendments.

- **IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*** (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 applies as from 1 January 2018. Directors do not expect a significant effect on consolidated financial statements by adopting of these changes.

- Amendments to **IAS 40 - *Transfers of Investment Property*** (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity's management alone is not sufficient. These amendments apply as from 1 January 2018. Directors do not expect a significant effect on consolidated financial statements by adopting of these changes.

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

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

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

- Document **"*Annual Improvements to IFRSs 2015-2017 Cycle*"** issued on 12 December 2017 (including IFRS 3 Business Combinations e IFRS 11 Joint Arrangements – Remeasurement of previously held interest in a joint operation, IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalization), that implements the changes on some standards as part of the annual improvement process. These amendments apply as from 1 January 2019, though early adoption is allowed. Directors do not expect a significant effect on consolidated financial statements by adopting of these amendments.

- Amendments to **IFRS 10 and IAS 28 – "*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*"** (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

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

3. Capital management

The Group's objectives for managing capital are:

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

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

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

The NFP / Equity and NFP / EBITDA before non ordinary expanses ratios at 31 December 2017 and 31 December 2016 are as follows.

€/000	Dec. 31 17	Dec. 31 16
Net financial position (note 9)	125,294	80,083
Total equity	187,505	181,668
Ebitda before non ordinary expanses (1)	45,612	40,479
Nfp/Equity	**0.67**	**0.44**
Nfp/Ebitda	**2.75**	**1.98**

(1) EBITDA has been calculated excluding costs and income for disputes, M&A operations and restructuring and workforce reorganization, as detailed in Note 3 of the Directors' Report

The ratio between Nfp at 31 December 2017 and Ebitda "pro-forma 2017 before non-ordinary expenses" (see note 4.3 of the management report) is 2.39.

4. Financial risk management

4.1 Financial risk factors

The Group's business is exposed to a number of different financial risks: market risk (including interest rate risk, exchange rate risk and market prices risk), credit risk and liquidity risk. The Group's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the consolidated results. The Group uses derivative financial instruments to hedge certain risks.
Hedging of the Group's financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) Interest rate risk
The Group's interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the Group to the cash flow risk associated with interest rates. Fixed rate loans expose the Group to the fair value risk associated with interest rates.
The Group's policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money.
At December 31 2017, financings with banking institutions and financial leasing companies are at variable rates and, consequently, the Group has set up hedging operations aimed at limiting the effects of interest rate fluctuations.

(ii) Foreign exchange risk
The Group conducts its business internationally and is exposed to exchange risk arising from currency used, mainly U.S. dollars, Japanese yen, British pound, Chinese renminbi, Polish zloty, South African rand, Ukrainian hryvnia, Brazilian reais and Mexican peso. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and the net investments in foreign companies.

The Group's policy is based on the research of natural hedging receivables and payables and is limited to partially covering the net positions in foreign currencies mainly using forward contracts.

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

(b) Credit risk
The Group has adopted policies to ensure that products are sold to customers of proven creditworthiness and that certain types of receivable are insured.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient financial availability of cash and marketable securities, funding through an adequate amount of bank credit.
Consequently, the treasury of the Group carries out the following activities:

- verification of financial requirements in order to take necessary actions;
- obtaining adequate lines of credit;
- optimization of liquidity, where feasible, through structures of centralized management of cash flows of the Group;
- maintaining a balanced composition of net financial debt to investments;
- achievement of a proper balance between short-term, medium and long term debt;
- limited credit exposure to individual financial institutions;
- monitoring of compliance with the parameters set by covenants relating to medium-long term loans.

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

The Group has maintained its high level of creditworthiness on the part of credit institutes and analysts; credit lines already abundantly exceed requirements.

4.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency and interest rate fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations.
As established by IAS 39, derivative financial instruments may qualify for special hedge accounting only if at the inception of the hedge the hedging relationship is formally designated and documented, the hedge is expected to be highly effective and the effectiveness of the hedge can be measured reliably.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent statement of financial position dates.

On the basis of the above, and of contracts entered into, the accounting methods adopted are as follows:
1. Fair value hedge: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.
2. Cash flow hedge: the variations in fair value which are intended and proved to be effective for hedging future cash flows are posted to the Comprehensive Income Statement, while the ineffective portion is posted immediately to the Income Statement. If contractual commitments or planned hedging operations lead to the creation of an asset or liability, when this occurs the profits or losses on the derivative which have been posted directly to the Comprehensive Income Statement adjust the opening cost of acquisition or holding value of the asset or liability. For financial cash flow hedgings that do not lead to the creation of an asset or liability, the amounts which have been posted directly to the Comprehensive Income Statement are transferred to the Income Statement in the same period in which the contractual commitment or planned hedging operation are posted to the Income Statement.
3. Derived financial instruments not defined as hedging instruments: the variations in fair value are posted to the Income Statement.

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

4.3 Measurement of fair value

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

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

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

5. Key accounting estimates and assumptions

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

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

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

6. Segment information

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

An operating segment is a component of a company:

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

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

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

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

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

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

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

	OUTDOOR POWER EQUIPMENT		PUMPS AND HIGH PRESSURE WATER JETTING		COMPONENTS AND ACCESSORIES		Other not allocated / Netting		Consolidated	
€/000	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Sales to third parties	168,402	177,006	138,770	102,916	114,983	111,957	-	-	**422,155**	**391,879**
Intersegment sales	1,851	1,522	1,456	1,411	7,767	6,674	-11,074	-9,607		
Revenues from sales	170,253	178,528	140,226	104,327	122,750	118,631	-11,074	-9,607	**422,155**	**391,879**
Ebitda	9,400	10,996	19,546	14,008	17,372	17,009	-2,386	-2,544	**43,932**	**39,469**
Ebitda/Total Revenues %	*5.5%*	*6.2%*	*13.9%*	*13.4%*	*14.2%*	*14.3%*			***10.4%***	***10.1%***
Operating result	3,787	4,827	15,503	6,306	13,073	13,280	-2,386	2,544	**29,977**	**21,869**
Operating result/Totale Revenues %	*2.2%*	*2.7%*	*11.1%*	*6.0%*	*10.7%*	*11.2%*			***7.1%***	***5.6%***
Net financial expenses									**-3,013**	**1,049**
Profit befor tax									**23,135**	**26,530**
Income taxes									**6,700**	**8,847**
Net profit									**16,435**	**17,683**
Net profit/Total Revenues%									***3.9%***	***4.5%***
STATEMENT OF FINANCIAL POSITION										
Net debt	27,297	24,595	91,969	43,929	7,031	12,385	-1,003	-826	**125,294**	**80,083**
Shareholders' Equity	176,986	180,308	44,002	38,428	48,975	45,361	-82,458	-82,429	**187,505**	**181,668**
Total Shareholders' Equity and Net debt	204,283	204,903	135,971	82,357	56,006	57,746	-83,461	-83,255	**312,799**	**261,751**
Net non-current assets (*)	136,604	133,224	76,648	44,938	19,076	19,377	-81,366	-81,411	**150,962**	**116,128**
Net working capital	67,679	71,679	59,323	37,419	36,930	38,369	-2,095	-1,844	**161,837**	**145,623**
Total net capital employed	204,283	204,903	135,971	82,357	56,006	57,746	-83,461	-83,255	**312,799**	**261,751**
OTHER STATISTICS										
Number of employees at period end	801	799	704	379	516	501	8	7	**2,029**	**1,686**
OTHER INFORMATIONS										
Amortization, depreciation and impairment losses	5,613	6,169	4,043	7,702	4,299	3,729			**13,955**	**17,600**
Investment in property, plant and equipment and in intangible assets	8,346	6,010	3,767	3,951	5,315	4,584			**17,428**	**14,545**

(*) The net non-current assets of the Outdoor Power Equipment area includes the amount of Equity investments for 81,150 thousand Euro

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

7. Significant non-recurring events and transactions

Acquisition of A1 Mist Sprayers Resources Inc. activities

On January 27, the US subsidiary Valley Industries LLP (segment Pumps and High Pressure Water Jetting) acquired assets, brand and client portfolio of A1 Mist Sprayers Resources for a consideration of $ 2 million.

With this transaction, Valley will expand its product offering with a new range of sprayers to apply to quad, and pick up the third point of small tractors. The company will also expand its distribution network from a territorial point of view and distribution channels as well as its technical expertise on the use of the sprayer.

The fair value of assets and liabilities subject to business combination with effect as of 27 January 2017, the price paid and the financial cost are detailed below:

€/000	Book values	Fair Value adjustments	Fair value of acquired assets
Non-current assets			
Tangible fixed assets	334	-	334
Intangible fixed assets	10	-	10
Current assets			
Inventories	94	-	94
Current liabilities			
Trade and other payables	(37)	-	(37)
Total net assets acquired	**401**	**-**	**401**
% interest held			**100%**
Net assets acquired			**401**
Goodwill			**1,472**
Post closing acquisition price			**1,873**
Purchase price paid			**1,780**
Deferred price			**93**

Based on the provisions of IFRS 3, the difference between the price paid and the corresponding share of equity has been allocated as goodwill given the coincidence between the fair value and book value of assets and liabilities acquired.

Acquisition of 83.11% of the Lavorwash Group and subscription of a Put & Call Agreement for 14.67% of the capital

On 3 July, the subsidiary Comet S.p.A. has completed the closing of the 83.11% acquisition of the Lavorwash Group based in Pegognaga (MN), active in the design, production and marketing of a wide range of machines for both hobby and professional use in the cleaning sector. The Lavorwash Group has production plants in Italy, China and Brazil, and distribution subsidiaries in Spain, France, Great Britain, Poland and China. The Lavorwash offer is a perfect complement to the activities of the Emak Group in the Pompe and High Pressure Water Jetting segment. In particular, with the acquisition of Lavorwash, Emak enriches its product range for washing, positioning itself among the first operators in the cleaning sector.

The price paid by the Group to sellers amounted to € 57.4 million (of which € 2.6 million paid in December 2017 as a price adjustment). An additional 14.67% share is governed by a Put & Call option agreement to be exercised in the course of 2020, to be valorised on the basis of the results obtained in the period 2018-2019. On the basis of the contractual agreements, which provide for a maximum value (CAP) for the year, the shareholding subject to "Put and Call option" has been valued on the basis of the economic-financial results forecast by the management for the next two years. Following these assessments, the value referred to

14.67% of the Lavorwash Group and subject to the Put and Call Agreement was quantified in € 10,854 thousand.

The fair value of the assets and liabilities aggregated with effect from 3 July 2017, the price paid and the deferred financial cost are detailed below:

€/000	Book values	Fair Value adjustments	Fair value of acquired assets
Non-current assets			
Property, plant and equipment	7,703	1,364	9,067
Intangible fixed assets	82	12,984	13,066
Goodwill	253	-	253
Deferred tax assets	1,247	-	1,247
Other non current financial assets	42	-	42
Other receivables	13	-	13
Current assets			
Inventories	18,007	-	18,007
Trade and other receivables	18,970	-	18,970
Current tax assets	342	-	342
Other financial assets	1	-	1
Cash and cash equivalents	18,245	-	18,245
Non-current liabilities			
Loans and borrowings due to banks and other lenders	(4)	-	(4)
Deferred tax liabilities	(148)	(4,003)	(4,151)
Employee benefits	(1,840)	-	(1,840)
Provisions for risks and charges	(558)	-	(558)
Current liabilities			
Trade and other payables	(17,156)	-	(17,156)
Current tax liabilities	(2,184)	-	(2,184)
Loans and borrowings due to banks and other lenders	(7)	-	(7)
Provisions for risks and charges	(1,208)	-	(1,208)
Total net assets acquired	**41,800**	**10,345**	**52,145**
% interest held			**97.78%**
Equity of the Group acquired			**50,987**
Goodwill			**17,237**
Post closing acquisition price			**68,224**
Purchase price paid in July 2017 (83.11% share)			**54,795**
Settlement paid in December 2017 (referred to the 83.11% share)			**2,575**
Put & call 2020 deferred price			**10,854**
Cash and cash equivalents			18,245
Net cash outflow			**39,125**

The difference between the acquisition price paid and the fair value of the assets, liabilities and contingent liabilities at the acquisition date was recognized as goodwill. The fair value measurement of tangible and intangible assets was carried out by an independent professional; the fair value adjustments refer for € 386 thousand to plants and machinery, for € 978 thousand to other tangible assets, for € 5,490 thousand to the definite useful life trademark and for € 7,494 thousand to other intangible assets, mainly the "customer list". The evaluation prepared by the expert defined the estimated useful life to be attributed to the trademark (10 years) and to the "customer list" (14 years).

Compared to the interim management report of 30 September 2017, the value of the goodwill was changed following the updating of the provisional price initially paid and subject to adjustment, and the possibility given by the IFRS 3 to change over the twelve months the allocation of the acquisition price to the balance sheet items.

Extension of Put & Call option to purchase minority stake in Valley Industries LLP

On 5 May 2017, was agreed with the minority shareholder "Savage Investments" the 12 month deferral of the exercise of the Put & Call options on the remaining 10% minority stake in the Valley Industries LLP company, expiring originally in the first half of 2017. In January 2018, following the reorganization of the Comet Usa-Valley Group companies, the Put & Call option was extended indefinitely.

P.T.C. Waterblasting LLC capital increase

During the first half of 2017, Comet USA fully paid the share capital of the subsidiary P.T.C. Waterblasting LLC for $ 285 thousand (of which $ 185 thousand through conversion of intercompany loan).

Early exercise of the "Put & Call" option of 10% of P.T.C. Srl

In December, the company Comet S.p.A. has signed an agreement establishing the early exercise of the "Put and call Option Agreemement" which regulates the purchase of the remaining 10% of the company P.T.C. Srl. The contractual terms provide that the option will be exercised by 30 April 2018 for a price set at € 176 thousand, by changing the original deadline that envisaged the possibility of exercise in the year 2019, and that the exercise price is established on the basis of the economic-financial results for the 2015-2016-2017 financial years. The company P.T.C. S.r.l., on the basis of the previous "Put and Call Option Agreement", was already 100% consolidated.

New R&D centre

Works for the construction of the new R&D centre started in July 2016 go on, at the Parent Company Emak S.p.A.
At December 31, 2017, the portion of the investment already recorded under fixed assets amounted to approximately € 2,800 thousand, compared to a total investment of € 5,500 thousand.

ERP Transformation project

Concerning the project for the implementation of the new ERP Microsoft Dynamics 365 system in some Group’s companies, it has to be highlighted that activities are proceeding according to the forecasted plans with the aim to get to “go live” within end 2018. Overall forecasted investment for the ongoing projects will amount to €2,000 thousand, of which € 856 thousand already accounted for as of 31 December 2017.

Sale of Emak S.p.A.’s shares by Yama S.p.A

As already specified in the paragraph “Main shareholders of Emak”, of the Directors’ report, on May 23, 2017, the major shareholder Yama S.p.A. has completed the placement of a stake of approximately 10% of Emak S.p.A.'s share capital, thus coming to hold 65.181% of Emak's share capital.

8. Balances or transactions arising from atypical and unusual operations

No events/operations as per Consob Communication DEM/6064293 of 28 July 2006 have been recorded during the financial period 2017. As indicated in this Communication “atypical and/or unusual operations are considered as operations that, due to their significance/materiality, the nature of the counterparties, the object of the transaction, the means for determining the transfer price and the time of the event (near the close of the period), may give rise to doubts with regards to: the correctness/completeness of the information in the financial statements, conflicts of interest, the protection of company assets, the safeguarding of minority interests”.

9. Net financial positions

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

	Net financial position	31/12/2017	31/12/2016
A.	Cash	40,812	32,545
B.	Other cash at bank and on hand (held-to-maturity investments)	-	-
C.	Financial instruments held for trading	-	-
D.	**Liquidity funds (A+B+C)**	**40,812**	**32,545**
E.	**Current financial receivables**	**7,549**	**545**
F.	Current payables to banks	(36,570)	(11,833)
G.	Current portion of non current indebtedness	(31,956)	(32,862)
H.	Other current financial debts	(10,151)	(2,469)
I.	**Current financial indebtedness (F+G+H)**	**(78,677)**	**(47,164)**
J.	**Current financial indebtedness, net (I+E+D)**	**(30,316)**	**(14,074)**
K.	Non-current payables to banks	(80,084)	(63,249)
L.	Bonds issued	-	-
M.	Other non-current financial debts	(15,646)	(12,858)
N.	**Non-current financial indebtedness (K+L+M)**	**(95,730)**	**(76,107)**
O.	**Net indebtedness (J+N)**	**(126,046)**	**(90,181)**
P.	Non current financial receivables	752	10,098
Q.	**Net financial position (O+P)**	**(125,294)**	**(80,083)**

The net financial position at December 31, 2017, includes € 23,891 thousand, of which € 9,304 thousand as the current portion, referring to payables for the purchase of the remaining minority shareholding and for the settlement of purchase transactions with deferred price subject to contractual restrictions (Note 29). These payables refer to the following companies:
- Lemasa for an amount of € 11,321 thousand;
- Lavorwash Group for an amount of € 10,941 thousand;
- Valley LLP for amount of € 1,370 thousand;
- P.T.C S.r.l for an amount of € 176 thousand;
- Activities of A1 Mist Sprayers Resources Inc for an amount of € 83 thousand.

Compared to the previous year, payables for the purchase of equity investments recorded an increase of € 10,854 thousand referring to the acquisition of the Lavorwash Group and an increase of € 83 thousand referring to the acquisition of the assets of A1 Mist Sprayers Resources Inc.

To guarantee current and future debts for the purchase of the equity investment in the company Lemasa, an amount of 27,361 thousand Brazilian Reais is deposited in an Escrow Account, equal to an amount of 6,887 thousand Euro, recorded under the item "Current financial receivables" of the table above.

At 31 December 2017, net financial debts include amounts receivable from related parties for the amount of € 746 thousand, of which € 449 thousand are short-term, attributable to the receivable from Yama S.p.A. for the guarantees included in the contract in favor of Emak S.p.A. as part of the so-called “Operazione Greenfield” through which Emak S.p.A. acquired in 2011 the companies Comet S.p.A., Tecomec S.r.l., Sabart S.r.l. and Raico S.r.l.

10. Revenues from sales and other operating income

The Group's revenues amount to € 422,155 thousand, compared to € 391,879 thousand of last year, and are recorded net of returns for € 1,453 thousand, against € 1,528 thousand of last year.

The increase in sales is attributable to the consolidation of the Lavorwash Group in the revenues of the year for an amount of € 29,610 thousand.

Details of revenues from sales are as follows:

€/000	FY 2017	FY 2016
Net sales revenues (net of discounts and rebates)	419,467	389,182
Revenues from recharged transport costs	4,141	4,225
Returns	(1,453)	(1,528)
Total	**422,155**	**391,879**

Other operating income is analyzed as follows:

€/000	FY 2017	FY 2016
Capital gains on property, plant and equipment	237	113
Recovery of warrants costs	131	107
Insurance refunds	76	117
Advertising reimbursement	258	239
Government grants	305	170
Recovery of administrative costs	242	209
Recovery of costs canteen	107	102
Revenues for rents	533	346
Other operating income	1,795	1,186
Total	**3,684**	**2,589**

The increase of the item is attributable for € 479 thousand to the consolidation of the Lavorwash Group.

The "Revenues for rents" refers to income from the rents of part of the production building located in Jiangmen (China), leased starting from April, 2016.

The “Other operating income” includes € 308 thousand due to the registration of a reimbursement received in the context of a pending case awaiting judgment. In the uncertainty of the outcome of the case, a provision for the same amount was made between the current provisions for risks and charges (note 32).

11. Cost of raw materials, consumable and goods

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

€/000	FY 2017	FY 2016
Raw materials, semi-finished products and goods	231,447	194,767
Other purchases	3,118	3,405
Total	**234,565**	**198,172**

The increase of the item "Raw materials, semi-finished products and goods" is attributable for € 15,121 thousand to the consolidation of the Lavorwash Group and to the increase of stock.

12. Personnel expenses

Details of these costs are as follows:

€/000	FY 2017	FY 2016
Wage and salaries	54,600	49,550
Social security charges	15,810	14,451
Employee termination indemnities	2,664	2,390
Other costs	1,816	1,545
Directors' emoluments	1,507	1,218
Temporary staff	3,658	3,885
Total	**80,055**	**73,039**

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

The effect of the consolidation of the Lavorwash Group weighed on the personnel expenses for € 4,974 thousand; with the same scope of consolidation as the previous year, the personnel expenses would have been equal to € 75,081 thousand, in increase compared to the values of the previous year.
The costs for the year include reorganization costs in some companies of the Group for an amount of € 466 thousand.

13. Other operating costs and provisions

Details of these costs are as follows:

€/000	FY 2017	FY 2016
Subcontract work	12,173	11,589
Maintenance	4,078	3,745
Trasportation	17,927	15,002
Advertising and promotion	3,639	3,362
Commissions	6,612	5,923
Travel	3,500	3,090
Postals and telecommunications	998	903
Consulting fees	5,822	3,828
Driving force	2,234	2,240
Various utilities	1,143	1,004
Services and bank fees	1,009	967
Costs of after sales warranty	1,396	1,151
Insurances	1,507	1,344
Other services	6,953	6,331
Services	**68,991**	**60,479**
Rents, rentals and the enjoyment of third party assets	**7,970**	**7,454**
Increases in provisions (note 32)	**860**	**285**
Credit losses	124	54
Increases in provision for doubtful accounts (note 23)	742	1,062
Capital losses on property, plant and equipment	53	2
Other taxes (not on income)	1,318	1,185
Grants	121	140
Other costs	1,276	1,011
Other expenses	**3,634**	**3,454**
Total Other operating costs	**81,455**	**71,672**

The increase registered in the items is attributable to the entrance of the Lavorwash Group in the area of consolidation.

The increase of the transportation costs is referred for € 1,232 thousand to the effect of the entrance of the Lavorwash group in the area of consolidation. The additional increase is attributable both to an increase of the purchase volume of raw materials and finished products, and to a different mix of the selling markets for the products and of the related routes, compared to the previous year.

The increase of the consulting fees is attributable to the costs borne for the operations of M&A realized during the year and to the costs lacking the capitalization requirements borne for the implementation of the new informative system in some companies of the Group.
In 2017 this item includes € 1,264 thousand as costs M&A; in the previous year these costs amounted to € 377 thousand.

14. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2017	FY 2016
Amortization of intangible assets (note 19)	2,817	2,542
Depreciaton of property, plant and equipment (note 18)	10,548	10,247
Impairment losses	590	4,811
Total	**13,955**	**17,600**

The depreciation and amortization at December 31, 2017 amounted to € 13,955 thousand of which € 590 thousand as a partial impairment loss of goodwill allocated to the CGU Geoline Electronic S.r.l. recognized after the impairment test for which details are provided in Note 20. The previous fiscal year included a partial impairment loss of goodwill allocated to the subsidiary Lemasa LTDA for an amount equal to € 4,811 thousand.

15. Financial income and expenses

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

€/000	FY 2017	FY 2016
Income from adjustment to fair value of derived instruments for hedging interest rate risk	209	225
Interest of trade receivables	226	258
Interest on bank and postal current accounts	199	237
Financial income of debt adjustment estimate for purchase commitment of remaining shares of subsidiaries	281	5,115
Other financial income	892	1,270
Financial income	**1,807**	**7,105**

"Financial income of debt adjustment estimate for purchase commitment of remaining shares of subsidiaries" refers to the reduction of the deferred value of the put and call option on the purchase commitments of the shares of the company Lemasa LTDA. The acquisition of Lemasa, which took place in 2015, has provided for the valuation of the deferred portion of the price on the basis of the economic and financial results realized by the target company in the years 2015-2017. At December 31, 2017 the value of the deferred price, originally estimated using forecasts, has been adjusted using the data in the financial statement and determining the inclusion of financial income for € 281 thousand.

"Other financial income" includes € 764 thousand (€ 1,210 thousand in the previous year) as interest income accrued on the escrow account with the escrow account contract part of the acquisition of company Lemasa and accrual to the Group.

"Financial expenses" are analyzed as follows:

€/000	FY 2017	FY 2016
Interest on medium-term bank loans and borrowings	1,948	2,427
Interest on short-term bank loans and borrowings	311	284
Costs from adjustment to fair value and fixing of derived instruments for hedging interest rate risk	239	428
Financial charges from valuing employee terminations indemnities (note 31)	81	103
Financial expenses from discounting debts	1,691	2,023
Other financial costs	550	791
Financial expenses	**4,820**	**6,056**

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

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

The previous fiscal year the item "Other financial costs" included € 360 thousand for the amount paid in settlement of the pro-rata price for the purchase of the investment in the subsidiary S.I.Agro Mexico.

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

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

€/000	FY 2017	FY 2016
Profit / (Loss) on exchange differences on trade transactions	(2,726)	8
Profit / (Loss) on exchange differences on financial assets	(1,492)	3,399
Exchange gains and losses	**(4,218)**	**3,407**

The item referring to trade transactions also includes the effect of the valuations of currency hedging at fair value.

The exchange rate management was negatively affected by the trend of US Dollar; the exchange losses related to this currency are mainly caused by the effect of the valuation with the exchange rate at the end of the period of the net assets.

“Profit on exchange differences on financial transactions” included in 2016 the recording of positive exchange difference for an amount of around € 1,685 thousand deriving from the conversion into share capital of the intercompany loan, previously granted by Comet S.p.A. to the subsidiary Comet do Brasil.

The item **"Income from investments revaluation in associated companies"** amounting to € 389 thousand (€ 205 thousand at 31 December of the previous year), refers to the result of the equity valuation of the associated company Cifarelli S.p.A.

16. Income taxes

The tax charge in 2017 for current and deferred tax assets and liabilities amounts to € 6,700 thousand (€ 8,847 thousand in the previous year).

This amount is made up as follows:

€/000	FY 2017	FY 2016
Current income taxes	7,882	7,333
Taxes from prior years	243	(252)
Deferred tax assets (note 30)	(438)	1,747
Deferred tax liabilities (note 30)	(987)	19
Total	**6,700**	**8,847**

Current income taxes include the cost of IRAP (regional company tax) to € 875 thousand, compared to € 735 thousand in 2016.

Tax calculated on the gross income differs from the theoretical amount that would be determined using the rate of the country where the headquarters of the Parent company are, for the following reasons:

€/000	FY 2017	% Rate	FY 2016	% Rate
Profit before taxes	**23,135**		**26,530**	
Theoretical tax charges	**6,455**	**27.9**	**8,330**	**31.4**
Effect of IRAP differences calculated on different tax base	106	0.5	178	0.7
Non-taxable income	(340)	(1.5)	(1,961)	(7.4)
Non-deductible costs	494	2.1	2,109	8.0
Differences in rates with other countries	(127)	(0.5)	(255)	(1.0)
Previous period taxes	244	1.1	(252)	(0.9)
Taxes on financial charges concerning the discounting of payables for equity investments	546	2.4	685	2.6
Other differences	(678)	(2.9)	11	0.0
Effective tax charge	**6,700**	**29.0**	**8,847**	**33.3**

The effective tax rate is 29%, against 33.3% at 31 December 2016.

The tax rate for the year was affected negatively by the recording of higher costs posted with reference to disputes of tax nature (Note 32) for € 379 thousand, recorded at the item “Previous period taxes”, of the fiscal effect of the reduction of the value of the Goodwill for € 165 thousand and of the non-recognition of deferred tax assets on tax losses for an amount equal to € 548 thousand. These effects affected the tax rate for the 4.7%.

The tax rate of the year was affected positively by the reduction from 27.5% to 24% of the IRES fiscal rate for Italian companies, applicable from the year 2017, the recording of an income for € 666 thousand recorded following the successful outcome of an interpolation related to the so-called "ACE" facility presented in the past and referred to previous years, as well as the recognition of tax incentives for € 534 thousand (€ 564 thousand in the previous year). In addition, had a positive effect on the tax charge of the year, the adjustment of the tax liabilities for deferred tax liabilities at the lower rate in force since 2018, mainly referring to the companies Comet Usa and Speed North America. The effect, recorded in the income statement under deferred tax liabilities, amounts to approximately € 500 thousand.

The tax rate of the previous year was affected positively by the recording of non-taxable income arising from the adjustment of the estimate of commitments for the acquisition of equity interests for an amount equal to € 1,739 thousand (with a positive effect of 6.5% on the tax rate) and the recording of minor previous period taxes for € 252 thousand. On the other hand, the tax rate of the previous year was affected negatively by the recording of non-deductible costs for tax purposes referring to the tax effect of the reduction in the value of goodwill for € 1,636 thousand (with a negative effect of 6.2% on the tax rate) and the non-recording of advanced taxes on tax losses for € 155 thousand.

17. Earnings per share

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

	FY 2017	FY 2016
Net profit attributable to ordinary shareholders in the parent company (€/000)	16,165	17,595
Weighted average number of ordinary shares outstanding	163,537,602	163,537,602
Basic earnings per share (€)	**0.099**	**0.108**

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

18. Property, plant and equipment

Changes in property, plant and equipment are shown below:

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

€/000	31.12.2015	Change in scope of consolidation	Increases	Decreases	Exchange differences	Reclassification	Other movements	31.12.2016
Lands and buildings	45,269	-	1,121	-	(372)	-	-	46,018
Accumulated depreciation	(15,926)	-	(1,591)	-	80	-	-	(17,437)
Lands and buildings	**29,343**	**-**	**(470)**	**-**	**(292)**	**-**	**-**	**28,581**
Plant and machinery	79,495	115	3,789	(1,797)	450	2,758	197	85,007
Accumulated depreciation	(62,011)	(115)	(4,468)	1,185	(310)	(146)	9	(65,856)
Plant and machinery	**17,484**	**0**	**(679)**	**(612)**	**140**	**2,612**	**206**	**19,151**
Other assets	93,657	518	4,577	(1,228)	149	(1,244)	606	97,035
Accumulated depreciation	(82,564)	(518)	(4,188)	1,116	180	118	(9)	(85,865)
Other assets	**11,093**	**0**	**389**	**(112)**	**329**	**(1,126)**	**597**	**11,170**
Advances and fixed assets in progress	**2,316**	**-**	**2,672**	**(7)**	**(13)**	**(1,416)**	**(803)**	**2,749**
Cost	**220,737**	**633**	**12,159**	**(3,032)**	**214**	**98**	**0**	**230,809**
Accumulated depreciation (note 14)	**(160,501)**	**(633)**	**(10,247)**	**2,301**	**(50)**	**(28)**	**0**	**(169,158)**
Net book value	**60,236**	**0**	**1,912**	**(731)**	**164**	**70**	**0**	**61,651**

During 2017, the item "Other intangible assets" was reclassified to the item "Land and buildings" for an amount of € 601 thousand for a better representation of the rights to use the land in concession by the Chinese subsidiary Emak Jiangmen.

Increases refer mainly to investments:

- in equipment for the development of new products and new technologies;
- in renewal projects of the IT system;
- in the upgrading and modernization of production lines;
- in the upgrading of production systems and infrastructures;
- in the cyclical renewal of production and industrial equipment;
- in acquisition of industrial buildings;
- for the start of the construction project of the new R&D center.

Changes in the scope of consolidation refer to the fair value of tangible fixed assets acquired as part of the acquisition of the Lavorwash Group, for a net book value of € 9,067 thousand, and the acquisition of the assets of A1 Mist Sprayers Resorces Inc. for € 334 thousand.

The decreases mainly refer to the sale of production equipment and plants disposed by the production process.

No indicators of impairment of tangible assets were recorded.

There are no assets subject to restrictions following secured guarantees.

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

19. Intangible assets

Intangible assets report the following changes:

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

€/000	31.12.2015	Change in scope of consolidation	Increases	Amortizations	Exchange differences	Reclassification	Other movements	31.12.2016
Development costs	896	-	75	(417)	-	-	-	554
Patents	2,237	-	1,692	(1,304)	6	56	57	2,744
Concessions, licences and trademarks	763	-	18	(25)	155	(70)	-	841
Other intangible assets	3,671	-	88	(796)	325	39	180	3,507
Advanced payments and fixed assets in progress	551	-	513	-	-	(95)	(235)	734
Net book value	8,118	0	2,386	(2,542)	486	(70)	2	8,380

The fair value of the intangible fixed assets acquired during the operations of M&A in equal to € 13,076 thousand, of which € 12,984 thousand deriving from the allocation of part of the price paid for the acquisition of the Lavorwash Group.

Research and development costs directly recorded in the Group's income statement amount to € 7,142 thousand.

All intangible fixed assets have a defined residual life and are amortized at constant rates on the basis of their remaining useful life, except for the trade mark of the subsidiary Lemasa, allocated in occasion of the acquisition of the same company.

As previously said, after the acquisition of the Lavorwash Group, from the process of Purchase Price Allocation, implemented by the company with the support of an independent professional, arose the existence of a fair value equal to € 5,490 for the trade mark with defined useful life and equal to € 7,494 thousand for other intangible assets, mainly referred to the so called "Customer List". The valuation arranged by the expert has also identified the estimated useful life to be allocated to these categories: 10 years for the trade mark and 14 years for the Customer List.

20. Goodwill

The goodwill of € 67,112 thousand reported at December 31, 2017 is detailed below:

Cash Generating Unit (CGU)	Description	31.12.2016	Change in scope of consolidation	Impairment losses (Note 14)	Exchange differences	31.12.2017
Victus	Goodwill from the acquisition of Victus-Emak Sp. z o.o.	845	-	-	47	892
Victus	Goodwill from the acquisition of company branch Victus IT	4,673	-	-	262	4,935
Emak	Goodwill from the merger of Bertolini S.p.A.	2,074	-	-	-	2,074
Tailong	Goodwill from the acquisition of Tailong Machinery Ltd.	2,859	-	-	(177)	2,682
Tecomec	Goodwill from the acquisition of Gruppo Tecomec	2,807	-	-	-	2,807
Speed France	Goodwill from the acquisition of Speed France	2,854	-	-	-	2,854
Comet	Goodwill from the acquisition of Gruppo Comet	2,279	-	-	-	2,279
Comet	Goodwill from the merger of HPP	1,974	-	-	-	1,974
PTC	Goodwill from transfer of the business PTC	360	-	-	-	360
PTC	Goodwill from the acquisition of Master Fluid	523	-	-	-	523
PTC	Goodwill from the acquisition of Acquatecninca S.r.l.	353	-	-	-	353
Valley	Goodwill from the acquisition of Valley LLP	12,333	-	-	(1,494)	10,839
Valley	Goodwill from the acquisition of A1	-	1,472	-	(161)	1,311
Geoline	Goodwill from the acquisition of Geoline Electronic S.r.l.	2,088	-	(590)	-	1,498
S.I.Agro Mexico	Goodwill from the acquisition of S.I.Agro Mexico	634	-	-	-	634
Lemasa	Goodwill from the acquisition of Lemasa LTDA	15,585	-	-	(1,978)	13,607
Lavorwash	Goodwill from the acquisition of Lavorwash Gruoup	-	17,490	-	-	17,490
	Total	**52,241**	**18,962**	**(590)**	**(3,501)**	**67,112**

The difference, if compared to December 31, 2016, is mainly attributable to the portion of the price allocated at goodwill for the acquisition of the Lavorwash Group, and to exchange differences in the consolidation.
In particular:

- Goodwill on the purchase of Victus-Emak Sp. Z.o.o. for € 892 thousand relates to the difference between the acquisition price for 100% of the company regulated by Polish law, Victus-Emak Sp. Z.o.o., and its equity at the date of acquisition, while an amount of € 4,935 thousand relates to the acquisition of the company branch of Victus International Trading SA. Both acquisitions were finalized in 2005.

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

- The amount of € 2,682 thousand refers to the greater value emerging from the acquisition, from the Yama Group, of 100% of the company regulated by Chinese law, Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd., made in 2008.

- Goodwill relating to the acquisition of the Tecomec Group, the Comet Group and of the Speed France Group on the part of Tecomec S.r.l respectively for € 2,807 thousand, € 2,279 thousand and € 2,854 thousand arise from the Greenfield Operation (for details on the operation, reference should be made to the prospectus published on November 18, 2011); in compliance with the requirements of the reference accounting standards, the acquisition operations carried out between parties subject to common control are not regulated by IFRS 3, but are accounted for taking account of the requirements of IAS 8, that is, the concept of a reliable and faithful representation of the operation, and of the provisions of OPI 1 (Assirevi, Association of Italian Auditors, Preliminary Guidelines regarding IFRS), relating to the "accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements". As more fully specified in the aforementioned accounting standards, the choice of the accounting standard for the operations in question must make reference to the above-described elements, which imply the application of the criterion of the continuity of the values of the net assets transferred. The principle of the continuity of values gives rise to the recognition in the financial statements of the acquiring company of values equal to those that would have been shown if the net assets subject to aggregation had always been aggregated. The net assets must therefore be recognized at the book values shown in the accounts of the acquired companies before the operation or, if available, at the values shown in the consolidated accounts of the common controlling company. Specifically, the company has chosen to account for the difference arising from the greater price paid for the acquisition of the stakes of the Tecomec Group and of the Comet Group only at the values already recognized in the consolidated accounts of the controlling company Yama at the time of the respective acquisitions.

Since the acquisition values of the shareholdings in the Greenfield Operation are greater than the equity values of the acquired companies at 31 December 2011, the excess of € 33,618 thousand has been eliminated by adjusting down equity in the consolidated financial statements.

- The amount of € 1,974 thousand relates to the positive difference emerged following the acquisition and subsequent merger by incorporation of the company HPP in Comet S.p.A., finalized in 2010.
- The amount of € 360 thousand relates to the goodwill of a business unit contributed in 2011 by minority shareholders in PTC S.r.l., a Comet Group company.
- The goodwill recorded for € 523 thousand arose upon the acquisition of the company, Master Fluid S.r.l., acquired in June 2014 by P.T.C. S.r.l. and subsequently merged by incorporation into it. The goodwill derives from the difference between the price of acquisition and its equity on 30 June 2014.
- The amount of 10,839 thousand relates to the acquisition of Valley Industries LLP by Comet USA Inc. in February 2012, resulting from the difference arising between the acquisition price and its net assets.
- The goodwill recorded for € 1,498 thousand refers to the acquisition of the 51% of the company Geoline Electronic Srl, by Tecomec S.r.l. in January 2014. At 31 December 2017 the impairment test showed, for this CGU, a partial loss in the value of goodwill equal to € 590 thousand, accounted for as a reduction of the same.
- The goodwill recorded for € 634 thousand refers to the difference arisen in 2014 between the acquisition price paid by Comet Spa for the 55% of the company S.I.Agro Mexico (with which was increased the shareholding from 30% to 85%) and the pro-share equity acquired.
- The amount of € 13,607 thousand refers to the goodwill recorded in relation to the acquisition of the 100% of Lemasa. The goodwill was calculated as the difference between the estimate of the current price of acquisition of 100% of the company, to be recognized in the coming financial years on the basis of its economic and financial results, and the fair value of its Net Equity at the date of acquisition. Over the previous year, as a result of the impairment test, this goodwill was partially reduced for € 4,811 thousand.
- The amount of € 353 thousand relates to the positive difference emerged following the acquisition and subsequent merger by incorporation of the company Acquatecnica S.r.l. in P.T.C. S.r.l., finalized in 2016.
- The amount of € 1,311 thousand refers to the goodwill arising from the acquisition of the company branch A1 Mist Sprayers Resoruces Inc., realized in the first months of 2017.
- The amount of € 17,490 thousand includes the value of the goodwill acquired from the consolidation of the Lavorwash Group for € 253 thousand and, for € 17,237 thousand, the portion of the price allocated at goodwill, referred to the acquisition of the 97.78% of the same Group, of which 14.67% regulated by a Put&Call Option Agreement to be exercised in 2020 and to be valued on the basis of the results of the period 2018-2019. The goodwill was calculated as the difference between the fair value of the net assets and the acquisition price that, for the portion regulated by put&call option, will be valued according to the future economic and financial results, with the forecast of a cap value; the value of the goodwill was, therefore, accounted for using the best estimate of the current value of the price for the exercise of the options, determined on the basis of the related business plan.

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

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

All the impairment tests relating to goodwills recorded at 31 December 2017 have been approved by the Board of Directors taking account of the opinion of the Risk Control Committee.

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

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

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

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

- The basic data used has been extracted from the company plans that represent management's best estimate of the future operating performance of single entities in the period in question;
- Expected future cash flows refer to reference units in their current state and exclude any operation of an extraordinary nature and/or operations not yet defined at the closing of the fiscal year. With regards to the goodwill arising from the merger of Bertolini S.p.A into Emak S.p.A., planned figures of the CGU, Emak S.p.A., have been considered since they represent the minimum level at which goodwill is monitored by management for internal purposes.
- The WACC used to discount future cash flows are calculated on the basis of the following assumptions:
  - the average cost of capital is the result of the weighted average cost of debt (calculated considering the reference rates plus a "spread");
  - the cost of equity is determined using the value of beta levered and the financial structure of a panel of industry comparatives, with the only exceptions of the risk-free rate and the risk premium, specific for each country;
  - the terminal value was determined on the basis of a long-term growth rate (g) of 2%, representative of long-term expectations for the industrial sector to which it belongs. For the goodwill of the CGU located in Brazil, a growth rate of 4.5% was used, as it is representative of the country's long-term inflation.
- The future expected cash flows have been forecast in the currencies in which they will be generated;
- The future expected cash flows refer to a period of 3/5 years and include a normalized terminal value used to express a synthetic estimate of future results beyond the timeframe explicitly considered;
- For the determination of the operating cash flow based on the last year of explicit forecast, was reflected, in order to project "in perpetuity" a stable situation, a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business) and change in working capital equal to zero;
- With regards to companies operating in the Euro area, the WACC used to discount expected future cash flows for the CGU ranges from a minimum of 6.46% to a maximum of 8.10%;
- The WACC used to discount cash flows of the CGU located in Poland is 8.80%, for the CGU located in China 9.08%, for the CGU located in Mexico 11.97%, for the CGU located in the USA 7.81%, while for the CGU located in Brazil a WACC of 14.82% has been used.

On the basis of the agreements entered into for the acquisition of Lemasa, part of the deferred price and the value of the put & call to be regulated in future financial years will be valued with relation to the economic-financial results that the CGU achieves; the value of goodwill was originally recorded using the best estimate of the current value of the deferred exercise price and options price, established on the basis of the originally prepared business plan.

As already anticipated, considering the results recorded by the company Geoline Electronic Srl, which develops and produces electronic control systems for applications in the agriculture sector, the Board of Directors has approved a new industrial plan, used for the verification of impairment on the goodwill

allocated to this CGU. The impairment test was carried out by applying over the five years a WACC of 7.83%, which takes into account the tax rate of 27.9%, and a long-term growth rate "g" equal to 2 %.
This valuation showed a partial reduction in value of € 590 thousand, attributed entirely to goodwill and recognized under the item "Amortization, depreciation and impairment losses " of the Income Statement.

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

21. Equity investments and Investments in associates

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

"Investments in associates" amounting to € 4,284 thousand (€ 3,955 thousand at 31 December of the previous year), refers to the proportionate interest in the value of the Group in the company Cifarelli S.p.A., obtained by applying the equity method. The value of the investment in the associated company was adjusted at December 31, 2017 for a value of € 329 thousand, recorded under the Income Statement "Income from equity investments revaluation in associated companies" for a value equal to € 389 thousand, considered net of the adjustments for dividends distributed in 2017 equal to € 60 thousand.

22. Derivative financial instruments

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

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

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

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

The current value of these contracts at December 31, 2017 is shown as follows:

€/000	31.12.2017	31.12.2016
Positive *fair value* assessment exchange rate hedge	189	77
Positive *fair value* assessment exchange rate options	12	-
Total derivative financial instrument assets	**201**	**77**
Negative *fair value* assessment exchange rate hedge	51	91
Negative *fair value* assessment IRS and interest rate options	157	303
Total derivative financial instrument liabilities	**208**	**394**

At December 31, 2017 appear outstanding forward contracts of purchase in foreign currencies for:

	Company		Nominal value (€/000)	Exchange rate (average)	Due to (*)
Forward contracts for foreign currencies purchases					
Cnh/Euro	Emak Spa	Cnh	24,000	7.95	13/06/2018
Cnh/Usd	Emak Spa	Cnh	10,000	6.64	14/02/2018
Usd/Euro	Sabart Srl	Usd	2,000	1.19	03/08/2018
Usd/Euro	Emak France	Usd	744	1.19	15/03/2018
Gbp/Euro	Comet Spa	Gbp	200	0.90	27/12/2018
Euro/Pln	Victus	€	2,200	4.26	17/05/2018
Usd/Pln	Victus	Usd	190	3.54	29/03/2018
Euro/Gbp	Emak UK Ltd.	€	800	0.89	04/06/2018
Euro/Mxn	SI Agro Mexico	€	1,114	22.20	31/07/2018
Euro/Usd	Comet U.S.A. Inc.	€	800	1.20	20/04/2018

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

Finally, on December 31, 2017 IRS contracts and options on interest rates are also in force, with the aim of covering the risk of variability of interest rates on loans.

The Parent company Emak S.p.A. and the subsidiaries Tecomec S.r.l., Comet S.p.A. and Comet USA Inc. have signed IRS contracts and options on interest rates for a total notional value of € 47,591 thousand; the expiration of the instruments is so detailed:

Bank	Company	Notional Euro (€/000)	Date of the operation	Due to
UniCredit	Emak S.p.A.	250	22/05/2013	29/03/2018
Banca Popolare Comm. Industria	Emak S.p.A.	2,000	30/06/2015	31/12/2019
Carisbo	Emak S.p.A.	1,388	24/09/2015	12/06/2020
Mediobanca	Emak S.p.A.	3,750	24/09/2015	31/12/2020
Banca Monte dei Paschi di Siena	Emak S.p.A.	2,250	24/09/2015	31/12/2020
Banca Nazionale del Lavoro	Emak S.p.A.	5,000	29/09/2017	22/04/2020
Cariparma	Emak S.p.A.	7,500	26/10/2017	11/05/2022
UniCredit	Comet S.p.A.	300	22/05/2013	29/03/2018
UniCredit	Comet S.p.A.	3,778	06/08/2015	20/03/2020
Banca Nazionale del Lavoro	Comet S.p.A.	1,778	06/08/2015	20/03/2020
Carisbo	Comet S.p.A.	1,389	24/09/2015	12/06/2020
Bper	Comet S.p.A.	9,000	20/09/2017	29/12/2023
Ubi Banca	Comet S.p.A.	4,500	20/09/2017	29/12/2023
Carisbo	Tecomec S.r.l.	1,389	24/09/2015	12/06/2020
MPS	Tecomec S.r.l.	1,500	24/09/2015	31/12/2020
Intesa San Paolo	Comet USA Inc	1,819	27/02/2013	19/02/2019
Total		**47,591**		

The average interest rate resulting from the instruments is equal to 0.27%.

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

Derivative contracts on interest rate and currency stipulated to hedge future cash flows associated with investments and which meet the requirements of IAS 39 are recognized according to the criteria of "hedge accounting".

The value of all these contracts (relating to interest and exchange rates) at December 31, 2017 is an overall negative fair value of € 7 thousand.

23. Trade and other receivables

Details of these amounts are as follows:

€/000	31.12.2017	31.12.2016
Trade receivables	109,577	96,728
Provision for doubtful accounts	(5,315)	(4,676)
Net trade receivables	**104,262**	**92,052**
Trade receivables from related parties (note 38)	373	628
Prepaid expenses and accrued income	1,570	1,132
Other receivables	3,189	3,128
Total current portion	**109,394**	**96,940**
Other non current receivables	65	63
Total non current portion	**65**	**63**

The item "Other short-term receivables" includes:

- an amount of € 854 thousand (€ 1,053 thousand at December 31 of the previous year) for receivables of certain Group companies towards the controlling company Yama S.p.A., emerging from the relationships that govern the tax consolidation in which they participate, of which € 456 thousand referring to the instance of reimbursement submitted in 2012 by the consolidating company in order to obtain the tax benefit associated with the deductibility of IRAP relating to personnel costs, for employees and other workers, from taxable IRES, as per Article 2, paragraph 1-c of the Decree-law no. 201/2011;
- an amount of approximately € 1,335 thousand as advances to suppliers for the supply of goods.

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

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

€/000	31.12.2017	31.12.2016
Opening balance	**4,676**	**3,963**
Change in scope of consolidation	708	2
Provisions (note 13)	742	1,062
Decreases	(754)	(375)
Exchange differences	(57)	24
Closing balance	**5,315**	**4,676**

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

24. Inventories

Inventories are detailed as follows:

€/000	31.12.2017	31.12.2016
Raw, ancillary and consumable materials	45,706	35,566
Work in progress and semi-finished products	23,429	21,232
Finished products and goods	86,592	70,564
Total	**155,727**	**127,362**

Inventories at December 31, 2017 are stated net of provisions amounting to € 9,913 thousand (€ 6,578 thousand at December 31 2016) intended to align the obsolete and slow moving items to their estimated realizable value. The value of the inventories at December 31, 2017 referring to the Lavorwash Group is equal to € 17,927 thousand (€ 18,007 thousand at the acquisition date).

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

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

€/000	FY 2017	FY 2016
Opening balance	6,578	5,806
Change in scope of consolidation	2,687	-
Provisions	1,130	1,249
Effect of exchange differences	(50)	20
Uses	(432)	(497)
Closing balance	**9,913**	**6,578**

The decreases in the provision refer to obsolete material disposed of during the year.

25. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2017	31.12.2016
Bank and post office deposits	40,680	32,413
Cash	132	132
Total	**40,812**	**32,545**

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

€/000	31.12.2017	31.12.2016
Cash and cash equivalents	40,812	32,545
Overdrafts (note 29)	(13,044)	(5,525)
Total	**27,768**	**27,020**

26. Other financial assets

The item “Other non-current financial assets” amounts to € 752 thousand, compared to € 10,098 thousand at 31 December 2016. The difference is mainly attributable to the classification, from current to non-current, of the value of the escrow account, as explained as follows.
The item includes an amount of € 297 thousand as medium-long-term portion of the receivable due from the parent company, Yama S.p.A., by way of the reinstatement of equity recognized by Yama to the Group in relation to costs sustained by a number of companies and relating to the period in which Yama S.p.A. exercised control over them. The right emerges from agreements and guarantees issued upon the transfer of the affiliated companies.

The "Other current financial assets", amounting to € 7,348 thousand, mainly include:

- an amount of € 6,032 thousand as the amount paid by Comet do Brasil LTDA, through an escrow account contract, part of the acquisition of the shareholdings of the company Lemasa LTDA to guarantee the deferred portion of the purchase price to be paid in the financial year 2018;
- an amount of € 855 thousand, as interest receivable accrued at 31 December 2017 on the aforementioned escrow account;
- an amount of € 449 thousand as short-term portion of the loan owed by Yama S.p.A. as shown in the previous paragraph.

Over the fiscal year 2017 the value of the escrow account was partially released in favour of the Group, after agreement with the selling party, for a value of 8,088 thousand Brasilian Reais, equal to an equivalent of € 2,036 thousand.

27. Equity

Share capital
Share capital is fully paid up at 31 December 2017 and amounts to € 42,623 thousand, remaining unchanged during the year under examination, and it consists of 163,934,835 ordinary shares of par value € 0.26 each.
All shares have been fully paid.

Treasury shares
The adjustment of the share capital for purchase of treasury shares, equal to € 104 thousand, represents the nominal value of treasury shares held at December 31, 2017 (Note 37).
Compared to the previous year, the overall amount paid by Emak S.p.A. to purchase on the market of own shares, fully exposed to the reduction of the share capital, has been attributed to an adjustment to the nominal value of the share capital and the share premium adjustment to the share premium reserve.

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

Share premium reserve
At 31 December 2017, the share premium reserve amounts to € 40,529 thousand, and consists of premiums on newly issued shares, net of share premium treasury shares held at December 31, 2017 amounted to € 1,925 thousand. The reserve is shown net of charges related to the capital increase amounted to € 1,598 thousand and adjusted for the related tax effect of € 501 thousand.

Legal reserve
The legal reserve at December 31 2017 of € 3,059 thousand (€ 2,709 thousand at December 31 2016).

Revaluation reserve
At 31 December 2017 the revaluation reserve includes the reserves deriving from the revaluation as per Law 72/83 for € 371 thousand and as per Law 413/91 for € 767 thousand. No changes occurred during the year.

Reserve for conversion differences
At 31 December 2017 the reserve for conversion differences for a positive amount of € 1,466 thousand is entirely attributable to the differences generated from the translation of balances into the Group's reporting currency.
The negative variation of € 5,226 thousand is mainly attributable to the currency depreciation generated from the translation of the financial statements of consolidated subsidiaries belonging to the Brazilian currency area for € 1,686 thousand, to the Chinese area for € 1,676 thousand and to the American area for € 2,076 thousand.

Reserve IAS 19
At 31 December 2017 the IAS 19 reserve is equal a negative amount of € 1,305 thousand, for the actuarial valuation difference of post-employment benefits to employees.

Other reserves
At 31 December 2017 Other reserves include:

- the extraordinary reserve, amounts to € 27,088 thousand, inclusive of all allocations of earnings in prior years;
- the reserves qualifying for tax relief refer to tax provisions for grants and donations for € 129 thousand;
- the reserves for merger surpluses for € 3,561 thousand;
- the reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

"Retained Earnings" in the consolidated accounts is subject to a non-distributable restriction amounting to € 6,831 thousand.

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

28. Trade and other payables

Details of trade and other payables are set out below:

€/000	31.12.2017	31.12.2016
Trade payables	80,229	59,720
Payables due to related parties (note 38)	2,632	1,553
Payables due to staff and social security institutions	11,339	9,779
Advances from customers	3,246	2,741
Accrued expenses and deferred income	466	225
Other payables	3,603	3,831
Total	**101,515**	**77,849**

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

The increase in the item "Trade payables" is attributable to greater purchase volumes in the fiscal year and to the entrance in the area of consolidation of the Lavorwash Group, that has caused the consolidation at the acquisition date of trade payables for an amount equal to € 13,866 thousand. At December 31, 2017 these payables related to the Lavorwash Group amount to € 14,544 thousand.

The change in the items "Payables due to staff and social security institutions" and "Advances from customers" is attributable to the extension of the area of consolidation, that contributed for a value respectively of € 1,394 thousand € 750 thousand at 31 December 2017.

The item "Other payables" includes € 812 thousand, against € 1,872 thousand at 31 December 2016, for current IRES (Italian corporate income tax) payable accounted for a number of Group companies to the parent company, Yama S.p.A., and arising from the relationships that govern the tax consolidation as per art. 117 and following of Presidential Decree no. 917/1986, in which they participate.

29. Loans and borrowings

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

€/000	31.12.2017	31.12.2016
Bank loans	55,468	38,841
Overdrafts (note 25)	13,044	5,525
Liabilities for purchase of equity investments	9,304	1,559
Financial accrued expenses and deferred income	16	329
Other loans	637	516
Total current portion	**78,469**	**46,770**

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

The item "Liabilities for purchase of equity investments" includes:

- an amount of € 1,370 thousand refers to the debt towards the transferor shareholder of the company Valley Industries LLP following the agreement of "Put and Call Option Agreement" to purchase the remaining 10% of the company to be exercised from 2018;
- an amount of € 4,279 thousand, equivalent to approximately 17,000 thousand Reais, related to the deferred price discounted to the purchase of 70% of the company Lemasa payable to the selling shareholder of Lemasa and maturing in 2018. In the previous fiscal year this payable was accounted for as non-current financial liabilities for an amount of € 4,584 thousand. At the end of the current fiscal year the estimate of the payable related to the deferred price was reduced for an amount of € 281 thousand, in light of the economic-financial results of the company that, as contractually regulated, determine the value of it. The adjustment of this debt at December 31, 2017

led to the recognition in the income statement of financial costs due to the discounting of such debt for € 634 thousand;
- an amount of € 748 thousand, equivalent to approximately 2,970 thousand Reais, as estimated debt for the distribution of dividends to the selling shareholders of the company Lemasa, as current portion of the price value regulated by Put and Call Option;
- an amount of € 2,648 thousand, arisen in this fiscal year, as current portion of the debt for the purchase of the shares of the Lavorwash Group, regulated by Put and Call Option;
- an amount equal to € 176 thousand related to the residual discounted debt towards the selling shareholder of the company PTC S.r.l., following the agreement of "Put and Call Option Agreement" to purchase the remaining 10% of the company. The estimate of this debt, recognized as non-current liability at December 31, 2016 for € 201 thousand, was adjusted in light of the economic results of the target company;
- an amount equal to € 83 thousand, arisen in this fiscal year, as debt for the acquisition of the assets of the society A1 Mist Sprayers Resources Inc.

The item "Other loans" includes:
- an amount of € 352 thousand as current portion of a loan made by Simest S.p.A. to the parent company Emak S.p.A in accordance with Law 133/08, through which, the Italian companies, are accompanied in their internationalization process by loans at preferential interest rates.
- an amount of € 255 thousand related to the debt for the loan made by the minority shareholders towards the company Geoline Electronic S.r.l.

Long-term loans and borrowings are detailed as follows:

€/000	31.12.2017	31.12.2016
Bank loans	80,084	63,250
Liabilities for purchase of equity investments	14,587	11,976
Other loans	1,059	881
Total non current portion	**95,730**	**76,107**

"Liabilities for purchase of equity investments" refers to debts outstanding at the end of the year for the purchase of minority equity investments. This item includes:
- an amount of € 6,294 thousand, corresponding to approximately 25,004 thousand Reais, related to the non-current portion of the remaining debt actualized to the selling shareholder of company Lemasa following the "Put and Call Option Agreement" for purchase the remaining 30% of the company to be exercised by 2020. The adjustment of this debt at December 31, 2017 has led to a recognition in the income statement of financial costs due to the discounting of this debt for € 880 thousand.
  These debts represent the best estimate of the discounted debt related to the Put and Call Option to be paid to selling shareholders and could change on the basis of the trend of some economic-financial indicators regulated by the purchase contract.

- an amount of € 8,293 thousand related to the discounted debt for the portion of the purchase price of the 14.67% of the shares of the Lavorwash Group following the "Put and Call Option Agreement" to be exercised in 2020. The price could change on the basis of the trend of economic-financial indicators of the target Group and within the limits of a maximum value (CAP) contractually regulated. The Management has estimated the value of the future debt on the basis of forecasting economic-financial plans.

"Other loans" includes € 1,055 thousand as non-current portion of the loan from Simest S.p.A. illustrated previously.

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

€/000	31.12.2016	Increases	Decreases	Exchange effect	Other movements	31.12.2017
Bank loans	63,250	48,125	(30,103)	(1,188)	-	80,084
Liabilities for purchase of equity investments	11,976	8,207	(4,954)	(1,608)	966	14,587
Other loans	881	402	(224)	-	-	1,059
Total	**76,107**	**56,734**	**(35,281)**	**(2,796)**	**966**	**95,730**

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

Some medium and long term loans are subjected to financial Covenants verified, mainly, on the basis of the consolidated ratios *Pfn/Ebitda* and *Pfn/Equity.* At December 31, 2017 the Group respects all the reference parameters foreseen by the contract.

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

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	34,238	20,981	10,393	7,292	**72,904**	**7,180**
Liabilities for purchase of equity investments	616	13,971	-	-	**14,587**	**-**
Other loans	355	352	352	-	**1,059**	**-**
Total	**35,209**	**35,304**	**10,745**	**7,292**	**88,550**	**7,180**

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

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

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

30. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2016	Ch. in scope of consolidation	Increases	Decreases	Other movements	Exchange differences	31.12.2017
Deferred tax on impairment losses of assets	432	-	48	(51)	-	(2)	427
Reversal of unrealized intercompany gains	1,994	411	87	-	-	-	2,492
Provision for inventory obsolescence	1,365	541	278	(169)	-	(2)	2,013
Losses in past financial periods	988	-	93	(297)	-	(43)	741
Provisions for bad debts	359	82	46	(26)	-	1	462
Other deferred tax assets	2,232	213	1,069	(640)	78	(19)	2,933
Total (note 16)	**7,370**	**1,247**	**1,621**	**(1,183)**	**78**	**(65)**	**9,068**

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2017.
The recognition of deferred tax assets depends on the existence of conditions for their future recovery on the basis of updated strategic plans.
The exploitation of past tax losses is of unlimited duration.

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

Deferred tax liabilities are detailed below:

€/000	31.12.2016	Ch. in scope of consolidation	Increases	Decreases	Other movements	Exchange differences	31.12.2017
Deferred tax on property IAS 17	1,199	-	-	(28)	-	-	1,171
Deferred tax on depreciations	3,385	4,003	-	(483)	-	(273)	6,632
Other deferred tax liabilities	1,807	148	419	(895)	415.	(75)	1,819
Total (note 16)	**6,391**	**4,151**	**419**	**(1,406)**	**415**	**(348)**	**9,622**

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

Deferred tax liabilities from change in scope of consolidation are attributable for € 4,003 thousand to deferred tax liabilities on the asset value expressed at fair value deriving from the acquisition of the Lavorwash Group.

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2017.

At December 31, 2017, no deferred tax liabilities for taxes on retained earnings of subsidiaries have been recognized as the Group does not believe, at the time, that these profits will be distributed in the foreseeable future.

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

As regards American companies, tax assets and liabilities relating to deferred tax assets and liabilities have been adjusted on the basis of the lower tax rate applicable from the 2018 financial year.

The tax credits amount at December 31 2017 to € 5,428 thousand, against € 4,791 thousand at December 31 2016, and refer to VAT credits, surplus payments on account of direct tax and other tax credits.

Current tax debts amount to € 4,676 thousand at December 31 2017, compared with € 4,184 thousand a year earlier, and they refer to payables for direct tax for the period, VAT and withholding taxes. The contribution on this item of the variation of the scope of consolidation after the acquisition of the Lavorwash Group was equal to € 2,184 thousand (value at the acquisition date).
A number of Group companies participate in the tax consolidation submitted by the parent company, Yama S.p.A., as per arts. 117 and following of Presidential Decree no. 917/1986: current IRES taxes payable by these companies are accounted for in the heading “Other payables” (Note 28).

31. Employee benefits

At December 31 2017 such benefits refer principally to the discounted liability for employment termination indemnity payable at the end of an employee’s working life, amounting to € 10,288 thousand against € 8,513 thousand at December 31 2016. The valuation of the indemnity leaving fund (TFR), carried out according to the nominal debt method, in force at the closing date, would be € 9,469 thousand against € 8,250 at December 31 2016.

Movements in this liability are as follows:

€/000	FY 2017	FY 2016
Opening balance	**9,137**	**8,932**
Current service cost and other provisions	228	345
Actuarial (gains)/losses	470	137
Interest cost on obligation (note 15)	81	103
Change in area of consolidation	1,840	36
Disbursements	(824)	(416)
Closing balance	**10,932**	**9,137**

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

	FY 2017	FY 2016
Annual inflation rate	1.5%	0.4%
Rising discount rate	0.9%	1.1%
Rate of dismissal	1.0%	1.0%

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

32. Provisions for risks and charges

Movements in these provisions are detailed below:

€/000	31.12.2016	Change in scope of consolidation	Increases	Decreases	Exchange differences	Other movements	31.12.2017
Provisions for agents' termination indemnity	1,468	486	178	(35)	-	-	2,097
Other provisions	98	72	54	(47)	(9)	-	168
Total non current portion	**1,566**	**558**	**232**	**(82)**	**(9)**	**-**	**2,265**
Provisions for products warranties	480	639	100	(76)	1	81	1,225
Other provisions	957	569	948	(1,108)	12	(81)	1,297
Total current portion	**1,437**	**1,208**	**1,048**	**(1,184)**	**13**	**-**	**2,522**

The provision for agents' termination indemnity is calculated on the basis of agency relationships in force at the close of the financial year, it refers to the probable indemnity which will have to be paid to the agents.
The year allocation of € 178 thousand, was recorded under the provisions in the item "Other operating expenses" in the income statement. The change in the scope of consolidation has contributed on this item for € 486 thousand.

Other non-current provisions, equal to € 168 thousand, have been allocated for:

- € 65 thousand in legal costs accrued in respect of the conduct of tax disputes on the part of some companies of the Lavorwash Group and of Bertolini S.p.A (Incorporated into Emak S.p.A. in year 2008) for which the Group, following the opinion expressed by its defenders, does not expect to mobilize additional funds to contingent liabilities;
- € 103 thousand as allocation effected against a tax assessment and other current disputes related to the company Lemasa.

The product warranty provision refers to future costs for repairs on warranty which will be incurred for products sold covered by the legal and/or contractual warranty period; the allocation is based on estimates extrapolated from the historic trend. The change in the scope of consolidation has caused an increase of this item equal to € 639 thousand.

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

- allocations for € 150 thousand (including legal defense costs for € 32 thousand and legal interests for € 8 thousand), relating to an assessment, ended in May 2017, at Comet S.p.A., concerning direct and indirect taxes for the years 2014-2015. The outcome of the audits resulted only issues concerning the transfer prices applied to sales of products to foreign subsidiaries Comet USA Inc. and Comet France S.A.S.. In face of the disputes, the company has received a notice of assessment only for the year 2014 relatively to which, on the basis of the opportunity to close a passive position, Comet S.p.A has decided to proceed with the definition of an amount equal to € 69 thousand including legal defense costs and interests through the auditing institution with acceptance. In accordance with the opinion of to the legal defenders, was allocated an additional amount of € 81 thousand related to the year 2015.

- allocation related to the Lavorwash Group for € 450 thousand, of which € 180 thousand allocated before the acquisition, as result of a tax audit related to the period 2012-2013 and 2014 concerning the Transfer Pricing. The reserve aims at covering the potential liabilities that could arise from the dispute. The equivalent payment at the expense of the company will be reimbursed by the sellers of the Lavorwash shares as contractually regulated.
- allocation of € 308 thousand for a labor-law dispute of the subsidiary Speed France SAS allocated during the year. This dispute has caused the record of a refund for a reimbursement originally paid by the subsidiary. Considering that this is not a definitive reimbursement, being the case still hanging after complaint, the Group has allocated the same amount between the provisions for risks and charges.
- charges connected to reorganizational costs, accounted for as personnel expenses, up to today estimable for € 122 thousand.
- allocations concerning various objections relating to various disputes and future costs for € 220 thousand
- current portion of provisions for agents' termination indemnity for € 29 thousand concerning positions that will be presumably defined in 2018.
- reimbursement of deductibles on claims for product liability for € 18 thousand.

The reduction of the item "Other provisions" mainly refers to:

- for € 603 thousand (including legal defense costs for € 32 thousand), attributable to a tax dispute against the parent company Emak S.p.A., after an assessment carried out by the Tax Authorities concerning the annual 2008-2009-2010, based on objections relating to transfer pricing. The dispute ended through judicial conciliation, accepted by Emak, even if fully convinced of the correctness of his actions, on the basis of considerations concerning:

  a. the offer of reduction of the tax claim, in respect of those reliefs which appeared to the weakly motivated also to the Authority;
  b. the opportunity for Emak to close a passive position anyhow problematic, expensive, and uncertain to define;
  c. the prospect for Emak to obtain repayment of large tax credits, pacifically due and blocked by the Authority under law, due to the recurrence of unspecified disputes on transfer pricing.

  The reconciliation led to the recognition of higher taxes already accrued in previous years for € 571 thousand and interest for € 136 thousand. The payment, which took place in March 2017, was carried out net of what was already provisionally paid, amounting to € 326 thousand, while awaiting for judgement.
- for € 406 thousand refers to the use of the current provisions for agents' termination indemnity allocated by the company Lavorwash Brazil in the period before the entrance in the area of consolidation.

33. Other non-current liabilities

The entire amount of € 579 thousand (€ 668 thousand at 31 December 2016) refers to the deferred income relating to capital grants received pursuant to Law 488/92 by Comag S.r.l., now merged into Emak S.p.A., and allocated to subsequent financial periods. The part of the grant receivable within a year is recorded in current liabilities under accrued expenses and deferred income (note 28) and amounts to € 89 thousand.

34. Potential liabilities

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

35. Information on financial risks

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

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

As described in the section "Management of financial risk", the Emak Group constantly monitors the financial risks to which it is exposed, so as to minimize potential negative effects on financial results.

Qualitative and quantitative information is given below regarding the nature of such risks for the Emak Group.
The quantitative figures shown below have no value for forecasting purposes, specifically, the sensitivity analysis on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesized.

Credit risk
The maximum theoretical exposure to credit risk for the Group at 31 December 2017 is the accounting value of financial assets shown in the financial statements.

It should be pointed out that the credit granted to clients involves specific assessments of solvency and generally the Group obtains guarantees, both financial and otherwise, against credits granted for the supply of products addressed to some countries. Certain categories of credits to foreign customers are also covered by insurance with primary companies.

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

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

At December 31 2017 there were no significant positions of insolvency subject to individual devaluation.
At December 31 2017 Trade receivables and Other receivables, equal to € 109,394 thousand (€ 96,940 thousand at 31 December 2016), include € 12,418 thousand (€ 11,450 thousand at 31 December 2016) outstanding by more than 3 months. This value has been rescheduled according to repayment plans agreed with the clients.

The value of amounts receivable covered by insurance or by other guarantees at December 31 2017 is € 23,854 thousand (€ 19,665 thousand at December 31 2016).

At December 31 2017 the first 10 customers account for 13.7% of total trade receivables (20% at December 31 2016), while the top customer represents 3.1% of the total (5.4% at December 31 2016).

Liquidity risk
Liquidity risk can occur as a result of the inability to obtain financial resources necessary for the Group's operations at acceptable conditions.
The main factors determining the Group's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and activities and by investment, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.
Consequently, the Group's treasury sets up the following activities:

- the monitoring of expected financial requirements in order to then take suitable action;
- the obtaining of suitable lines of credit;
- the optimization of liquidity, where feasible, through the centralized management of the Group's cash

flows;
- the maintenance of sufficient liquidity;
- the maintenance of a balanced composition of net financial borrowing with respect to investments made;
- the pursuit of a correct balance between short-term and medium-long-term debt;
- limited credit exposure to a single financial institute;
- the monitoring of compliance with the parameters provided for by covenants associated with medium-long-term loans.

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

The management considers that currently unused funds and credit lines, amounting to € 128 million, as well as those which will be generated from operating and financial activities, will allow the Group to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

Exchange risk
The Group is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.
The net balances at December 31 2017 for which the Group is exposed to exchange rate risk as a result of the use of a currency different from Group companies' local reporting currency are as follows:

Credit position in US Dollars	25,515 thousand
Credit position in Zloty	881 thousand
Credit position in GB Pound	599 thousand
Debt position in Yen	14,923 thousand
Debt position in Renminbi	48,721 thousand
Debt position in Euro	11,767 thousand
Debt position in Swiss Francs	59 thousand
Debt position in Brazilian Reais	28 thousand
Debt position in Taiwanese Dollars	6 thousand

Specifically:

- in cases in which the companies in the Group incur costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result of such companies.
  In the 2017 financial period, the overall amount of revenues directly exposed to exchange risk represented around 9.4% of the Group's aggregate turnover (9% in the 2016 financial period), while the amount of costs exposed to exchange risk is equal to 20.2% of aggregate Group turnover (18.1% in the 2016 financial period).

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

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

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

- With regards to commercial activities, the companies in the Group are able to hold commercial credits and debits expressed in currencies which are different from the currency in which they keep their accounts and the variation in exchange rates may result in the realization or ascertainment of exchange risks.
  The Group's policy is to partly cover, after appropriate evaluation of exchange rate trends, exposed positions resulting from credits and debits expressed in a currency different from that in which the company keeps its accounts.

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

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

Sensitivity analysis
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Group at December 31 2017, as a result of a hypothetical unfavorable and immediate variation of 10% in all relevant single exchange rates, would amount to around € 2,752 thousand (€ 3,075 thousand at December 31 2016).

Interest rate risk
The companies of the Group utilize external financial resources in the form of debt and invest liquid funds in monetary and financial market instruments. Variations in market interest rates influence the cost and return of the various forms of financing and utilization, affecting the level of the Group's financial expenditure and income.

The Group uses derivative financial instruments to cover interest rate risk.

Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

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

A hypothetical, instantaneous and unfavorable negative variation of one base point in annual interest rates in force at December 31 2017 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around € 1,013 thousand (€ 727 thousand at December 31 2016). The above calculation takes into consideration the total amounts of financial liabilities net of the total amount of IRS operations carried out for hedging purposes and liabilities for the purchase of minority shares of equity investments and of fixed rate financing.

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

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

Sensitivity analysis
The potential loss of fair value of derivative financial instruments held by the Group at December 31 2017 as a result of a hypothetical unfavorable and immediate variation of 10% in underlying values would amount to around € 70 thousand (€ 628 thousand at December 31 2016).

36. Commitments

Fixed asset purchases
The Group has commitments for purchases of fixed assets not accounted in the financial statements at December 31 2017 for an amount of € 4,039 thousand (€ 3,289 thousand at December 31 2016).
These commitments relate to the purchase of equipment, plant and machinery and the new R&D center under construction and for the ERP Transformation project of some companies of the Group.

Guarantees granted
The group has € 4,134 thousand in guarantees granted to third parties at December 31 2017, relating to guarantee policies for customs rights and bank guarantees.
The shares representing the capital of Comet do Brasil Investimentos LTDA, Lemasa and Lavorwash S.p.A. are subject to a lien in favor of credit institutions that provided the financing functional to the purchase of the same.

Purchases of additional shares of equity
Please note that with respect to shares held directly or indirectly by the Parent Company Emak S.p.A. the following contractual agreements are in force:

- a Put and Call option is contained in the contract for the acquisition of the subsidiary, Valley Industries LLP, for the remaining 10% of the share capital in favor of the trust Savage Investments LLC, to be exercised without any restriction of deadline;
- as part of the contract for the acquisition of the Maxican company, S.I.Agro Mexico, the subsidiary, Comet S.p.A., has entered into a supplementary agreement that provides for a call option in favor of Comet for the acquisition of the remaining 15% of the share capital, to be exercised in 2019;
- in the contract to acquire the subsidiary Lemasa LTDA, owned by Comet do Brasil with a share of 70%, there is an agreement of "Put and Call Option" that regulates the purchase of the remaining 30% to be exercised between April 1 2020 and April 1, 2021;
- the subsidiary Comet S.p.A. has in place an agreement providing for a put and call option to purchase the remaining 10% of PTC S.r.l. to be exercised from 2018;
- as part of the contract for the acquisition of the Lavorwash Group a “Put and Call Option” was defined for the acquisition of the 14.67%, to be exercised in 2020;
- as part of the contract for the acquisition of the company Cifarelli S.p.A a “Put and Call Option” was defined for the acquisition of the 70%, to be exercised in 2020.

37. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at December 31 2017 and amounts to € 42,623 thousand and it consists of 163,934,835 ordinary shares of par value € 0.26 each.

	31.12.2017	31.12.2016
Number of ordinary shares	163,934,835	163,934,835
Treasury shares	(397,233)	(397,233)
Total outstanding shares	**163,537,602**	**163,537,602**

The dividends for 2016 approved by the shareholders on April 28 2017, totaling € 5,724 thousand, were paid during 2017.

At December 31 2016 the company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand.
During 2017 no treasury shares were purchased or sold.
Therefore, at December 31 2017 the company held 397,233 treasury shares in portfolio for a value of € 2,029 thousand.

In January and February 2018 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to December 31 2017.

38. Related party transactions

The transactions entered into with related parties by the Emak Group in the year 2017 mainly relate to two different types of usual nature relations, within the ordinary course of business, adjusted to market conditions and with the parent Yama S.p.A. and certain subsidiary companies.

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

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

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

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

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

€/000	Net sales	Trade receivables	Other receivables for tax consolidation	Total trade and other receivables	Financial revenues	Current financial asset	Non current financial asset
SG Agro D.o.o.	429	65	-	65	-	-	-
Cofima S.r.l	-	-	-	-	-	-	-
Euro Reflex D.o.o.	605	291	-	291	-	-	-
Garmec S.r.l.	110	8	-	8	-	-	-
Mac Sardegna S.r.l.	93	-	-	-	-	-	-
Selettra S.r.l.	1	-	-	-	-	-	-
Yama Immobiliare S.r.l.	-	-	-	-	8	-	-
Yama S.p.A.	-	9	854	863	-	449	297
Cifarelli S.p.A.	70	-	-	-	-	-	-
Total (notes 23 - 26)	**1,308**	**373**	**854**	**1,227**	**8**	**449**	**297**

Purchase of goods and services and trade and other payables:

€/000	Purchases of raw and finished products	Other costs	Trade payables	Other payables for tax consolidation	Total trade and other payables
SG Agro D.o.o.	21	-	-	-	-
Cofima S.r.l.	1,484	57	637	-	637
Euro Reflex D.o.o.	1,767	49	333	-	333
Garmec S.r.l.	42	34	13	-	13
Mac Sardegna S.r.l.	-	4	20	-	20
Selettra S.r.l.	350	2	124	-	124
Yama Immobiliare S.r.l.	-	1,827	-	-	-
Yama S.p.A.	-	-	-	812	812
Cifarelli S.p.A.	2,976	-	1,336	-	1,336
Other related parties	-	558	169	-	169
Total (note 28)	**6,640**	**2,531**	**2,632**	**812**	**3,444**

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The remunerations of the Directors and Auditors of the Parent company for the financial year 2017, the different components of the total remuneration, the remuneration policy adopted, the procedures followed for their calculation and the shareholdings in the Group owned by the above officers, are set out in the "Remuneration report", drawn up pursuant to art. 123-ter, Leg. Dec. 58/98 and available on the company website www.emakgroup.it, in the section "Investor Relations > Corporate Governance".

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

39. Subsequent events

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

Deloitte.

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

To the Shareholders of
Emak S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Emak S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Impairment test of goodwill

Description of the key audit matter

The consolidated financial statements of the Emak Group as of 31 December 2017 include goodwill of Euro 67,112 thousand, including Euro 18,801 thousand deriving from acquisitions made in the current year related to the Lavorwash Group for Euro 17,490 thousand, and the A1 Mist Sprayers Resources business unit for Euro 1,311 thousand.

Deloitte.

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

As a result of the impairment test, the Group has recorded goodwill impairment losses of Euro 590 thousand in relation to the cash-generating unit (CGU) represented by Geoline Electronic S.r.l., an Italian subsidiary operating in the "Components and Accessories" segment, which had reported lower results than expected.

The evaluation process adopted by Management to identify possible impairment is based on assumptions about, among other matters, the forecast cash flows of the cash-generating units (CGUs), the appropriate discounting rate (WACC) and the long-term growth rate (g-rate). The assumptions reflected in the long-term plans of the CGUs concerned are influenced by future expectations and market conditions, which are affected by uncertainties especially with regard to Lemasa CGU (Brazil), who operates in geographical area marked by economic instability, and whose goodwill as of 31 December 2017, also following the write downs made in previous years, amounts to Euro 13,607 thousand.

In view of the significance of the goodwill reported in the financial statements, the subjective nature of the estimates made to determine the cash flows of the CGUs and the key variables of the impairment model, and the many unpredictable factors that might influence the performance of the markets in which the Group operates, we considered the impairment test of goodwill to be a key audit matter of the audit of the consolidated financial statements of the Emak Group as of 31 December 2017.

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

Audit procedures adopted

We firstly examined the approach adopted by Management to determine the value in use of the CGUs, analysing the methods and assumptions applied by management to carry out the impairment test.

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

- observation and understanding of the relevant controls implemented by the Emak Group over the impairment testing process;
- analysis of the reasonableness of the principal assumptions made in order to forecast cash flows, partly by analysing external data and obtaining information from Management that we deemed to be significant;
- analysis of actual values in comparison with the original plans, in order to assess the nature of variances and the reliability of the planning process, giving particular attention to the Lemasa CGU (Brazil);
- assessment of the reasonableness of the discount rate (WACC) and the long-term growth rate (g-rate), partly via the appropriate identification of and reference to external sources that are normally used in professional practice and to key data for main comparables;
- verification of the mathematical accuracy of the model used to determine the value in use of the CGU;
- verification that the carrying amount of the CGU was determined properly;
- verification of the sensitivity analysis prepared by Management.

We also examined the adequacy of the information disclosed about the impairment tests and its consistency with the requirements of IAS 36.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Emak S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Emak Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Emak Group as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Emak Group as at December 31, 2017 and are prepared in accordance with the law.

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

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Farioli
Partner

Parma, Italy
March 29, 2018

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

Emak S.p.A.
Separate financial statements at 31 December 2017

Financial statements

Emak S.p.A. – Income Statement

€	Notes	Year 2017	of which to related parties	Year 2016	of which to related parties
Revenues from sales	**8**	**125,425,877**	**32,177,519**	**128,001,224**	**29,161,036**
Other operating incomes	8	456,805	1,400	428,182	
Change in inventories		3,434,425		(9,104,367)	
Raw materials, consumable and goods	9	(80,936,263)	(28,386,543)	(71,708,995)	(26,566,710)
Personnel expenses	10	(24,697,104)		(23,742,074)	
Other operating costs and provisions	11	(19,872,125)	(896,187)	(19,284,347)	(990,059)
Amortization, depreciation and impairment losses	12	(4,944,401)		(6,097,790)	
Operating result		**(1,132,786)**		**(1,508,167)**	
Financial income	13	5,544,914	5,254,631	7,957,235	7,762,974
Financial expenses	13	(692,222)	(8,943)	(696,216)	(15,928)
Exchange gains and losses	13	(2,288,067)		1,420,012	
Profit befor taxes		**1,431,839**		**7,172,864**	
Income taxes	14	1,327,595		(162,379)	
Net profit		**2,759,434**		**7,010,485**	

Statement of other comprehensive income

€	Notes	Year 2017	Year 2016
Net profit (A)		**2,759,434**	**7,010,485**
Actuarial profits/(losses) deriving from defined benefit plans (*)	**29**	(207,000)	(61,000)
Income taxes on OCI (*)		58,000	(2,000)
Total other components to be included in the comprehensive income statement (B)		**(149,000)**	**(63,000)**
Total comprehensive income for the perdiod (A)+(B)		**2,610,434**	**6,947,485**

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

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

Emak S.p.A. – Statement of financial position

ASSETS

€	Notes	31.12.2017	of which to related parties	31.12.2016	of which to related parties
Non-current assets					
Property, plant and equipment	16	29,415,087		27,250,824	
Intangible assets	17	2,338,252		1,581,974	
Goodwill	18	2,074,305	2,074,305	2,074,305	2,074,305
Equity investments	19	97,397,145		98,176,874	
Deferred tax assets	28	2,215,690		1,656,373	
Other financial assets	21	18,071,986	18,071,986	5,725,026	5,725,026
Other assets	22	3,350		2,400	
Total non-current assets		**151,515,815**	**20,146,291**	**136,467,776**	**7,799,331**
Current assets					
Inventories	23	36,808,185		33,373,760	
Trade and other receivables	22	40,708,259	12,036,246	45,940,835	12,089,075
Current tax assets	28	1,154,694		2,260,201	
Other financial assets	21	1,883,168	1,883,168	1,405,916	1,398,025
Derivative financial instruments	20	79,003		-	
Cash and cash equivalents	24	8,337,136		21,425,447	
Total current assets		**88,970,445**	**13,919,414**	**104,406,159**	**13,487,100**
TOTAL ASSETS		**240,486,260**	**34,065,705**	**240,873,935**	**21,286,431**

EQUITY AND LIABILITIES

€	Notes	31.12.2017	of which to related parties	31.12.2016	of which to related parties
Capital and reserves					
Issued capital		42,519,776		42,519,776	
Share premium		40,529,032		40,529,032	
Other reserves		34,516,139		34,314,615	
Retained earnings		32,922,131		36,237,037	
Total equity	**25**	**150,487,078**		**153,600,460**	
Non-current liabilities					
Loans and borrowings due to banks and other landers	27	29,854,300	296,848	28,157,517	333,954
Deferred tax liabilities	28	1,267,372		1,675,545	
Employee benefits	29	3,768,874		3,777,006	
Provisions for risks and charges	30	346,952		311,292	
Other non-current liabilities	31	578,737		667,530	
Total non-current liailities		**35,816,235**	**296,848**	**34,588,890**	**333,954**
Current liabilities					
Trade and other payables	26	35,553,118	6,439,675	33,150,925	8,827,699
Current tax liabilities	28	975,589		876,632	
Loans and borrowings due to banks and other landers	27	17,130,820	478,030	17,472,098	1,956,523
Derivative financial instruments	20	74,898		132,917	
Provisions for risks and charges	30	448,522		1,052,013	
Total current liabilities		**54,182,947**	**6,917,705**	**52,684,585**	**10,784,222**
TOTAL EQUITY AND LIABILITIES		**240,486,260**	**7,214,553**	**240,873,935**	**11,118,176**

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

Emak S.p.A. – Statement of changes in equity at December 31, 2016 and December 31, 2017

€/000	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES				RETAINED EARNINGS		TOTAL
			Legal reserve	Revaluation reserve	Reserve IAS 19	Other reserves	Retained earnings	Net profit for the period	
Total at 31.12.2015	**42,519**	**40,529**	**2,361**	**1,138**	**(369)**	**30,900**	**26,710**	**6,953**	**150,741**
Change in treasury shares									**0**
Payment of dividends								(4,088)	**(4,088)**
Reclassification of 2015 net profit			348				2,517	(2,865)	**0**
Other changes									**0**
Net profit for 2016					(63)			7,010	**6,947**
Total at 31.12.2016	**42,519**	**40,529**	**2,709**	**1,138**	**(432)**	**30,900**	**29,227**	**7,010**	**153,600**
Change in treasury shares									**0**
Payments of dividends								(5,723)	**(5,723)**
Reclassification of 2016 net profit			350				937	(1,287)	**0**
Others									**0**
Net profit for 2017					(149)			2,759	**2,610**
Total at 31.12.2017	**42,519**	**40,529**	**3,059**	**1,138**	**(581)**	**30,900**	**30,164**	**2,759**	**150,487**

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

Emak
our power, your passion

Cash Flow Statement Emak S.p.A.

€/000	Notes	2017	2016
Cash flow from operations			
Net profit for the period		**2,759**	**7,010**
Amortization, depreciation and impairment losses	12	4,944	6,098
Capital (gains)/losses on disposal of property, plant and equipment		(4)	(7)
Dividends income		(4,834)	(7,550)
Decreases/(increases) in trade and other receivables		5,778	2,546
Decreases/(increases) in inventories		(3,434)	9,104
(Decreases)/increases in trade and other payables		2,004	(3,539)
Change in provisions for employee benefits	29	(8)	(75)
(Decreases)/increases in provisions for risks and charges	30	(568)	(437)
Change in derivate financial instruments		(137)	(80)
Cash flow from operations		**6,500**	**13,070**
Cash flow from investing activities			
Dividends income		4,834	7,550
Increases in property, plant and equipment and intangible assets		(7,084)	(6,723)
(Increases) and decreases in financial assets		(12,825)	(1,240)
Gains from disposal of property, plant and equipment		4	7
Cash flow from investing activities		**(15,071)**	**(406)**
Cash flow from financing activities			
Dividends paid		(5,723)	(4,088)
Change in short and long-term loans and borrowings		(1,515)	(13,360)
Change in equity		(149)	(63)
Cash flow from financing activities		**(7,387)**	**(17,511)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(15,958)**	**(4,847)**
OPENING CASH AND CASH EQUIVALENTS		**21,425**	**26,273**
CLOSING CASH AND CASH EQUIVALENTS		**5,467**	**21,425**

ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

€/000		2017	2016
RECONCILIATION OF CASH AND CASH EQUIVALENTS			
Opening cash and cash equivalents, detailed as follows:	24	**21,425**	**26,273**
Cash and cash equivalents		21,425	26,375
Overdrafts		-	(102)
Closing cash and cash equivalents, detailed as follows:	24	**5,467**	**21,425**
Cash and cash equivalents		8,337	21,425
Overdrafts		(2,870)	-
Other information:			
Income taxes paid		(50)	(40)
Interest paid		(595)	(592)
Interest on financings to subsidiary companies		352	201
Interest on financings to parent company		8	12
Interest on financings from subsidiary companies		(9)	(16)
Interest receivable on bank account		114	82
Interest receivable on trade receivables		69	66
Effects of exchange rate changes		1,354	292
Change in related party financial assets transactions		(12,832)	792
Change in related party financial liabilities transactions		(1,515)	(1,238)
Change in trade receivables and others toward related parties		53	1,685
Change in trade payables and others toward related parties		(2,388)	1,456
Change in trade receivables and others related to fiscal assets		547	728
Change trade in payables and others related to fiscal liabilities		(309)	(236)

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

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

Contents

1. General information

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

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

The Board of Directors of Emak S.p.A. on March 16, 2018 approved the Financial Statements for the year to December 31, 2017, and ordered immediate notification under Art. 154-ter, paragraph 1-ter TUF, to the Board of Auditors and to the Auditing firm in order for them to carry out their relative duties. In connection with this communication, the company issued an appropriate press release with the key figures of the financial statements and the dividend proposal made to the General Meeting of Shareholders.

The financial statements for the financial year will be submitted for approval by the General Meeting of Shareholders called for 27 April 2018.

Emak S.p.A., as the parent company, has also prepared the consolidated financial statements of the Emak Group at 31 December 2017, also approved by the Board of Directors of Emak S.p.A. in the meeting of 16 March 2018; both sets of financial statements are subject to statutory audit by Deloitte & Touche S.p.A.

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

2. Summary of principal accounting policies

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

2.1 General methods of preparation

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

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

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

The company has adopted the following formats for its financial statements as required by IAS 1:

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

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

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

2.2 Presentation currency

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

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

2.3 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2.4 Intangible assets

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

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

Development costs include only that expenditure which can be attributed directly to the development process. Costs for internal requirements are not capitalized.
Capitalized development costs are amortized on the basis of the estimate period in which is expected that the assets will generate cash flow, anyway not exceeding 5 years, commencing from the start of production of the products developed.
All other development costs are charged to the income statement.

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

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

2.5 Goodwill

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

2.6 Impairment of assets

Assets with an indefinite life are not amortized or depreciated but are reviewed annually for any impairment. Assets subject to depreciation or amortization are reviewed for impairment every time that events or changes in circumstances indicate that their carrying value might not be recoverable. The impairment loss recognized is the amount by which the carrying amount of an asset exceeds its recoverable amount, corresponding to the higher of the asset's net selling price and its value in use. For the purposes of measuring impairment,

assets are classified together into the smallest identifiable groups that generate cash inflows (cash-generating units).
The aforementioned impairment test necessarily requires the making subjective valuations based on information available within the Group, on reference market prospects and historical trends. In addition, if there appears to be a potential reduction in value, the Group makes a calculation of the value using what it considers to be suitable valuation techniques. The same value checks and the same valuation techniques are applied to intangible and property, plant and equipment with a defined useful life when there are indicators that predict difficulties in recovering the relative net book value through use.
The correct identification of indicators of the existence of a potential reduction in value, as well as estimates for establishing values mainly depend on factors and conditions that may vary over time, also to a significant degree, thereby influencing the valuations and estimates made by the directors.

2.7 Investment property

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

2.8 Financial assets and equity investments

The company classifies financial assets and investments into the following categories: financial assets at fair value (with changes reported through the income statement), loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investment has been made. The classification is made upon the asset's initial recognition and is reviewed at every statement of financial position date.

(a) Marketable financial assets at fair value (with the value of fluctuations posted in the income statement)

This category includes securities that have been acquired principally for the purpose of generating a profit from short-term fluctuations in price (or for temporarily investing surplus cash balances). This category is classified in current assets on the basis of the period-end price, with gains and losses recognized directly in the income statement. Unless they qualify for hedge accounting, derivatives are also classified as held for trading.

(b) Other financial assets

This balance includes loans given, and other receivables deriving from financial activities. They are classified as non-current assets except those falling due within 12 months which are reclassified to current assets.
These financial assets feature determinable payments with fixed maturities, and the fact that the company has the intent and ability to hold them to maturity.
These assets are valued using the amortized cost method, with gains recognized directly in the income statement using the effective yield method.

(c) Equity investments

This item includes shares in subsidiaries and interests in joint-stock companies accounted for using the cost method as adjusted for any impairment losses.

(d) Available-for-sale financial assets

Available-for-sale financial assets is a residual category relating to those assets not belonging to the previous three categories. They are reported as non-current assets unless management intends selling them within 12 months of the statement of financial position date.
Purchases and sales of these assets are recognized on the transaction date, which is the date on which the company commits to purchase or sell the asset.
Unrealized gains and losses arising on changes in the fair value of non-monetary securities classified as available for sale are recorded in the comprehensive income statement. When these instruments are sold or

written down, the cumulative fair value adjustments are recorded in the income statement as gains or losses on investments in securities.

Investments in all financial assets not recorded at fair value through the income statement are recognized initially at fair value plus the related transaction costs. An investment is eliminated from the accounting records when the right to its cash flows is extinguished or when the group has transferred substantially all the risks and rewards of its ownership to third parties.

The fair value of listed investments is determined with reference to the market price reported at the close of trading on the statement of financial position date. In the absence of an active market for a financial asset or if the securities have been suspended from listing, the company establishes fair value using valuation techniques. These techniques include the use of recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models, bearing in mind the issuer's specific characteristics.

The company assesses at each statement of financial position date whether there is any objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists for the available-for-sale assets, the amount of the loss – measured as the difference between the asset's acquisition cost and current fair value less any impairment loss previously recognized in net profit or loss – is removed from equity and posted to the income statement. Impairment losses recognized in the income statement for equity instruments are not recovered through subsequent credits to the income statement.

2.9 Non-current assets and liabilities held for sale

Assets held for sale are classified in this category when:

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

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

2.10 Inventories

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

2.11 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, using the effective interest method. They are recorded net of a bad debt provision, deducted directly from accounts receivable to bring the evaluation at their estimated realizable value.

A provision for the impairment of trade receivables is recognized when there is objective evidence that the company will be unable to collect all the amounts according to the original terms and conditions. The amount of the provision for such loss is charged to the income statement.

2.12 Trade payables

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

2.13 Cash and cash equivalents

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

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

2.14 Share capital

Ordinary shares are classified under equity.

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

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

2.15 Loans and borrowings

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

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

2.16 Taxes

Current taxes are accrued in accordance with the rules in force at the date of the financial statement and include adjustments to prior years' taxes.
Deferred tax assets and liabilities are recorded to reflect all temporary differences at the reporting date between the carrying amount of an asset / liabilities for tax purposes and allocated according to the accounting principles applied.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date.
Deferred tax assets are recognized on all temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

The same principle applies to the recognition of deferred tax assets on utilizable tax losses.
The carrying amount of deferred tax assets is reviewed at each statement of financial position date and possibly reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of all or part of that deferred tax asset to be utilized. Any such reductions are reversed if the reasons for them no longer apply. As a general rule, apart from specific exceptions, deferred tax liabilities must always be recognized.
Income taxes (current and deferred) relating to items recognized directly in equity are also recognized directly in equity.
Current tax assets and liabilities are offset only if the company has a legally enforceable right to set off the recognized amounts and if it intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Deferred tax assets and liabilities may be offset only if the company is able to offset current tax assets against current tax liabilities and if the deferred taxes refer to income taxes levied by the same taxation authority.

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

2.17 Employee benefits

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

2.18 Provisions for risks and charges

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

2.19 Revenues

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

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

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

2.20 Government grants

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

2.21 Financial income and expenses

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

2.22 Payment of dividends

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

2.23 Earnings per share

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

2.24 Cash flow statement

The cash flow statement has been prepared using the indirect method.
Cash and cash equivalents included in the cash flow statement comprise the cash-related balances at the reporting date. Cash flows in foreign currency have been translated at the average rate for the period.
Interest income and expense, dividends received and income taxes are included in cash flow generated by operations.

2.25 Changes in accounting standards and new accounting standards

The following IFRS accounting standards, amendments and interpretations were first adopted by the Group starting January 1, 2017

- Amendments to **IAS 7 "*Disclosure Initiative*"** (issued on 29 January 2016). The document aims at clarifying and improving disclosures to improve the disclosure on financial liabilities. In particular, the amendments require to disclose information that enables users of the financial statements to understand the changes in liabilities arising from financing transactions. The Company provide that disclosure on paragraph 27.

- Amendment to **IAS 12 "*Recognition of Deferred Tax Assets for Unrealised Losses*"** (published on 19 January 2016). This document provides clarifications on the recognition of deferred tax assets for unrealised losses on the valuation of financial activities registered in "Available for Sale" upon occurrence of certain circumstances and on the estimation of taxable income for future periods. Adoption of these amendments had not effect on separate financial statements.

Accounting standards, amendments and IFRS/IFRIC interpretations endorsed by the European Union, but not yet mandatory applicable and not early adopted from the Group on 31 December 2017

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

  This standard is applicable as from 1 January 2018. The amendments to IFRS 15, *Clarifications to IFRS 15 – Revenue from Contracts with Customers*, it's been approved by European Union on 6 November 2017. On basis of the carried out analysis, Directors expect that application of IFRS 15 will not have any significant effect on revenue amounts and on disclosure reported in separate financial statements.
- Final version of **IFRS 9 – *Financial instruments*** (issued on 24 July 2014). The standard includes the results of IASB project pending the replacement of IAS 39:
  - it introduces new criteria to classify and measure financial assets and liabilities;
  - with reference to the impairment model, the new standard requires the losses on receivables to be estimated based on the expected losses model (instead of the incurred losses model of IAS 39) using acceptable informations that can be evidenced, available free of charge or without unreasonable effort and including historic, current and forecast data;
  - a new hedge accounting model is introduced (additional types of transactions can be designated for hedge accounting, different accounting method for forward contracts and options when they are included in a hedge accounting transaction, changes to effectiveness test).

  The new standard must be applied to reporting period beginning on 1 January 2018 and thereafter.
  On basis of the carried out analysis, Directors expect that application of IFRS 9 will not have any significant effect on amounts and on disclosure reported in separate financial statements. In particular, overall estimated effect by the application of the new accounting standard could produce an overall negative impact on the Net Equity at December 31, 2017 not more than € 200 thousand, mainly attributable to fair value measurements of other investment in other companies.

- **IFRS 16 – *Leases*** (issued on 13 January 2016) intended to replace IAS 17 – *Leases*, as well as IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard provides a new definition of lease and introduces a criteria based on the control (right of use) of an asset to differentiate between lease and service agreements identifying which distinctive: asset identification, right of replacement of the asset, right to obtain all economic benefits arising out of use of the asset and right to control the use of the asset underlying the agreement.
  The standard introduces a single lessee accounting model for recognizing and measuring lease agreements, which provides for the underlying asset – including assets underlying operating leases – to be recognized in the statement of financial position as assets and lease financial liability providing the possibility to not recognize as lease the agreements concerning "low-value assets" and agreements with a duration equal and/or less 12 months. To the opposite, no significant changes are introduced by the Standard for lessor accounting.
  The standard applies for reporting period beginning on or after 1 January 2019. Early adoption is only allowed for early adopters of IFRS 15 – *Revenue from Contracts with Customers*. Directors expect that adoption of IFRS 16 could have an effect on amounts and on disclosure reported in separate financial statements. However, is not possible to provide a reasonable estimate as long as the Company will complete a detail analysis on agreements. The effect will mainly concern the accounting of the related real estate leases and the operating leases of cars and means of transport.

- Document ***Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*** (issued on 12 September 2016). The amendment provides entities meeting a criterion for engaging in predominantly insurance activities with the option to continue current IFRS accounting and to defer the application of IFRS 9 (from 1 January 2018) to financial activities, before the IASB replaces current IFRS 4 with the new standard currently being prepared, based on which financial liabilities are assessed. Directors do not expect a significant effect on separate financial statements by adopting of these changes

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

The European Union has not yet completed its endorsement process for the standards and amendments below reported at the date of these Financial Statements.

- On 18 May 2017 IASB issued the new principle **IFRS 17 – Insurance Contracts** that will replace IFRS 4 – *Insurance Contracts*. The objective of the Standard is to ensure that an entity provides relevant information that faithfully represents rights and obligations from insurance contracts it issues. The IASB developed the Standard to eliminate inconsistencies and weaknesses in existing accounting practices by providing a single principle-based framework to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The Standard is applicable for annual reporting periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – *Revenue from Contracts with Customers*. Directors do not expect a significant effect on separate financial statements by adopting of this principle.

- Amendments to **IFRS 2 - *Classification and measurement of share-based payment transactions*** (issued on 20 June 2016). This document provides clarifications on how to account for the effects of vesting conditions in cash-settled share-based payments, how to classify share-based payments that include net settlement features and how to account for changes to the terms and conditions of a share-based payment that turn cash-settled share-based payment to equity-settled share-based payment. The amendments apply as from 1 January 2018. Directors do not expect a significant effect on separate financial statements by adopting of these changes.

- Document ***Annual Improvements to IFRSs: 2014-2016 Cycle***, issued on 8 December 2016 (including IFRS 1 *First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*, IAS 28 *Investments in Associates and Joint Ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice*, IFRS 12 *Disclosure of Interests in Other Entities – Clarification of the scope of the Standard*) partially supplements existing standards. The most of the amendments apply as from 1 January 2018. Directors do not expect a significant effect on separate financial statements by adopting of these amendments.

- ***IFRIC 22 - Foreign Currency Transactions and Advance Consideration*** (issued on 8 December 2016). This interpretation provides guidelines on foreign currency transactions when non-monetary advance consideration paid or received is recognized before recognition of the relating asset, expense or income. This document clarifies how an entity has to determine the date of the transaction and consequently the spot exchange rate to be used for foreign currency transactions whose consideration is paid or received in advance. IFRIC 22 applies as from 1 January 2018. Directors do not expect a significant effect on separate financial statements by adopting of these changes.

- Amendments to **IAS 40 - Transfers of Investment Property** (issued on 8 December 2016). These amendments provide clarifications on the transfer of properties to, or from, investment properties. Specifically, an entity should only reclassify a property asset to or from investment property when there is evidence of a change in use of that asset. Such change in use must be supported by a specific event occurred in the past. A change in intention by the entity’s management alone is not sufficient. These amendments apply as from 1 January 2018. Directors do not expect a significant effect on separate financial statements by adopting of these changes.

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

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

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

- Document **"*Annual Improvements to IFRSs 2015-2017 Cycle*"** issued on 12 December 2017 (including IFRS 3 *Business Combinations* e IFRS 11 *Joint Arrangements – Remeasurement of previously held interest in a joint operation*, IAS 12 *Income Taxes – Income tax consequences of payments on financial instruments classified as equity*, IAS 23 *Borrowing costs Disclosure of Interests in Other Entities – Borrowing costs eligible for capitalization*), that implements the changes on some standards as part of the annual improvement process. These amendments apply as from 1 January 2019, though early adoption is allowed. Directors do not expect a significant effect on separate financial statements by adopting of these amendments.

- Amendments to **IFRS 10 and IAS 28 - *Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*** (issued on 11 September 2014). The purpose of these amendments was to resolve the conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss arising from transfers or assignments of a non-monetary asset to a joint venture or associate in return for its shares. The IASB has suspended the application of these amendments for the time being.

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

3. Financial risk management

3.1 Risk factors of a financial nature

The Company's business is exposed to a number of different financial risks: market risk (including currency risk, fair value risk and market price risk), credit risk and liquidity risk. The Company's policies for managing and controlling financial risks focus on the unpredictability of financial markets and seek to minimize the potentially negative effects on the financial results. The Company uses derivative financial instruments to hedge certain risks.
Hedging of the Company's financial risks is managed by a head office function working in close collaboration with the individual operating units.

(a) Market risk

(i) Interest rate risk

The Company’s interest rate risk relates to its long-term loans and borrowings. Variable rate loans expose the Company to the cash flow risk associated with interest rates. Fixed rate loans expose the Company to the fair value risk associated with interest rates.
The Company’s policy is based on constantly monitoring its level and structure of debt and on the trend in interest rates and macroeconomic variables that might directly influence them, with the goal of optimizing the cost of money. At December 31, 2017, the Company’s bank loans and borrowings and finance leases all carried variable interest and consequently, the company has set up hedging operations aimed at limiting the effects of interest rate fluctuations.

(ii) Currency risk
The Company conducts its business internationally and is exposed to exchange risk associated with the currencies used, mainly US dollars, yen and renminbi. Currency risk derives from future commercial transactions, from recognized assets and liabilities and net investments in foreign enterprises. The Company's policy, in line with the directives shared across the Group, is based on research of natural hedging receivables and payables and is limited to partially covering the net positions in foreign currencies mainly using forward contracts.

(iii) Price risk
The Company is exposed to fluctuations in the price of raw materials. This exposure is mostly towards suppliers of parts since their price is generally tied by contract to the trend in market prices for raw materials. The Company usually enters into medium-term contracts with certain suppliers for the purpose of managing and limiting the risk of fluctuations in the price of its main raw materials such as aluminum, sheet metal, plastic and copper, as well as semi-finished products such as motors.

(b) Credit risk
The Company has adopted policies to ensure that products are sold to customers of proven creditworthiness and that certain types of receivable are insured.

(c) Liquidity risk
Prudent management of liquidity risk implies the maintenance of sufficient liquid funds and marketable securities, and the availability of funding through adequate credit lines.
Consequently, the treasury, in accordance with the general directives of the Group, carries out the following activities:

- verification of financial requirements in order to take necessary actions;
- obtaining adequate lines of credit;
- liquidity optimization, where feasible, through structures of centralized management of cash flows of the Group;
- maintaining a balanced composition of net financial debt to investments;
- pursuit of a correct balance between short-term, medium and long term debt;
- limited credit exposure to individual financial institutions;
- monitoring of compliance with the parameters set by the covenants relating to medium-long term loans.

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

The company, through a financial management of the Group has maintained high levels of reliability on the part of banks and analysts. Lines of credit available significantly exceed requirements.

3.2 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are used exclusively for hedging purposes with the intent of reducing the risks of foreign currency fluctuation. In line with its risk management policy, in fact, the Group does not carry out derivative operations for speculative purposes.
When such operations are not accounted for as hedging operations they are recorded as trading operations.

As established by IAS 39, derivative financial instruments may qualify for special hedge accounting only if at the inception of the hedge the hedging relationship is formally designated and documented, the hedge is expected to be highly effective and the effectiveness of the hedge can be measured reliably.
Derivatives are initially recognized at cost and adjusted to fair value at subsequent statement of financial position dates.

On the basis of the above, and of stipulated contracts, the accounting methods adopted are as follows:

1. *Fair value hedge*: the fair value variations of the hedging instrument are posted to the Income Statement together with variations in the fair value of the hedged transactions.

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

3. *Derived financial instruments not defined as hedging instruments*: the variations in fair value are posted to the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. The cumulative gains or losses on the hedging instrument recognized directly in the Comprehensive Income Statement remain until the forecast transaction effectively occurs. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognized directly in Comprehensive Income Statement are transferred to the Income Statement for the period.

3.3 Measurement of current value

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

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

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

4. Key accounting estimates and assumptions

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

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

In this context, it should be noted that the situation caused by the persistent difficulties of the economic and financial scenario has implied the need to make assumptions regarding the future outlook which is characterized by uncertainty. As a result, it cannot be excluded that the actual results obtained will be different from the forecasts, and therefore adjustments, even of significant amounts, which obviously cannot today be estimated or foreseeable, to the book value of the relative items may be necessary. The financial statements heading most affected by the use of estimates is shareholdings in subsidiaries and associates included among non-current assets, where the estimates are used to establish any devaluations and recoveries of value. Any effects are not, however, particularly critical or material, considering their low significance in relation to the underlying account headings.

5. Significant non-recurring events and transactions

New R&D centre

Works for the construction of the new R&D centre started in July 2016 go on. At December 31, 2017, the portion of the investment already recorded under fixed assets amounted to approximately € 2,800 thousand, compared to a total investment of € 5,500 thousand.

ERP Trasformation project

Concerning the Group’s project for the implementation of the new ERP Microsoft Dynamics 365 system, it has to be highlighted that activities are proceeding according to the forecasted plans with the aim to get to “go live” within end 2018. Overall forecasted investment for the ongoing projects will amount to € 2,000 thousand, of which € 730 thousand already accounted for as of 31 December 2017.

Sale of Emak S.p.A.’s shares by Yama S.p.A

As already specified in the paragraph “Main shareholders of Emak”, of the Directors’ report, on May 23, 2017, the major shareholder Yama S.p.A. has completed the placement of a stake of approximately 10% of Emak S.p.A.'s share capital, thus coming to hold 65.181% of Emak's share capital.

6. Positions or transactions deriving from atypical and unusual operations

No events/operations as per Consob Communication DEM/6064293 of 28 July 2006 have been recorded during the financial period 2017. As indicated in this Communication “atypical and/or unusual operations are considered as operations that, due to their significance/materiality, the nature of the counterparties, the object of the transaction, the means for determining the transfer price and the time of the event (near the close of the period), may give rise to doubts with regards to: the correctness/completeness of the information in the financial statements, conflicts of interest, the protection of company assets, the safeguarding of minority interests”.

7. Net financial position

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

€/000	31/12/2017	31/12/2016
A. Cash	8,337	21,425
B. Other cash at bank and on hand (held-to-maturity investments)	-	-
C. Financial instruments held for trading	-	-
D. Liquidity funds (A+B+C)	**8,337**	**21,425**
E. Current financial receivables	**1,962**	**1,406**
F. Current payables to banks	(2,903)	(28)
G. Current portion of non current indebtedness	(13,396)	(15,267)
H. Other current financial debts	(907)	(2,310)
I. Current financial indebtedness (F+G+H)	**(17,206)**	**(17,605)**
J. Current financial indebtedness, net (I+E+D)	**(6,907)**	**5,226**
K. Non-current payables to banks	(28,502)	(26,953)
L. Bonds issued	-	-
M. Other non-current financial debts	(1,352)	(1,204)
N. Non-current financial indebtedness (K+L+M)	**(29,854)**	**(28,157)**
O. Net indebtedness (J+N)	**(36,761)**	**(22,931)**
P. Non current financial receivables	**18,072**	**5,725**
Q. Net financial position (O+P)	**(18,689)**	**(17,206)**

At December 31, 2017 the net financial position includes:

- medium and long-term loans granted by Emak S.p.A. to subsidiary companies for an amount of € 17,775 thousand and a financial receivable for the reinstatement of assets to the parent company Yama S.p.A. for a value of € 297 thousand, recorded under non-current financial receivables; the significant increase if compared to the previous year is mainly attributable to the loan granted during the year to the subsidiary Comet S.p.A. for € 14,800 thousand, in relation to the acquisition of the Lavorwash Group;
- the short-term loan granted by Emak S.p.A. to the subsidiary Comet USA for € 834 thousand, to the subsidiary Raico S.r.l. for € 600 thousand and to the parent company, Yama S.p.A., for a value of € 449 thousand, recorded under current financial receivables;
- the financial payable for equity reinstatement due to the subsidiary Tecomec S.r.l., for an amount of € 297 thousand, recorded under Other non-current financial payables;
- the financial payable to the subsidiary Sabart S.r.l., for an overall amount of € 29 thousand and the financial payable for the equity reinstatement due to the subsidiary Tecomec S.r.l., for € 449 thousand, recorded under Other current financial payables.

At December 31, 2016 the net financial position included:

- medium and long-term loans granted by Emak S.p.A. to subsidiary companies for an amount of € 5,391 thousand and to the parent company Yama S.p.A. for a value of € 334 thousand, recorded under non-current financial receivables;
- the short-term loan granted by Emak S.p.A. to the subsidiary Comet USA for € 949 thousand a financial receivable for the reinstatement of assets to the parent company Yama S.p.A., for a value of € 449 thousand, recorded under current financial receivables;

- the financial payable for equity reinstatement due to the subsidiary, Tecomec S.r.l., for an amount of € 334 thousand, recorded under Other non-current financial payables;
- the financial payable to the subsidiary, Sabart S.r.l., for an overall amount of € 1,507 thousand and the financial payable for the equity reinstatement due to the subsidiary, Tecomec S.r.l., for € 449 thousand, recorded under Other current financial payables.

8. Revenues from sales and other operating income

Sales revenues amount to € 125,426 thousand, compared with € 128,001 thousand in the prior year. They are stated net of € 427 thousand in returns, compared with € 632 thousand in the prior year. The revenue was mainly penalized by lower sales realized in Italy and in Far East Countries, counterbalanced positively by the trend registered in European markets and in America.

€/000	FY 2017	FY 2016
Net sales revenues (net of discounts and rebates)	123,468	126,024
Revenues from recharged transport costs	2,385	2,609
Returns	(427)	(632)
Total	**125,426**	**128,001**

Other operating income is analysed as follows:

€/000	FY 2017	FY 2016
Subsidies for operation	194	167
Capital gains on tangible fixed assets	6	7
Insurance refunds	22	21
Other operative revenues	235	233
Total	**457**	**428**

The heading, **"Subsidies for operation"** refers to the contribution as per Law 488/92 for € 99 thousand and to the *Fondimpres*a contribution of € 25 thousand, granted with relation to costs sustained by the Company for staff training, to the tax credit for research and development planned in accordance with art. 1, paragraph 35 of the Law of 23 December 2014, n. 190, for a value of € 63 thousand, and, finally, to tax credit *Bonus School* for € 7 thousand .

9. Raw materials, consumable and goods

The heading is analyzed as follows:

€/000	FY 2017	FY 2016
Raw materials	51,148	43,735
Finished products	28,115	26,097
Consumable materials	293	286
Other purchases	1,380	1,591
Total	**80,936**	**71,709**

The increase of the costs for raw materials and finished products is attributable to an increase of the purchase volumes compared to previous year. This trend caused a positive change of the inventories at the end of the period for a total value equal to € 3,434 thousand.

10. Personnel expenses

Details of these costs are as follows:

€/000	FY 2017	FY 2016
Wage and salaries	16,347	15,929
Social security charges	5,186	5,070
Employee termination indemnities	1,201	1,139
Other costs	155	225
Directors' emoluments	550	486
Temporary staff	1,258	893
Total	**24,697**	**23,742**

Personnel expenses increased, compared to the previous year, due to the salary dynamic measured by the performance remuneration policies and for the activation, in 2017, of a corporate welfare plan aimed at all employees. Furthermore, the higher production volumes recorded in the current year in the Bagnolo in Piano (RE) and Pozzilli (IS) plants were reflected in an increase in costs for temporary staff.

The breakdown of employees by grade is the following:

	Average number of employees in year		Number of employees at this date	
	2017	**2016**	**2017**	**2016**
Executives	16	15	16	15
Office staff	190	182	187	183
Factory workers	246	249	247	252
Total	**452**	**446**	**450**	**450**

11. Other operating costs and provisions

Details of these costs are as follows:

€/000	FY 2017	FY 2016
Subcontract work	1,683	1,811
Transportation	7,160	6,116
Advertising and promotion	1,001	874
Maintenance	1,657	1,759
Commissions	1,154	1,224
Consulting fees	1,626	1,668
Costs of after sales warranty	628	680
Insurance	359	344
Travel	368	293
Postals and telecommunications	218	199
Other services	2,227	2,496
Services	**18,081**	**17,464**
Rents, rentals and the enjoyment of third party assets	**769**	**782**
Increases in provisions	**37**	**38**
Increases in provision for doubtful accounts (note 22)	194	352
Other taxes (not on income)	310	293
Other operating costs	481	355
Other costs	**985**	**1,000**
Total	**19,872**	**19,284**

The increase of the transportation costs, compared to the previous year, is attributable both to an increase of the purchase volume of raw materials and finished products, and to a different mix of the selling markets for the products and of the related routes.

12. Amortization, depreciation and impairment losses

Details of these amounts are as follows:

€/000	FY 2017	FY 2016
Depreciation of property, plant and equipment (note 16)	3,692	3,819
Amortization of intangible assets (note 17)	472	554
Impairment losses (note 19)	780	1,725
Total	**4,944**	**6,098**

"Impairment losses" relate to investments in subsidiaries of the company Emak Do Brasil Industria Ltda, as described in note 19. In 2016 this item included the amount of the impairment of the investment in the Brazilian company Emak do Brazil and in the German company Emak Deutschland, for a total amount of € 1,725 thousand.

13. Financial income and expenses

Financial income” is analyzed as follows:

€/000	FY 2017	FY 2016
Dividends from subsidiaries	4,834	7,550
Dividends from associates	61	-
Interest on trade receivables	69	66
Interest on loans to subsidiaries (note 36)	352	200
Interest on financial assets granted to parent company (note 36)	9	12
Interest on bank and post office accounts	114	82
Costs from adjustment to fair value and closure of derivates instruments for hedging interest rate risk	65	42
Other financial income	41	5
Financial income	**5,545**	**7,957**

The heading **“Dividends from shareholdings in subsidiaries”** refers to the dividends received from the subsidiaries Emak Suministros Espana S.A, Tecomec S.r.l., Sabart S.r.l., Victus-Emak Sp.Z.o.o. (see note 36).

The heading “**Dividends from shareholdings in associates**” refers to the dividends received from the associated company Cifarelli S.p.A.

“Financial expenses” are analyzed as follows:

€/000	FY 2017	FY 2016
Interest on long-term bank loans and borrowings	425	467
Interest on short-term bank loans and borrowings	1	15
Interest on loans to related parties (note 36)	9	16
Financial charges from valuing employee termination ind. (note 29)	38	49
Proceeds from adjustment to fair value derived instruments for hedging interest rate risk	89	145
Other financial costs	130	4
Financial expense	**692**	**696**

The details of the **“Exchange gains and losses”** heading are as follows:

€/000	FY 2017	FY 2016
Exchange rate gains	1,871	2,897
Unrealized gains/(losses)	(1,932)	1,608
Exchange rate losses	(2,227)	(3,085)
Exchange gains and losses	**(2,288)**	**1,420**

14. Income taxes

This amount is made up as follows:

€/000	FY 2017	FY 2016
Current income taxes	325	229
Taxes from prior years	94	144
Deferred tax liabilities (note 28)	408	213
Deferred tax assets (note 28)	501	(748)
Total	**1,328**	**(162)**

"Current income taxes", for the year 2017, amount to a positive value of € 325 thousand and includes:
- the cost for IRAP of € 70 thousand (€ 89 thousand at December 31, 2016);
- relegation from the benefits of consolidated tax to which the company participates ex art. 117 TIUR, for € 398 thousand, on the basis of the contribution by Emak of the facility "ACE" and other benefits, usable by the Group;
- other foreign taxes for € 3 thousand.

The value of the item "Income taxes for previous years" is given by a positive effect of € 94 thousand, of which € 83 thousand concerning the retrocession of greater facilitation "ACE" for the tax consolidation pertaining the fiscal year 2016, but recognized in the following year.

The theoretical tax charge, calculated using the ordinary rate, is reconciled to the effective tax charge as follows:

€/000	FY 2017	% rate	FY 2016	% rate
Profit before taxes	**1,432**		**7,173**	
Theoretical tax charges	**400**	**27.9**	**2,252**	**31.4**
Effect of IRAP differences calculated on different tax base	13	0.9	(248)	(3.5)
Dividends	(1,133)	(79.1)	(1,973)	(27.5)
Non-deductible costs	318	22.2	686	9.6
Current and advance taxes of previous years	(622)	(43.4)	(143)	(2.0)
ACE facilitation	(140)	(9.8)	(550)	(7.7)
Other differences	(164)	(11.5)	138	1.9
Effective tax charge	**(1,328)**	**(92.8)**	**162**	**2.2**

The item "Current and advance taxes of previous years" mainly includes income for € 666 thousand, corresponding to the so-called "ACE" facilitation, accrued in previous years (2012 - 2015) and recorded in 2017, following a favourable response to the application for the application presented by the Company to the Revenue Agency.

The item "Other differences" mainly includes the benefit deriving from the increase in the fiscally recognized cost of new capital goods, c.d. *super amortization*, provided for by the 2017 Budget Law.

It should be noted that the fiscal management of 2016 for current taxes, deferred tax assets and liabilities amounted to a negative net value of € 162 thousand, net of the positive effect of taxes of previous years for € 200 thousand. This result was mainly due to a negative effect of € 200 thousand for the adjustment to the provision for tax risks and a positive effect of € 344 thousand, corresponding to the "ACE" concerning the 2011 - 2013 tax periods. , which the Italian Revenue Agency recognized in the previous financial year as pertaining, upon request of the company.

15. Earnings per share

"Basic" earnings per share are calculated by dividing the net profit for the period of the Group attributable to the Company's Shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of treasury shares held (see note 17 of the Consolidated Financial Statements).

16. Property, plant and equipment

Changes in property, plant and equipment are shown below:

€/000	FY 31.12.2016	Increases	Decreases	Other movements	FY 31.12.2017
Lands and buildings	29,977	9	-	-	29,986
Accumulated depreciation	(11,900)	(688)	-	-	(12,588)
Lands and buildings	**18,077**	**(679)**	-	**-**	**17,398**
Plant and machinery	16,814	993	(37)	15	17,785
Accumulated depreciation	(14,174)	(684)	37	-	(14,821)
Plant and machinery	**2,640**	**309**	-	**15**	**2,964**
Other assets	59,103	1,513	(133)	275	60,758
Accumulated depreciation	(53,489)	(2,321)	125	-	(55,685)
Other assets	**5,614**	**(808)**	**(8)**	**275**	**5,073**
Advances and fixed assets in progress	**920**	**3,350**	**-**	**(290)**	**3,980**
Cost	**106,814**	**5,865**	**(170)**	**-**	**112,509**
Accumulated depreciation (note 12)	**(79,563)**	**(3,693)**	**162**	**-**	**(83,094)**
Net book value	**27,251**	**2,172**	**(8)**	**-**	**29,415**

€/000	FY 31.12.2015	Increases	Decreases	Other movements	FY 31.12.2016
Lands and buildings	29,899	78	-	-	29,977
Accumulated depreciation	(10,822)	(1,078)	-	-	(11,900)
Lands and buildings	**19,077**	**(1,000)**	**-**	**-**	**18,077**
Plant and machinery	16,076	620	(80)	198	16,814
Accumulated depreciation	(13,565)	(689)	80	-	(14,174)
Plant and machinery	**2,511**	**(69)**	**-**	**198**	**2,640**
Other assets	56,024	2,591	(118)	606	59,103
Accumulated depreciation	(51,555)	(2,052)	118	-	(53,489)
Other assets	**4,469**	**539**	**-**	**606**	**5,614**
Advances and fixed assets in progress	**1,158**	**566**	**-**	**(804)**	**920**
Cost	**103,157**	**3,855**	**(198)**	**-**	**106,814**
Accumulated depreciation (note 12)	**(75,942)**	**(3,819)**	**198**	**-**	**(79,563)**
Net book value	**27,215**	**36**	**-**	**-**	**27,251**

No evidence of impairment indicators has been reported for property, plant and equipment.

The increases relate to:

- land and buildings category for some improvements on the building used as spare parts pole in Bagnolo in Piano, achieved in the first months of the year, for € 9 thousand;

- the plant and machinery category following the realization of new production lines and new test benches for € 993 thousand;
- the **“Other fixed assets”** category mainly includes:
  - acquisitions of equipment and molds for the development of new products, for € 1,009 thousand;
  - acquisitions of electronic machines and office equipment for € 422 thousand;
  - acquisitions of office furniture and machines for € 6 thousand;
  - acquisitions of testing and control instruments for € 42 thousand;
  - acquisitions of internal means of transport for € 34 thousand.

The heading, **“Advances and fixed assets in progress”** refers to sums paid for the development of equipment and molds for production for € 239 thousand and € 3,057 thousand in advanced payment for the construction of the new research and development center at its headquarters in Bagnolo in Piano (RE).

The decreases relate to:
- the category "**Plant and machinery**" for the disposal of fully depreciated machinery;
- the category "**Other assets**" for the scrapping of obsolete equipment and vehicles, for which the useful life was already over.

The Company does not hold goods that a subject to restrictions on entitlement and ownership.

Over the years the company, Comag S.r.l., merged into Emak S.p.A.in 2015 financial year, has benefitted from a number of capital grants paid in accordance with Law 488/92. The contributions paid are posted to the income statement according to the residual possibility of use of the fixed assets to which they refer and are recorded in the statement of financial position under deferred income.
All receivable relating to these contributions have been received.

17. Intangible assets

Intangible assets report the following changes:

€/000	FY 31.12.2016	Increase	Decrease	Other movements	FY 31.12.2017
Development costs	1,830	120	-	38	1,988
Accumulated amortization	(1,825)	(12)	-	-	(1,837)
Development costs	**5**	**108**	**-**	**38**	**151**
Patents and intellectual property rights	7,903	306	-	35	8,244
Accumulated amortization	(6,845)	(342)	-	-	(7,187)
Patents	**1,058**	**(36)**	**-**	**35**	**1,057**
Concessions, licences and trademarks	123	7	-	-	130
Accumulated amortization	(91)	(9)	-	-	(100)
Concessions, licences and trademarks	**32**	**(2)**	**-**	**-**	**30**
Other intangible assets	1,125	95	-	-	1,220
Accumulated amortization	(921)	(110)	-	-	(1,031)
Other intangible assets	**204**	**(15)**	**-**	**-**	**189**
Advanced payments and fixed assets in progress	**283**	**701**	**-**	**(73)**	**911**
Cost	**11,264**	**1,229**	**-**	**-**	**12,493**
Accumulated depreciation (note 12)	**(9,682)**	**(473)**	**-**	**-**	**(10,155)**
Net book value	**1,582**	**756**	**-**	**-**	**2,338**

€/000	FY 31.12.2015	Increase	Decrease	Other movements	FY 31.12.2016
Development costs	1,830	-	-	-	1,830
Accumulated amortization	(1,716)	(109)	-	-	(1,825)
Development costs	**114**	**(109)**	**-**	**-**	**5**
Patents and intellectual property rights	6,965	923	-	15	7,903
Accumulated amortization	(6,493)	(352)	-	-	(6,845)
Patents	**472**	**571**	**-**	**15**	**1,058**
Concessions, licences and trademarks	112	11	-	-	123
Accumulated amortization	(83)	(8)	-	-	(91)
Concessions, licences and trademarks	**29**	**3**	**-**	**-**	**32**
Other intangible assets	917	28	-	180	1,125
Accumulated amortization	(836)	(85)	-	-	(921)
Other intangible assets	**81**	**(58)**	**-**	**180**	**204**
Advanced payments and fixed assets in progress	**295**	**183**	**-**	**(195)**	**283**
Cost	**10,120**	**1,144**	**-**	**-**	**11,264**
Accumulated depreciation (note 12)	**(9,128)**	**(554)**	**-**	**-**	**(9,682)**
Net book value	**992**	**590**	**-**	**-**	**1,582**

The increase in "Patents and intellectual property rights" refers to the purchase of licenses for the start of the project to implement the product traceability at the production site in Pozzilli (IS). The increase in "Other intangible assets" includes for the most advances for the development of new products and advances for the launch of the project to implement the new ERP Microsoft Dynamics 365 system of the Group (note 5).
All the intangible assets have a finite residual life and are amortized on a straight-line basis over the following periods:

- Development costs 5 years
- Intellectual property rights 3 years
- Concessions, licences, trademarks and similar rights 10/15 years

Research and development costs directly posted to the income statement amount to € 4,907 thousand.

18. Goodwill

The amount of € 2,074 thousand refers to the positive difference arising from the acquisition from the Parent company Yama S.p.A. and further to the merger of the company Bertolini S.p.A into Emak S.p.A..

The Company checks the recoverability of goodwill at least once a year, or more frequently if there are indicators of loss in the value. This check is carried out by calculating the recoverable value of the relevant Cash Generating Unit (CGU), using the “Discounted cash flow” method.
With regard to the goodwill arising from the merger of the company Bertolini S.p.A into Emak S.p.A., the plan date of the CGU Emak S.p.A were considered, being this the minimum level at which the goodwill is monitored by the management for internal management purposes.

The impairment tests relating to goodwill recorded at 31 December 2017 have been approved by the Board of Directors taking account of the opinion of the Risk Control Committee.

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

- The basic data used has been extracted from the company plans that represent management’s best estimate of the future operating performance of the Company in the period in question;
- Expected future cash flows, for a period of 5 years, refer to the unit in their current state and exclude any operation of an extraordinary nature and/or operations not yet defined at the closing of the fiscal year;
- For the determination of the operating cash flow based on the last year of explicit forecast, was reflected, in order to project "in perpetuity" a stable situation, a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business) and change in working capital equal to zero;
- The WACC used to discount future cash flows of the CGU Emak S.p.A, was calculated equal to 7.02% and specifically:
  - the terminal value was determined on the basis of a long-term growth rate (g) of 2%, representative of long-term expectations for the industrial sector to which it belongs.
  - The beta levered value and the financial structure used for the impairment test are extrapolated by a reliable panel of comparable in the sector.

Furthermore, also on the basis of the indications contained in the joint document of the Bank of Italy, Consob and Isvap no. 4 of 3 March 2010, the Company proceeded to draw up a sensitivity analysis on the results of the impairment test of the CGU Emak SpA, with respect to changes in the basic assumptions that affect the value in use of the investment. Also in the case of a positive or negative change of 5% of the WACC, half a percentage point of the growth rate "g" and 5% of the cash flows; these analyses do not lead to impairment losses.

19. Equity investments

Details of equity investments are as follows:

€/000	31.12.2016	Increases	Decreases	31.12.2017
Equity investments				
- in subsidiaries	94,202	-	(780)	93,422
- in associates	3,750	-	-	3,750
- in other companies	225	-	-	225
TOTAL	**98,177**	**-**	**(780)**	**97,397**

Investments in **subsidiaries** amounted to 93,422 thousand. The registered movements during the year is related to the impairment of € 780 thousand referred to the equity investment in the company Emak Do Brasil Industria Ltda.
The values of investments in subsidiaries and associates are set out in detail in Annexes 1 and 2.

The Company therefore carried out an impairment test of the equity investments that show indicators of impairment, or object of previous devaluations, in order to identify any losses and / or reversal of impairment losses to be recognized in the Income Statement, following the procedure set forth in IAS 36, and then comparing the book value of the individual equity investments with the value in use given by the current value of the estimated cash flows that are expected to derive from the continuous use of the asset subject to impairment test.
There is a connection between the subsidiaries and the cash generating units ("CGU") identified for implementing the aforementioned impairment tests.
The impairment test was therefore implemented for equity investments in Emak Do Brasil Ltda, Emak Deutschland GmbH, Sabart S.r.l., Epicenter Llc, and Victus Sp Z.o.o.
The factors that are most relevant in the estimates of future cash flows are attributable to the intrinsic difficulty of formulating future forecasts, to the feasibility of market strategies in highly competitive contexts, as well as to the macro-economic risks related to the geographical areas in which the Emak Group operates.

For the tests was used the discounted cash flow method (Discounted Cash Flow Unlevered) deriving from the 2018 budgets, prepared by the individual subsidiaries, as well as from the assumptions at the base of the forecasts, set out over a period of 3-5 years, relating to the individual CGU. These forecasts for the explicit period are in line with forecasts on the performance of the operating segment to which each company belongs (as estimated by the most relevant sources in the sector), and represent the best management estimate on the future operating performance of the individual subsidiaries during the period considered, and excluding any transactions of non-ordinary nature and / or transactions not yet defined at the end of the financial year.
The impairment tests were approved by the Company's Board of Directors on February 28, 2018.

The discount rates in the impairment tests were calculated using as baseline the risk-free rates and the market premiums relating to the different countries to which belong the equity investments under assessment.

The terminal value was calculated with the “perpetuity growth” formula, assuming a growth rate “g-rate” of 2% and considering an operating cash flow based on the last year of explicit forecast, adjusted to “perpetuity” project a stable situation, specifically by using the following main assumptions:

- a balance between investments and amortization (in the logic of considering a level of investments necessary for the maintenance of the business);
- change in working capital equal to zero.

The value obtained by summing the discounted cash flows of the explicit period and the terminal value ("Enterprise Value") is deducted the net financial debt at the reference date of the valuation, in this case on 31 December 2017, in order to obtain the economic value of the investments subject to assessment ("Equity Value").

The average cost of capital is the result of the weighted average cost of debt (calculated considering the reference rates plus a "spread").
the cost of equity is determined using the value of beta levered and the financial structure of a panel of comparable companies, with the only exceptions of the risk-free rate and the risk premium, specific for each country.

The WACC used to discount cash flows were respectively 8.80% for Victus Sp Z.o.o. (Poland), 6.13% for Emak Deutschland Gmbh (Germany), 7.02% for Sabart S.r.l. (Italy), 21.27% for Epicenter Llc (Ukraine), while a WACC of 14.53% was used for the CGU Emak Do Brasil Ltda located in Brazil.

The impairment tests carried out on these subsidiaries did not show any impairment losses to be recognized in the income statement as at 31 December 2017 with the exception of the company Emak Do Brasil for which an impairment loss of Euro 780 thousand has emerged, and therefore, a full write-down of the residual carrying amount previously recorded was carried out.
Future cash flows derive from plans drawn up taking into account the critical and macroeconomic risks that distinguish the scope in which the subsidiary operates and has shown that the value of the investment, at the estimated conditions, is no longer recoverable.

Furthermore, also on the basis of the indications contained in the joint document of the Bank of Italy, Consob and Isvap no. 4 of 3 March 2010, the Company proceeded to draw up a sensitivity analysis on the results of the impairment test with respect to changes in the basic assumptions that may affect the value in use of the investment. Even in the case of a positive change of 5% of the WACC, or negative of half a percentage point of the growth rate "g" or of 5% of the cash flows, the analyzes do not show any losses in value.

Finally, precise, recalling as disclosed in Note 37 "Subsequent Events", that on 6 March 2018, the parent company Emak S.p.A. has signed a binding agreement for the sale of 100% of the share capital of Raico S.r.l. for a consideration of 5,500 thousand euros. This fair value, determined between two independent third parties, is higher than the book value of the investment and therefore there are no indicators of loss of value.

The heading **equity investments in associated companies** amounts to € 3,750 thousand and refers to the acquisition of 30% of Cifarelli S.p.A. carried out last year.

Investments in **other companies** relate to:
- a minority interest in Netribe S.r.l., a company operating in the IT sector; this investment is valued at its cost of € 223 thousand. The percentage of equity investment of Emak S.p.A. in Netribe S.r.l. is 15.41%;
- one share for membership of the ECOPED Consortium as required by Decree 151/2005, with a value of € 1 thousand;
- one share for membership of the POLIECO Consortium as required by Decree 151/2006, with a value of € 1 thousand.

20. Derivative financial instruments

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

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

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

At December 31, 2017 appear outstanding forward contracts of purchase in foreign currencies for:

			Nominal value (€/000)	Exchange rate	Due to (*)
Forward contracts for foreign currencies purchases					
Cnh/Euro	Emak Spa	Cnh	24,000	7.95	13/06/2018
Cnh/Usd	Emak Spa	Cnh	10,000	6.64	14/02/2018

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

The accounting for the overexposed instruments takes place at fair value. The current value of forward purchase contracts in foreign currency led to the recognition of a positive fair value of € 79 thousand.
In accordance with the reference accounting standards, these effects have been recognized in the income statement in the current period.

At December 31, 2017, Emak S.p.A. has taken out a number of IRS contracts and options on interest rates, with the aim of covering the risk of variability of interest rates on loans, for a notional total of € 22,138 thousand.

The expiry of the instruments is as follows:

- € 250 thousand will be amortized in financial years up to 2018;
- € 2,000 thousand will be amortized in financial up to 2019;
- € 12,388 thousand will be amortized in financial years up to 2020;
- € 7,500 thousand will be amortized in financial years up to 2022.

The recorded value of these contracts at December 31, 2017 is a total negative fair value of € 75 thousand.

The average interest rate resulting from the instruments is equal to 0.10%.

All the contracts, while having the purpose and characteristics of hedging operations, do not formally comply with the rules for being accounted for as such; for this reason all the changes in fair value have been recorded in the income statement in the relevant financial period.

21. Other financial assets

The **"Other non-current financial assets"** amounted to € 18,072 thousand, against € 5,725 thousand in the previous year and refer to loans quoted in Euros and U.S. Dollars, granted to subsidiaries amounting to € 17,775 thousand and receivables for capital replenishment to the parent company in the amount of € 297 thousand.
"Other current financial assets" amounting to € 1,883 thousand refer to the U.S. Dollar loan granted to the controlled company Comet Usa for € 834 thousand (€ 949 thousand at December 31, 2016), to the loan granted to the subsidiary Raico S.r.l. for € 600 thousand and for the remaining € 449 thousand to receivables for capital replenishment for the parent company Yama S.p.A., already mentioned in the preceding paragraph, for the current portion.

The interest rates applied to loans granted by Emak to the subsidiaries have been established in accordance with the framework resolutions that define the nature and terms of conduct. In general, the yield varies depending on:
- the type and duration of the loan granted;
- the performance of the financial markets in which Emak and its subsidiaries operate and the official reference rates (12 months Euribor and 12 months Libor);
- the currency of the loan granted.

22. Trade receivables and other receivables

A breakdown of the heading is shown below:

€/000	31.12.2017	31.12.2016
Trade receivables	29,989	34,936
Provision for doubtful accounts	(2,233)	(2,146)
Net trade receivables	**27,756**	**32,790**
Receivables from related parties (note 36)	12,036	12,089
Prepaid expenses and accrued income	283	285
Other receivables	633	777
Total current portion	**40,708**	**45,941**
Other non current receivables	3	2
Total non current portion	**3**	**2**

The item "**Other current receivables**" includes the receivable deriving from the relationship that regulates the tax consolidation with the parent company Yama S.p.A. and relating to the contribution to the Group of accrued benefits for the year which, as at 31 December 2017, amounted to € 398 thousand (€ 550 thousand at 31 December 2016).

Trade receivables have an average maturity of 88 days.

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

“Trade receivables" are analyzed by geographical area as follows:

€/000	Italy	Europe	Rest of the world	Total
Trade receivables	12,982	6,821	10,186	**29,989**
Related parties receivables	471	6,222	5,343	**12,036**

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

€/000	FY 2017	FY 2016
Opening balance	**2,146**	**1,907**
Increases (note 11)	194	352
Decreases	(107)	(113)
Closing balance	**2,233**	**2,146**

The book value of this balance approximates its fair value.

23. Inventories

Inventories are detailed as follows:

€/000	FY 2017	FY 2016
Raw, ancillary and consumable materials	17,873	17,128
Work in progress and semi-finished products	6,484	6,001
Finished products and goods	12,451	10,245
Total	**36,808**	**33,374**

Inventories are stated net of a provision of € 1,626 thousand at December 31, 2017 (€ 1,723 thousand at December 31, 2016) intended to align obsolete and slow-moving items to their estimated realizable value.

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

€/000	FY 2017	FY 2016
Opening balance	**1,723**	**1,723**
Increase	213	420
Uses	(310)	(420)
Closing balance	**1,626**	**1,723**

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

None of the company's inventories at December 31, 2017 act as security against its liabilities.

24. Cash and cash equivalents

Cash and cash equivalents are detailed as follows:

€/000	31.12.2017	31.12.2016
Bank and post office deposits	8,327	21,417
Cash	10	8
Total	**8,337**	**21,425**

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

€/000	31.12.2017	31.12.2016
Cash and cash equivalents	8,337	21,425
Overdrafts (note 27)	(2,870)	-
Total	**5,467**	**21,425**

25. Equity

Share capital
Share capital is fully paid up at 31 December 2017 and amounts to € 42,623 thousand, remaining unchanged during the year under examination, and it consists of 163,934,835 ordinary shares of par value €

0.26 each. This amount is presented net of the nominal value of own shares owned at 31 December 2017, equal to € 104 thousand.

All shares have been fully paid.

Treasury shares
The total value of treasury shares held at 31 December 2017 amounted to € 2,029 thousand and has not changed compared to the previous year.
This sum was allocated for the nominal value (€ 104 thousand) to adjust the share capital and for the corresponding share premium (€ 1,925 thousand) to adjust the share premium reserve.
As for the sale and purchase of shares made during the period, please refer to the appropriate section of the Directors' Report.

Share premium reserve
At 31 December 2017, the share premium reserve amounts to € 40,529 thousand, and consists of premiums on newly issued shares, net of share premium treasury shares held at December 31, 2017. The reserve is shown net of charges related to the capital increase amounted to € 1,598 thousand and adjusted for the related tax effect of € 501 thousand.

Legal reserve
The legal reserve at December 31, 2017 of € 3,059 thousand (€ 2,709 thousand at December 31 2016).

Revaluation reserve
At 31 December 2017 the revaluation reserve includes the reserves deriving from the revaluation as per Law 72/83 for € 371 thousand and as per Law 413/91 for € 767 thousand. No changes occurred during the year.

Other reserves:
The extraordinary reserve amounts to € 27,088 thousand at December 31 2017, inclusive of all allocations of earnings in prior years.

At 31 December 2017 other reserves also include:
- reserves qualifying for tax relief, referring to tax provisions for grants and donations for € 129 thousand;
- reserves for merger surpluses for € 3,562 thousand;
- reserves from capital grants deriving from the merger of Bertolini S.p.A. for € 122 thousand.

These reserves have remained unchanged compared to the previous year.

The following table analyses equity according to its origin, its possible uses and distribution:

Nature/Description (€/000)	Amount	Possible use	Available portion	Summary of uses in past three years: Coverage of losses	Summary of uses in past three years: Distribubtion of profits
Share capital	**42,519**				
Capital reserve					
Share premium reserve (§)	40,529	A-B-C	40,529	-	-
Revaluation reserve under Law 72/83 (#)	371	A-B-C	371	-	-
Revaluation reserve under Law 413/91 (#)	767	A-B-C	767	-	-
Merger surplus reserve (£)	3,562	A-B-C	3,562	-	-
Other untaxed reserve (#)	122	A-B-C	122	-	-
Reserves formed from earnings					
Legal reserve	3,059	B	-	-	-
Extraordinary reserve	27,088	A-B-C	27,088	-	-
Untaxed reserve (#)	129	A-B-C	129	-	-
Profits brought forward in FTA	2,230	A-B	2,230	-	-
Valutation reserve	(581)		(581)	-	-
Profits brought forward	27,933	A-B-C	27,933	-	-
Total	**105,209**		**102,150**	-	-
Undistributable portion (*)			**(7,709)**	-	-
Distributable balance			**94,441**	-	-
Net profit for the period (**)	**2,759**		**2,621**	-	-
Total equity	**150,487**				

A: for share capital increases
B: for covering losses
C: for distribution to shareholders

(#) Subject to tax payable by the company in the event of distribution;
(£) Subject to taxation of the company, in the event of distribution, for the value of € 394 thousand;
(*) Equal to the reserve First Time Adoption (€ 2,230 thousand), the share of long-term costs not yet amortized (€ 151 thousand) in addition to the share of necessary future allocation to the legal reserve (€ 5,328 thousand). This bond bears specifically on the share premium reserve (§);
(**) Subject to obliged allocation to the legal reserve for € 138 thousand.

26. Trade and other payables

Details of these amounts are as follows:

€/000	31.12.2017	31.12.2016
Trade payables	22,993	18,474
Payables due to related parties (note 36)	6,440	8,828
Payables due to staff and social security institution	2,990	2,813
Other payables	3,130	3,036
Total	**35,553**	**33,151**

The heading **"Other payables"** includes a guarantee received from a customer for € 2,164 thousand, amounts payable to Directors and employees for € 565 thousand and the current part of the contribution as per Law 488/92 of the company Comag S.r.l., merged by incorporation into Emak S.p.A. (note 31).

Trade payables do not accrue interest and are normally settled at around 72 days.

The heading includes amounts in foreign currencies as follows:

- US dollars for 6,127,884;
- Japanese yen for 12,918,025;
- Polish Zloty for 950;
- Chinese renminbi yuan for 45,866,097;
- Brazilian reais for 28,000.

"Trade payables" and **"Payables due to related parties"** are analyzed by geographical area below:

€/000	Italy	Europe	Rest of the world	Total
Trade payables	16,022	2,252	4,719	**22,993**
Related parties payables	1,023	420	4,997	**6,440**

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

27. Loans and borrowings

Loans and borrowings at December 31, 2017 do not include any secured payables.

Details of **current loans and borrowings** are as follows:

€/000	31.12.2017	31.12.2016
Overdrafts (note 24)	2,870	-
Bank loans	13,396	15,268
Financial accrued expense and deferred income	35	30
Financial debts from related parties (note 36)	478	1,956
Other current loans	352	218
Total current	**17,131**	**17,472**

The heading **"Financial debts from related parties"** refers to the interest-bearing loan granted by the subsidiary, Sabart S.r.l., for € 29 thousand and the debt for the equity reinstatement due to the subsidiary, Tecomec S.r.l., for the current portion of € 449 thousand.

The heading **"Other current loans"** refers to the granting of a subsidized loan on the part of Simest S.p.A. in accordance with Law 133/08.

Short-term loans and borrowings are repayable as follows:

€/000	Due within 6 months	Due within 6 and 12 months	Total
Bank loans	5,979	7,417	**13,396**
Financial debts from related parties (note 36)	29	449	**478**
Total	**6,008**	**7,866**	**13,874**

The interest rates applied to loans granted to Emak by subsidiaries have been established in accordance with the framework resolutions that define the nature and terms of conduct. Generally the yield varies depending on:

- the type and duration of the loan granted;
- the performance of the financial markets in which Emak and its subsidiaries operate and of the official reference rates (Euribor);
- the currency of the loan granted.

The details of **long-term loans** is as follows:

€/000	31.12.2016	Increase	Decrease	31.12.2017
Bank loans	26,953	13,125	(11,576)	28,502
Financial debts from related parties (note 36)	334	-	(37)	297
Other financial loans	870	402	(218)	1,055
Total non current portion	**28,157**	**13,527**	**(11,831)**	**29,854**

The heading **"Financial debts from related parties"** of € 297 thousand refers to the debt for the equity reinstatement due to the subsidiary, Tecomec S.r.l., for the long-term portion.

The heading "Other financial loans" refers to a loan granted by Simest S.p.A. in accordance with Law 133/08, through which Italian companies are assisted in their internationalization processes through loans at subsidized rates. The short-term portion is shown under "Other short-term loans and borrowings".

Long and medium-term loans and borrowings are repayable as follows:

€/000	Due within 2 years	Due within 3 years	Due within 4 years	Due within 5 years	Total due within 5 years	Due beyond 5 years
Bank loans	14,072	8,806	3,750	1,874	**28,502**	-
Financial debts from related parties	37	37	37	38	**149**	**148**
Other financial loans	352	351	352	-	**1,055**	-
Total	**14,461**	**9,194**	**4,139**	**1,912**	**29,706**	**148**

The interest rates refer to 3-6 months Euribor plus an average spread of 1.031 percentage points.

A number of medium-long-term loans are subject to finance covenants assessed on the basis of consolidated Nfp/Ebitda and Nfp/Equity ratios. At December 31, 2017 the Company complied with all the benchmarks set by contract.

28. Tax assets and liabilities

Deferred tax assets are detailed below:

€/000	31.12.2016	Increases	Decreases	Other movements	31.12.2017
Deferred-taxes on inventory write-downs	409	-	(23)	-	386
Deferred-taxes on bad debts	128	-	-	-	128
Other deferred tax assets	1,119	857	(333)	59	1,702
Total (note 14)	**1,656**	**857**	**(356)**	**59**	**2,216**

The portion of taxes which are expected to reverse within the following 12 months is estimated to be in line with the decrease registered in 2017.

The heading **“Other deferred tax assets”** mainly includes:

- a receivable of € 1,100 thousand, as tax benefits carried forward, corresponding to ACE (aid for economic growth pursuant to Article 1, Law 201/2011), accrued in previous years (2012 - 2015) and recognized as due by the Italian Revenue Agency in 2017, following a favourable response to the application not to apply presented by the Company;
- an amount of € 109 thousand referring to the incentives for deferred settlement in favour of top management;
- the deferred tax effect of accounting for post-employment benefits according to IAS 19, for € 101 thousand;
- an amount of € 397 thousand, corresponding to provisions for inventory write-downs, recognized in previous years and at the time taken to tax;
- deferred tax assets for € 103 thousand relating to the product warranty provision referring to future costs for warranties.

Deferred tax liabilities are detailed below:

€/000	31.12.2016	Increases	Decreases	31.12.2017
Deferred taxes on capital gains on disposals of fixed assets	8	1	(4)	5
Deferred taxes on real estate IAS 17	1,188	-	(23)	1,165
Other deferred tax liabilities	479	106	(488)	97
Total (note 14)	**1,675**	**107**	**(515)**	**1,267**

The portion of the taxes which will reverse in the next 12 months amounted to about € 125 thousand.

The **“Other deferred tax liabilities”** heading refers to unrealized foreign exchange gains in 2017.

It should be noted that no deferred taxes were allocated in respect of the revaluation reserves, which are reserves in partial suspension of the tax, as it is likely that there will be no transactions that would give rise to taxation. The total amount of these taxes at December 31, 2017 is € 340 thousand.

The **current tax assets** amount at December 31, 2017 to € 1,155 thousand, against € 2,260 thousand at December 31, 2016, and refer to:

- credits at reimbursements relating to deductibility of IRES (Italian corporate income tax) from IRAP (regional corporate tax) for a total amount of € 344 thousand, concerning the appeal filed in previous years as per art. 2 Law no. 201/2011 for a value of € 156 thousand and as per art.6, Decree Law 185/2008 for a further € 188 thousand;
- VAT credits for € 750 thousand;
- credits for income taxes due to higher IRAP advances for € 18 thousand;
- other minor tax receivables for € 43 thousand.

The decrease of current tax assets, compared to the previous year, is attributable on one side to tax reimbursements obtained in 2017 and, on the other, to what already provisionally paid in relation to a tax dispute, defined during the year, by means of judicial conciliation (note 30).

Current tax liabilities amount to € 976 thousand at December 31, 2017 compared with € 877 thousand a year earlier and all refer to withholding taxes.

29. Employee benefits

The liability refers to the time-discounted debt for termination indemnity due at the end of an employee’s working life, amounting to € 3,769 thousand. The amount of termination indemnity calculated according to the nominal debt method in force at the closing date would be € 3,456 thousand.

Movements in this liability are as follows:

€/000	2017	2016
Opening balance	**3,777**	**3,852**
Actuarial (gains)/losses	207	61
Interest cost on obligation (note 13)	38	49
Disbursements	(253)	(185)
Closing balance	**3,769**	**3,777**

The principal economic and financial assumptions used are as follows:

	FY 2017	FY 2016
Annual inflation rate	1.5%	0.4%
Discount rate	0.9%	1.1%
Dismissal rate	1.0%	1.0%

Demographic assumptions refer to the most recent statistics published by ISTAT.

Payments in 2018 are expected to be in line with 2017, net of the payment attributable to the staff reorganization plan, started at December 2017; for more information see the note 37.

30. Provisions for risk and charges

Movements in this balance are analyzed below:

€/000	31.12.2016	Increase	Decrease	Other movements	31.12.2017
Provisions for agents' termination indemnity	286	37	(1)	-	322
Other provisions	25	-	-	-	25
Total non current portion	**311**	**37**	**(1)**	**-**	**347**
Provisions for products warranties	350	-	-	81	431
Other provisions	702	-	(603)	(81)	18
Total current portion	**1,052**	**-**	**(603)**	**-**	**449**

The provision for agents' termination indemnity is calculated with reference to the agency contracts in existence at year end and refers to the indemnity that is likely to be paid to agents.

Other provisions in the long term, equal to € 25 thousand, relate to legal and other costs accrued in respect of the conduct of tax disputes pertaining to the company Bertolini S.p.A. (incorporated at the time) for which Emak, based on the opinion expressed by its defenders, does not expect to mobilize additional funds to incumbent liabilities.

The warranty provision relates to future costs for warranty repairs that will be incurred for products sold covered by the guarantee period and/or contract, the provision is based on estimates extrapolated from historical trends.

The heading, **"Other provisions"** (current portion), of € 18 thousand, refers to the higher estimate of liabilities presently considered as probable, with relation to provisions equal to the value of the deductibles on claims for product civil liability.

The decrease in the item “**Other provisions**” in the current portion, equal to € 603 thousand (including the legal defense costs for € 32 thousand) is due to a tax dispute following assessment, carried out by the Tax Authorities concerning the years 2008-2009-2010, based on disputes relating to transfer pricing. The dispute ended through judicial conciliation, accepted by Emak, even if fully convinced of the correctness of his actions, on the basis of considerations concerning:

a. the offer of reduction of the tax claim, in respect of those reliefs which appeared to the weakly motivated also to the Authority;
b. the opportunity for Emak to close a passive position anyhow problematic, expensive, and uncertain to define;
c. the prospect for Emak to obtain repayment of large tax credits, pacifically due and blocked by the Authority under law, due to the recurrence of unspecified disputes on transfer pricing.

The conciliation led to the recognition of higher taxes already accrued in previous years for € 571 thousand and interest for € 136 thousand. The payment, which took place in March 2017, was carried out net of what was already provisionally paid, amounting to € 326 thousand, while awaiting for judgement (note 28).

31. Other non-current liabilities

The total amount of € 579 thousand (€ 668 thousand at December 31, 2016) refers to the deferred income relating to capital grants received as per Law 488/92 by Comag S.r.l., now merged into Emak S.p.A. in the year 2015, and spread over subsequent financial periods. The part of the grant receivable within one year is included in current liabilities under “Other payables” and amounts to € 89 thousand.

32. Contingent liabilities

At the date of December 31, 2017 the Company does not have any disputes other than those referred to in these notes. In the Director’s opinion, at the closing date, there were no reasonable grounds for the occurrence of additional future liabilities with respect to those already disclosed in these notes.

33. Information on financial risks

The Company is exposed to a variety of financial risks associated with its business activities:
- credit risk, regarding both normal commercial relations and to financing activities;
- liquidity risk, with particular reference to the availability of financial resources and to access to the credit market;
- market risks, with particular reference to exchange and interest rates, since the Company operates at an international level in different currencies and uses financial instruments that generate interest.

As described in the section “Management of financial risk”, The Company constantly monitors the financial risks to which it is exposed, so as to minimize potential negative effects on financial results.

Qualitative and quantitative information is given below regarding the nature of such risks for the Company.
The quantitative figures shown below have no value for forecasting purposes, specifically, the sensitivity analysis on market risks are unable to reflect the complexity and associated reactions of the market as a result of each change hypothesized.

Credit risk

The maximum theoretical exposure to credit risk for the Company at 31 December 2017 is the accounting value of financial assets shown in the financial statements.

The credit granted to the clients involves specific assessments of solvency and generally the Company obtains guarantees, both financial and otherwise, against credits granted for the supply of products. Certain categories of credits to foreign customers are also covered by insurance with SACE.

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

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

At December 31, 2017 there were no significant positions of insolvency subject to individual devaluation, allocation to the bad debt provision was made on the basis of a constant analysis of outstanding amounts as a whole.

At December 31, 2017 "Trade receivables" and "Other receivables", equal to € 40,711 thousand (€ 45,943 thousand at December 31, 2016), include € 5,793 thousand (€ 5,820 thousand at December 31, 2016) outstanding by more than 3 months. This value has been rescheduled according to repayment plans agreed with the clients.

The maximum exposure to credit risk deriving from trade receivables at the end of the financial period, broken down by geographical area (using the SACE reclassification) is as follows:

€/000	2017	2016
Trade receivables due from customers with SACE 1 rating	22,488	25,748
Trade receivables due from customers with SACE 2 e 3 rating	4,526	5,202
Trade receivables due from customers with non-insurable SACE	2,975	3,986
Total (Note 22)	**29,989**	**34,936**

Countries with SACE 1 rating are those for which insurance covers 90% of the amounts receivable. Countries with SACE 2 rating are those for which insurance covers 85% of the amounts receivable, and those with SACE 3 rating, 80%, SACE provides no coverage for non-Insurable or suspended countries.

The value of amounts receivable covered by SACE insurance or by other guarantees at December 31, 2017 is € 8,782 thousand.

At December 31, 2017 the 10 most important customers (not including companies belonging to the Emak Group) account for 42.9% of total trade receivables, while the top customer represents 11.3% of the total.

Liquidity risk

Liquidity problems can occur as a result of the inability to obtain financial resources necessary for the Company's operations at acceptable conditions.
The main factors determining the Company's liquidity situation are, on the one hand, the resources generated or absorbed in its operating and investment activities, and on the other hand, by the expiry or renewal of debt or by the liquidity of financial commitments and market conditions.

As noted in the section "Financial risk management" the Company, in line with the general directives of the Group reduces the liquidity risk and optimizes the management of financial resources: gives rise to the following activities:

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

- limited credit exposure to a single financial institute;
- the monitoring of compliance with the parameters provided for by covenants associated with medium-long-term loans.

The characteristics and nature of the expiry of debts and of the Company's financial activities are set out in Notes 24 and 27 relating respectively to "Cash and Cash Equivalents" and "Loans and borrowings".
The management considers that currently unused funds and credit lines, amounting to € 48,025 thousand, as well as those which will be generated from operating and financial activities, will allow the Company to meet its requirements deriving from investment activities, the management of working capital and the repayment of debts at their natural maturity dates.

Exchange rate risk

The Company is exposed to risks deriving from fluctuations in exchange rates, which may affect the economic result and value of equity.
Specifically in cases in which the Company incurs costs expressed in different currencies from those of their respective revenues, the fluctuation of exchange rates may affect the operating result.
In 2017 the overall amount of revenues directly exposed to exchange risk represented around 14.7% of the turnover (14.5% in 2016), while the amount of costs exposed to exchange risk is equal to 31.7% of turnover (26% in 2016).

The main currency exchanges to which the Company is exposed are the following:
- EUR/USD, relating to sales in dollars made mainly in the markets that use the dollar as preferential currency;
- EUR/RMB, relating to purchases in the Chinese market.

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

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

Sensitivity analysis
The potential loss of fair value of the net balance of financial assets/liabilities subject to the risk of variation in exchange rates held by the Company at December 31, 2017, as a result of a hypothetical unfavorable and immediate variation of 10% in all relevant single exchange rates, would amount to around € 1,112 thousand (€ 2,086 thousand at December 31, 2016).

Interest rate risk

The Company utilizes external financial resources in the form of debt and invest liquid funds in monetary and financial market instruments. Variations in market interest rates influence the cost and return of the various forms of financing and utilization, affecting the level of the Company's financial expenditure and income.

The Company at December 31, 2017 holds certain derivative financial instruments whose value is linked to interest rates.

Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

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

A hypothetical, instantaneous and unfavorable negative variation of one base point in annual interest rates in force at December 31 2017 applicable to financial liabilities at a variable interest rate would result in a greater net cost, on an annual basis, of around € 234 thousand (€ 295 thousand at December 31 2016). The above calculation takes into consideration the total amounts of financial liabilities net of the total amount of IRS operations carried out for hedging purposes.

Other risks on derivative financial instruments

The Company as of December 31, 2017 does not hold any derivative financial instruments to hedge exchange rate (operations of currency purchases), and the trend in interest rates.

Although these transactions are made for hedging purposes, the accounting standards will not allow hedge accounting treatment. Therefore, fluctuations in their values may affect the Company's financial results.

Sensitivity analysis
The potential loss of fair value of the exchange rate derivative financial instruments outstanding at December 31, 2017, as a result of an instant hypothetical and unfavourable 10% change in the underlying values, would be approximately € 177 thousand.

34. Commitments

Purchase of further equity interests

It should be noted that as part of the contract for the acquisition of the 30% of the company Cifarelli S.p.A was defined a “Put and Call Option” for the acquisition of the 70%, to be exercised in 2020.

Purchase of fixed assets

The Company has commitments for the purchase of fixed assets not recorded in the financial statements at 31 December 2017 for the amount of € 4,039 thousand (€ 3,289 thousand at 31 December 2016). These commitments refer to the acquisition of equipment, plant and machinery for € 439 thousand, for € 2,700 thousand to the construction of the new building for the research and development center at its headquarters in Bagnolo in Piano and for € 900 thousand to ERP Transformation project at Group level. Accounting for these commitments will take place on the basis of the progress made in implementing them.

Guarantees granted to *third parties*

They amount to € 3,003 thousand and are made up as follows:

- € 479 thousand for a bank guarantee in favour of EPA (United Environmental Protection Agency) in compliance with an American regulation in force from 2010 regarding the emissions of combustion engines;
- € 350 thousand for surety policy in favour of the Naples Customs Office for guaranteeing customs duties;
- € 9 thousand for sureties in favour of the Ministry of Production for promotional prize contests;
- € 511 thousand for a surety policy in favour of the Campobasso customs office to guarantee customs duties;
- € 1,654 thousand for a surety policy in favour of Simest for loans.

Comfort letters, sureties and credit orders in favor of subsidiaries

These amount to € 109,348 thousand, and refer to the balance of credit line available or used as at December 31, 2017, broken down as follows:

€/000	Value of collateral	Amount guaranteed
Emak Deutschland GmbH	2,601	2,601
Emak France SAS	37	37
Emak U.K. Ltd.	1,749	1,749
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	203	203
Victus Emak SP. Z.O.O.	750	750
Tecomec S.r.l.	3,778	3,778
Comet S.p.A	10,203	10,203
Comet S.p.A. (operation Lemasa)	23,922	13,290
Comet S.p.A. (operation Lavorwash)	66,105	44,070
Total	**109,348**	**76,681**

35. Ordinary shares, treasury shares and dividends

Share capital is fully paid up at December 31, 2017 and amounts to € 42,623 thousand. It consists of 163,934,835 ordinary shares of par value € 0.26 each.

	31.12.2017	31.12.2016
Number of ordinary shares	163,934,835	163,934,835
Treasury shares	(397,233)	(397,233)
Total outstanding shares	**163,537,602**	**163,537,602**

The dividends for 2016 approved by the shareholders on 28 April 2017, totaling € 5,724 thousand, were paid during 2017.

At December 31, 2016 the Company held in portfolio 397,233 treasury shares for a value of € 2,029 thousand.
During 2017 no treasury shares were purchased or sold by Emak S.p.A..

Therefore at December 31, 2017 the company held 397,233 treasury shares in portfolio for a value of € 2,029 thousand.

In January and February 2018 no treasury shares were acquired or sold by Emak S.p.A.. As a result, the holding and value of treasury shares is unchanged with respect to December 31, 2017.

36. Related Party transactions

Related parties transactions not usual, neither the recurring, not coming under the ordinary scope of activity

Emak adopted in accordance with the law an assurance procedure for the operations typically extraordinary, entered into with related parties, which defines and governs all the potential relationships of this nature, to be applied to all entities of the Group. This procedure, originally introduced and approved November 12, 2010,

was subject to review and rationalization during 2013, while retaining the characteristics of full adequacy to regulatory requirements. The revised procedure was approved by the Board of Directors on January 31, 2014.
The procedure is available on the website at https://www.emakgroup.it/it-it/investor-relations/corporate-governance/altre-informazioni/.

* * * * * * *

Related parties ordinary transactions in 2017 within the Group controlled by Emak S.p.A.

With regards to the group of companies under its control, transactions for the supply and purchase of goods and services carried out by Emak correspond to the industrial and commercial supply chain relating to its normal business activity.
It should be noted that all transactions relating to the exchange of goods and the provision of services that occurred in 2017 in the group fall within ordinary business of Emak and have been adjusted based on market conditions (ie, conditions equivalent to those that would be applied in relations between independent parties).These conditions correspond with aims strictly industrial and commercial and of Group financial management optimization. The execution of these transactions is governed by specific and analytical procedures and programmatic documents ("framework resolutions"), approved by the Board of Directors, with the assistance and consent of the independent directors, meeting in the Audit and Risk Committee.

The operations carried out in 2017 with parties belonging to the Emak Group and the values of such relations in force at the closing date of the financial year are shown below.

Receivables for loans and interest:

Companies belonging to Emak S.p.A. (€/000)	Financial income	Current financial assets	Non current financial assets
Emak Deutschland GmbH	36	-	2,400
Emak UK Ltd.	2	-	158
Comet S.p.A.	220	-	14,800
Comet USA Inc.	36	834	-
Jiangmen Emak Outdoor Power Equipment	7	-	-
Raico S.r.l.	14	600	-
Epicenter Llc.	37	-	417
Total (note 13 and note 21)	**352**	**1,434**	**17,775**

Payables for loans and interests:

Companies belonging to Emak S.p.A. (€/000)	Financial charges	Current financial liability	Non current financial liability
Sabart S.r.l.	1	29	-
Tecomec S.r.l.	8	449	297
Total (note 27)	**9**	**478**	**297**

Other reports related to financial nature concerning the relationship of the guarantee referred to in paragraph 34 above.

Sale of goods and services and receivables:

Companies belonging to Emak S.p.A. (€/000)	Net sales	Other Net Revenues	Dividends	Total	Trade and other receivables
Emak Suministros Espana SA	4,132	-	214	**4,346**	**1,143**
Emak Deutschland Gmbh	2,439	-	-	**2,439**	**204**
Emak UK Ltd.	1,880	-	-	**1,880**	**704**
Emak France SAS	9,098	-	-	**9,098**	**2,447**
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	1,356	-	-	**1,356**	**308**
Victus Emak Sp. z.o.o.	8,261	-	841	**9,102**	**997**
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	9	-	-	**9**	**3**
Epicenter Llc.	1,784	-	-	**1,784**	**437**
Emak Do Brasil Industria Ltda	388	-	-	**388**	**2,435**
Comet S.p.A.	115	-	-	**115**	**268**
Comet USA Inc.	1,193	-	-	**1,193**	**2,595**
Sabart S.r.l.	260	-	1,778	**2,038**	**75**
Raico S.r.l.	33	-	-	**33**	**7**
Tecomec S.r.l.	146	1	2,000	**2,147**	**110**
Geoline Elettronic S.r.l.	2	-	-	**2**	**1**
Total (C)	**31,096**	**1**	**4,833**	**35,930**	**11,734**

Purchase of goods and services and payables:

Companies belonging to Emak S.p.A. (€/000)	Purchases of raw and finished products	Other costs	Total costs	Trade and others payables
Emak Suministros Espana SA	7	14	**21**	**3**
Emak Deutschland Gmbh	20	123	**143**	**-**
Emak UK Ltd.	-	20	**20**	**15**
Emak France SAS	27	83	**110**	**22**
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	20,989	31	**21,020**	**4,112**
Comet USA	-	148	**148**	**47**
Victus Emak Sp. z.o.o.	-	28	**28**	**12**
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	1,483	-	**1,483**	**400**
Epicenter Llc.	-	2	**2**	**1**
Emak Do Brasil Industria Ltda	-	135	**135**	**321**
Comet S.p.A.	394	-	**394**	**124**
Comet France	-	6	**6**	**-**
Sabart S.r.l.	5	-	**5**	**2**
Tecomec S.r.l.	297	3	**300**	**67**
Ningbo Tecomec	858	-	**858**	**117**
Speed France SAS	531	9	**540**	**51**
Total (D)	**24,611**	**602**	**25,213**	**5,294**

* * * * * * *

Unusual dealings with related parties external to the Emak Group occurring during 2017 regarding ordinary commercial and financial operations

Emak S.p.A. is part of the larger group of companies that are owned by Yama S.p.A., its parent company.

Firstly, the dealings entered into in the 2017 financial year with companies directly controlled by Yama are exclusively of an ordinary commercial nature, all coming under Emak's typical activities and all at arm's length. Some companies supply Emak with components and materials, others buy products from Emak to complete their respective commercial product range.

Secondly, dealings of a financial nature and of a usual character derive from Emak S.p.A.'s equity investment in the tax consolidation as per arts. 117 and following of the TUIR (the Consolidated Law on Income Tax) with the controlling company, Yama S.p.A., the latter in its capacity as consolidator. The criteria and means for regulating such dealings are established and formalised in consolidation agreements, based on the parity of treatment of the participants (note 22). The operations illustrated in paragraph 21 of these Notes are also of a financial nature.
Other dealings with "other related parties" consist in professional services of a legal and tax nature, provided by bodies subject to significant influence on the part of a number of directors.
Details of the transactions entered into in 2017 with Yama and with other related parties not controlled by Emak are shown below, as well as indications of the entity of such dealings in force at the closing date of the financial year.

Sale of goods and services and receivables:

Releted parties (€/000)	Net sales	Other Net Revenues	Trade and others receivables
SG Agroo d.o.o.	233	-	-
Euro Reflex D.o.o.	606	-	291
Garmec S.r.l.	20	-	2
Mac Sardegna S.r.l.	153	-	-
Selettra S.r.l.	1	-	-
Yama S.p.A.	-	-	9
Cifarelli S.p.A.	69	-	-
Total (E)	**1,082**	**-**	**302**
Total C+E (note 22)	**32,178**	**1**	**12,036**

Purchase of goods and services:

Releted parties (€/000)	Purchases of raw materials and finished products	Other costs	Total costs	Trade payables
Cofima S.r.l.	613	53	**666**	**283**
Garmec S.r.l.	37	-	**37**	**-**
Euro Reflex D.o.o.	1,682	43	**1,725**	**316**
Mac Sardegna S.r.l.	-	4	**4**	**20**
Selettra S.r.l.	346	2	**348**	**124**
Cifarelli S.p.A.	1,098	-	**1,098**	**286**
Total (F)	**3,776**	**102**	**3,878**	**1,029**
Other related parties (G)	**-**	**192**	**192**	**117**
Totals D+F+G (note 26 and 27)	**28,387**	**896**	**29,283**	**6,440**

Relationships of financial nature and related income:

Companies belonging to Yama Group (€/000)	Financial income	Current financial assets	Non current financial assets	Dividends
Yama S.p.A.	9	449	297	
Cifarelli S.p.A.				61
Total (note 21)	**9**	**449**	**297**	**61**

* * * * * * *

Other transactions with related parties

Other significant dealings on the part of Emak with related parties are those concerning the remuneration of company officers, established in compliance with general meeting resolutions which have established, for the three-year period of office, maximum global remunerations and, with regards to the Directors, bonus schemes. The resolutions of the Board of Directors regarding the remuneration are taken with the opinion of the Committee, composed exclusively of independent Directors. More detailed information regarding the remuneration policy, the procedures used for its adoption and implementation, as well as a description of each of the headings making up remuneration, are disclosed in the report drawn up by the Company pursuant to art. 123-ter 58/98, and which is available on the website.

Costs incurred during the financial period for the remuneration of Emak S.p.A.'s directors and auditors are as follows:

(€/000)	FY 2017	FY 2016
Emoluments of directors and statutory auditors	435	802
Benefits in kind	9	9
Wage and salaries	670	725
Employee termination indemnities	48	49
Total	**1,162**	**1,585**

The variable incentive part of the remuneration allocated to the executive directors, included in the amounts shown in the table, is established on a three-year basis, corresponding to the expiry of the current Board mandate.

The total debt for remuneration of Directors and Auditors of the Parent Company at December 31, 2017 amounted to € 584 thousand.

In the ending year no other relationships of significant amount of current nature with related parties occurred.

37. Subsequent events

<u>Acquisition of the remaining 39% of Epicenter</u>

On January 29, 2018, Emak SpA acquired the remaining 39%, still held by the founder, of the Ukrainian subsidiary Epicenter LLC, bringing its shareholding to 100%. The price for the acquisition of this share amounts to € 340 thousand.

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

On March 6, 2018 Emak S.p.A. has signed a restricted agreement for the sale of 100% of the share capital of Raico S.r.l. for a countervalue of € 5,500 thousand.
The closing of the transaction, with payment and transfer of shares, is expected by the end of March.

Raico is specialized in the distribution of components and accessories for agricultural tractors, industrial and construction machines, with a turnover of approximately € 12.8 million, a Gross Operating Margin of € 0.5 million and a passive Net Financial Position of € 0.7 million at December 31, 2017.

Personal reorganization plan Emak S.p.A.

In the last part of the year, the Parent Company, following an assessment aimed at improving the organization at the Bagnolo in Piano (RE) headquarters, due to the logic of efficiency and renewal, initiated a procedure relating to a plan to early retirement on voluntary basis referred to in articles 4, 5 and 24 of law n. 223/91. On December 13, 2017, trade union consultation was carried out and was signed with the Trade Unions and company RSU an Agreement, aimed primarily at employees who have acquired the right to a pension within 24 months following the termination of the employment relationship, envisaging, during 2018, the possibility of leaving, on a voluntary basis, the staff who respect this requirement.
In February 2018, the first individual conciliation agreements were signed for 12 people and 20 more people are expected to be released by the end of 2018.

38. Proposal of allocation of net profit for the period and dividend

For the proposal of allocation of the net profit for the year and distribution of dividends, please refer to note 15 of the Directors Report.

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Supplementary schedules

The following schedules, forming an integral part of the explanatory notes to the financial statements, are provided as appendices:

1. CHANGES IN EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES AND ASSOCIATES

2. DETAILS OF EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES AND ASSOCIATES

3. FINANCIAL HIGHLIGHTS OF THE ULTIMATE PARENT COMPANY

4. SCHEDULE OF FEES FOR AUDIT SERVICES AND OTHER SERVICES DIFFERENT THAN AUDITING

Appendix 1

Changes in equity investments

	31.12.2016				Changes				31.12.2017			
	Number of shares	Values in the financial statements €/000	% total shareholding	direct shareholding	Subscriptions And acquisitions	Other movements	Sales	Depreciations	Number of shares	Values in the financial statements €/000	% total shareholding	direct shareholding
Italy												
Comet S.p.A.	5,000,000	27,232	100	100					5,000,000	27,232	100	100
Raico S.r.l.	1 share	5,488	100	100					1 share	5,488	100	100
Sabart S.r.l.	1 share	21,011	100	100					1 share	21,011	100	100
Tecomec S.r.l.	1 share	27,418	100	100					1 share	27,418	100	100
Spain												
Emak Suministros Espana SA	405	572	90	90					405	572	90	90
Germany												
Emak Deutschland Gmbh	10,820	-	100	100					10,820	-	100	100
Great Britain												
Emak UK Ltd	342,090	691	100	100					342,090	691	100	100
France												
Emak France SAS	2,000,000	2,049	100	100					2,000,000	2,049	100	100
China												
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	-	2,476	100	100					-	2,476	100	100
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	-	2,550	100	100					-	2,550	100	100
Poland												
Victus Emak Sp. z.o.o.	32,800	3,605	100	100					32,800	3,605	100	100
Ukraine												
Epicenter LLC	1 share	330	61	61					1 share	330	61	61
Brazil												
Emak do Brasil Industria Ltda (note 19)	8,516,200	780	99.9	99.9				(780)	8,516,200	-	99.9	99.9
Total investments in subsidiaries		**94,202**								**93,422**		
Italy												
Cifarelli S.p.A.	216,000	3,750	30.0	30.0					216,000	3,750	30.0	30.0
Total associates		**3,750**								**3,750**		

Appendix 2

Details of equity investments

€/000	Registered office	Value in the financial statements	% Share	Share Capital	Equity (*)		Profit/(Loss) of the year *
					Total	Attributable to Emak S.p.A.	
Emak Suministros Espana SA	Madrid	572	90	270	3,611	3,250	558
Emak Deutschland Gmbh	Fellbach-Oeffingen	0	100	553	(1,270)	(1,270)	(711)
Emak UK Ltd	Burntwood	691	100	468	881	881	4
Emak France SAS	Rixheim	2,049	100	2,000	7,390	7,390	55
Jiangmen Emak Outdoor Power Equipment Co. Ltd.	Jiangmen	2,476	100	3,616	15,705	15,705	549
Tailong (Zhuhai) Machinery Manufacturing Equipment Ltd.	Zhuhai	2,550	100	2,316	6,045	6,045	319
Victus Emak Sp. z.o.o.	Poznan	3,605	100	2,387	8,557	8,557	388
Epicenter LLC.	Kiev	330	61	727	1,246	760	168
Emak do Brasil Industria Ltda	Curitiba	0	99.9	1,976	(1,716)	(1,699)	(539)
Tecomec S.r.l.	Reggio Emilia	27,418	100	1,580	29,045	29,045	3,355
Comet S.p.A.	Reggio Emilia	27,232	100	2,600	30,668	30,668	2,709
Sabart S.r.l.	Reggio Emilia	21,011	100	1,900	7,648	7,648	1,673
Raico S.r.l	Reggio Emilia	5,488	100	20	2,926	2,926	226
Total investments in subsidiaries		**93,422**					
Cifarelli S.p.A.	Voghera (PV)	3,750	30	374	7,943	2,383	1,439
Total investments in associates		**3,750**					

(*) Amounts resulting from the reporting package of subsidiaries prepared in accordance with IAS / IFRS for the purpose of of preparation of the consolidated financial statements.

Appendix 3

Highlights from the latest financial statements of the parent company Yama S.p.A

(€/000)

FINANCIAL POSITION	**31.12.2016**	**31.12.2015**
Assets		
A) Amounts receivable from shareholders for outstanding payments	-	-
B) Fixed assets	76,609	77,709
C) Current assets	8,085	7,651
D) Prepayment and accrued income	21	14
Total assets	**84,715**	**85,374**
Liabilities		
A) Equity:		
Share capital	16,858	16,858
Reserves	37,011	38,228
Net profit	501	653
B) Provisions for risks and charges	263	263
C) Employment benefits	2	46
D) Amounts payable	30,007	29,218
E) Accruals and deferred income	73	108
Total liabilities	**84,715**	**85,374**

INCOME STATEMENT	**31.12.2016**	**31.12.2015**
A) Revenues from sales	227	56
B) Production costs	(1,575)	(987)
C) Financial income and expenses	4,343	3,296
D) Adjustments to the value of financial assets	(2,900)	(2,040)
E) Extraordinary income and expenses	-	-
Profit before taxes	**95**	**325**
Income taxes	406	328
Net profit	**501**	**653**

Appendix 4

Schedule of fees relating to the 2017 financial period for audit services and other services, subdivided by type.

Type of service	Entity providing the service	Beneficiary	Fees (€/000)
Audit	Deloitte & Touche S.p.A.	Emak S.p.A.	135
Audit	Deloitte & Touche S.p.A.	Italian controlled companies	163
Audit	Deloitte & Touche S.p.A. Network	Foreign controlled companies	136
Other services	Deloitte & Touche S.p.A. Network	Foreign controlled companies	63

The above information is provided in accordance with art. 160, paragraph 1-bis of Legislative Decree 24 February 1998, no. 58 and with article 149-duodecies of the CONSOB Regulations contained in Consob resolution no. 19971 of 14 May 1999 and subsequent modifications.

Certification of financial statements and consolidated financial statements pursuant to art. 154-bis, paragraph 5 of the Decree. 58/1998 (Consolidated Law on Finance)

1. The undersigned Fausto Bellamico and Aimone Burani, the latter in his position as the executive in charge of preparing the accounting statements of Emak S.p.A., certify, taking account of the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 24 February 1998, no. 58:

- the suitability, in relation to the nature of the entity and
- effective application

of administrative and accounting procedures for the preparation of the company's individual financial statements and the consolidated financial statements for the financial period ending December 31, 2017.

2. No factors of a significant nature have arisen.

3. It is certified, moreover, that:

3.1 the individual financial statements and consolidated financial statements for the financial period:

a) have been drawn up in conformity with the international accounting standards recognised by the European Community in accordance with EC regulation no. 1606/2002 of the European Parliament and European Council of 19 July 2002;

b) correspond to the accounting documents, ledgers and records;

c) appear to be suitable for providing a true and fair view of the statement of financial position, economic and financial situation of the issuer and of the entities included in the consolidation.

3.2 The Directors' Report contains a reliable analysis of operating trends and results, as well as of the current situation of the issuer and of the entities included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Date: 16 March 2018

The executive in charge of preparing the accounting statements:
Aimone Burani

The CEO:
Fausto Bellamico

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

**To the Shareholders of
Emak S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Emak S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Impairment test of equity investments in subsidiaries and goodwill

Description of the key audit matter

The separate financial statements of Emak S.p.A. as of 31 December 2017 report equity investments in subsidiaries of Euro 93,422 thousand and goodwill of Euro 2,074 thousand.

The Company has verified the recoverability of the investments for which it has identified impairment indicators and goodwill, as stated by IAS 36 – Impairment of Assets. Impairment tests are performed by comparing the recoverable values - determined according to the method of value in use - and the related carrying amounts.

As a result of impairment tests, the Company has recorded an impairment loss of Euro 780 thousand in relation to the investment held in the subsidiary Emak Do Brasil Industria Ltda. The evaluation process adopted by Management to identify possible impairment is complex and based on assumptions about, among other matters, the forecast cash flows of the cash-generating units (CGUs), the appropriate discounting rate (WACC) and the long-term growth rate (g-rate). These assumptions, reflected in the long-term plans of the CGUs concerned, are influenced by future expectations and market conditions, which represent elements of uncertainty when making estimates, with particular reference to equity investments already written down in previous years, Emak Do Brasil Ltda, Emak Deutschland Gmbh, Epicenter Llc, and for which the continuation of structural crises and adverse economic factors had previously contributed to departures from the forecasts made by Management.

In view of the significance of the amount of the investments in subsidiaries and of the goodwill reported in the financial statements, the subjective nature of the estimates made to determine the cash flows of the CGUs and the key variables of the impairment model, and the many unpredictable factors that might influence the performance of the market in which the companies operate, we considered the impairment test of the investments in subsidiaries and the goodwill to be a key audit matter of the separate financial statements of Emak S.p.A. as of 31 December 2017.

The explanatory notes of separate financial statements in the paragraphs "2.5 Goodwill", "2.6 Impairment of assets", "2.8 Financial assets and equity investments" and "4. Key accounting estimates and assumptions", describe the Management assessment process and the notes 18 and 19 report the significant assumptions and disclosures on the items subject to impairment tests, including a sensitivity analysis that illustrates the effects deriving from changes in the key variables used to carry out the impairment tests.

Audit procedures

We firstly examined the approach adopted by Management to assess the recoverability of the investments in subsidiaries and the goodwill, analysing the methods used and assumptions used to carry out the impairment tests.

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

- observation and understanding of the relevant controls implemented by the Company over the process of impairment testing and identifying the impairment indicators;
- analysis of the reasonableness of the principal assumptions made in order to forecast cash flows, partly by analysing external data and obtaining information from Management that we deemed to be significant;
- analysis of actual values in comparison with the original plans, in order to assess the nature of variances and the reliability of the budgeting process, giving particular attention to the subsidiaries Emak Do Brasil Ltda, Emak Deutschland Gmbh, Epicenter Llc;
- assessment of the reasonableness of the discount rate (WACC) and the long-term growth rate (g-rate), partly via the appropriate identification of and reference to external sources that are normally used in professional practice and to key data for main comparables;
- verification of the mathematical accuracy of the model used to determine the value in use of the CGUs;
- verification of the sensitivity analysis prepared by Management.

We also examined the adequacy of the information disclosed by the Company about the impairment tests and its consistency with the requirements of IAS 36.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Emak S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Emak S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Emak S.p.A. as at December 31, 2017 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Emak S.p.A. as at December 31, 2017 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Domenico Farioli
Partner

Parma, Italy
March 29, 2018

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

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