Disclaimer

The consolidated and statutory financial statements at 31 December 2016 have been translated into English solely for the convenience of the International reader. In the event of conflict or inconsistency between the terms used in the Italian Version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.

CHAIRMAN'S LETTER

Italy continues its growth "stable but modest", in which the low interest rates and stronger external demand act as positive factors, while the "structural weaknesses", "political uncertainty" and "slow adjustment banking sector "are obstacles to a stronger recovery.

Faced with a 0.9% growth in Italy in 2016, the progression of GDP in the main countries of the euro area is more rapid and consistent: Germany + 1.6% and + 1.8%, Spain + 2.3% and + 2.1%, France 1.4% and + 1.7%. Only Greece has grown less than Italy.

The European Commission has recently revised upwards the estimate of GDP growth in the euro zone to 1.6% in 2017 and 1.8% in 2018 compared to the previous estimate, dating from last autumn, which respectively showed 1.5% and 1.7%. In 2016, GDP grew by 1.7%. For the first time in at least a decade, says Brussels, all the economies of the European countries are expected to grow for the 2016-2018 three-year period, although the outlook is surrounded by growing uncertainty. There are in fact "exceptional risk" on the future otherwise positive Eurozone. The macroeconomic and financial for the Eurozone is indeed "strongly challenged" and the uncertainty surrounding the winter forecast is "exceptional" because "the sudden change of policy in the US, for the uncertain outcome of the negotiations on Brexit, to the growing divergences in monetary policy globally and for the upcoming elections in the large Member States ".

As for our Group, we are satisfied with the Group's continuous growth and, in particular, with the profitability momentum. Constant attention and weighting of initiatives aimed at enhancing our brands' positioning in terms of special projects and high-potential markets, along with business model's optimization are the cornerstones of the effectively adopted strategy and the basis for the long-term development. We are therefore confident about the future, in the light of the trend registered in 2016 and the positive feedbacks on the ongoing Fall/Winter 2017-2018 collections sales campaign.

The Chairman of the Board of Directors

Massimo Ferretti

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Corporate boards of the Parent Company

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

Directors
Marcello Tassinari – Managing Director
Roberto Lugano
Pierfrancesco Giustiniani
Marco Salomoni
Sabrina Borocci

Board of Statutory

President
Fernando Ciotti

Statutory Auditors
Daniela Saitta
Luca Sapucci

Alternate Auditors
Barbara Ceppellini

Board of Compensation Committee

President
Sabrina Borocci

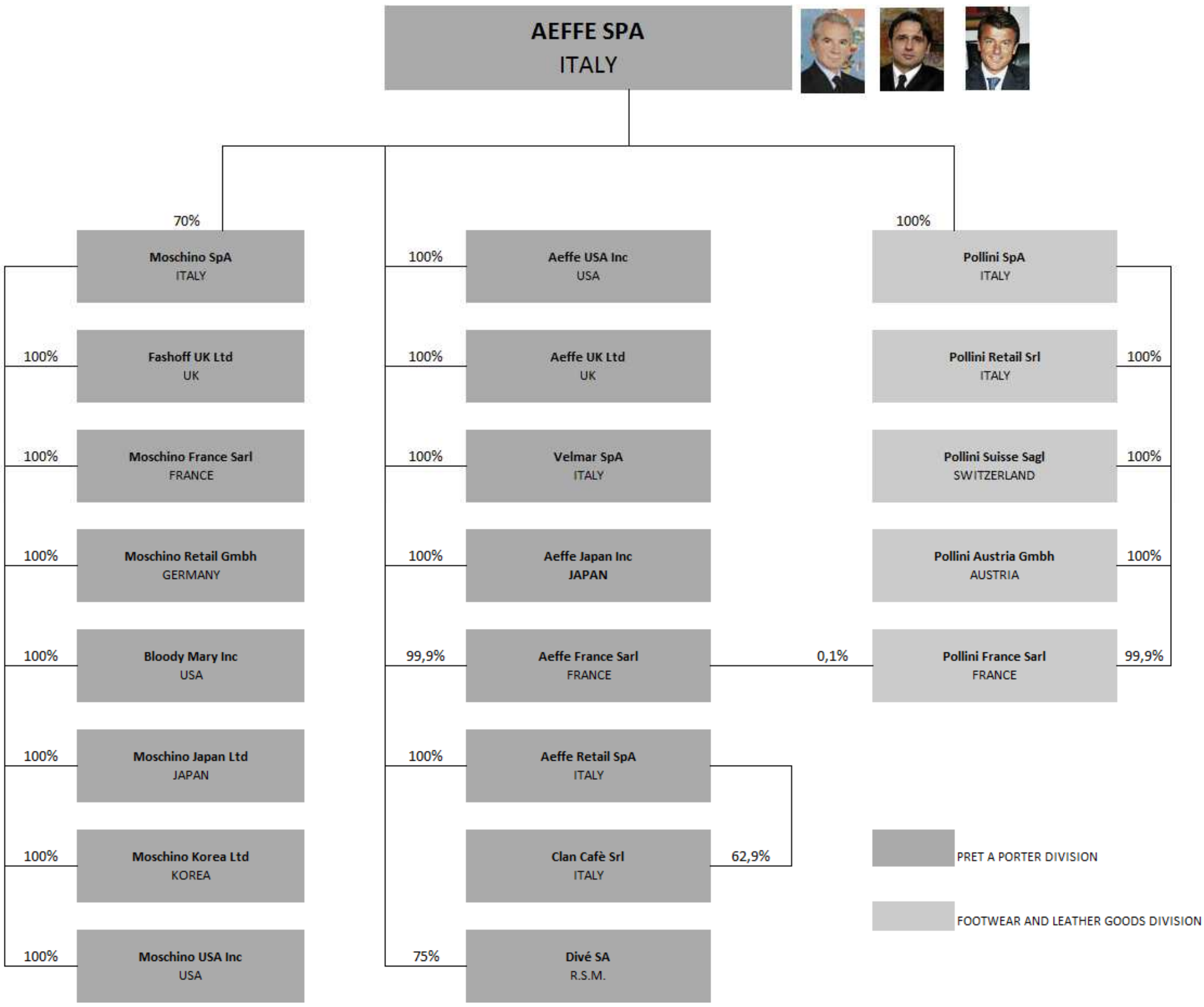
Members
Roberto Lugano
Pierfrancesco Giustiniani

Board of Internal Control Committee

President
Roberto Lugano

Members
Sabrina Borocci
Pierfrancesco Giustiniani

Organisation chart



Brands portfolio

AEFFE
Clothing - Accessories

- ALBERTA FERRETTI
- PHILOSOPHY DI LORENZO SERAFINI
- MOSCHINO
- BOUTIQUE MOSCHINO
- JEREMY SCOTT (NEW YORK, BEVERLY HILLS)
- CEDRIC CHARLIER

POLLINI
Footwear – Leather goods

- POLLINI
- MOSCHINO
- BOUTIQUE MOSCHINO
- LOVE MOSCHINO

MOSCHINO
Licences – Design

- MOSCHINO
- BOUTIQUE MOSCHINO
- LOVE MOSCHINO

VELMAR
Beachwear - Lingerie

- MOSCHINO
- blugirl beachwear
- blugirl underwear
- BLUGIRL Folies

Headquarters

AEFFE
Via Delle Querce, 51
47842 - San Giovanni in Marignano (RN)
Italy

MOSCHINO
Via San Gregorio, 28
20124 - Milan
Italy

POLLINI
Via Erbosa I° tratto, 92
47030 - Gatteo (FC)
Italy

VELMAR
Via Delle Querce, 51
47842 - San Giovanni in Marignano (RN)
Italy

Showrooms

MILAN
(FERRETTI – POLLINI – CEDRIC CHARLIER)
Via Donizetti, 48
20122 - Milan
Italy

LONDON
(FERRETTI – MOSCHINO)
28-29 Conduit Street
W1S 2YB - London
UK

PARIS
(FERRETTI – MOSCHINO)
43, Rue DU Faubourg Saint Honoré
75008 - Paris
France

NEW YORK
(GRUPPO)
30 West 56th Street
10019 - New York
USA

MILAN
(MOSCHINO)
Via San Gregorio, 28
20124 - Milan
Italy

MILAN
(LOVE MOSCHINO)
Via Settembrini, 1
20124 - Milan
Italy

PARIS
(CEDRIC CHARLIER)
28, Rue de Sevigne
75004 - Paris
France

Main flagshipstore locations under direct management

ALBERTA FERRETTI
Milan
Rome
Capri
Paris
London
Los Angeles

POLLINI
Milan
Venice
Bolzano
Varese
Verona

SPAZIO A
Florence
Venice

MOSCHINO
Milan
Rome
Capri
Paris
London
Los Angeles
New York
Seoul
Pusan
Daegu


Main economic-financial data

		Full Year 2015	Full Year 2016
Total revenues	(Values in millions of EUR)	274.0	287.5
Gross operating margin (EBITDA)	(Values in millions of EUR)	19.3	25.2
Net operating profit (EBIT)	(Values in millions of EUR)	5.9	10.1
Profit before taxes	(Values in millions of EUR)	2.9	8.3
Net profit for the Group	(Values in millions of EUR)	1.5	3.6
Basic earnings per share	(Values in units of EUR)	0.015	0.036
Cash Flow (net profit + depreciation)	(Values in millions of EUR)	14.4	16.3
Cash Flow/Total revenues	(Values in percentage)	5.2	5.7

		31 December 2015	31 December 2016
Net capital invested	(Values in millions of EUR)	230.2	227.6
Net financial indebtedness	(Values in millions of EUR)	80.5	59.5
Group net equity	(Values in millions of EUR)	131.7	135.8
Group net equity per share	(Values in units of EUR)	1.2	1.3
Current assets/ current liabilities	(Ratio)	2.0	1.8
Current assets less invent./ current liabilities (ACID test)	(Ratio)	0.9	0.8
Net financial indebtedness/ Net equity	(Ratio)	0.5	0.4
ROI: Net operating profit/ Net capital invested	(Values in percentage)	2.6	4.4

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which our Group has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

Global growth has gradually gained pace since last summer but, contrary to expectations, this has not translated into a solid recovery in world trade. A boost to economic activity could come from the implementation of a fiscal stimulus programme by the new US administration, the details of which are yet to be defined. There is a risk that the recovery of the global economy could be held back by a rise of protectionist pressures and by possible turbulence in the emerging economies.

According to IMF estimates, global GDP grew by 3.1 per cent in 2016 and will accelerate to 3.4 per cent in 2017 and to 3.6 per cent in 2018, where the estimates have been revised slightly upwards for almost all the main advanced economies (except for Italy) and marginally downwards on average for the emerging economies, although an acceleration is forecast for these countries in the next two years. The adjustments for the advanced economies reflect the positive surprises of the third quarter and the expected benefits of the expansionary policies announced in the United States and Japan. Growth in the emerging economies will be affected by less favourable financial conditions: in Brazil the improvement is projected to be more modest than anticipated in October, in India growth will suffer a temporary slowdown, while in the short term China is expected to continue to benefit from its expansionary fiscal and monetary policies. An improvement is forecast for Russia and other commodity-producing countries.

Having proven resilient to global challenges last year, the European economic recovery is expected to continue this year and next: for the first time in almost a decade, the economies of all EU Member States are expected to grow throughout the entire forecasting period (2016, 2017 and 2018). However, the outlook is surrounded by higher-than-usual uncertainty.

Real GDP in the euro area has grown for 15 consecutive quarters, employment is growing at a robust pace and unemployment continues to fall, although it remains above pre-crisis levels. Private consumption is still the engine of the recovery. Investment growth continues but remains subdued.

Risks surrounding these projections are exceptionally large and although both upside and downside risks have increased, the overall balance remains tilted to the downside.

Growth prospects for advanced economies outside the EU have improved over recent months, largely due to expectations of fiscal stimulus in the United States, which have resulted in higher long-term interest rates and an appreciation of the US dollar. Growth in emerging market economies is also set to firm up to 2018, although to varying degrees across countries and regions. Overall, this could give a boost to European exports of both goods and services following a weak 2016.

The particularly high uncertainty surrounding this Winter Forecast is due to the still-to-be-clarified intentions of the new administration of the United States in key policy areas , as well as the numerous elections to be held in Europe this year and the upcoming "Article 50" negotiations with the UK.

The balance of risks remains on the downside although both upside and downside risks have increased. In the short term, fiscal stimulus in the United States could have a stronger impact on growth than currently expected. In the medium term, risks to the growth outlook stem from legacies of the recent crises; the UK's vote to leave the European Union; potential disruptions to trade; faster monetary tightening in the United States, which could have a negative influence on emerging market economies; and the potential consequences of high and rising debt in China.

The projections for the Italian economy indicate that GDP rose by 0.9 per cent on average in 2016 and will expand at around the same pace this year too, before rising to 1.1 per cent in 2018 and in 2019. Output should continue to be driven by national demand and, from as early as this year, also by the gradual strengthening of foreign demand. In 2019 output is expected to still be about 4 percentage points below what it was in 2007.

The forecasting scenario assumes that long-term yields will remain low and credit standards generally relaxed, both in terms of cost and availability. This in turn assumes that conditions in the financial and banking markets in the euro area and in Italy will continue to be broadly relaxed and that risk premiums and volatility will experience no significant surge; it also reflects the assumption, incorporated in market prices, that Italy will press on with its reform agenda of recent years.

Overall, it can be estimated that the risks to growth with respect to these projections remain pri-marily on the downside. The main factors of uncertainty, aside from financial conditions, stem from the global situation. In contrast to the main assumptions underpinning the projections, there is a particularly high risk that the recovery of the world economy could be affected by the emergence and spread of protectionism, as well as possible turmoil in the emerging economies.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

According to the annual survey by consulting firm Bain & Co., the world luxury goods market is expected to close 2016 with a 1% downturn at current exchange rates. Long-accustomed to growth, the market has been affected by exchange rate fluctuations as well as by the terrorist attacks in Europe. As a result, in 2016 the revenue of the global market for personal luxury products is expected to be worth €249 billion, compared to €253 billion in 2015. At current exchange rates, the market grew by 12% on a yearly basis in 2015.

The survey also noted that, while Chinese domestic consumption of luxury products grew, it "was not sufficient to counterbalance the decline in purchases by Chinese tourists abroad: the Chinese consumers' contribution to the global luxury goods market fell, from 31% in 2015 to 30% in 2016. The sector continues to slump in Hong Kong and Macao too, where a 16% downturn at current exchange rates is forecasted.

As for the USA, the market will suffer a 3% decrease on a yearly basis at current exchange rates, since "luxury brands operating in the USA continue to be affected by both a decline in tourism due to the strong dollar and by weak domestic consumption." In Europe, while the pound's depreciation generated an increase in tourist shopping in the UK, France and Germany suffered from the terrorist attacks' aftermath.

By 2020, the consultancy firm's annual study, a benchmark for the luxury goods industry, is forecasting that the market may be worth €280-285 billion, equivalent to "a yearly growth between +3% and +4% from 2017," though it remains "prudent" given the difficulties that may emerge along the way.

2. SUMMARY OF THE GROUP'S KEY ACTIVITIES

Aeffe Group operates worldwide in the fashion and luxury goods sector and is active in the design, production and distribution of a wide range of products that includes prêt-a-porter, footwear and leather goods. The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Philosophy" "Moschino" and "Pollini", and under licensed brands, which include "Blugirl", "Cedric Charlier" and "Jeremy Scott". The Group has also licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches, sunglasses and other).

The Group's business is divided, based on the various product lines and brands it sells, into two segments: (i) prêt-a-porter (which includes prêt-a-porter lines, lingerie and swimwear); and (ii) footwear and leather goods.

Prêt-a-porter Division

The Prêt-a-porter Division, which is composed of the companies Aeffe, Moschino and Velmar, is mainly involved in the design, production and distribution of luxury prêt-a-porter garments and lingerie, beachwear and loungewear.

In terms of the prêt-a-porter collections, the activity is carried out by Aeffe, both for the production of the Group's proprietary brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino" and "Love Moschino") and brands licensed from other companies (such as "Blugirl", "Cedric Charlier" and "Jeremy Scott"). Aeffe also handles the distribution of all Division products both through the retail channel (via subsidiaries) and through the wholesale channel.

Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear and beachwear, and loungewear. Collections are produced and distributed under the Group's proprietary brands, such as "Moschino", and under third-party licensed brands such as "Blugirl".

The Prêt-a-porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino branded product lines such as the Moschino brand licensing agreement relating to the Love line, "Moschino" branded perfumes and "Moschino" branded sunglasses.

Aeffe

Aeffe is the brainchild of designer Alberta Ferretti, who set up her own business in 1972. The history of the parent company has developed in parallel with that of its founder, whose personal involvement in fashion has been a key factor in Aeffe's development.

The growth of the parent company as an industrial and creative entity has been distinguished from the start by a multi-brand approach, with Aeffe producing and distributing the prêt-a-porter collections of leading fashion houses utilising the know-how acquired in the production of luxury prêt-a-porter lines.

This provides the context for the partnership between Aeffe and designer Franco Moschino, whose brand "Moschino Couture!" it has produced and distributed under an exclusive licence since 1983.

Between 1995 and 2013, Aeffe worked with designer Jean Paul Gaultier producing and distributing the women prêt-à-porter collections branded "Jean Paul Gaultier".

In 2001, Aeffe gained control of Pollini, an established manufacturer of footwear and leather goods. This allowed Aeffe to supplement the collections produced in-house with an accessories line.

In 2002, Aeffe took over Velmar, a firm that had collaborated with Aeffe for some time on the production and distribution of lingerie, beachwear and loungewear lines.

In 2007, Aeffe, obtained the Consob Nulla Osta to public the offering memorandum relating to the Public Offering and the listing on the MTA – Star Segment – of Aeffe S.p.A. ordinary shares, closes successfully the Offer of shares and starts to be traded on the MTA – Star Segment – by Borsa Italiana.

Moschino

Moschino was founded in 1983 and grew during the 1990s to become an internationally renowned brand. Following the disappearance in 1994 of its founder, Franco Moschino, his family, staff and friends have kept the designer's legacy alive, respecting his creative identity and philosophy. Rossella Jardini, who has worked for Franco Moschino since 1981, succeeded him as artistic director and becoming in charge of brand image and styling.

The company provides design, marketing and agency services from the Milan showroom for Moschino collections in Italy and overseas.

The company also directly manages six single-brand Moschino stores, three in Milan, one in Rome, one in Capri and one on-line.

In 2013 Jeremy Scott was appointed as creative director of the "Moschino" brand.

Velmar

Velmar was created in 1983 in San Giovanni in Marignano and is active in the production and distribution of lingerie, underwear, beachwear and loungewear.

In 1990, a partnership began between Velmar and designer Anna Molinari to manufacture lingerie and beachwear lines. That same year, talks began with Aeffe and Genny.

Between 1990 and 1995, Velmar worked with Genny and Fendi, producing all of the swimwear lines designed by the two fashion houses. Between 1990 and 2001, Velmar worked with Itierre and Prada on the design and production of the active and sportswear lines sold under the "Extee" and "Prada" menswear labels.

Between 1995 and 1998, Velmar produced and distributed under licence the beachwear line for Byblos menswear and womenswear.

In 1998, Velmar signed a licensing agreement with Blufin for the production and distribution of "Blugirl" lines.

In 2001, Aeffe acquired 75% of Velmar. Again, this represented a natural progression of the existing partnership between the two companies.

In 2006, Velmar obtained a licence for the production and distribution of the men's beachwear and underwear lines and women's lingerie lines under the "Moschino" brand.

In 2010, Aeffe acquires the remaining 25% of Velmar's share capital.

In 2012 Velmar signed a licensing agreement with Blufin for the design, production and international distribution of "teen" women prêt-à-porter line branded Blugirl Folies.

Aeffe USA

Aeffe USA is 100% owned by Aeffe S.p.A. and was incorporated in May 1987 under the laws of the State of New York.

The company operates in the wholesale segment of the North American market (United States and Canada) distributing items of clothing and accessories produced by the parent company, Pollini S.p.A. and Velmar S.p.A. and other third-party licensed manufacturers, with different collections, of the brands produced by the parent company. The company also acts as agent for some of these lines. The company operates out of its showroom located in midtown Manhattan. Aeffe USA also manages a single-brand store in West Hollywood Los Angeles.

Aeffe Retail

Aeffe Retail operates in the retail segment of the Italian market and directly manages 12 stores, both single-brand and multi-brand, located in major Italian cities such as Milan, Rome, Venice, Florence and Capri, manages also an on-line single-brand store.

Clan Cafè

Clan Cafè S.r.l., incorporated in 2007, is 62.9% owned by Aeffe Retail. Since 2011 it entered into a lease of a business with the company Jader S.r.l. for the management of a store located in Milan Via Pontaccio 19, which distributes clothing and accessories produced by Aeffe Group and by third parties.

Aeffe UK

Aeffe UK is 100% owned by Aeffe S.p.A. and manages the store in London's Sloane Street, which sells clothing and accessories under the Alberta Ferretti and Philosophy di Lorenzo Serafini labels.

Aeffe France

Aeffe France is 99.9% owned by Aeffe S.p.A. and manages the store in Rue St. Honorè in Paris, selling apparel and accessories under the Alberta Ferretti and Philosophy di Lorenzo Serafini brands. The company also acts as an agent for the French market.

Aeffe Japan

Aeffe Japan, company based in Tokyo and 100% owned by Aeffe S.p.A., has sold, starting from the 1st of January 2014, the distributing and franchising activities for the collections branded "Alberta Ferretti" and "Philosophy di Lorenzo Serafini" to Woollen Co., Ltd..

In 2014 the company, as owner of a new brand, has decided to develop it in the Japanese market and to that end has licensed it to a third party for the marketing of products in the country.

Moschino Japan

Moschino Japan, company based in Tokyo and 100% owned by Moschino S.p.A., has sold starting from the 1st of January 2014, the distributing and franchising activities for the collections branded Moschino to Woollen Co., Ltd..

In 2014 the company, as owner of a new brand, has decided to develop it in the Japanese market and to that end has licensed it to a third party for the marketing of products in the country.

Moschino Korea

Moschino Korea is 100% owned by Moschino S.p.A. and is based in Seoul. The company exclusively operates in the retail segment through flagship stores under direct management which sell Moschino-branded collections.

Fashoff UK

Fashoff UK operates by the showroom in London, acting as agent for the Moschino-branded collections produced by Aeffe, and importing the other Love collections.

The company also directly manages a single-brand Moschino store in London.

Moschino France

Moschino France is based in the Paris showroom and acts as agent for all Moschino collections except childrenswear, eyewear, perfumes and watches.

The company also manages a single-brand Moschino store in Paris.

Moschino Gmbh

Moschino Gmbh, company that managed directly a single-brand Moschino store in Berlin, starting from the 1st of January 2016, is liquidation.

Bloody Mary

Bloody Mary, company based in New York and 100% owned by Moschino S.p.A., has signed, starting from 2014, a sublease contract for the management of a store placed at 401 West 14th Street New York.

Moschino USA

Moschino USA, company founded in 2014 with base in New York and 100% owned by Moschino S.p.A., directly manage two single-brand Moschino stores, one in Los Angeles and one in New York.

Footwear and leather goods Division

The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials.

The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.

The footwear and leather goods division also manages licensing agreements granted to other companies to manufacture “Pollini”” products such as umbrellas, scarves and ties.

Pollini

Pollini was established in 1953 in the shoemaking district of San Mauro Pascoli, following in the Italian tradition of handmade leather goods and shoes. Italy is a leading producer of footwear: due to expertise required to make these products, nearly all production sites are located in areas with a long-standing shoemaking tradition, such as San Mauro Pascoli, Vigevano and Strà (PD). The company’s philosophy is focused on promoting Pollini in other countries as an amalgam of traditional quality and Italian style, offering a range of products that include shoes, bags and matching accessories.

Between 1957 and 1961, Pollini produced the footwear collections of the designer Bruno Magli.

In the 1960s and early 1970s, Pollini began making shoes under its own label, presenting “themed” collections (such as the “Daytona” sports footwear collection, inspired by the world of motorbike racing).

In the 1970s, Pollini rose to international fame: at that point, its collections were shown in Düsseldorf, Paris and New York, as well as in Milan and Bologna. Around the same time, the first stores opened in Milan, Verona, Varese and Venice.

In 1989, Pollini moved into its new office in Gatteo, in the Italian province of Forlì-Cesena. The new site measures 50,000 sq. m., just over a third of it indoor, with a production workshop and seven-storey building housing the showroom and offices. The new site brought the footwear and leather goods divisions and sales and administration offices under one roof.

In 2001, Aeffe and Pollini reached an agreement whereby Aeffe would acquire a controlling stake in Pollini. The acquisition was a natural progression of the increasingly concentrated partnership between the two companies, enabling the growth of the footwear and leather goods lines designed by Alberta Ferretti.

Always in 2008, Pollini entered into new license agreements with Drops S.r.l., for the manufacturing of umbrellas, as well as Larioseta S.p.A., for the manufacturing and distribution of neckwear, including women’s shawls, women’s and men’s scarves and ties.

In 2011 Aeffe S.p.A. has acquired the remaining 28% shareholding of Pollini S.p.A., becoming the sole shareholder.

Pollini Retail

Pollini Retail is active in the retail segment of the Italian market and directly manages 20 stores, between boutiques and outlets, in major Italian cities such as Milan and Rome.

Pollini Suisse

Pollini Suisse directly manages the single-brand Pollini store in Mendrisio, Switzerland.

Pollini Austria

Pollini Austria directly manages the single-brand Pollini store in Pandorf, Austria.

3. TREND OF THE GROUP MANAGEMENT

CONSOLIDATED INCOME STATEMENT

(Values in units of EUR)	Full Year 2016	% on revenues	Full Year 2015	% on revenues	Change	%
REVENUES FROM SALES AND SERVICES	**280,690,885**	**100.0%**	**268,824,621**	**100.0%**	**11,866,264**	**4.4%**
Other revenues and income	6,816,595	2.4%	5,213,423	1.9%	1,603,172	30.8%
TOTAL REVENUES	**287,507,480**	**102.4%**	**274,038,044**	**101.9%**	**13,469,436**	**4.9%**
Changes in inventory	(913,774)	(0.3%)	5,085,669	1.9%	(5,999,443)	(118.0%)
Costs of raw materials, cons. and goods for resale	(89,794,049)	(32.0%)	(91,297,185)	(34.0%)	1,503,136	(1.6%)
Costs of services	(81,289,495)	(29.0%)	(79,178,229)	(29.5%)	(2,111,266)	2.7%
Costs for use of third parties assets	(22,847,255)	(8.1%)	(23,537,688)	(8.8%)	690,433	(2.9%)
Labour costs	(63,490,261)	(22.6%)	(61,088,027)	(22.7%)	(2,402,234)	3.9%
Other operating expenses	(3,978,106)	(1.4%)	(4,679,511)	(1.7%)	701,405	(15.0%)
Total Operating Costs	(262,312,940)	(93.5%)	(254,694,971)	(94.7%)	(7,617,969)	3.0%
GROSS OPERATING MARGIN (EBITDA)	**25,194,540**	**9.0%**	**19,343,073**	**7.2%**	**5,851,467**	**30.3%**
Amortisation of intangible fixed assets	(6,805,687)	(2.4%)	(7,152,791)	(2.7%)	347,104	(4.9%)
Depreciation of tangible fixed assets	(5,149,208)	(1.8%)	(5,502,233)	(2.0%)	353,025	(6.4%)
Revaluations/(write-downs) and provisions	(3,153,669)	(1.1%)	(804,250)	(0.3%)	(2,349,419)	292.1%
Total Amortisation, write-downs and provisions	(15,108,564)	(5.4%)	(13,459,274)	(5.0%)	(1,649,290)	12.3%
NET OPERATING PROFIT / LOSS (EBIT)	**10,085,976**	**3.6%**	**5,883,799**	**2.2%**	**4,202,177**	**71.4%**
Financial income	1,523,856	0.5%	976,300	0.4%	547,556	56.1%
Financial expenses	(3,278,335)	(1.2%)	(4,007,510)	(1.5%)	729,175	(18.2%)
Total Financial Income / (expenses)	(1,754,479)	(0.6%)	(3,031,210)	(1.1%)	1,276,731	(42.1%)
PROFIT / LOSS BEFORE TAXES	**8,331,497**	**3.0%**	**2,852,589**	**1.1%**	**5,478,908**	**192.1%**
Taxes	(3,955,128)	(1.4%)	(1,143,861)	(0.4%)	(2,811,267)	245.8%
NET PROFIT / LOSS	**4,376,369**	**1.6%**	**1,708,728**	**0.6%**	**2,667,641**	**156.1%**
(Profit) / loss attributable to minority shareholders	(735,125)	(0.3%)	(186,632)	(0.1%)	(548,493)	293.9%
NET PROFIT / LOSS FOR THE GROUP	**3,641,244**	**1.3%**	**1,522,096**	**0.6%**	**2,119,148**	**139.2%**

Sales

In 2016 consolidated revenues amount to EUR 280,691 thousand compared to EUR 268,825 thousand of the year 2015, showing an increase of 4.4% (+4.7% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 215,855 thousand with an increase of 4.2% at current exchange rates (+4.5% at constant exchange rates) compared to 2015. The revenues of the footwear and leather goods division increase by 0.2% to EUR 95,962 thousand.

Sales by brand

(Values in thousands of EUR)	Full Year 2016	%	Full Year 2015	%	Change Δ	%
Alberta Ferretti	23,964	8.5%	23,939	8.9%	25	0.1%
Philosophy	13,140	4.7%	10,561	3.9%	2,579	24.4%
Moschino	197,647	70.4%	186,579	69.4%	11,068	5.9%
Pollini	29,604	10.5%	29,305	10.9%	299	1.0%
Other	16,336	5.9%	18,441	6.9%	(2,105)	(11.4%)
Total	**280,691**	**100.0%**	**268,825**	**100.0%**	**11,866**	**4.4%**

In 2016, the Alberta Ferretti brand increases by 0.1% (+1.1% at constant exchange rates), contributing to 8.5% of consolidated sales, while Philosophy di Lorenzo Serafini brand increases by 24.4% (+25.0% at constant exchange rates), contributing to 4.7% of consolidated sales.

In the same period Moschino brand increases by 5.9% (+6.1% at constant exchange rates), contributing to 70.4% of consolidated sales.

Pollini brand records a growth of 1.0% (+1.1% at constant exchange rates), generating 10.5% of consolidated sales, while brands under license decreases by 11.4% (-11.5% at constant exchange rates), equal to 5.8% of consolidated sales.

Sales by geographical area

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2016	%	2015	%	Δ	%
Italy	126,079	44.9%	119,754	44.5%	6,325	5.3%
Europe (Italy and Russia excluded)	59,934	21.4%	56,842	21.1%	3,092	5.4%
Russia	9,107	3.2%	9,172	3.4%	(65)	(0.7%)
United States	22,941	8.2%	22,248	8.3%	693	3.1%
Rest of the World	62,630	22.3%	60,809	22.7%	1,821	3.0%
Total	**280,691**	**100.0%**	**268,825**	**100.0%**	**11,866**	**4.4%**

In 2016, sales in Italy register a very positive trend posting a 5.3% increase to EUR 126,079 thousand, contributing to 44.9% of consolidated sales.

Sales in Europe increase by 5.4% (+6.4% at constant exchange rates), contributing to 21.4% of consolidated sales, driven by the good performance in Germany, Spain and Eastern Europe.

The Russian market decreases by 0.7%, contributing to 3.2% of consolidated sales, showing timid signs of recovery compared to last year.

Sales in the United States post a growth of 3.1% (+2.9% at constant exchange rates) contributing to 8.2% of consolidated sales.

In the Rest of the World, sales increase by 3.0% (+3.2% at constant exchange rates) to EUR 62,630 thousand, contributing to 21.3% of consolidated sales, especially thanks to the excellent performance in Greater China, which posted a 7.1% growth.

Sales by distribution channel

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2016	%	2015	%	Δ	%
Wholesale	201,271	71.7%	185,859	69.1%	15,412	8.3%
Retail	70,334	25.1%	74,272	27.6%	(3,938)	(5.3%)
Royalties	9,086	3.2%	8,694	3.3%	392	4.5%
Total	**280,691**	**100.0%**	**268,825**	**100.0%**	**11,866**	**4.4%**

The revenues generated by the Group during 2016 are analysed below:

- 71.7% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 185,859 thousand in 2015 and EUR 201,271 thousand in 2016, up 8.3% (+8.3% at constant exchange rates);

- 25.1% from sales outlets managed directly by the Group (retail channel), which contributes EUR 74,272 thousand in 2015 and EUR 70,334 thousand in 2016, -5.3% (-4.5% at constant exchange rates);

- 3.2% from royalties deriving from licenses granted to third parties for the production and distribution of product lines sold under the Group's brand names. Royalties increase from EUR 8,694 thousand in 2015 to EUR 9,086 thousand in 2016, by 4.5%.

Labour costs

Labour costs change from EUR 61,088 thousand in 2015 to EUR 63,490 thousand in 2016, recording an increase of EUR 2,402 thousand, and an incidence on revenues which changes from 22.7% in 2015 to 22.6% in 2016.

The workforce increases from an average of 1,276 units in 2015 to 1,301 units in 2016.

Average number of employees by category	Full Year 2016	Full Year 2015	Change Δ	%
Workers	229	226	3	1.3%
Office staff-supervisors	1,049	1,027	22	2.1%
Executive and senior managers	23	23	-	0.0%
Total	**1,301**	**1,276**	**25**	**2.0%**

Gross Operating Margin (EBITDA)

In 2016 consolidated EBITDA is positive for EUR 25,195 thousand (with an incidence of 9.0% of consolidated sales), showing an increase of 30.3% compared to an EBITDA of EUR 19,343 thousand in 2015 (with an incidence of 7.2% of consolidated sales). This improvement was due to both sales growth and lower incidence of the operating costs, in turn closely linked to the Group's business model. In particular, thanks to full exploitation of economies of scale, an increase in sales corresponds to a more than proportional increase in margins.

The improvement in profitability was mainly driven by the prêt-à-porter division.

In particular, EBITDA of the *prêt-à-porter* division amounts to EUR 18,925 thousand (8.8% on sales), compared to an EBITDA of EUR 12,187 thousand in 2015 (5.9% on sales), with an increase of EUR 6,738 thousand.

In 2016 EBITDA of the footwear and leather goods division is EUR 6,270 thousand (6.5% on sales), compared to an EBITDA of EUR 7,156 thousand in 2015 (7.5% on sales), with a EUR 886 thousand decrease, mainly attributable to decline in revenues.

Net operating result (EBIT)

Consolidated EBIT is equal to EUR 10,086 thousand (3.6% on sales), recording an improvement of EUR 4,202 thousand, compared to EUR 5,884 thousand of 2015 (2.2% on sales).

Result before taxes

Thanks to improvement in operating profit and to decrease in financial expenses, the Result before taxes posts a profit of EUR 8,331 thousand, showing a EUR 5,478 thousand growth compared to EUR 2,853 thousand in 2015.

Net result

Net result posts a profit of EUR 4,376 thousand in 2016 compared to EUR 1,709 thousand in 2015, with an increase in absolute value of EUR 2,667 thousand.

Net result for the Group

Consolidated net result for the Group increases from EUR 1,522 thousand in 2015 to EUR 3,641 thousand in 2016, with a growth of EUR 2,119 thousand.

CONSOLIDATED BALANCE SHEET

(Values in units of EUR)	31 December 2016	31 December 2015	Change Δ	%
Trade receivables	40,711,059	38,256,285	2,454,774	6.4%
Stock and inventories	89,389,833	89,988,199	(598,366)	(0.7%)
Trade payables	(61,880,670)	(61,428,950)	(451,720)	0.7%
Operating net working capital	**68,220,222**	**66,815,534**	**1,404,688**	**2.1%**
Other short term receivables	25,082,908	26,254,111	(1,171,203)	(4.5%)
Tax receivables	4,094,261	7,229,775	(3,135,514)	(43.4%)
Other short term liabilities	(16,958,605)	(14,963,436)	(1,995,169)	13.3%
Tax payables	(7,376,339)	(3,015,292)	(4,361,047)	144.6%
Net working capital	**73,062,447**	**82,320,692**	**(9,258,245)**	**(11.2%)**
Tangible fixed assets	61,376,021	63,260,612	(1,884,591)	(3.0%)
Intangible fixed assets	115,131,885	122,820,750	(7,688,865)	(6.3%)
Equity investments	131,558	131,558	-	n.a.
Other fixed assets	3,961,836	4,265,083	(303,247)	(7.1%)
Fixed assets	**180,601,300**	**190,478,003**	**(9,876,703)**	**(5.2%)**
Post employment benefits	(6,366,872)	(6,551,605)	184,733	(2.8%)
Provisions	(2,558,786)	(1,068,715)	(1,490,071)	139.4%
Assets available for sale	436,885	436,885	-	n.a.
Liabilities available for sale	-	-	-	n.a.
Long term not financial liabilities	(469,000)	(14,330,132)	13,861,132	(96.7%)
Deferred tax assets	13,856,302	11,089,214	2,767,088	25.0%
Deferred tax liabilities	(30,985,927)	(32,207,692)	1,221,765	(3.8%)
NET CAPITAL INVESTED	**227,576,349**	**230,166,650**	**(2,590,301)**	**(1.1%)**
Share capital	25,371,407	25,371,407	-	n.a.
Other reserves	115,641,684	114,336,595	1,305,089	1.1%
Profits / (Losses) carried-forward	(8,883,005)	(9,486,229)	603,224	(6.4%)
Profits / (Loss) for the period	3,641,244	1,522,096	2,119,148	139.2%
Group interest in shareholders' equity	**135,771,330**	**131,743,869**	**4,027,461**	**3.1%**
Minority interests in shareholders' equity	32,298,194	17,884,148	14,414,046	80.6%
Total shareholders' equity	**168,069,524**	**149,628,017**	**18,441,507**	**12.3%**
Short term financial receivables	(2,235,854)	(1,815,854)	(420,000)	23.1%
Cash	(14,521,334)	(9,992,726)	(4,528,608)	45.3%
Long term financial liabilities	23,840,201	18,393,626	5,446,575	29.6%
Long term financial receivables	(3,390,633)	(2,031,138)	(1,359,495)	66.9%
Short term financial liabilities	55,814,445	75,984,725	(20,170,280)	(26.5%)
NET FINANCIAL POSITION	**59,506,825**	**80,538,633**	**(21,031,808)**	**(26.1%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**227,576,349**	**230,166,650**	**(2,590,301)**	**(1.1%)**

NET INVESTED CAPITAL

Net invested capital decreases by 1.1% compared with 31 December 2015.

Net working capital

Net working capital amounts to EUR 73,062 thousand (26.0% on sales) compared with EUR 82,321 thousand at 31 December 2015 (30.6% on sales).

Changes in the main items included in the net working capital are described below:

- the sum of trade receivables, inventories and trade payables increases in all by 2.1% (EUR +1,405 thousand) with a decrease of incidence on sales, from 24.9% in 2015 to 24.3% in 2016, thanks to the better management of the operating net working capital.
- the sum of other receivables and payables decreases in all of EUR 3,166 thousand compared with the previous year mainly for higher payables;
- the sum of tax receivables and tax payables decrease in all of EUR 7,497 thousand. Such decrease is mainly due to the decrease of VAT receivable and to the increase of the tax payable for IRES.

Fixed assets

At 31 December 2016, fixed assets decrease by EUR 9,877 thousand compared to 31 December 2015.

Changes in the main items are described below:

- the decrease in Tangible fixed assets of EUR 1,885 thousand is mainly due to the following affects:
    - increases related to investments for maintenance and stores' refurbishment, purchase of plant and specific equipment and purchase of electronic machines for EUR 3,984 thousand;
    - decreases for the depreciation of the year equal to EUR 5,149 thousand.
- the decrease in Intangible fixed assets of EUR 7,689 thousand is mainly due to the following effects:
    - increases for EUR 1,420 thousand, mainly related to key money and software;
    - decreases for sales and disposals equal to EUR 2,278 thousand;
    - decreases for the amortisation of the year equal to EUR 6,806 thousand.

NET FINANCIAL POSITION

The net financial position of the Group amounts to EUR 59,507 thousand as of 31 December 2016 compared with EUR 80,539 thousand as of 31 December 2015. The decrease compared to 2015 is mainly due to a better management of net working capital.

SHAREHOLDERS' EQUITY

The shareholders' equity increases by EUR 18,442 thousand from EUR 149,628 thousand as of 31 December 2015 to EUR 168,070 thousand as of 31 December 2016. The reasons of such increase are illustrated in the explanatory notes. The number of shares is 107,362,504.

The following institutions hold more than 3% of the Aeffe's shares as of 31 December 2016:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	6.000%
Other shareholders(*)	32.203%

(*) 5,5% of own shares held by Aeffe S.p.A.

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD OF THE PARENT COMPANY AND THE CORRISPONDING CONSOLIDATED AMOUNTS

Pursuant to the Consob Communication of 28 July 2006, the following table provides reconciliation between the net result and equity of Aeffe S.p.A. for the year ended 31 December 2016 and the comparable items on a consolidated basis (portion attributable to owners of Aeffe S.p.A.):

(Values in thousand of EUR)	Shareholders' equity at 31 December 2016	Net profit /loss for the full year 2016
Taken from the corporate financial statements of the parent company	**136,685**	**1,715**
Share of the consolidated subsidiaries's equity and profit /loss attributable to the Group, net of the carrying amount of equity interests	(11,614)	3,891
Effect of business combination reopening	34,820	(1,394)
Reversal of the intercompany inventory margin	(963)	-
Transition to parent company accounting policies	2,289	51
Other adjustments	6,853	113
Total consolidation adjustments	**31,385**	**2,661**
Group interest in shareholders' equity	**135,771**	**3,641**
Minority interest	**32,299**	**735**
Total shareholders' equity	**168,070**	**4,376**

4. RESEARCH & DEVELOPMENT ACTIVITIES

Considering the particular nature of the Group's products, research & development activities consist in the continual technical/stylistic renewal of models and the constant improvement of the materials employed in production. These costs were charged in full to the Income Statement.

5. GROUP'S OBJECTIVES AND POLICIES ON FINANCIAL RISKS

Regarding the Group's objectives and policies on financial risks refer to the information reported in the Notes.

6. CORPORATE GOVERNANCE

Aeffe S.p.A. has aligned its system of corporate governance with the recommendations of the Code of Self-Regulation for stock-market listed companies approved in March 2006 (and amended in July 2015) by the Committee for Corporate Governance and Borsa Italiana S.p.A.. Unless specified otherwise, the references in this paragraph relate to the 2015 Code.

The Code of Self-Regulation provides an organisational and functional reference model for the companies listed on the markets organised and managed by Borsa Italiana; it is non-binding and offers the flexibility necessary for its adoption by listed companies.

Alignment of the system of governance adopted by listed companies with the recommendations contained in the Code of Self-Regulation is, in fact, not currently a legal requirement: adoption of the standards and organisational models proposed therein is therefore voluntary, and left to the discretion of the listed companies for which it is intended. Nevertheless, certain recommendations contained in the Code of Self-Regulation are reflected in current legislation and/or regulations including, more precisely, the Italian Civil Code, Decree 58 dated 24 February 1998 as subsequently amended (the "**Consolidated Finance Law**"), Consob Regulation 11971 dated 14 May 1999, as amended (the "**Issuers' Regulations**"), the Regulations for Markets Organised and Managed by Borsa Italiana (the "**Market Regulations**") and the Market Instructions relating specifically to companies with shares admitted to trading in the STAR segment.

As required by the regulations, Aeffe prepares yearly the "Report on corporate governance and ownership structures", stating: (i) which recommendations contained in the Code of Self-Regulation have actually been adopted by the Issuer and how, and (ii) which recommendations have not been adopted, in whole or in part, together with adequate information on the reasons for such partial or non-application of them. This report, which also provides information on the ownership structure, is available from the governance section of the following *website:* www.aeffe.com.

7. TREASURY SHARES

As of 31 December 2016, the Parent Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year, no transactions on treasury shares have been carried out by the Parent Company.

As of 31 December 2016 the Parent Company does not hold shares of any controlling company either directly or indirectly.

8. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Note 39 of the Consolidated Financial Statements.

9. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

With regard to the activities performed by our Group, that do not involve particular levels of risk for the employees, we have no serious accidents to report, or the emergence of any pathologies linked to professional diseases. Our Group has not been charged with any actions of mobbing.

As regards the environment, once again, the business of our Group does not have any particular impact on the environment, other than energy consumption, significantly reduced thanks to the installation of a renewable energy system (photovoltaic), and in opposition a contraction in CO_2 emission. We can therefore report that, during the year, the Group was not declared guilty of causing any damage to the environment, and did not receive any sanctions or penalties for environmental crimes or damage.

10. SIGNIFICANT EVENTS OF THE PERIOD

No significant events occurred during the year have to be reported.

11. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to the balance sheet date, no significant events regarding the Group's activities have to be reported.

12. OUTLOOK

We are satisfied with the Group's continuous growth and, in particular, with the profitability momentum. Constant attention and weighting of initiatives aimed at enhancing our brands' positioning in terms of special projects and high-potential markets, along with business model's optimization are the cornerstones of the effectively adopted strategy and the basis for the long-term development. We are therefore confident about the future, in the light of the trend registered in 2016 and the positive feedbacks on the ongoing Fall/Winter 2017-2018 collections sales campaign.

Financial statements

CONSOLIDATED BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2016	31 December 2015	Change
NON-CURRENT ASSETS				
Intangible fixed assets				
Key money		28,923,062	33,208,388	(4,285,326)
Trademarks		85,468,751	88,962,178	(3,493,427)
Other intangible fixed assets		740,072	650,184	89,888
Total intangible fixed assets	(1)	115,131,885	122,820,750	(7,688,865)
Tangible fixed assets				
Lands		17,118,773	16,958,413	160,360
Buildings		22,658,662	23,134,692	(476,030)
Leasehold improvements		14,465,641	15,979,003	(1,513,362)
Plant and machinary		2,665,840	2,583,550	82,290
Equipment		311,406	358,278	(46,872)
Other tangible fixed assets		4,155,699	4,246,676	(90,977)
Total tangible fixed assets	(2)	61,376,021	63,260,612	(1,884,591)
Other fixed assets				
Equity investments	(3)	131,558	131,558	-
Long term financial receivables	(4)	3,390,633	2,031,138	1,359,495
Other fixed assets	(5)	3,961,836	4,265,083	(303,247)
Deferred tax assets	(6)	13,856,302	11,089,214	2,767,088
Total other fixed assets		21,340,329	17,516,993	3,823,336
TOTAL NON-CURRENT ASSETS		**197,848,235**	**203,598,355**	**(5,750,120)**
CURRENT ASSETS				
Stocks and inventories	(7)	89,389,833	89,988,199	(598,366)
Trade receivables	(8)	40,711,059	38,256,285	2,454,774
Tax receivables	(9)	4,094,261	7,229,775	(3,135,514)
Cash	(10)	14,521,334	9,992,726	4,528,608
Short term financial receivables	(11)	2,235,854	1,815,854	420,000
Other receivables	(12)	25,082,908	26,254,111	(1,171,203)
TOTAL CURRENT ASSETS		**176,035,249**	**173,536,950**	**2,498,299**
Assets available for sale	(13)	436,885	436,885	-
TOTAL ASSETS		**374,320,369**	**377,572,190**	**(3,251,821)**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment I, and are further described in Note "Transactions with related parties".

CONSOLIDATED BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2016	31 December 2015	Change
NON-CURRENT ASSETS				
Intangible fixed assets				
Key money		28,923,062	33,208,388	(4,285,326)
Trademarks		85,468,751	88,962,178	(3,493,427)
Other intangible fixed assets		740,072	650,184	89,888
Total intangible fixed assets	(1)	115,131,885	122,820,750	(7,688,865)
Tangible fixed assets				
Lands		17,118,773	16,958,413	160,360
Buildings		22,658,662	23,134,692	(476,030)
Leasehold improvements		14,465,641	15,979,003	(1,513,362)
Plant and machinary		2,665,840	2,583,550	82,290
Equipment		311,406	358,278	(46,872)
Other tangible fixed assets		4,155,699	4,246,676	(90,977)
Total tangible fixed assets	(2)	61,376,021	63,260,612	(1,884,591)
Other fixed assets				
Equity investments	(3)	131,558	131,558	-
Long term financial receivables	(4)	3,390,633	2,031,138	1,359,495
Other fixed assets	(5)	3,961,836	4,265,083	(303,247)
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Total other fixed assets		21,340,329	17,516,993	3,823,336
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Tax receivables	(9)	4,094,261	7,229,775	(3,135,514)
Cash	(10)	14,521,334	9,992,726	4,528,608
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Other receivables	(12)	25,082,908	26,254,111	(1,171,203)
TOTAL CURRENT ASSETS		**176,035,249**	**173,536,950**	**2,498,299**
Assets available for sale	(13)	436,885	436,885	-
TOTAL ASSETS		**374,320,369**	**377,572,190**	**(3,251,821)**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment II, and are further described in Note “Transactions with related parties ”.

CONSOLIDATED INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full Year 2016	Full Year 2015
REVENUES FROM SALES AND SERVICES	**(23)**	**280,690,885**	**268,824,621**
Other revenues and income	(24)	6,816,595	5,213,423
TOTAL REVENUES		**287,507,480**	**274,038,044**
Changes in inventory		(913,774)	5,085,669
Costs of raw materials, cons. and goods for resale	(25)	(89,794,049)	(91,297,185)
Costs of services	(26)	(81,289,495)	(79,178,229)
Costs for use of third parties assets	(27)	(22,847,255)	(23,537,688)
Labour costs	(28)	(63,490,261)	(61,088,027)
Other operating expenses	(29)	(3,978,106)	(4,679,511)
Amortisation, write-downs and provisions	(30)	(15,108,564)	(13,459,274)
Financial Income / (expenses)	(31)	(1,754,479)	(3,031,210)
PROFIT / LOSS BEFORE TAXES		**8,331,497**	**2,852,589**
Taxes	(32)	(3,955,128)	(1,143,861)
NET PROFIT / LOSS		**4,376,369**	**1,708,728**
(Profit) / loss attributable to minority shareholders		(735,125)	(186,632)
NET PROFIT / LOSS FOR THE GROUP		**3,641,244**	**1,522,096**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Income Statement are presented in the specific Income Statement schedule provided in the attachment III and are further described in Note "Transactions with related parties".

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2016	Full Year 2015
Profit/(loss) for the period (A)		**4,376,369**	**1,708,728**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		(115,249)	133,260
Income tax relating to components of Other comprehensive income that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		**(115,249)**	**133,260**
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges			
Gains/(losses) on exchange differences on translating foreign operations		135,260	(185,765)
Income tax relating to components of Other Comprehensive income / (loss)		-	-
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		**135,260**	**(185,765)**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)		**20,011**	**(52,505)**
Total Comprehensive income / (loss) (A) + (B)		**4,396,380**	**1,656,223**
Total Comprehensive income / (loss) attributable to:		**4,396,380**	**1,656,223**
Owners of the parent		4,027,466	1,686,797
Non-controlling interests		368,914	(30,574)

CONSOLIDATED CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2016	Full Year 2015
OPENING BALANCE		**9,993**	**6,692**
Profit before taxes		8,331	2,853
Amortisation / write-downs		15,110	13,459
Accrual (+)/availment (-) of long term provisions and post employment benefits		1,305	(1,885)
Paid income taxes		(3,583)	(3,596)
Financial income (-) and financial charges (+)		1,754	3,031
Change in operating assets and liabilities		(12,195)	(1,097)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(33)**	**10,722**	**12,765**
Increase (-)/ decrease (+) in intangible fixed assets		883	(2,047)
Increase (-)/ decrease (+) in tangible fixed assets		(3,265)	(4,992)
Investments and write-downs (-)/ Disinvestments and revaluations (+)		77	(51)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(34)**	**(2,305)**	**(7,090)**
Other variations in reserves and profits carried-forward of shareholders' equity		20	(52)
Dividends paid		-	-
Proceeds (+)/ repayments (-) of financial payments		(679)	1,402
Increase (-)/ decrease (+) in long term financial receivables		(1,476)	(693)
Financial income (+) and financial charges (-)		(1,754)	(3,031)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(35)**	**(3,889)**	**(2,374)**
CLOSING BALANCE		**14,521**	**9,993**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Cash Flow are presented in the specific Cash Flow schedule provided in the attachment IV and are further described in Note "Transactions with related parties ".

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS’ EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Remeasurement of defined benefit plans reserve	Net profit / loss for the Group	Translation reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 1 January 2015	**25,371**	**71,240**	**26,481**	**7,901**	**11,459**	**(12,112)**	**(1,229)**	**2,742**	**(1,796)**	**130,057**	**17,915**	**147,972**
Allocation of 2014 profit/(loss)	-	-	35	-	-	2,707	-	(2,742)	-	-	-	-
Dividends paid	-	-		-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2015	-	-		-	-		131	1,522	34	1,687	(31)	1,656
Other changes	-	-	-	-	-	(81)	81	-	-	-	-	-
BALANCES AT 31 December 2015	**25,371**	**71,240**	**26,516**	**7,901**	**11,459**	**(9,486)**	**(1,017)**	**1,522**	**(1,762)**	**131,744**	**17,884**	**149,628**

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Remeasurement of defined benefit plans reserve	Net profit / loss for the Group	Translation reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 1 January 2016	**25,371**	**71,240**	**26,516**	**7,901**	**11,459**	**(9,486)**	**(1,017)**	**1,522**	**(1,762)**	**131,744**	**17,884**	**149,628**
Allocation of 2015 profit/(loss)	-	-	919	-	-	603	-	(1,522)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2016	-	-	-	-	-	-	(113)	3,641	500	4,028	369	4,397
Other changes	-	-	-	-	-	-	-	-		-	14,045	14,045
BALANCES AT 31 December 2016	**25,371**	**71,240**	**27,435**	**7,901**	**11,459**	**(8,883)**	**(1,130)**	**3,641**	**(1,262)**	**135,772**	**32,298**	**168,070**

Independent auditors' report
in accordance with art. 14 and 16 of Legislative Decree
n. 39 of January 27, 2010

Ria Grant Thornton S.p.A
Via San Donato, 197
40127 Bologna
Italy

T 0039 (0) 51 – 6045911
F 0039 (0) 51 – 6045999
E info.bologna@ria.it.gt.com
W www.ria-grantthornton.it

To the shareholders of
Aeffe S.p.A.

Report of the consolidated financial statements

We have audited the accompanying consolidated financial statements of Aeffe S.p.A. and its subsidiaries (the "Aeffe Group"), which comprise the statement of financial position as of December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements
The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/05.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree n. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.
An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall

presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Aeffe Group as of December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/05.

Other aspects
The consolidated financial statements of Aeffe Group for the year ended December 31, 2015 were audited by the auditor in charge at the time who expressed an unmodified opinion on those statements on March 22, 2016.

Report on compliance with other laws and regulation

Opinion on the consistency of the consolidated financial statements with the report on operations and of certain information set out on corporate governance and ownership structure
We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in art. 123-bis, paragraph 4 of Legislative Decree n. 58/98, which are the responsibility of the directors of Aeffe S.p.A., with the consolidated financial statements of Aeffe Group. in our opinion, the report on operations and of the information set out in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Aeffe Group as of December 31, 2016.

Bologna, March 21, 2017

Ria Grant Thornton S.p.A.

Signed by

Sandro Gherardini
Partner

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international.

EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe Group operates worldwide in the luxury goods sector and is active in the design, production and distribution of products of high quality and stylistic uniqueness.

The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Philosophy", "Moschino" and "Pollini", and licensed brands, which include "Blugirl", "Cedric Charlier" and "Jeremy Scott".

The Group also has licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches sunglasses and other).

The Group's business is divided, based on the various product lines and brands it sells, into two segments: prêt-a-porter (which includes prêt-a-porter, lingerie and swimwear) and footwear and leather goods.

The Parent Company Aeffe, an Italian legal entity incorporated as a public limited company (società per azioni) based in San Giovanni in Marignano (RN), is currently listed in the – STAR Segment – of the MTA, the Italian Stock Exchange operated by Borsa Italiana.

Aeffe is controlled by the company Fratelli Ferretti Holding S.r.l., of which in the attachment V are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

These consolidated financial statements include the financial statements of the Parent Company Aeffe and its subsidiaries and the Group's equity interests in affiliated companies. They consist of the balance sheet, income statement, comprehensive income statement, statement of changes in equity, cash flow statement and these notes.

The financial statements are expressed in euro, since this is the currency in which most of the Group's transactions are conducted. Foreign operations are included in the consolidated financial statements according to the principles stated in the notes that follow.

DECLARATION OF CONFORMITY AND REPORTING PRINCIPLES

Pursuant to art. 3 of Decree 38/2005 dated 28th February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CONSOB and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27th July 2006 and communication DEM/6064293 dated 28th July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November 2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information are presented in the Directors' Report (Report on operations).

Unless otherwise indicated in the measurement bases described below, these consolidated financial statements were prepared in accordance with the historic cost principle.

The measurement bases were applied uniformly by all Group companies.

CONSOLIDATION PRINCIPLES

The scope of consolidation at 31 December 2016 includes the financial statements of the Parent Company Aeffe and those of the Italian and foreign companies in which Aeffe holds control either directly or through its subsidiaries and associates or in which it exerts a dominant influence.

If necessary, adjustments were made to the financial statements of subsidiaries to bring their accounting polices into line with those adopted by the Group.

Companies are consolidated using the line-by-line method. The principles adopted for the application of this method are essentially as follows:

- the book value of equity investments held by the Parent Company or other consolidated companies is written-off against the corresponding net equity at 31 December 2016 in relation to assumption of the assets and liabilities of the subsidiaries;
- the difference between historical cost and fair value of the net equity of shareholdings on the acquisition date is allocated as much as possible to the assets and liabilities of the shareholdings. The remainder is allocated to goodwill. In accordance with the transitional provisions of IFRS 3, the Group, in case it was present, has ceased to depreciate goodwill, instead subjecting it to impairment tests;
- significant transactions between consolidated companies are written-off, as are receivables and payables and earnings not yet realised from third parties arising from transactions between Group companies, excluding any tax effect;
- minority interests in shareholders' equity and net profit are reported in the relevant items of the consolidated balance sheet and income statement;
- companies acquired during the period are consolidated from the date on which majority control was achieved.

Subsidiaries

Subsidiaries are enterprises controlled by the company. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated from the date on which the Group acquires control and until the date when such control ceases.

The acquisition of subsidiaries is accounted for using the historical method. Historical cost is determined by adding together the fair values of the assets contributed, the shares issued and the liabilities assumed on the acquisition date, plus the costs directly associated with the acquisition. Any surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate is recognised as goodwill.

If the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate exceeds historical cost, the difference is immediately recorded in the income statement.

Intercompany balances, transactions, revenue and costs are eliminated in the consolidated statements.

Furthermore, intercompany business combinations are recognised by maintaining the same book value of assets and liabilities as previously recorded in the consolidated financial statements.

Associates

An associate is an enterprise in which the Group has significant influence, but has neither sole or joint control, by taking part in decisions regarding the company's financial and operating strategy.

Trading results and the assets and liabilities of associates are accounted for in the consolidated financial statements based on the equity method, except where they are classified as held for sale.

According to this method, equity interests in associates are recorded in the balance sheet at cost, adjusted to take account of changes following the acquisition of their net assets, excluding any loss in value of individual investments. Losses of associates that exceed the Group's percentage interest in them (including long-term receivables that essentially form part of the Group's net investment in the associate) are not recognised unless the Group has an obligation to cover them. The surplus acquisition cost over the parent's percentage share of the present value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subjected to impairment tests. The historical cost deficit compared with the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of associates on the acquisition date is credited to the income statement in the year of acquisition. With reference to operations between a Group company and an associate, unrealised gains and losses are eliminated in equal measure to the Group's percentage interest in the associate, except for cases where the unrealised losses constitute evidence of impairment of the asset transferred.

SCOPE OF CONSOLIDATION

In accordance with Article 126 of Consob Regulation 11971 of 14 May 1999, as subsequently amended, a complete list of Group companies and significant investments at 31 December 2016 is provided in the following table.

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Companies included in the scope of consolidation					
Italian companies					
Aeffe Retail S.p.A.	S.G. in Marignano (RN) Italy	EUR	8,585,150	100%	
Clan Cafè S.r.l.	S.G. in Marignano (RN) Italy	EUR	100,000		62,9% (iii)
Moschino S.p.A.	S.G. in Marignano (RN) Italy	EUR	66,817,108	70%	
Pollini S.p.A.	Gatteo (FC) Italy	EUR	6,000,000	100%	
Pollini Retail S.r.l.	Gatteo (FC) Italy	EUR	5,000,000		100% (i)
Velmar S.p.A.	S.G. in Marignano (RN) Italy	EUR	120,000	100%	
Foreign companies					
Aeffe France S.a.r.l.	Paris (FR)	EUR	50,000	100%	
Aeffe UK Ltd.	London (GB)	GBP	310,000	100%	
Aeffe USA Inc.	New York (USA)	USD	600,000	100%	
Divè S.a.	Galazzano (RSM)	EUR	260,000	75%	
Fashoff UK Ltd.	London (GB)	GBP	1,550,000		70% (ii)
Moschino Japan Inc.	Tokyo (J)	JPY	120,000,000		70% (ii)
Moschino Korea Ltd.	Seoul (ROK)	KRW	6,192,940,000		70% (ii)
Moschino France S.a.r.l.	Paris (FR)	EUR	1,612,000		70% (ii)
Moschino Retail G.m.b.h.	Berlin (D)	EUR	395,500		70% (ii)
Moschino USA Inc.	New York (USA)	USD	10,000		70% (ii)
Aeffe Japan Inc.	Tokyo (J)	JPY	3,600,000	100%	
Bloody Mary Inc.	New York (USA)	USD	100,000		70% (ii)
Pollini Suisse S.a.g.l.	Chiasso (CH)	CHF	20,000		100% (i)
Pollini Austria G.m.b.h.	Vienna (A)	EUR	35,000		100% (i)

Notes (details of in direct shareholdings):

(i) 100% owned by Pollini S.p.A.;

(ii) 100% owned by Moschino S.p.A.;

(iii) 62,893% owned by Aeffe Retail.

Notes (details of in direct shareholdings):

a) Capital increase of EUR 46.817.108 for Moschino S.p.A..

FOREIGN CURRENCIES

Functional and reporting currency

The amounts in the financial statements of each Group enterprise are measured using the operating currency or the currency of the economic area in which the enterprise operates. These consolidated financial statements are presented in EUR, which is the operating and reporting currency of the parent company.

Foreign currency transactions

Foreign currency transactions are converted into the operating currency at the exchange rate in force on the transaction date. Cash assets and liabilities denominated in foreign currencies are converted at the exchange rate in force on the balance sheet date. Any exchange rate differences arising from the elimination of these transactions or from the conversion of cash assets and liabilities are posted to the income statement. Non-cash assets and liabilities in foreign currencies that are measured at fair value are converted at the exchange rates in force on the date on which the fair value was determined.

Financial statements of foreign companies

The financial statements of companies outside the EUR zone are translated into EUR based on the following procedures:

(i) assets and liabilities, including goodwill and fair value adjustments arising from consolidation are converted at the exchange rate in force on the balance sheet date;

(ii) revenue and costs are converted at the average rate for the period, which must be close to the exchange rate in force on the transaction date;

(iii) exchange rate differences are recognised in a separate account in shareholders' equity. When a foreign company is sold, the total amount of accumulated exchange rate differences relating to that company are recorded in the income statement.

The exchange rates used for the conversion into euro of the financial and equity statements of companies included in the scope of consolidation are listed in the following table:

Currency description	Actual exchange rate 31 December 2016	Average exchange rate 2016	Actual exchange rate 31 December 2015	Average exchange rate 2015
United States Dollars	1.0541	1.1069	1.0887	1.1095
United Kingdom Pounds	0.8562	0.8195	0.7340	0.7259
Japanese Yen	123.4000	120.1967	131.0700	134.3140
South Korean Won	1,269.3600	1,284.1811	1,280.7800	1,256.5444
Swiss franc	1.0739	1.0902	1.0835	1.0679

FINANCIAL STATEMENT FORMATS

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Group has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. Within the income statement, as intermediate results, they are exposed EBITDA and EBIT, considered representative indicators of company performance. The cash flow statement is presented using the "indirect" format.

With reference to Consob Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On July 24, 2014 the IASB issued the final version of IFRS 9 - Financial Instruments.

There follows the main aspects of the new international accounting principle:

- Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

- Impairment

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the new impairment requirements.

- Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

- Own credit

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Early application of this improvement to financial reporting, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

The amendments will apply for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

On September 11, 2015 the IASB published the document Effective Date of IFRS 15, in which it has been deferred by one year, from the January 1, 2017 to the January 1, 2018, the effective date of the IFRS 15 "Revenue from Contracts with Customers".

On January 13, 2016 the IASB published the new accounting Standard, IFRS 16 Leases that will replaces IAS 17 Leases, 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.

It sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. it is yet to be endorsed for application in the European Union.

On 19 January 2016 the IASB published amendments to IAS 12 Income Taxes. The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

On 29 January 2016 the IASB published amendments to IAS 7 Statement of Cash Flows. The improvements to disclosures require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company's debt. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017.

On 12 April 2016 the IASB published Clarifications to IFRS 15 'Revenue from Contracts with Customers". The amendments include additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 20 June 2016 the IASB published some amendments to IFRS 2 "Share-based Payment" clarifying the classification and measurement of share-based payment transactions and the accounting of some types of share-based paymentss. It also introduces an exception to IFRS 2 requesting to be treated entirely share-based payment the awards for which the Tax legislation provides for a deduction and therefore a subsequent payment to the Treasury. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published the 'Transfers of Investment Property (Amendments to IAS 40)' to clarify transfers of property to, or from, investment property, stating that the transfer occurred when, and only when, there is evidence of a change in use. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published Annual Improvements to IFRSs 2014 – 2016 Cycle. The document introduces amendments to the following principles: (i) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters The IASB proposes to delete the short-term exemptions in IFRS 7, IAS 19 and IFRS 10 because they have now served their intended purpose; (ii) amendments to IFRS 12 Disclosure of Interests in Other Entities: amendments to IAS 28 Investments in Associates and Joint Ventures related to the measurement at fair value of an investment in an associate or a joint venture. The application is effective for annual reporting periods beginning on or after 1 January 2018.

On 8 December 2016 the IASB published IFRIC Interpretation 22 "Foreign Currency Transactions and Advance

Consideration". The document clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The application is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

The Group will adopt these new standards, amendments and interpretations, based on the data of scheduled Application, and assess potential impacts, when these will be approved by the European Union.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2016 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company and able to generate future economic benefits for the Group. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (*Impairment of Assets*). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.

Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Goodwill

Goodwill arising from the acquisition of a subsidiary or joint venture represents the surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or joint venture on the acquisition date. Goodwill is recognised as an asset and reviewed annually to make sure that there is no impairment. Impairment losses are recognised in the income statement and are not restated.

In case of the disposal of a subsidiary or joint venture, the amount of goodwill not yet amortised is included in the calculation of the capital gain or loss on disposal.

If the net fair value of the identifiable assets, liabilities and contingent liabilities of the shareholding exceeds the acquisition cost, the difference is immediately recorded in the income statement.

When the acquisition contract allows the adjustment of the acquisition price based on future events, the estimated adjustment must be included in the acquisition cost if the adjustment seems probable and the amount can be reliably estimated. Any future adjustments to the estimate are recorded as a goodwill adjustment.

At 31 December 2016, the company has not recorded values related to goodwill in the financial statements.

Key money

Intangible fixed assets also include key money, or amounts paid by the Group to take over contracts relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. These assets are treated, as intangible fixed assets with a definite useful life. Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

Brands

Brands are recognised at cost and are amortised systematically on a straight-line basis during their estimated useful life (40 years) from when the asset is available for use. By applying IFRS 3, all business combinations since 31 December 2001 have been restated, with an indication, based on an independent estimate, of the new value of intangible fixed assets that were not reported when the shareholdings were acquired.

The Group has seen fit to give brands a finite life of 40 years in view of the policies adopted by other market operators. Prudently, it has adopted an extremely long – although not infinite and thus unidentifiable – useful life for its own brands (reflecting the prolonged benefits derived from these). This decision is in line with intangible fixed assets typical of the fashion industry, based on previous experience of other international operators in the sector (market comparables).

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.

The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectua property	33%
Brands	2.5%

Research costs are charged to the income statement as incurred.

At 31 December 2016, the company has not recorded intangible fixed assets with an "infinite" useful life in the financial statements.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.

Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.

Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.

Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.

As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).

The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2% - 2,56%
Plant and machinery	10% - 12,5%
Industrial and commercial equipment	25%
Electronic machines	20%
Motor vehicles	20%
Cars	25%

Land is not depreciated.

Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Group, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.

Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Group are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Financial leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.

On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Group substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

Key money, brands and other intangible fixed assets are subjected to impairment testing each year, or more frequently if there is evidence of a possible loss of value.

Tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired.

Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

The comparison between the value of the Group shareholders' equity per share and the share list value at year-end and during the period until the date these financial statements were drawn up shows a book value higher than the market value. The directors believe that this evidence is basically attributable to the particular situation of the financial markets happened in the aftermath of the actual difficult situation of the world markets. Therefore, the market value is not considered representative of the Group value.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.

The recoverable value of these assets is the higher between their fair value, net of disposal costs, and their value in use. In order to determine value in use, the estimated future cash flows, including those deriving from the disposal of the asset at the end of its useful life, are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Group's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.

The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.

Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.

The written down value of goodwill is never reinstated.

Equity investments

Equity investments in non-consolidated subsidiaries, associates and joint ventures are recognised according to the equity method. The surplus cost over shareholders' equity on the acquisition date is treated in the same way as described in the section on consolidation principles. Other equity investments are recognised using the cost method, which is reduced for impairment losses. The original value is restated in subsequent years if the reasons for the write-down no longer apply.

Assets held for sale

This item includes assets where the book value will be recovered mainly through sale rather than continuous use. For this to happen, the asset (or group) must be available for sale in its current condition, subject to standard conditions applicable to the sale of such assets (or groups), and the sale must be highly probable. An asset classified as held for sale is recognised at the lesser of its book value and fair value, excluding selling costs, as stipulated in IFRS 5.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their estimated net realisable value. Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.

The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.

Obsolete and slow-moving inventories are written down to reflect their likely use or realisability.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions

The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits

Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Group contributions to defined benefit plans are charged to the income statement on an accruals basis.

The Group's net liability for defined benefit plans is determined on an actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1 January 2005, the IFRS transition date, have been recognised.

Financial payables

Financial payables, excepting derivates, are recorded at their fair value, after transactions costs directly attributable.

Bank overdrafts and loans

Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.

Loans are classified as current liabilities unless the Group has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables

Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Treasury shares

Treasury shares are presented as a deduction from capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The Group has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

Revenue

Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Company are recognised on the following basis:

- retail sales – on delivery of the goods;
- wholesale sales – on shipment of the goods;
- royalties and commissions – on an accrual basis.

Costs

Costs and expenses are recognised on an accrual basis.

Design and production costs for sample collections incurred during the period are correlated to the turnover from sales of collection and are thus carried in the income statement in proportion to the revenue generated. The remaining portion to be carried in the income statement during the period in which the corresponding revenue is generated is posted to other current assets.

Financial income and expenses

These include all items of a financial nature written to the income statement for the period, including interest payable on financial debts calculated using the effective interest method (mainly current account overdrafts and medium and long-term loans), foreign currency gains and losses, dividends received, and the portion of interest payable deriving from the accounting treatment of assets under finance leases (IAS 17).

Interest income and expenses are reported in the income statement for the period in which they are realised/incurred.

Dividends are recognised in the period when the Group's right to a dividend payment matures, subject to ratification.

The amount of interest payable on finance leases is booked to the income statement using the effective interest method.

Taxes

Income taxes for the period include all taxes calculated on taxable income. Income taxes for the period are recorded in the income statement.

Taxes other than income taxes, such as property tax, are reported under operating expenses or, if the necessary conditions are fulfilled, are capitalized in the related real estate.

Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date.

Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.

Payables for deferred taxes relate to:

- positive components of income for the current period but taxable in future periods;
- negative components of income deductible in excess compared to the amount recorded in the income statement as a result of the application of the International Accounting Standards.

Receivables for deferred taxes are recognised:

- for all negative components of income non-deductible in the period under examination but that could be deducted in future periods;
- for the carryover of unused tax losses, if it is probable that taxable income, for which the tax loss may be used, will be generated.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to tax calculation on income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force on the balance sheet date.

The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the consolidated financial statement, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Group.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the company applied the method described above in the paragraph entitled “Impairment of value of assets”.

Key money

The recoverable value of key money was calculated using the higher between the current value and the value determinable by use.

Current value: this value was calculated by estimating both the cost of establishing the network of boutiques, subject to the impairment test at current values, and as the current market value in case of transfer to others of the rental contract for each boutique (considered as “cash generating units”).

The estimates used to calculate the values as indicated above are illustrated below:

- annual value of the rental contracts from the total spent in 2016;
- annual hypothetical increase in rents for about 2.5%;
- possible renewal on expiration of each contract for a period equal to that foreseen by the contract in existence as of 31 December 2016;
- terminal value after first renewal.

The discount rates used are as follows:
- Risk-free rate for established contracts, 3%;
- Hypothetical renewal rate after the first expiration, 5%;
- Terminal value rate, 20%.

Value calculable on the basis of use: the evaluation derives from the cash flow analyses of the characteristic activity of each boutique (“cash generating unit”). The cash flows of the “cash generating units” attributable to each key money were derived for the year 2017 from a budget simulation that, depending on the boutique, foresees variations of turnover around a range that goes from +48% in the most optimistic cases to -18% in the most pessimistic. These estimates are not an indication of the performance of the retail business for 2017 but were used to make a prudential calculation for the test purpose only. For the years 2018 and 2019 and to calculate the terminal value we considered generally a turnover growth rate of 5%. As a discount rate we used the average cost of capital (WACC) which is 4.06%.

Brands

To calculate the recoverable value of the brands entered in the financial statement, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of these intangible assets, for a period equal to 40 years. To calculate the values on this basis it has been used for the year 2017 the Group budget. For the remaining periods it has been used an increase in turnover with a CAGR variable from 2.2% to 2.5%. As royalty rates we used the averages for the sector and as discount rate we used the average cost of capital (WACC) which is 4.06%.

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:
- The inflation rate foreseen is 1.50%;
- The discount rate used is 1.21%;
- The annual rate in increase of the severance indemnity fund foreseen is 2.625%;
- The expected turn-over of employees is 6% for Aeffe S.p.A., 10% for Aeffe Retail S.p.A, 8% for Moschino S.p.A. and Pollini Retail and 5% for Pollini S.p.A and Velmar S.p.A.
- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:
- The voluntary turnover rate foreseen is 0.00%;
- The corporate turnover rate foreseen is 5.00% for all the Group’s companies;
- The discount rate used is 1.21%.

OTHER INFORMATION

Segment information

Within a group, various segments are distinguishable providing a series of homogeneous products or services (business segment) or providing products and services in a specific geographical area (geographical segment). Specifically, in Aeffe Group, two areas of activity are identified:

(i) Prêt-a-porter Division;

(ii) Footwear and leather goods Division.

In accordance with IFRS 8, segment information can be found in the section entitled "Comments on the income statement and segment information".

Management of financial risk

The financial risks to which the Group is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the currency risk, rate risk, price risk);
- credit risk;

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury and, except in a few cases (Pollini Group) it is managed by the individual companies that, however, are coordinated by the treasury on the basis of the guidelines established by the Managing Director of the Group and approved by the Chief Executive Officer.

The main goal of these guidelines consists of:

(i) **Liquidity risk**

The Group manages the liquidity risk with a view to guarantee, at the consolidated level, the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

The credit lines, though negotiated at the Group level, are granted to the individual companies.

As of the date of this financial statement, the companies in the Group with the main short and medium/long-term loans from banks are the parent company, Pollini, Moschino and Velmar.

(ii) **Exchange risk:**

The Group operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using for the main companies of the Group exposed to the exchange risk, the opening of loans in foreign currency and the subscription of forward foreign exchange contracts..

(iii) **Rate risk:**

The interest rate risk to which the companies in the Group are exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Group to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards. As of 31 December 2016 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 223 thousand annually (EUR 345 thousand as of 31 December 2015).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2016 there are no instruments that hedge interest-rate risk.

(iv) **Price risk**

The Group makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Group deals only with known and reliable clients. It is a policy of the Group that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits "exceeding 90 days", where necessary, legal steps are taken.

As regards foreign receivables, the Group proceeds as follows:

a) Part of the foreign credits are guaranteed by primary credit insurance companies;
b) The residual uninsured part of the receivable is managed:
    a. Most of it by request of letter of credit and 30% advances within two weeks of the order confirmation;
    b. The residual receivables not covered by insurance, by letter of credit or by advances, are specifically authorized and managed as settled by the Italian receivable procedure.

The unexpired receivables, amounting to a total of EUR 25,125 thousand as of 31 December 2016, represent 62% of the receivables entered in the financial statements. This percentage decreases compared to the 65% of the previous year.

This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the company an income from the relationship.
As of the reference date of the financial statement, the maximum credit risk exposure is equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Trade receivables	40,711	38,256	2,455	6.4%
Other current receivables	25,083	26,254	(1,171)	(4.5%)
Other fixed assets	3,962	4,265	(303)	(7.1%)
Total	**69,756**	**68,775**	**981**	**1.4%**

See note 5 for the comment and breakdown of the item "other fixed assets" note 8 "trade receivables" and note 12 for "other current receivables".
The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.
As of 31 December 2016, overdue but not written-down trade receivables amount to EUR 15,586 thousand (EUR 13,399 thousand in 2015). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
By 30 days	7,036	4,665	2,371	50.8%
31 - 60 days	3,662	1,034	2,628	254.2%
61 - 90 days	913	1,124	(211)	(18.8%)
Exceeding 90 days	3,975	6,576	(2,601)	(39.6%)
Total	**15,586**	**13,399**	**2,187**	**16.3%**

No significant risk of default with respect to such overdue receivables.

Cash flow statement

The cash flow statement presented by the Group in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the cash flow statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.

Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.

Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are included in the cash flows from operating activities.

Under IAS 7, the cash flow statement must identify separately the cash flow deriving from operating, investing and financing activities:

- cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Group using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);

- cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;
- cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

1. *Intangible fixed assets*

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Brands	Key money	Other	Total
Net book value as of 01.01.15	**92,456**	**34,917**	**554**	**127,927**
Increases	-	1,588	485	2,073
- increases externally acquired	-	*1,588*	*485*	*2,073*
- increases from business aggregations	-	-	-	-
Disposals	-	-	(56)	(56)
Translation differences and other variations	-	-	30	30
Amortisation	(3,494)	(3,296)	*(363)*	(7,153)
Net book value as of 31.12.15	**88,962**	**33,209**	**650**	**122,821**
Increases	-	938	482	1,420
- increases externally acquired	-	*938*	*482*	*1,420*
- increases from business aggregations	-	-	-	-
Disposals	-	(2,278)	-	(2,278)
Translation differences and other variations	-	-	(25)	(25)
Amortisation	(3,493)	(2,946)	*(367)*	(6,806)
Net book value as of 31.12.16	**85,469**	**28,923**	**740**	**115,132**

The intangible fixed assets highlight the following variations:

- increases, equal to EUR 1,420 thousand, mainly related to key money and software;
- decreases, equal to EUR 2,278 thousand mainly related to the sale of a boutique;
- translation differences and other variations, equal to EUR 25 thousand;
- amortisation of the period is EUR 6,806 thousand.

Brands

This item includes the Group's own-label brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino", "Love Moschino", "Pollini", "Studio Pollini"). A breakdown of brands is given below:

(Values in thousands of EUR)	Brand residual life	31 December 2016	31 December 2015
Alberta Ferretti	26	3,275	3,400
Moschino	28	47,623	49,551
Pollini	24	34,571	36,011
Total		**85,469**	**88,962**

The decrease between the two periods refers exclusively to the amortisation of the period.

Key money

Key money refers to the amounts paid by the Group to take over leases relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition.

The directors prudentially deemed correct to change the estimate of useful life of key money switching from an indefinite useful life to a finite useful life.

Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

Other

The item other mainly includes software licences.

2. *Tangible fixed assets*

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.15	**16,828**	**23,688**	**16,178**	**2,953**	**309**	**3,815**	**63,771**
Increases	130	8	2,478	531	133	1,487	4,767
Disposals	-	-	(79)	(16)	(1)	(100)	(196)
Translation differences and other variations	-	-	197	(6)	44	186	421
Depreciation	-	(561)	(2,795)	(878)	(127)	(1,141)	(5,502)
Net book value as of 31.12.15	**16,958**	**23,135**	**15,979**	**2,584**	**358**	**4,247**	**63,261**
Increases	161	86	1,796	791	95	1,055	3,984
Disposals	-	-	(357)	(10)	(7)	(133)	(507)
Translation differences and other variations	-	-	(277)	(3)	2	65	(213)
Depreciation	-	(562)	(2,676)	(696)	(137)	(1,078)	(5,149)
Net book value as of 31.12.16	**17,119**	**22,659**	**14,465**	**2,666**	**311**	**4,156**	**61,376**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 3,984 thousand. These mainly refer to new investments in the renovation and modernisation of shops, the purchase of plant and equipment and the purchase of electronic machines.
- Disposals, net of the accumulated depreciation, of EUR 507 thousand;
- Decrease for differences arising on translation and other variation of EUR 213 thousand which mainly relates to the translation differences of the foreign subsidiaries.
- Depreciation of EUR 5,149 thousand charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. *Equity Investments*

This item includes shareholdings measured at the cost.

4. *Long term financial receivables*

Long term financial receivables increase from EUR 2,031 thousand at December 31, 2015 to EUR 3,391 thousand at December 31, 2016. The variation is determined by the long-term portion of the financial receivable generated by the sale of a boutique.

5. *Other fixed assets*

This item mainly includes a long-term receivable related to the income recognized by Woollen Co., Ltd. to Aeffe Group as a result of the reorganization of the Japanese Distribution Network and receivables for security deposits related to commercial leases.

6. *Deferred tax assets and liabilities*

The table below illustrates the breakdown of this item at 31 December 2016 and at 31 December 2015:

(Values in thousands of EUR)	Receivables		Liabilities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Tangible fixed assets	35	-	(26)	(32)
Intangible fixed assets	3	3	(144)	(163)
Provisions	2,425	1,625	-	-
Costs deductible in future periods	5,958	4,849	-	-
Income taxable in future periods	399	443	(1,638)	(1,658)
Tax losses carried forward	4,174	3,557	-	-
Other	5	5	(156)	(59)
Tax assets (liabilities) from transition to IAS	857	607	(29,022)	(30,296)
Total	**13,856**	**11,089**	**(30,986)**	**(32,208)**

Changes in temporary differences during the period are illustrated in the following table:

(Values in thousands of EUR)	Opening balance	Differences arising on translation	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	(32)	2	39	-	9
Intangible fixed assets	(160)	-	19	-	(141)
Provisions	1,625	12	788	-	2,425
Costs deductible in future periods	4,849	9	1,100	-	5,958
Income taxable in future periods	(1,215)	-	(24)	-	(1,239)
Tax losses carried forward	3,557	97	1,116	(596)	4,174
Other	(54)	(6)	(76)	(15)	(151)
Tax assets (liabilities) from transition to IAS	(29,689)	-	1,468	56	(28,165)
Total	**(21,119)**	**114**	**4,430**	**(555)**	**(17,130)**

The negative variation of EUR 555 thousand in the column "Other" refers mainly to the partial compensation of the tax payable for IRES of the period generated in Aeffe Spa as a consequence of the adhesion of the subsidiaries to the fiscal consolidation with the receivable for deferred tax generated in some of the Group's subsidiaries.

Deferred tax assets related to costs deductible in future periods mainly relate to the deferred taxation on provisions for doubtful investments and for future risks and charges.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

7. *Stocks and inventories*

This item comprises:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Raw, ancillary and consumable materials	15,887	15,649	238	1.5%
Work in progress	6,696	6,752	(56)	(0.8%)
Finished products and goods for resale	66,787	67,506	(719)	(1.1%)
Advance payments	20	81	(61)	(75.3%)
Total	**89,390**	**89,988**	**(598)**	**(0.7%)**

The entry stocks and inventories decreases of EUR 598 thousand.

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2017 collections, while finished products mainly concern the Autumn/Winter 2016 and the Spring/Summer 2017 collections and the Autumn/Winter 2017 sample collections.

8. *Trade receivables*

This item is illustrated in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Trade receivables	43,499	40,215	3,284	8.2%
(Allowance for doubtful account)	(2,788)	(1,959)	(829)	42.3%
Total	**40,711**	**38,256**	**2,455**	**6.4%**

Trade receivables amount to EUR 44,499 thousand at 31 December 2016, up 8.2% since 31 December 2015.

Management considers that the fair value of amounts due from customers approximates their book value.

The allowance for doubtful accounts is determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

9. *Tax receivables*

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
VAT	1,917	3,636	(1,719)	(47.3%)
Corporate income tax (IRES)	844	1,234	(390)	(31.6%)
Local business tax (IRAP)	150	975	(825)	(84.6%)
Amounts due to tax authority for withheld taxes	17	33	(16)	(48.5%)
Other tax receivables	1,166	1,352	(186)	(13.8%)
Total	**4,094**	**7,230**	**(3,136)**	**(43.4%)**

As of 31 December 2016, the Group's tax receivables amount to EUR 4,094 thousand. The variation of EUR 3,136 thousand compared with the value at 31 December 2015 is mainly due to the reduction of VAT receivable.

10. Cash

This item includes:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Bank and post office deposits	13,489	9,200	4,289	46.6%
Cheques	34	25	9	36.0%
Cash in hand	998	768	230	29.9%
Total	**14,521**	**9,993**	**4,528**	**45.3%**

Bank and postal deposits represent the nominal value of the current account balances with credit institutions, including interest accrued on the balance sheet date. Cash in hand represents the nominal value of the cash held on the balance sheet date.

The increase in cash and cash equivalents, recorded at 31 December 2016 compared with the amount recorded at 31 December 2015, is EUR 4,528 thousand. About the reason of this variation see the Cash Flow Statement.

11. Short term financial receivables

This item includes:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Financial receivables	2,236	1,816	420	23.1%
Total	**2,236**	**1,816**	**420**	**23.1%**

The variation of the period is related to the short term portion of the financial receivable generated by the sale of a boutique.

12. Other receivables

This caption comprimes:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Credits for prepaid costs	18,506	19,068	(562)	(2.9%)
Advances for royalties and commissions	774	741	33	4.5%
Advances to suppliers	79	203	(124)	(61.1%)
Accrued income and prepaid expenses	2,646	3,167	(521)	(16.5%)
Other	3,078	3,075	3	0.1%
Total	**25,083**	**26,254**	**(1,171)**	**(4.5%)**

Other short term receivables decrease of EUR 1,171 thousand mainly for the decrease in credits for prepaid costs.

Credits for prepaid costs relate to the costs incurred to design and make samples for the Spring/Summer 2017 and Autumn/Winter 2017 collections for which the corresponding revenues from sales have not been realised yet.

13. Assets and liabilities available for sale

This item is not changed during the period.

(Values in thousands of EUR)	31 December 2016	31 December 2015
Other fixed assets	437	437
Total Assets	**437**	**437**

14. Shareholders' equity

Described below are main categories of shareholders' equity at 31 December 2016, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change
Share capital	25,371	25,371	-
Share premium reserve	71,240	71,240	-
Other reserves	27,435	26,516	919
Fair value reserve	7,901	7,901	-
IAS reserve	11,459	11,459	-
Profits / (losses) carried-forward	(8,883)	(9,486)	603
Remeasurement of defined benefit plans reserve	(1,130)	(1,017)	(113)
Net profit / (loss) for the Group	3,641	1,522	2,119
Translation reserve	(1,262)	(1,762)	500
Minority interests	32,298	17,884	14,414
Total	**168,070**	**149,628**	**18,442**

Share capital

Share capital as of 31 December 2016, totally subscribed and paid, (gross of treasury shares) totals EUR 26,841 thousand, and is represented by 107,362,504 shares, par value EUR 0.25 each. At 31 December 2016 the Parent Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares is not changed during the period.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2015.

Other reserves

The changes in these reserves reflect the allocation of prior-year profit of the Parent Company.

Fair value reserve

The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Company at their fair value, as determined with reference to an independent appraisal.

IAS reserve

The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1. Each difference is allocated on a pro rata basis to minority interests.

Profits/(losses) carried-forward

The caption profits/(losses) carried forward records a positive variation as a consequence of the consolidated result at 31 December 2015.

Remeasurement of defined benefit plans reserve

The remeasurement of defined benefit plans reserve, formed as a result of the application, from 1st January 2013 (retrospectively), of the amendment to IAS 19, changes of EUR 113 thousand compared to the value at 31 December 2015.

Translation reserve

The increase of EUR 500 thousand related to such reserve is mainly due to the conversion of companies' financial statements in other currency than EUR.

Minority interests

The variation in minority interests is due to the subscription of the capital increase of Moschino Spa by minority shareholders and to the portion of profit/loss attributable to the minority shareholders.

Minority interests represent the shareholders' equity of consolidated companies owned by other shareholders and include the corresponding IAS reserve.

NON-CURRENT LIABILITIES

15. Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2015	Increases	Decreases	31 December 2016
Pensions and similar obligations	818	85	(171)	732
Other	251	1,623	(47)	1,827
Total	**1,069**	**1,708**	**(218)**	**2,559**

The additional client expenses reserve is determined based on an estimate of the liability relating to the severance of agency contracts, taking account of statutory provisions and any other relevant factor, such as statistical data, average duration of agency contracts and their rate of turnover. The item is calculated based on the actual value of the outflow necessary to extinguish the obligation.

Potential tax liabilities for which no reserves have been established, since it is not considered probable that they will give rise to a liability for the Group, are described in the paragraph “Potential liabilities”.

16. Post employment benefits

The severance indemnities payable on a deferred basis to all employees of the Group are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship.

For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees whose severance indemnities are paid into approved supplementary pension funds, which, in the circumstances, are deemed to represent defined contributions plans.

Changes in the provision are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2015	Increases	Decreases / Other changes	31 December 2016
Post employment benefits	6,552	220	(405)	6,367
Total	**6,552**	**220**	**(405)**	**6,367**

Increases include the share of post employment benefits matured in the year and the related revaluation, while the entry decreases/other changes includes the decrease for the liquidation of the post employment benefits for EUR 515 thousand and the actuarial gain of EUR 152 thousand.

17. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Loans from financial institutions	23,768	18,322	5,446	29.7%
Amounts due to other creditors	72	72	-	n.a.
Total	**23,840**	**18,394**	**5,446**	**29.6%**

The entry "Loans from financial institutions" relates to the portion of bank loans due beyond 12 months. This entry is mainly due to a ten-year mortgage loan to the Parent company Aeffe Spa for an amount of EUR 11.5 million on a real estate based in Gatteo, headquarter of the subsidiary Pollini Spa. It should be noted that such real estate from 2002 to 2012 was object of a lease-back operation.

All other operations are unsecured loans and bank finance not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice. Furthermore, there are no covenants to comply with specific financial terms or negative pledges.

The following table contains details of bank loans as of 31 December 2016, including the current portion and the long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long term portion
Bank borrowings	32,378	8,610	23,768
Total	**32,378**	**8,610**	**23,768**

The total due beyond five years amount to EUR 2,495 thousand.

18. Long-term not financial liabilities

This caption decreases of EUR 14.045 thousand as a result of the subscription of the capital increase of Moschino Spa by the parent company and by the shareholder Sinv S.p.A..

CURRENT LIABILITIES

19. Trade payables

Tax payables are analysed in comparison with the related balances as of 31 December 2015:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Trade payables	61,881	61,429	452	0.7%
Total	**61,881**	**61,429**	**452**	**0.7%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

The value at 31 December 2016 is substantially in line with the previous year.

20. Tax payables

Tax payables are analysed in comparison with the related balances as of 31 December 2015 in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Local business tax (IRAP)	271	-	271	n.a.
Corporate income tax (IRES)	4,235	-	4,235	n.a.
Amounts due to tax authority for withheld taxes	2,556	2,549	7	0.3%
VAT due to tax authority	287	453	(166)	(36.6%)
Other	27	13	14	107.7%
Total	**7,376**	**3,015**	**4,361**	**144.6%**

21. Short term financial liabilities

A breakdown of this item is given below:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Due to banks	55,814	75,985	(20,171)	(26.5%)
Total	**55,814**	**75,985**	**(20,171)**	**(26.5%)**

Current bank debts include advances granted by credit institutions, current loans and the current portion of long-term financing commitments. Advances mainly consist of withdrawals from short-term credit facilities to finance the working capital requirement. Current loans (due within 12 months) are loans granted by banks to the Parent Company and to other Group companies.

22. Other liabilities

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Due to total security organization	3,993	3,715	278	7.5%
Due to employees	5,501	4,662	839	18.0%
Trade debtors - credit balances	1,921	1,693	228	13.5%
Accrued expenses and deferred income	2,052	2,194	(142)	(6.5%)
Other	3,492	2,699	793	29.4%
Total	**16,959**	**14,963**	**1,996**	**13.3%**

The other short term liabilities amount to EUR 16,959 thousand at 31 December 2016 increasing of EUR 1,996 thousand compared with the previous year, mainly for the increase in payables due to employees.

SEGMENT INFORMATION REGARDING PROFIT OR LOSS, ASSETS AND LIABILITIES

In order to apply the IFRS 8 the Group has considered to delineate as operative sectors the same used by IAS 14 Segment reporting: *Prêt-à porter* Division and footwear and leather goods Division. Such decision has been taken because they represent business activities from which the entity may earn revenues and incur expenses, whose operating result are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Prêt-à porter Division is mainly represented by the companies Aeffe, Moschino and Velmar, operating in the design, production and distribution of luxury prêt-à porter and lingerie, beachwear and loungewear collections. The distribution of the collections takes place both via the retail channel and via the wholesale channel. Aeffe also handles the distribution of all Division products, which takes place via the retail channel through subsidiaries and via the wholesale channel.

In terms of prêt-à porter collections, the activity is carried out by Aeffe, both for the production of the Group's own-label brands ("Alberta Ferretti", "Philosophy", "Moschino", "Boutique Moschino" and "Love Moschino") and brands licensed from other companies (such as "Blugirl", "Cedric Charlier" and "Jeremy Scott"). Aeffe also handles the distribution of all Division products, which takes place via the retail channel through subsidiaries and via the wholesale channel.

Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear, beachwear and loungewear. Collections are produced and distributes under the Group's own-label brands such as "Moschino" and under third-party licensed brands such as "Blugirl".

The Prêt-a-porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino branded product lines such as the "Moschino" brand licensing agreement relating to the *love* line, "Moschino" branded perfumes and "Moschino" branded sunglasses.

The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials. The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.

The footwear and leather goods division also manages licensing agreements granted to other companies to manufacture "Pollini" products such as umbrellas, foulards and ties.

The following table indicates the main economic data for the full year 2016 and 2015 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**215,855**	**95,962**	**(31,126)**	**280,691**
Intercompany revenues	(7,258)	(23,868)	31,126	-
Revenues with third parties	**208,597**	**72,094**	-	**280,691**
Gross operating margin (EBITDA)	**18,925**	**6,270**	-	**25,195**
Amortisation	(9,090)	(2,865)	-	(11,955)
Other non monetary items:				
Write-downs	(2,873)	(281)	-	(3,154)
Net operating profit / loss (EBIT)	**6,962**	**3,124**	-	**10,086**
Financial income	529	1,425	(431)	1,523
Financial expenses	(2,505)	(1,204)	431	(3,278)
Profit / loss before taxes	**4,986**	**3,345**	**-**	**8,331**
Income taxes	(2,626)	(1,329)	-	(3,955)
Net profit / loss	**2,360**	**2,016**	**-**	**4,376**

(Values in thousands of EUR) 2015	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**207,221**	**95,751**	**(34,147)**	**268,825**
Intercompany revenues	(7,668)	(26,479)	34,147	-
Revenues with third parties	**199,553**	**69,272**	-	**268,825**
Gross operating margin (EBITDA)	**12,187**	**7,156**	-	**19,343**
Amortisation	(9,815)	(2,840)	-	(12,655)
Other non monetary items:				
Write-downs	(530)	(274)	-	(804)
Net operating profit / loss (EBIT)	**1,842**	**4,042**	-	**5,884**
Financial income	1,288	228	(539)	977
Financial expenses	(3,313)	(1,234)	539	(4,008)
Profit / loss before taxes	**(183)**	**3,036**	**-**	**2,853**
Income taxes	(1,224)	80	-	(1,144)
Net profit / loss	**(1,407)**	**3,116**	**-**	**1,709**

The following tables indicate the main patrimonial and financial data at 31 December 2016 and 2015 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 31 December 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*296,856*	*117,117*	*(57,604)*	356,369
of which non-current assets (*)				
Intangible fixed assets	*74,990*	*40,142*	-	*115,132*
Tangible fixed assets	*58,308*	*3,068*	-	*61,376*
Other non-current assets	*11,260*	*666*	*(4,442)*	*7,484*
OTHER ASSETS	*15,322*	*2,629*	-	17,951
CONSOLIDATED ASSETS	**312,178**	**119,746**	**(57,604)**	**374,320**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2016	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	148,916	76,577	*(57,604)*	167,889
OTHER LIABILITIES	27,609	10,753	-	38,362
CONSOLIDATED LIABILITIES	**176,525**	**87,330**	**(57,604)**	**206,251**

(Values in thousands of EUR) 31 December 2015	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*301,369*	*114,482*	*(56,598)*	359,253
of which non-current assets (*)				
Intangible fixed assets	*80,812*	*42,009*	*-*	*122,821*
Tangible fixed assets	*60,115*	*3,146*	*-*	*63,261*
Other non-current assets	*10,207*	*663*	*(4,442)*	*6,428*
OTHER ASSETS	*15,902*	*2,417*	-	18,319
CONSOLIDATED ASSETS	**317,271**	**116,899**	**(56,598)**	**377,572**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2015	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	*174,107*	*75,212*	*(56,598)*	192,721
OTHER LIABILITIES	23,973	11,250	-	35,223
CONSOLIDATED LIABILITIES	**198,080**	**86,462**	**(56,598)**	**227,944**

Segment information by geographical area

The following table indicates the revenues for the full year 2016 and 2015 divided by geographical area:

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2016	%	2015	%	Δ	%
Italy	126,079	44.9%	119,754	44.5%	6,325	5.3%
Europe (Italy and Russia excluded)	59,934	21.4%	56,842	21.1%	3,092	5.4%
Russia	9,107	3.2%	9,172	3.4%	(65)	(0.7%)
United States	22,941	8.2%	22,248	8.3%	693	3.1%
Rest of the World	62,630	22.3%	60,809	22.7%	1,821	3.0%
Total	**280,691**	**100.0%**	**268,825**	**100.0%**	**11,866**	**4.4%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

23. Revenues from sales and services

In 2016 consolidated revenues amount to EUR 280,691 thousand compared to EUR 268,825 thousand of the year 2015, showing an increase of 4.4% (+4.7% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 215,855 thousand with an increase of 4.2% at current exchange rates (+4.5% at constant exchange rates) compared to 2015. The revenues of the footwear and leather goods division increase by 0.2% to EUR 95,962 thousand.

24. Other revenues and income

This item comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	Change %
Extraordinary income	867	1,253	(386)	(30.8%)
Other income	5,950	3,960	1,990	50.3%
Total	**6,817**	**5,213**	**1,604**	**30.8%**

The caption extraordinary income, composed mainly by recovery of receivables from bankrupt customers, time expiry of receivables and payables that arose in prior years, decreases of EUR 386 thousand compared to the previous year.

The caption other income, that amounts to EUR 5,950 thousand in 2016, mainly includes exchange gains on commercial transaction, rental income sales of raw materials and packaging and the capital gain related to the sale of two boutique.

25. Costs of raw materials

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	Change %
Raw, ancillary and consumable materials and goods for resale	89,794	91,297	(1,503)	(1.6%)
Total	**89,794**	**91,297**	**(1,503)**	**(1.6%)**

The entry purchase of raw materials decrease of EUR 1,503 thousand.

This item mainly includes costs for the acquisition of raw materials such as fabrics, threads, skins and accessories, purchases of finished products for resale (products sold) and packaging.

26. Costs of services

This item comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Subcontracted work	25,369	26,336	(967)	(3.7%)
Consultancy fees	14,896	14,951	(55)	(0.4%)
Advertising	12,883	11,514	1,369	11.9%
Commission	6,787	5,232	1,555	29.7%
Transport	5,358	5,494	(136)	(2.5%)
Utilities	1,967	2,170	(203)	(9.4%)
Directors' and auditors' fees	2,958	2,675	283	10.6%
Insurance	569	560	9	1.6%
Bank charges	1,717	1,720	(3)	(0.2%)
Travelling expenses	2,048	2,244	(196)	(8.7%)
Other services	6,737	6,282	455	7.2%
Total	**81,289**	**79,178**	**2,111**	**2.7%**

Costs of services increase from EUR 79,178 thousand in the year 2015 to EUR 81,289 thousand in the year 2016, by 2.7%. The increase is mainly due to:

- the increase of costs for subcontracted work linked to the growth of sales;
- the increase in "consultancy fees" and "adverting" related to both the increase of marketing and advertising activities aimed at further enhancing Moschino and Alberta Ferretti brands, along with Philosophy di Lorenzo Serafini brand's relaunch, and the events dedicated to Moschino brand to promote the new men's collection, which has been produced in house since the launch of Autumn/Winter 2015 season;
- the increase of costs for "commission" linked to the growth of sales.

27. *Costs for use of third parties assets*

This item comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Rental expenses	20,028	20,806	(778)	(3.7%)
Royalties	1,960	1,939	21	1.1%
Hire charges and similar	859	793	66	8.3%
Total	**22,847**	**23,538**	**(691)**	**(2.9%)**

The costs for use of third parties assets decreases by EUR 691 thousand from EUR 23,538 thousand in 2015 to EUR 22,847 thousand in 2016.

28. *Labour costs*

Labour costs increase by EUR 2,402 thousand from EUR 61,088 thousand in 2015 to EUR 63,490 thousand in 2016, recording an incidence on revenues which changes from 22.7% in 2015 to 22.6% in 2016. The increase relates mainly to the enlargement of the production and of research and development department.

This item comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Labour costs	63,490	61,088	2,402	3.9%
Total	**63,490**	**61,088**	**2,402**	**3.9%**

In 2016 the average number of employees of the Group is:

Average number of employees by category	Full Year	Full Year	Change	
	2016	2015	Δ	%
Workers	229	226	3	1.3%
Office staff-supervisors	1,049	1,027	22	2.1%
Executive and senior managers	23	23	-	0.0%
Total	**1,301**	**1,276**	**25**	**2.0%**

29. *Other operating expenses*

This item includes:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Taxes	773	700	73	10.4%
Gifts	313	162	151	93.2%
Contingent liabilities	573	633	(60)	(9.5%)
Write-down of current receivables	180	344	(164)	(47.7%)
Foreign exchange losses	1,583	2,128	(545)	(25.6%)
Other operating expenses	556	713	(157)	(22.0%)
Total	**3,978**	**4,680**	**(702)**	**(15.0%)**

The caption other operating expenses amounts to EUR 3,978 thousand and decreases in absolute value of EUR 702 thousand compared to the previous year, in particular for lower foreign exchange losses generated by the change in dollars and pounds.

30. *Amortisation, write-downs and provisons*

This item includes:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Amortisation of intangible fixed assets	6,806	7,153	(347)	(4.9%)
Depreciation of tangible fixed assets	5,149	5,502	(353)	(6.4%)
Write-downs and provisions	3,154	804	2,350	292.3%
Total	**15,109**	**13,459**	**1,650**	**12.3%**

The increase of this caption from EUR 13,459 thousand in 2015 to EUR 15,109 thousand in 2016 is substantially generated by the provisions for future risks and charges recorded in 2016 mainly linked to organizational changes that will occur within the Group.

31. *Financial income/expenses*

This item include:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Interest income	173	225	(52)	(23.1%)
Foreign exchange gains	1,291	731	560	76.6%
Financial discounts	60	20	40	200.0%
Financial income	**1,524**	**976**	**548**	**56.1%**
Bank interest expenses	2,033	3,186	(1,153)	(36.2%)
Other interest expenses	241	310	(69)	(22.3%)
Foreign exchange losses	473	145	328	226.2%
Other expenses	531	366	165	45.1%
Financial expenses	**3,278**	**4,007**	**(729)**	**(18.2%)**
Total	**1,754**	**3,031**	**(1,277)**	**(42.1%)**

The decrease in financial income/expenses amounts to EUR 1,277 thousand. Such effect is substantially linked to lower financial expenses as a result of the better banking conditions applied by banks and of higher foreign exchange gains.

During 2016, the company Pollini Spa has signed contracts with forward currency purchase obligation for an equivalent amount in USD equal to EUR 15,410 thousand. The contracts do not have the coverage characteristics and therefore it has been decided to measure them at fair value. The evaluation of the contracts that have not yet expired on 31 December 2016 shows a positive effect of Euro 1,192 thousand, the notional underlying the contracts still outstanding at year end amounts to USD 17,500 thousand.

32. Income taxes

This item includes:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Current income taxes	8,532	4,719	3,813	80.8%
Deferred income (expenses) taxes	(4,430)	(3,644)	(786)	21.6%
Taxes related to previous years	(147)	69	(216)	n.a.
Total taxes	**3,955**	**1,144**	**2,811**	**245.8%**

Details of deferred tax assets and liabilities and changes in this item are described in the paragraph on deferred tax assets and liabilities. The reconciliation between actual and theoretical taxation for 2016 and 2015 is illustrated in the following table:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Profit / loss before taxes	8,331	2,853
Theoretical tax rate	27.5%	27.5%
Theoretical income taxes (IRES)	**2,291**	**785**
Fiscal effect	(828)	(3,037)
Effect of foreign tax rates	1,239	2,210
Total income taxes excluding IRAP (current and deferred)	**2,702**	**(42)**
IRAP (current and deferred)	**1,253**	**1,186**
Total income taxes (current and deferred)	**3,955**	**1,144**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow generated during 2016 is EUR 14,521 thousand.

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
OPENING BALANCE (A)	**9,993**	**6,692**
Cash flow (absorbed)/ generated by operating activity (B)	10,722	12,765
Cash flow (absorbed)/ generated by investing activity (C)	(2,305)	(7,090)
Cash flow (absorbed)/ generated by financing activity (D)	(3,889)	(2,374)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**4,528**	**3,301**
CLOSING BALANCE (F)=(A)+(E)	**14,521**	**9,993**

33. Cash flow (absorbed)/ generated by operating activity

The cash flow generated by operating activity during 2016 amounts to EUR 10,722 thousand.

The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Profit before taxes	8,331	2,853
Amortisation / write-downs	15,110	13,459
Accrual (+)/availment (-) of long term provisions and post employment benefits	1,305	(1,885)
Paid income taxes	(3,583)	(3,596)
Financial income (-) and financial charges (+)	1,754	3,031
Change in operating assets and liabilities	(12,195)	(1,097)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**10,722**	**12,765**

34. Cash flow (absorbed)/ generated by investing activity

The cash flow absorbed by investing activity during 2016 amounts to EUR 2,305 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Increase (-)/ decrease (+) in intangible fixed assets	883	(2,047)
Increase (-)/ decrease (+) in tangible fixed assets	(3,265)	(4,992)
Investments ans write-downs (-)/ Disinvestments and revaluations (+)	77	(51)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(2,305)**	**(7,090)**

35. Cash flow (absorbed)/ generated by financing activity

The cash flow absorbed by financing activity during 2016 amounts to EUR 3,889 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Other variations in reserves and profits carried-forward of shareholders' equity	20	(52)
Dividends paid	-	-
Proceeds (+)/ repayments (-) of financial payments	(679)	1,402
Increase (-)/ decrease (+) in long term financial receivables	(1,476)	(693)
Financial income (+) and financial charges (-)	(1,754)	(3,031)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(3,889)**	**(2,374)**

OTHER INFORMATION

36. Incentive plans

Regarding the long term incentive plans reserved to executive directors of Aeffe S.p.A., please refer to the indicated in the Report on remuneration available from the governance section of the following website: www.aeffe.com.

37. Net financial position

As required by Consob communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10th February 2005, the Group's net financial position as of 31 December 2016 is analysed below:

(Values in thousands of EUR)	31 December 2016	31 December 2015
A - Cash in hand	1,032	793
B - Other available funds	13,489	9,200
C - Securities held for trading	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*14,521*	*9,993*
E - Short term financial receivables	2,236	1,816
F - Current bank loans	(47,205)	(71,142)
G - Current portion of long-term bank borrowings	(8,610)	(4,843)
H - Current portion of loans from other financial istitutions	-	-
I - Current financial indebtedness (F) + (G) + (H)	*(55,815)*	*(75,985)*
J - Net current financial indebtedness (I) + (E) + (D)	*(39,058)*	*(64,176)*
K - Non current bank loans	(23,768)	(18,322)
L - Issued obbligations	3,391	2,031
M - Other non current loans	(72)	(72)
N - Non current financial indebtedness (K) + (L) + (M)	*(20,449)*	*(16,363)*
O - Net financial indebtedness (J) + (N)	**(59,507)**	**(80,539)**

The net financial position of the Group amounts to EUR 59,507 thousand as of 31 December 2016 compared with EUR 80,539 thousand as of 31 December 2015.

38. Earnings per share

Basic earnings per share:

(Values in thousands of EUR)	31 December 2016	31 December 2015
Consolidated earnings for the period for shareholders of the parent company	3,641	1,522
Medium number of shares for the period	101,486	101,486
Basic earnings per share	**0.036**	**0.015**

Following the issue on 24 July 2007 of 19 million new shares, taken up in full, the number of shares currently outstanding is 107,362,504.

39. Related party transactions

Reciprocal transactions and balances between Group companies included within the scope of consolidation are eliminated from the consolidated financial statements and as such will not be described here. Operations carried out with related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The Group's business dealing with other related parties are summarised below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Contract for the sale of artistic assets and design	300	300	Cost
Commerciale Valconca with Aeffe S.p.a.			
Commercial	1,247	733	Revenue
Property rental	50	50	Cost
Cost of services	74	72	Cost
Commercial	763	893	Receivable
Ferrim with Aeffe S.p.a.			
Property rental	1,779	1,783	Cost
Land purchase	-	130	Lands
Aeffe USA with Ferrim USA			
Property rental	723	721	Cost
Financial income	126	125	Financial income
Commercial	468	325	Receivable
Commercial	253	184	Payable
Non current financial	2,131	2,031	Receivable
Current financial	1,000	1,000	Receivable
Ferrim with Moschino S.p.a.			
Property rental	-	734	Cost
Aeffe France with Solide Real Estate France			
Property rental	-	225	Cost
Commercial	-	284	Payable
Moschino France with Solide Real Estate France			
Property rental	-	274	Cost
Commercial	-	7	Payable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet, cash flow and indebtedness as of 31 December 2016 and 31 December 2015.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2016	%	Balance Full Year	Value rel. party 2015	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	280,691	1,247	0.4%	268,825	733	0.3%
Costs of services	81,289	374	0.5%	79,178	372	0.5%
Costs for use of third party assets	22,847	2,552	11.2%	23,538	3,787	16.1%
Financial Income / expenses	1,754	126	7.2%	3,031	125	4.1%
Incidence of related party transactions on the balance sheet						
Non current financial receivables	17,119	-	0.0%	16,958	130	0.8%
Non current financial receivables	3,391	2,131	62.8%	2,031	2,031	100.0%
Trade receivables	40,711	1,231	3.0%	38,256	1,218	3.2%
Current financial receivables	2,236	1,000	44.7%	1,816	1,000	55.1%
Trade payables	61,881	253	0.4%	61,429	475	0.8%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	10,722	(1,788)	n.a.	12,765	(3,999)	n.a.
Cash flow (absorbed) / generated by investing activities	(2,305)	-	0.0%	(7,090)	(130)	1.8%
Cash flow (absorbed) / generated by financing activities	(3,889)	(100)	2.6%	(2,374)	(313)	13.2%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(59,507)	(1,888)	3.2%	(80,539)	(4,442)	5.5%

40. *Atypical and/or unusual transactions*

Pursuant to Consob communication DEM/6064293 dated 28th July 2006, it is confirmed that in 2016 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

41. *Significant non-recurring events and transactions pursuant to Consob regulation of 28th July 2006*

No significant non-recurring events, occurred during the year, have to be reported.

42. *Guarantees and commitments*

As of 31 December 2016, the Group has given performance guarantees to third parties totaling EUR 6,944 thousand (EUR 2,736 thousand as of 31 December 2015) and has received no guarantees (EUR 0 thousand as of 31 December 2015).

43. *Contingent liabilities*

Fiscal disputes

The Group's fiscal disputes refer to the following companies:

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years concern costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The

Company presented its counter analysis within the legally-prescribed time period. The Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

On 12 January 2012, the State Legal Bar disputed the validity of the judgment of the Bologna regional tax commission, by bringing an appeal before the Court of Cassation. The company, presented its counter-submission within the time limit established by the law.

The positive outcome at the first two levels of judgment means that the further development of this dispute can be considered in a positive light.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. The Bologna Regional Tax Commission ordered on 14 April 2011 the suspension of this judgment pending resolution of the dispute ruling related to the notice of assessment 81203T100570/20042 (tax year 2000). The judgment was summarized by Section 1 of the Regional Tax Commission of Bologna with the hearing on the merits on 26 May 2016, after postponed to 12 December 2016 and again postponed to 15 December 2016.

It was again placed the suspension of the trial pending a ruling of the Supreme Court.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies. On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted. On 13 July 2011, with tax return n. 137 2011 00031537 15 the company has been ordered to pay the amount registered in the roll by the Tax Office, provisionally awaiting trial, equal to half of the taxes in dispute, besides interests, for a total amount of EUR 161 thousand. This tax dispute has been disputed in December 2012 before the Bologna Provincial Tax Commission, who, with sentence no. 40/13/13, filed on 14 March 2013, has accepted the request of the company, annulling the contested measures with reference to the matter relating to intra-group costs for advertising contributions and confirming the contested measures related to the reliefs for costs to be incurred and intra-group costs for lease payments. The Office, with act of appeal notified to the company on 28 October 2013, appealed against the sentence of the Bologna Provincial Tax Commission requesting the reform in relation to the matter relating to intra-group costs for advertising contributions. The Company, on 23 December 2013, filed a timely notice of cross-appeal counterclaims and contextual interlocutory appeal. On 13 September 2016, the Company has formulated a proposed conciliation agreement aimed at achieving a settlement agreement that, if reached would not involve any outlay for the Company.

On 30 May 2014, following a general tax audit for IRES, IRAP and VAT for the tax years 2009, 2010 and 2011, by the Emilia Romagna Regional Management, Large Taxpayers Office, was issued a formal notice of assessment, with which the Tax Office has formulated remarks with recoveries of total taxes (IRES and IRAP) of EUR 210 thousand for 2009, EUR 350 thousand for 2010 and EUR 299 thousand for 2011. The complaints mainly concern the recovery of costs for commissions and advertising contributions granted to certain foreign subsidiaries and the failure to account for interest income on loans to foreign subsidiaries.

The company, on 29 July 2014, submitted comments pursuant to Article 12, paragraph 7, of Law 212 of 2000.

On 3 December 2014 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2009, the assessment notices n. TGB0EC700238/2014 (IRES) and n. TGB03C700239/2014 (IRAP), with a total recovery of taxes of EUR 210 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 25 September 2015 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2010, the assessment notices n. TGB0EC700149/2015 (IRES) and n. TGB03C700150/2015 (IRAP), with a total recovery of taxes of EUR 350 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 6 June 2016, the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2011, the assessment notices n. TGB0EC700080/2016 (IRES) and n. TGB0CC700083/2016 (IRAP), with total tax recoveries of Euro 299 thousand.

The assessment notice TGB0CC700083/2016 (IRAP) has been challenged before the competent Provincial Tax Commission of Bologna.

For the assessment notice TGB0EC700080/2016 (IRES) is ongoing its membership with the verification process.

It is noted that regarding the deductibility of advertising contributions to foreign subsidiaries (which constitute the bulk of disputes) the company has already received feedback from the Provincial Tax Commission of Bologna that, with judgment 40/13/13 filed on 14 March 2013 on the litigation referred to in paragraph above, has already rejected this type of dispute.

Velmar SpA: on 30 November 2015, following a general tax audit for IRES, IRAP and VAT for the tax year 2011 by the Rimini Tax Office, was issued a process report on findings in which was contested, IRES, IRAP and VAT, the deduction of costs relating to certain license agreements following a judgment of non appropriateness of the same.

The company has submitted comments pursuant to Article 12, paragraph 7, of Law 212 of 2000.

On 14 December 2016 were notified by the Provincial Department of Rimini Tax Office, the assessment notice no. THU0ES104990/2016 (IRES), together with the consolidating company Aeffe SpA, with a recovery of taxes of EUR 35 thousand and the assessment no. THU03S105024/2016 (VAT and IRAP) with total tax recoveries of EUR 13 thousand.

The company intends to oppose the tax dispute in litigation.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal and legal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

44. Information requested by art. 149-duodecies of the "Regolamento Emittenti" issued by Consob

The following table, prepared in accordance with art. 149-duodecies of the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2016 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	Service provider	2016 fees
Audit	RIA GRANT THORNTON	170
Audit	WARD DIVECHA	8
Audit	ARI AUDIT	4
Audit	MAZARS KOREA	3
Certification of R&D costs	BDO ITALIA	7
Stamp of approval of VAT declaration	BDO ITALIA	1
Total		**193**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I	Consolidated Assets Balance Sheet with related parties.
ATTACHMENT II	Consolidated Liabilities Balance Sheet with related parties.
ATTACHMENT III	Consolidated Income Statement with related parties.
ATTACHMENT IV	Consolidated Cash Flow Statement with related parties.
ATTACHMENT V	Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2015.

ATTACHMENT I

Consolidated Assets Balance Sheet with related parties

Pursuant to Consob Resolution n. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2016	of which Related parties	31 December 2015	of which Related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Key money		28,923,062		33,208,388	
Trademarks		85,468,751		88,962,178	
Other intangible fixed assets		740,072		650,184	
Total intangible fixed assets	(1)	115,131,885		122,820,750	
Tangible fixed assets					
Lands		17,118,773		16,958,413	130,000
Buildings		22,658,662		23,134,692	
Leasehold improvements		14,465,641		15,979,003	
Plant and machinary		2,665,840		2,583,550	
Equipment		311,406		358,278	
Other tangible fixed assets		4,155,699		4,246,676	
Total tangible fixed assets	(2)	61,376,021		63,260,612	
Other fixed assets					
Equity investments	(3)	131,558		131,558	
Long term financial receivables	(4)	3,390,633	2,130,633	2,031,138	2,031,138
Other fixed assets	(5)	3,961,836		4,265,083	
Deferred tax assets	(6)	13,856,302		11,089,214	
Total other fixed assets		21,340,329		17,516,993	
TOTAL NON-CURRENT ASSETS		**197,848,235**		**203,598,355**	
CURRENT ASSETS					
Stocks and inventories	(7)	89,389,833		89,988,199	
Trade receivables	(8)	40,711,059	1,230,887	38,256,285	1,217,814
Tax receivables	(9)	4,094,261		7,229,775	
Cash	(10)	14,521,334		9,992,726	
Short term financial receivables	(11)	2,235,854	1,000,000	1,815,854	1,000,000
Other receivables	(12)	25,082,908		26,254,111	
TOTAL CURRENT ASSETS		**176,035,249**		**173,536,950**	
Assets available for sale	(13)	436,885		436,885	
TOTAL ASSETS		**374,320,369**		**377,572,190**	

ATTACHMENT II

Consolidated Liabilities Balance Sheet with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2016	of which Related parties	31 December 2015	of which Related parties
SHAREHOLDERS' EQUITY	**(14)**				
Group interest					
Share capital		25,371,407		25,371,407	
Other reserves		115,641,684		114,336,595	
Profits / (losses) carried-forward		(8,883,005)		(9,486,229)	
Net profit / (loss) for the Group		3,641,244		1,522,096	
Group interest in shareholders' equity		135,771,330		131,743,869	
Minority interest					
Minority interests in share capital and reserves		31,563,069		17,697,516	
Net profit / (loss) for the minority interests		735,125		186,632	
Minority interests in shareholders' equity		32,298,194		17,884,148	
TOTAL SHAREHOLDERS' EQUITY		**168,069,524**		**149,628,017**	
NON-CURRENT LIABILITIES					
Provisions	(15)	2,558,786		1,068,715	
Deferred tax liabilities	(6)	30,985,927		32,207,692	
Post employment benefits	(16)	6,366,872		6,551,605	
Long term financial liabilities	(17)	23,840,201		18,393,626	
Long term not financial liabilities	(18)	469,000		14,330,132	
TOTAL NON-CURRENT LIABILITIES		**64,220,786**		**72,551,770**	
CURRENT LIABILITIES					
Trade payables	(19)	61,880,670	252,981	61,428,950	474,823
Tax payables	(20)	7,376,339		3,015,292	
Short term financial liabilities	(21)	55,814,445		75,984,725	
Other liabilities	(22)	16,958,605		14,963,436	
TOTAL CURRENT LIABILITIES		**142,030,059**		**155,392,403**	
Liabilities available for sale		-			
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**374,320,369**		**377,572,190**	

ATTACHMENT III

Consolidated Income Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	Full Year 2016	of which Related parties	Full Year 2015	of which Related parties
REVENUES FROM SALES AND SERVICES	**(23)**	**280,690,885**	**1,246,673**	**268,824,621**	**733,499**
Other revenues and income	(24)	6,816,595		5,213,423	
TOTAL REVENUES		**287,507,480**		**274,038,044**	
Changes in inventory		(913,774)		5,085,669	
Costs of raw materials, cons. and goods for resale	(25)	(89,794,049)		(91,297,185)	
Costs of services	(26)	(81,289,495)	(373,703)	(79,178,229)	(372,393)
Costs for use of third parties assets	(27)	(22,847,255)	(2,552,042)	(23,537,688)	(3,786,815)
Labour costs	(28)	(63,490,261)		(61,088,027)	
Other operating expenses	(29)	(3,978,106)		(4,679,511)	
Amortisation, write-downs and provisions	(30)	(15,108,564)		(13,459,274)	
Financial Income / (expenses)	(31)	(1,754,479)	125,558	(3,031,210)	124,921
PROFIT / LOSS BEFORE TAXES		**8,331,497**		**2,852,589**	
Taxes	(32)	(3,955,128)		(1,143,861)	
NET PROFIT / LOSS		**4,376,369**		**1,708,728**	
(Profit) / loss attributable to minority shareholders		(735,125)		(186,632)	
NET PROFIT / LOSS FOR THE GROUP		**3,641,244**		**1,522,096**	

ATTACHMENT IV

Consolidated Cash Flow Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2016	of which Related parties	Full Year 2015	of which Related parties
OPENING BALANCE		**9,993**		**6,692**	
Profit before taxes		8,331	(1,553)	2,853	(3,551)
Amortisation / write-downs		15,110		13,459	
Accrual (+)/availment (-) of long term provisions and post employment benefits		1,305		(1,885)	
Paid income taxes		(3,583)		(3,596)	
Financial income (-) and financial charges (+)		1,754		3,031	
Change in operating assets and liabilities		(12,195)	(234)	(1,097)	(447)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(33)**	**10,722**		**12,765**	
Increase (-)/ decrease (+) in intangible fixed assets		883		(2,047)	
Increase (-)/ decrease (+) in tangible fixed assets		(3,265)	-	(4,992)	(130)
Investments and write-downs (-)/ Disinvestments and revaluations (+)		77		(51)	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(34)**	**(2,305)**		**(7,090)**	
Other variations in reserves and profits carried-forward of shareholders' equity		20		(52)	
Dividends paid		-		-	
Proceeds (+)/ repayments (-) of financial payments		(679)		1,402	
Increase (-)/ decrease (+) in long term financial receivables		(1,476)	(100)	(693)	(313)
Financial income (+) and financial charges (-)		(1,754)		(3,031)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(35)**	**(3,889)**		**(2,374)**	
CLOSING BALANCE		**14,521**		**9,993**	

ATTACHMENT V

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2015

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2015	STATUTORY FINANCIAL STATEMENTS 2014
BALANCE SHEET		
ASSETS		
Intangible fixed assets	162,405	131,596
Tangible fixed assets	1,547,778	1,623,765
Equity investments	60,695,372	66,639,155
Non current assets	**62,405,555**	**68,394,516**
Trade receivables	1,381,624	1,416,374
Tax receivables	341,690	1,905,720
Cash	83,161	91,924
Other receivables	87,280	188,356
Current assets	**1,893,755**	**3,602,374**
Total assets	**64,299,310**	**71,996,890**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	63,195,446	63,627,616
Other reserves	15,038	15,038
Profits / (losses) carried-forward		-
Net profit / loss	(666,366)	(432,169)
Shareholders' equity	**62,644,118**	**63,310,485**
Provisions	195,885	230,526
Long term financial liabilities		-
Non-current liabilities	**195,885**	**230,526**
Trade payables	1,459,307	8,455,879
Current liabilities	**1,459,307**	**8,455,879**
Total shareholders' equity and liabilities	**64,299,310**	**71,996,890**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	343,594	373,892
Total revenues	**343,594**	**373,892**
Operating expenses	(393,855)	(727,332)
Costs for use of third parties assets	(489,341)	(478,179)
Amortisation and write-downs	(76,175)	(59,766)
Provisions	(24,894)	(14,873)
Financial income / (expenses)	213,695	310,615
Extraordinary income /(expenses)		232
Profit / (loss) before taxes	**(717,892)**	**(595,411)**
Income taxes	51,526	163,242
Net profit / (loss)	**(666,366)**	**(432,169)**

Certification of the Consolidated Financial Statements pursuant to art.81-ter of Consob Regulation N. 11971 of 14 May 1999, as amended

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A.'s financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure and
- the effective application;

of the administrative and accounting procedures applied in the preparation of the consolidated financial statements at 31 December 2016.

The undersigned moreover attest that the consolidated financial statements:

a) have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) correspond to the amounts shown in Company's accounts, books and records;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

The report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

9 March 2017

President of the board of directors

Massimo Ferretti

Manager responsible for preparing Aeffe S.p.A. financial reports

Marcello Tassinari

STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2016

AEFFE SPA

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which our Group has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

Global growth has gradually gained pace since last summer but, contrary to expectations, this has not translated into a solid recovery in world trade. A boost to economic activity could come from the implementation of a fiscal stimulus programme by the new US administration, the details of which are yet to be defined. There is a risk that the recovery of the global economy could be held back by a rise of protectionist pressures and by possible turbulence in the emerging economies.

According to IMF estimates, global GDP grew by 3.1 per cent in 2016 and will accelerate to 3.4 per cent in 2017 and to 3.6 per cent in 2018, where the estimates have been revised slightly upwards for almost all the main advanced economies (except for Italy) and marginally downwards on average for the emerging economies, although an acceleration is forecast for these countries in the next two years. The adjustments for the advanced economies reflect the positive surprises of the third quarter and the expected benefits of the expansionary policies announced in the United States and Japan. Growth in the emerging economies will be affected by less favourable financial conditions: in Brazil the improvement is projected to be more modest than anticipated in October, in India growth will suffer a temporary slowdown, while in the short term China is expected to continue to benefit from its expansionary fiscal and monetary policies. An improvement is forecast for Russia and other commodity-producing countries.

Having proven resilient to global challenges last year, the European economic recovery is expected to continue this year and next: for the first time in almost a decade, the economies of all EU Member States are expected to grow throughout the entire forecasting period (2016, 2017 and 2018). However, the outlook is surrounded by higher-than-usual uncertainty.

Real GDP in the euro area has grown for 15 consecutive quarters, employment is growing at a robust pace and unemployment continues to fall, although it remains above pre-crisis levels. Private consumption is still the engine of the recovery. Investment growth continues but remains subdued.

Risks surrounding these projections are exceptionally large and although both upside and downside risks have increased, the overall balance remains tilted to the downside.

Growth prospects for advanced economies outside the EU have improved over recent months, largely due to expectations of fiscal stimulus in the United States, which have resulted in higher long-term interest rates and an appreciation of the US dollar. Growth in emerging market economies is also set to firm up to 2018, although to varying degrees across countries and regions. Overall, this could give a boost to European exports of both goods and services following a weak 2016.

The particularly high uncertainty surrounding this Winter Forecast is due to the still-to-be-clarified intentions of the new administration of the United States in key policy areas , as well as the numerous elections to be held in Europe this year and the upcoming "Article 50" negotiations with the UK.

The balance of risks remains on the downside although both upside and downside risks have increased. In the short term, fiscal stimulus in the United States could have a stronger impact on growth than currently expected. In the medium term, risks to the growth outlook stem from legacies of the recent crises; the UK's vote to leave the European Union; potential disruptions to trade; faster monetary tightening in the United States, which could have a negative influence on emerging market economies; and the potential consequences of high and rising debt in China.

The projections for the Italian economy indicate that GDP rose by 0.9 per cent on average in 2016 and will expand at around the same pace this year too, before rising to 1.1 per cent in 2018 and in 2019. Output should continue to be driven by national demand and, from as early as this year, also by the gradual strengthening of foreign demand. In 2019 output is expected to still be about 4 percentage points below what it was in 2007.

The forecasting scenario assumes that long-term yields will remain low and credit standards generally relaxed, both in terms of cost and availability. This in turn assumes that conditions in the financial and banking markets in the euro area and in Italy will continue to be broadly relaxed and that risk premiums and volatility will experience no significant surge; it also reflects the assumption, incorporated in market prices, that Italy will press on with its reform agenda of recent years.

Overall, it can be estimated that the risks to growth with respect to these projections remain pri-marily on the downside. The main factors of uncertainty, aside from financial conditions, stem from the global situation. In contrast to the main assumptions underpinning the projections, there is a particularly high risk that the recovery of the world economy could be affected by the emergence and spread of protectionism, as well as possible turmoil in the emerging economies.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

According to the annual survey by consulting firm Bain & Co., the world luxury goods market is expected to close 2016 with a 1% downturn at current exchange rates. Long-accustomed to growth, the market has been affected by exchange rate fluctuations as well as by the terrorist attacks in Europe. As a result, in 2016 the revenue of the global market for personal luxury products is expected to be worth €249 billion, compared to €253 billion in 2015. At current exchange rates, the market grew by 12% on a yearly basis in 2015.

The survey also noted that, while Chinese domestic consumption of luxury products grew, it "was not sufficient to counterbalance the decline in purchases by Chinese tourists abroad: the Chinese consumers' contribution to the global luxury goods market fell, from 31% in 2015 to 30% in 2016. The sector continues to slump in Hong Kong and Macao too, where a 16% downturn at current exchange rates is forecasted.

As for the USA, the market will suffer a 3% decrease on a yearly basis at current exchange rates, since "luxury brands operating in the USA continue to be affected by both a decline in tourism due to the strong dollar and by weak domestic consumption." In Europe, while the pound's depreciation generated an increase in tourist shopping in the UK, France and Germany suffered from the terrorist attacks' aftermath.

By 2020, the consultancy firm's annual study, a benchmark for the luxury goods industry, is forecasting that the market may be worth €280-285 billion, equivalent to "a yearly growth between +3% and +4% from 2017," though it remains "prudent" given the difficulties that may emerge along the way.

2. TREND OF THE COMPANY MANAGEMENT

INCOME STATEMENT

	Esercizio 2016	% on revenues	Esercizio 2015	% on revenues	Change 2016/15	%
REVENUES FROM SALES AND SERVICES	**145,903,311**	**100.0%**	**137,380,089**	**100.0%**	**8,523,222**	**6.2%**
Other revenues and income	5,244,463	3.6%	6,689,275	4.9%	(1,444,812)	(21.6%)
TOTAL REVENUES	**151,147,774**	**103.6%**	**144,069,364**	**104.9%**	**7,078,410**	**4.9%**
Changes in inventory	(2,421,624)	(1.7%)	1,860,217	1.4%	(4,281,841)	(230.2%)
Costs of raw materials, cons. and goods for resale	(52,763,256)	(36.2%)	(53,739,047)	(39.1%)	975,791	(1.8%)
Costs of services	(42,807,543)	(29.3%)	(42,477,050)	(30.9%)	(330,493)	0.8%
Costs for use of third parties assets	(16,350,282)	(11.2%)	(15,619,367)	(11.4%)	(730,915)	4.7%
Labour costs	(27,659,494)	(19.0%)	(25,491,649)	(18.6%)	(2,167,845)	8.5%
Other operating expenses	(1,680,642)	(1.2%)	(2,092,760)	(1.5%)	412,118	(19.7%)
Total Operating Costs	(143,682,842)	(98.5%)	(137,559,656)	(100.1%)	(6,123,186)	4.5%
GROSS OPERATING MARGIN (EBITDA)	**7,464,931**	**5.1%**	**6,509,708**	**4.7%**	**955,223**	**14.7%**
Amortisation of intangible fixed assets	(410,416)	(0.3%)	(439,765)	(0.3%)	29,349	(6.7%)
Depreciation of tangible fixed assets	(1,492,381)	(1.0%)	(1,866,583)	(1.4%)	374,202	(20.0%)
Revaluations (write-downs)	(300,000)	(0.2%)	(300,000)	(0.2%)	-	0.0%
Total Amortisation and write-downs	(2,202,797)	(1.5%)	(2,606,348)	(1.9%)	403,551	(15.5%)
NET OPERATING PROFIT / LOSS (EBIT)	**5,262,135**	**3.6%**	**3,903,360**	**2.8%**	**1,358,775**	**34.8%**
Financial income	395,773	0.3%	510,990	0.4%	(115,217)	(22.5%)
Financial expenses	(2,188,671)	(1.5%)	(2,971,544)	(2.2%)	782,873	(26.3%)
Total Financial Income / (expenses)	(1,792,898)	(1.2%)	(2,460,554)	(1.8%)	667,656	(27.1%)
PROFIT / LOSS BEFORE TAXES	**3,469,237**	**2.4%**	**1,442,806**	**1.1%**	**2,026,431**	**140.5%**
Current income taxes	(2,346,303)	(1.6%)	(799,662)	(0.6%)	(1,546,641)	193.4%
Deferred income / (expenses) taxes	591,613	0.4%	275,728	0.2%	315,885	114.6%
Total Income Taxes	(1,754,690)	(1.2%)	(523,934)	(0.4%)	(1,230,756)	234.9%
NET PROFIT / LOSS	**1,714,547**	**1.2%**	**918,872**	**0.7%**	**795,675**	**86.6%**

Revenues from sales and services

In 2016 revenues amount to EUR 145,903 thousand compared to EUR 137,380 thousand of the year 2015, showing an increase of 6.2% (6.8% with constant exchange rates). Such increase has mainly interested the brands Moschino and Philosophy di Lorenzo Serafini.

41% of revenues are earned in Italy while 59% come from foreign markets.

Labour costs

Labour costs move from EUR 25,492 thousand in 2015 to EUR 27,659 thousand in 2016, increasing by 8.5%. The increase relates mainly to the enlargement of the production and of research and development department.

Gross Operating Margin (EBITDA)

EBITDA moves from 6,510 thousand in 2015 to 7,465 thousand in 2016.

In percentage terms MOL changes from 4.7% in 2015 to 5.1% in 2016.

Net operating profit (EBIT)

Net operating profit moves from 3,903 thousand in 2015 to 5,262 thousand in 2016.

Profit / loss before taxes

Result before taxes rises from EUR 1,443 thousand in 2015 to EUR 3,469 thousand in 2016, showing a growth of EUR 2,026 thousand.

This improvement was due to both sales growth and lower incidence of the operating costs, in turn closely linked to the Group's business model. In particular, thanks to full exploitation of economies of scale, an increase in sales corresponds to a more than proportional increase in margins.

Net profit / loss

Net result increases from EUR 919 thousand in 2015 to EUR 1,715 thousand in 2016, improving for EUR 796 thousand.

BALANCE SHEET

(Values in units of EUR)	31 December 2016	31 December 2015	Change 2016/2015	%
Trade receivables	63,925,587	59,353,105	4,572,482	7.7%
Stock and inventories	28,351,623	30,919,627	(2,568,004)	(8.3%)
Trade payables	(71,790,444)	(70,443,766)	(1,346,678)	1.9%
Operating net working capital	**20,486,766**	**19,828,966**	**657,800**	**3.3%**
Other short term receivables	11,699,317	12,603,459	(904,142)	(7.2%)
Tax receivables	2,425,764	4,466,667	(2,040,903)	(45.7%)
Other short term liabilities	(7,277,490)	(5,879,318)	(1,398,172)	23.8%
Tax payables	(5,871,625)	(1,363,372)	(4,508,253)	330.7%
Net working capital	**21,462,732**	**29,656,402**	**(8,193,670)**	**(27.6%)**
Tangible fixed assets	42,870,488	43,290,666	(420,178)	(1.0%)
Intangible fixed assets	3,758,530	3,886,799	(128,269)	(3.3%)
Equity investments	139,408,853	105,936,877	33,471,976	31.6%
Other fixed assets	6,889,259	40,928,739	(34,039,480)	(83.2%)
Fixed assets	**192,927,130**	**194,043,081**	**(1,115,951)**	**(0.6%)**
Post employment benefits	(4,284,423)	(4,292,867)	8,444	(0.2%)
Provisions	(281,528)	(310,722)	29,194	(9.4%)
Long term not financial liabilities	(761,303)	(1,316,021)	554,718	(42.2%)
Deferred tax assets	2,279,104	1,686,821	592,283	35.1%
Deferred tax liabilities	(7,325,777)	(7,350,043)	24,266	(0.3%)
NET CAPITAL INVESTED	**204,015,935**	**212,116,651**	**(8,100,716)**	**(3.8%)**
Share capital	25,371,407	25,371,407	-	0.0%
Other reserves	107,251,531	106,402,179	849,352	0.8%
Profits/(Losses) carried-forward	2,347,959	2,347,959	-	0.0%
Profits/(Loss) for the period	1,714,547	918,872	795,675	86.6%
Shareholders' equity	**136,685,444**	**135,040,417**	**1,645,027**	**1.2%**
Cash	(2,634,547)	(1,339,797)	(1,294,750)	96.6%
Long term financial liabilities	25,118,429	17,917,927	7,200,502	40.2%
Short term financial liabilities	44,846,608	60,498,104	(15,651,496)	(25.9%)
NET FINANCIAL POSITION	**67,330,491**	**77,076,234**	**(9,745,743)**	**(12.6%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**204,015,935**	**212,116,651**	**(8,100,716)**	**(3.8%)**

NET CAPITAL INVESTED

Net capital invested decreases by 3.8% since 31 December 2015.

Net working capital

Net working capital amounts to EUR 21,463 thousand at 31 December 2016 compared with EUR 29,656 thousand at 31 December 2015.

Changes in the main items included in the net working capital are described below:

- the operating net working capital increases by 3.3%, 658 thousand in absolute terms. Such change is mainly due to the growth of the trade receivables and to the reduction of the inventories. Both changes follow the revenues increase occurred in 2016;
- the sum of other short term receivables and payables changes in all of EUR 2,302 thousand is mainly due to higher payables to employees and to social security institutions.

- the sum of tax receivables and tax payables changes in all of EUR 6,549 thousand mainly due to the increase of tax payable for IRES generated in the period in Aeffe S.p.A. and as a consequence of the fiscal consolidation other than the decrease of VAT receivable.
  - to the partial compensation of the tax payable for IRES of the period generated in Aeffe Spa as a consequence of the adhesion of the subsidiaries to the fiscal consolidation with the receivable for deferred tax generated in some of the Group's subsidiaries.

Fixed assets

Fixed assets decrease by EUR 1,116 thousand since 31 December 2015. The changes in the main items are described below:

- tangible fixed assets decrease of EUR 420 thousand as a consequence of:
  - depreciations for EUR 1,493 thousand;
  - disposals for EUR 25 thousand in leasehold improvements;
  - investments for EUR 1,097 thousand for buildings, leasehold improvements, information tools and general and specific plant and machinery;
- intangible fixed assets decrease of EUR 128 thousand as a consequence of:
  - investments for EUR 298 thousand in software;
  - disposals for 16 thousand in software;
  - amortisations for EUR 410 thousand;
- equity investments increase of EUR 33.472 thousand after:
  - increase of share capital, through waiver of financial receivables, towards the subsidiary Moschino S.p.A., for EUR 32,772 thousand;
  - increase of share capital, through waiver of commercial receivables, towards the subsidiary Aeffe Retail S.p.A., for EUR 300 thousand;
  - increase of share capital, through capital contributions payments, towards the subsidiary Velmar S.p.A., for EUR 400 thousand.

NET FINANCIAL POSITION

The Company's net financial position moves from EUR 77,076 thousand as of 31 December 2015 to EUR 67,330 thousand as of 31 December 2016. The decrease of net financial position is mainly attributable to the improvement in operating cash flow.

SHAREHOLDERS' EQUITY

Total shareholders' equity increases by EUR 1,645 thousand. The reasons of this increase are widely illustrated in the Explanatory notes.

3. RESEARCH & DEVELOPMENT

Considering the particular nature of our products, research & development activities consist in the continual technical/stylistic renewal of our models and the constant improvement of the materials employed in production.

These costs, totalling EUR 15,596 thousand, have been charged to the 2016 Income Statement.

4. INFORMATION PURSUANT TO POINT 6-BIS OF ART. 2428.3 OF THE ITALIAN CIVIL CODE

Pursuant to point 6-bis of art. 2428.3 of the Italian Civil Code, it is confirmed that the Company does not use financial instruments.

Financing requirements and the related risks are managed by the central treasury.

The principal objective is to ensure that the composition of liabilities and assets remains balanced, so that a high degree of financial strength is maintained.

The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used.

The exchange risk associated with commercial transactions not denominated in the functional currency is hedged by the opening of loans in foreign currency.

Regarding the Company's objectives and policies on financial risks refer to the information reported in the Notes.

5. INFORMATION ABOUT SHARE CAPITAL

Information about the share capital is provided in the Report on Corporate Governance prepared pursuant to arts. 124 bis of the Consolidated Finance Law and 89 bis of the Consob's Issuers' Regulations, and art. IA2.6 of the related Market Instructions. This report was approved by the Board of Directors on 9 March 2017 and is available in the Governance section of the Company's website: www.aeffe.com.

The following parties hold each more than 3% of the Company's shares as of 31 December 2016:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	6.000%
Other shareholders(*)	32.203%

(*) 5,5% of own shares held by Aeffe S.p.A.

6. TREASURY SHARES

As of 31 December 2016, the Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year no transactions on treasury shares have been carried out by the Company. As of 31 December 2016 the Company does not hold shares of any controlling company either directly or indirectly.

7. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Notes 37 and 38 of the Financial Statements at 31 December 2016.

8. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

With regard to the activities performed by our Company, that do not involve particular levels of risk for the employees, we have no serious accidents to report, or the emergence of any pathologies linked to professional diseases. Our Company has not been charged with any actions of mobbing.

As regards the environment, once again, the business of our Company does not have any particular impact on the environment, other than energy consumption, significantly reduced thanks to the installation of a renewable energy system (photovoltaic), and in opposition a further contraction in CO_2 emission. We can therefore report that, during the year, the Company was not declared guilty of causing any damage to the environment, and did not receive any sanctions or penalties for environmental crimes or damage.

9. SIGNIFICANT EVENTS OF THE PERIOD

No significant events have to be reported for the period.

10. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to the balance sheet date no significant events regarding the Company's activities have to be reported.

11. OUTLOOK

We are satisfied with the Group's continuous growth and, in particular, with the profitability momentum. Constant attention and weighting of initiatives aimed at enhancing our brands' positioning in terms of special projects and high-potential markets, along with business model's optimization are the cornerstones of the effectively adopted strategy and the basis for the long-term development. We are therefore confident about the future, in the light of the trend registered in 2016 and the positive feedbacks on the ongoing Fall/Winter 2017-2018 collections sales campaign.

12. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE RESULT FOR THE YEAR 2015

Shareholders,

In presenting the financial statements as of 31 December 2016 for your approval, we propose to allocate the profit of the year of EUR 1,714,547 as follows:

- legal reserve EUR 85,727
- extraordinary reserve EUR 1,628,820

09 March 2017

For the Board of Directors

Chairman Massimo Ferretti

Financial Statements

BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2016	31 December 2015	Change 2016/15
NON-CURRENT ASSETS				
Intangible fixed assets				
Trademarks		3,274,434	3,400,195	(125,761)
Other intangible fixed assets		484,096	486,604	(2,508)
Total intangible fixed assets	(1)	3,758,530	3,886,799	(128,269)
Tangible fixed assets				
Lands		16,944,871	16,944,871	-
Buildings		22,370,366	22,846,130	(475,764)
Leasehold improvements		1,288,435	1,386,230	(97,795)
Plant and machinary		1,682,299	1,550,611	131,688
Equipment		46,406	25,572	20,834
Other tangible fixed assets		538,111	537,252	859
Total tangible fixed assets	(2)	42,870,488	43,290,666	(420,178)
Other fixed assets				
Equity investments	(3)	139,408,853	105,936,877	33,471,976
Other fixed assets	(4)	6,889,259	40,928,739	(34,039,480)
Deferred tax assets	(5)	2,279,104	1,686,821	592,283
Total other fixed assets		148,577,216	148,552,437	24,779
TOTAL NON-CURRENT ASSETS		**195,206,234**	**195,729,902**	**(523,668)**
CURRENT ASSETS				
Stocks and inventories	(6)	28,351,623	30,919,627	(2,568,004)
Trade receivables	(7)	63,925,587	59,353,105	4,572,482
Tax receivables	(8)	2,425,764	4,466,667	(2,040,903)
Cash	(9)	2,634,547	1,339,797	1,294,750
Other receivables	(10)	11,699,317	12,603,459	(904,142)
TOTAL CURRENT ASSETS		**109,036,839**	**108,682,655**	**354,184**
TOTAL ASSETS		**304,243,073**	**304,412,557**	**(169,484)**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the balance sheet of Aeffe S.p.A. are shown in Attachment IV and described in Notes 37 and 38.

BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2016	31 December 2015	Change 2016/15
SHAREHOLDERS' EQUITY				
Share capital		25,371,407	25,371,407	-
Share premium reserve		71,240,251	71,240,251	-
Other reserves		24,929,262	24,056,333	872,929
Fair Value reserve		7,742,006	7,742,006	-
IAS reserve		1,085,602	1,085,602	-
Legal reserve		2,909,073	2,863,130	45,943
Remeasurement of defined benefit plans reserve		(654,663)	(585,143)	(69,520)
Profits / (Losses) carried-forward		2,347,959	2,347,959	-
Net profit / loss		1,714,547	918,872	795,675
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**136,685,444**	**135,040,417**	**1,645,027**
NON-CURRENT LIABILITIES				
Provisions	(12)	281,528	310,722	(29,194)
Deferred tax liabilities	(5)	7,325,777	7,350,043	(24,266)
Post employment benefits	(13)	4,284,423	4,292,867	(8,444)
Long term financial liabilities	(14)	25,118,429	17,917,927	7,200,502
Long term not financial liabilities	(15)	761,303	1,316,021	(554,718)
TOTAL NON-CURRENT LIABILITIES		**37,771,461**	**31,187,580**	**6,583,881**
CURRENT LIABILITIES				
Trade payables	(16)	71,790,444	70,443,766	1,346,678
Tax payables	(17)	5,871,625	1,363,372	4,508,253
Short term financial liabilities	(18)	44,846,608	60,498,104	(15,651,496)
Other liabilities	(19)	7,277,490	5,879,318	1,398,172
TOTAL CURRENT LIABILITIES		**129,786,168**	**138,184,560**	**(8,398,392)**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**304,243,073**	**304,412,557**	**(169,484)**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the balance sheet of Aeffe S.p.A. are shown in Attachment V and described in Note 37 and 38.

INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full year 2016	Full year 2015
REVENUES FROM SALES AND SERVICES	**(20)**	**145,903,311**	**137,380,089**
Other revenues and income	(21)	5,244,463	6,689,275
TOTAL REVENUES		**151,147,774**	**144,069,364**
Changes in inventory		(2,421,624)	1,860,217
Costs of raw materials, cons. and goods for resale	(22)	(52,763,256)	(53,739,047)
Costs of services	(23)	(42,807,543)	(42,477,050)
Costs for use of third parties assets	(24)	(16,350,282)	(15,619,367)
Labour costs	(25)	(27,659,494)	(25,491,649)
Other operating expenses	(26)	(1,680,642)	(2,092,760)
Amortisation and write-downs	(27)	(2,202,797)	(2,606,348)
Financial Income / (expenses)	(28)	(1,792,898)	(2,460,554)
PROFIT / LOSS BEFORE TAXES		**3,469,237**	**1,442,806**
Income Taxes	(29)	(1,754,690)	(523,934)
NET PROFIT / LOSS		**1,714,547**	**918,872**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the income statement of Aeffe S.p.A. are shown in the income statement presented in Attachment VI and described in Notes 37 and 38.

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2016	Full Year 2015
Profit/(loss) for the period (A)		**1,714,547**	**918,872**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		(69,520)	95,267
Income tax relating to components of Other comprehensive income that will not be reclassified subsequently to profit or loss		-	-
Total other comprehensive income that will not be reclassified subsequently to profit or loss, net of tax (B1)		**(69,520)**	**95,267**
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		-	-
Gains/(losses) on exchange differences on translating foreign operations		-	-
Income tax relating to components of Other Comprehensive income / (loss)		-	-
Total other comprehensive income that will be reclassified subsequently to profit or loss, net of tax (B2)		**-**	**-**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)		**(69,520)**	**95,267**
Total Comprehensive income / (loss) (A) + (B)		**1,645,027**	**1,014,139**

CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2016	Full Year 2015
OPENING BALANCE		**1,339**	**578**
Profit before taxes		3,469	1,443
Amortisation		2,203	2,606
Accrual (+)/availment (-) of long term provisions and post employment benefits		(38)	(460)
Paid income taxes		2,162	(669)
Financial income (-) and financial charges (+)		1,793	2,461
Change in operating assets and liabilities		2,506	(5,056)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**12,095**	**325**
Increase (-)/ decrease (+) in intangible fixed assets		(282)	(280)
Increase (-)/ decrease (+) in tangible fixed assets		(1,072)	(1,307)
Investments (-)/ Disinvestments (+)		(400)	(838)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(1,754)**	**(2,426)**
Other variations in reserves and profits carried-forward of shareholders' equity		(70)	672
Dividends paid		-	-
Proceeds (+)/repayments (-) of financial payments		(8,451)	3,929
Increase (-)/ decrease (+) in long term financial receivables		1,267	721
Financial income (+) and financial charges (-)		(1,793)	(2,461)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(9,047)**	**2,862**
CLOSING BALANCE		**2,633**	**1,339**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the cash flows of Aeffe S.p.A. are shown in the cash flow statement presented in Attachment VII and described in Notes 37 and 38.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Legal reserve	Remeasurement of defined benefit plans reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 1 January 2015	**25,371**	**71,240**	**23,620**	**7,742**	**1,086**	**2,861**	**(681)**	**2,175**	**35**	**133,449**
Allocation of 2014 profit			33			2			(35)	-
Other changes: incorporation of Nuova Stireria Tavoleto S.r.l.			404					173		577
Total comprehensive income/(loss) of 2015							95			95
Profit/(loss) of 2015									919	919
BALANCES AT 31 December 2015	**25,371**	**71,240**	**24,057**	**7,742**	**1,086**	**2,863**	**(586)**	**2,348**	**919**	**135,040**

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Legal reserve	Remeasurement of defined benefit plans reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 1 January 2016	**25,371**	**71,240**	**24,057**	**7,742**	**1,086**	**2,863**	**(586)**	**2,348**	**919**	**135,040**
Allocation of 2015 profit			873			46			(919)	-
Total comprehensive income/(loss) of 2016							(70)			(70)
Profit/(loss) of 2016									1,715	1,715
BALANCES AT 31 December 2016	**25,371**	**71,240**	**24,930**	**7,742**	**1,086**	**2,909**	**(656)**	**2,348**	**1,715**	**136,685**

Report of the Board of Statutory Auditors to the shareholders' meeting of AEFFE S.p.A. on the 2016 financial statements, issued pursuant to article 153 of Italian Legislative Decree 58/98 and art. 2429, paragraph 3 of the Italian Civil Code.

Shareholders,
Pursuant to art. 153 of Decree No. 58 dated 24th February 1988, this report describes the work performed by the Board of Statutory Auditors.
During the year ended 31st December 2016, the Board of Statutory Auditors of AEFFE S.p.A. (the "Company") performed the monitoring activities required by law, taking account of the Code of Conduct for the Boards of Statutory Auditors of companies listed on regulated markets recommended by the Italian Accounting Profession, by resolution adopted on 15th April 2015, as well as CONSOB's communications regarding company audit work performed by Boards of Statutory Auditors.

* * *

The mandate of the Board of Statutory Auditors, which was appointed at the shareholders' meeting held on 16th April 2014, will expire at the shareholders' meeting held to approve the financial statements of the Company. It is confirmed that the members of the Board of Statutory Auditors have complied with the limit on the number of appointments specified in art. 23.2 of the Company's articles of association, art. 148-terdecies of Decree No. 58/98 and the Issuers' Regulation, as modified by CONSOB Decision No. 18671 dated 8th December 2013, and made the required disclosures during the year.
The shareholders' meeting held on 13th April 2016 appointed RIA Grant Thornton S.p.A. to perform the legal audit of the accounts pursuant to Decree No. 58/1998 "Consolidated Finance Law" and Decree No. 39/2010. Reference is made to the reports issued by that auditing firm. The mandate of the auditing firm has a duration of 9 years (2016 - 2025), as envisaged by current regulations.
This report was prepared in conformity with the current regulations applying to Listed Companies, in compliance with CONSOB Communication N. DEM/1025564 dated 6th April 2001, given that the shares of AEFFE S.p.A. are traded in the STAR segment of the market managed by Borsa Italiana.
The accounting policies adopted for the preparation of the 2016 financial statements reflect the established international standards (I.A.S./I.F.R.S.), pursuant to art. 2 of Decree No. 38/2005.

* * *

With regard to the performance of the supervisory activities required of the Board of Statutory Auditors, we confirm that, among other work, we:

✓ attended the shareholders' meetings and the meetings of the Board of Directors held during the year, obtaining from the Directors - in compliance with art. 150, para. 1, of Decree No. 58 dated 24th February 1998 and art. 19.2 of the articles of association - timely and appropriate information about the general results of operations and the outlook for the future, as well as about the principal transactions, having regard for their nature and size, carried out by the Company and its subsidiaries:

✓ obtained the information needed to perform our work regarding compliance with the law and the articles of association, compliance with the principles of proper administration and the adequacy of the Company's organizational structure, by direct investigation, by gathering information from the managers of the functions concerned, by periodic exchanges of information both with the firm appointed to perform the annual legal audit of the separate and consolidated financial statements, and with the Supervisory Body, and by attending the meetings of the Audit Committee;

✓ checked the functioning and effectiveness of the systems of internal control, holding regular meetings with the internal audit manager and focusing attention on the adequacy of the administrative and accounting system with regard, in particular, to the reliability with which it presents the results of operations, and extending our checks to several internal procedures;

✓ performed the functions attributed to the Board of Statutory Auditors by art. 19 of Decree No. 39/2010. In this context, we: *i)* noted the information provided to us regarding the quarterly checks on the proper keeping of the accounting records carried out by the firm appointed to perform the legal audit of the accounts; *ii)* received from that auditing firm the Report envisaged in arts. 14 and 16 of Decree No. 39/2010; *iii)* received from that auditing firm the "*Annual confirmation of independence*" required pursuant to art. 17, para. 9.a) of Decree No. 39/2010; *vi)* analyzed, again pursuant to art. 17, para. 9.a) of Decree No. 39/2010, the risks relating to the independence of the firm appointed to perform the legal audit of the accounts and the measures adopted by such firm to limit these risks, examining in this regard the 2016 transparency report, published on the institutional website: http://www.ria-grantthornton.it/ globalassets/1.-member-firms/italy-ria/pdf/report/report-di-trasparenza-def-2016.pdf;

✓ monitored the functioning of the system of control over Group companies and the adequacy of the instructions given to them, not least pursuant to art. 114, para. 2, of Decree No. 58/1998;

✓ noted the preparation of the Compensation Report pursuant to art. 123-ter of Decree No. 58 dated 24th February 1998 and art. 84-quater of CONSOB Regulation no. 11971/1999 ("Issuers' Regulation"), without having any particular observations to make;

✓ checked the consistency of the amendments made to the articles of association with the requirements of the law and current regulations, including Law No. 120 dated 12th July 2011 that added arts. 147-ter and 148 to Decree No. 58 dated 24th February 1998 concerning gender balance on the Board of Directors and the Board of Statutory Auditors of listed companies, with which the company complies;

✓ monitored the actual implementation of the Code of self regulation promoted by Borsa Italiana SpA, incorporating EU Recommendation No. 208/2014, and CO.N.SO.B. Communication No. DCG/DSR/0051400 dated 19th June 2014, essentially providing for the principles of *corporate social responsibility* prevailing in Europe and internationally, and also aiming to adapt the Code to the relevant international legal framework, by strengthening checks on corporate structures to ensure greater effectiveness of the principles of legality and transparency.

✓ monitored compliance by the internal procedure regarding transactions with related parties with the principles indicated in the Regulation approved by CONSOB in decision no. 17221 dated 12th March 2010 and subsequent amendments, as well as compliance with such procedure pursuant to art. 4, para. 6 of the above Regulation;

✓ checked compliance with the laws and regulations concerning the format and preparation of the Company's separate and consolidated financial statements, as well as the related accompanying documentation.

✓ checked that the separate and consolidated financial statements are accompanied by the required attestations of conformity signed by the Executive Director who is also the executive responsible for preparing the Company's accounting documentation pursuant to Law No. 262 dated 28th December 2005;

✓ checked that the Directors' Report on operations during 2016 complies with current laws and regulations, and is consistent with the resolutions adopted by the Board of Directors and the facts reported in the separate and consolidated financial statements, noting that the consolidated half-year report did not require any particular comments from the Board of Statutory Auditors and confirming that the Quarterly Reports and the Half-year Report were published in accordance with current laws and regulations.

* * *

The specific information to be presented in this Report, pursuant to the Consob Communication No. DEM/1025564 dated 6th April 2001 and subsequent amendments, is provided below.

1. No transaction of special economic and financial significance, also through subsidiaries, emerged from the information gathered and analysis carried out by the Board of Statutory Auditors, that had been approved by the Board of Directors.

We refer to the Directors' Report for any transaction unrelated to the economic and financial context.

2. The Directors' Report highlights that, based on the communication No. DEM/6064293 sent to CO.N.SO.B., the Company has not arranged any atypical and/or unusual transactions with third parties, group companies or related parties.

3. The characteristics of the intercompany and related-party transactions carried out during 2016, the parties involved and the related economic effects are appropriately described in the section on "Intercompany transactions" contained in para 36 of the Report on operations, while "Related-party transactions" are described in the paragraph that follows. Further information on intercompany transactions is contained in the 2016 Consolidated Financial Statements, to which we refer.

The economic effects of intercompany transactions are summarized below:

Incidence of related party transactions on the income statement

Revenues from sales and services	145,903	1,247	0.9%	137,380	733	0.5%
Costs of services	42,808	424	1.0%	42,477	422	1.0%
Costs for use of third party assets	16,350	1,779	10.9%	15,619	1,783	11.4%

The routine intercompany and related-party transactions carried out were mostly commercial transactions arranged on market terms, in compliance with the transfer pricing rules;

All parties involved are either affiliate companies or subsidiaries and their subsidiaries and/or affiliate companies. In general, the related-party transactions examined by the Board of Statutory Auditors were deemed to be reasonable and in the interests of the Company.

Pursuant to art. 4, para. 6, of the CONSOB regulation approved by decision No. 17221/2010, we confirm that the Board of Statutory Auditors has monitored the consistency of the procedure adopted by the Company with the principles indicated in the "Settlement of transactions with related parties" document, and its effective application.

4. Following completion of the verification and audit work performed, RIA Grant Thornton S.p.A. Released on March 21th, its auditors' reports on the financial statements for the year ended on 31 December 2016 pursuant to arts. 14 and 16 of Decree No. 39 dated 27th January 2010, certifying that: i) the separate and consolidated financial statements of the Company at 31st December 2016 have been prepared clearly and present a true and fair view of the financial position, the results of operations and the other components of comprehensive income, the changes in shareholders' equity and the cash flows of the Company and the Group; *ii)* the Report on operations and the information required by art. 123 *bis*, para. 4, of Decree No. 58/1998, contained in the Report on Corporate Governance and the Ownership Structure, is consistent with the separate financial statements of the Company and the consolidated financial statements of the Group.

The report issued by the auditing firm on the 2016 financial statements does not contain any observations and/or exceptions or, indeed, any requests of disclosure.

5. During 2016, the Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 of the Italian Civil Code.

6. The Board of Statutory Auditors has not received any statements from third parties.

7. Other than the appointment to perform the legal audit of the accounts of group companies, the Company did not engage RIA Grant Thornton S.p.A. to carry out any additional activities during 2016.

8. The Board of Statutory Auditors has monitored the independence of the auditing firm, pursuant to art. 19 of Decree no. 39/2010 and otherwise, checking compliance with the related regulations and compatibility with the legal restrictions placed on the provision of non-audit services to the Company and its subsidiaries, identifying that no work was given during the year to parties belonging to the same network as that of the auditing firm.

9. During 2016, the Board of Statutory Auditors did not release any opinions required by law.

10. In the performance of its functions and in order to obtain the information needed to carry out its supervisory duties, the Board of Statutory Auditors:

- ✓ met regularly and prepared 6 reports on the work performed;
- ✓ attended all 5 meetings of the Board of Directors, obtaining from the Directors a continuous flow of information about the activities performed and the principal economic, financial and equity transactions carried out by the Company and its subsidiaries;
- ✓ attended, in the person of the Chairman of the Board of Statutory Auditors or another authorized Serving Auditor, all the meetings of the Audit Committee and the Remuneration Committee;
- ✓ attended the only annual shareholders' meeting, held on 13th April 2016;
- ✓ maintained relations with the supervisory bodies of the subsidiary companies, pursuant to art. 151 of Decree No. 58/1998, via both periodic consultations and a joint meeting with them;
- ✓ attended, represented by one of the Serving Auditors as a permanent member, the meetings of the Supervisory Body established to monitor the Organizational Model envisaged by Law No. 231/2001.

11. The Board of Statutory Auditors has obtained information about and monitored compliance with the law and the articles of association, ensuring that the transactions decided and implemented by the Directors were in compliance with the law and the articles of association, were founded on the principles of economic rationality and were not obviously imprudent or risky, in conflict with the interests of the Company, in contrast with the resolutions adopted at the shareholders' meeting, or likely to jeopardize the net assets of the Company, concluding that the governance tools and procedures adopted by the Company represent a valid approach to ensuring operational compliance with the principles of proper administration.

12. With regard to the adequacy of the organizational structure of the Company and the Group, the monitoring work performed by the Board of Statutory Auditors involved obtaining a knowledge of the organizational structure and gathering information from the various responsibility centers concerned, as well as meeting with the managers of the various business functions, the internal audit manager and the auditing firm for a mutual exchange of information.

In this regard, with reference to the powers and mandates granted, the Board of Statutory Auditors has determined that:

- ✓ the Board of Directors is responsible for managing the Company, directly and via the mandates granted to other bodies;
- ✓ pursuant to the articles of association, the Chairman and the Chief Executive Officer represent the Company legally in dealings with third parties and in judgment;
- ✓ the Chairman holds operational powers and performs institutional, directive and control duties;
- ✓ the Chief Executive Officer exercises wide powers for the management of the Company.

13. In terms of supervising the adequacy and effectiveness of the system of internal control, pursuant to art. 19 of Decree No. 39/2010 and otherwise, the Board of Statutory Auditors held periodic meetings with the internal audit manager and the managers of other business functions and attended, via the presence of Serving Auditors, the meetings of the Audit Committee and the Supervisory Body for the Organizational Model envisaged by Decree 231/2001.

The Company's system of internal control comprises a structured and organic set of rules, procedures and organizational structures that encompass the entire Company. Their purpose is to prevent or limit the consequences of unexpected results and allow the strategic and operational objectives to be achieved (by ensuring the consistency of the activities with the objectives, the efficiency and effectiveness of the activities, and the safeguarding of the Company's net assets), and ensure compliance with the applicable laws and regulations, as well as proper and transparent reporting, both internally and to the market.

The Board of Directors is responsible, with support from the Audit Committee for: *i)* establishing guidelines for the system of internal control; *ii)* examining periodically the principal business risks identified by the Chief Executive Officer, who is also responsible for implementing the guidelines for the system of internal control, and *iii)* assessing the adequacy, effectiveness and practical functioning of the system of internal control.
The system of internal control includes an internal audit function whose role is to assist the Board of Directors and the Audit Committee, as well as the management of the Company. The Board of Directors has given the internal audit manager the task of assessing the adequacy and effectiveness of the overall system of internal controls. The activities of this function principally include implementing an annual audit and compliance-testing plan, as well as monitoring the actual adoption of the recommendations made by performing follow-up work. The Group also uses other tools to monitor its operational and compliance objectives. These include a structured and periodic system of planning, management control and reporting, as well as a structure for the governance of financial risks.
The Company has approved the organizational model envisaged by Decree No. 231/2001 ("Model 231"), the purpose of which is to impede the commission of significant offenses, as defined in that Decree, and, consequently, to mitigate, if not eliminate, the administrative responsibility of the Company for such offenses. Commencing from an analysis of business activities designed to identify those potentially at risk, the Model 231 adopted comprises a set of general principles, rules of conduct, control tools, organizational procedures, training and information-providing activities, and disciplinary systems intended to ensure, to the extent possible, that the commission of criminally-significant offenses is prevented.
The Board of statutory Auditors verified that the risk assessment framework has been updated so as to include the alleged offenses introduced during the year.
The Board of Directors has appointed a Supervisory Body tasked with monitoring the proper functioning of the Model 231 and keeping it updated. As mentioned earlier, the Board of Statutory Auditors has attended, via the Serving Auditors, the meetings of the Audit Committee and the Supervisory Body, and has analyzed the related periodic reports addressed to the Board of Directors. There are no matters to be raised.

14. The Board of Statutory Auditors has also monitored the adequacy and reliability of the administrative-accounting system in terms of properly representing the results of operations, via direct observation, obtaining information from the managers of the relevant functions, examining company documents and analyzing the results of the work carried out by the auditing firm. Here too, no dysfunctions and/or breakdowns of communications between the various bodies were identified.

As required by law and after obtaining the opinion from the Board of Statutory Auditors, the Board of Directors has appointed an Executive responsible for preparing the company's accounting documentation, who was granted the powers and functions envisaged by law and appropriate powers and resources to performed the related tasks.
The Company has adopted the "*Accounting control model*" envisaged by Law No. 262/2005, with a view to defining guidelines for application throughout Group concerning the obligations, arising under art. 154-bis of Decree No. 58/1998, to prepare corporate accounting documents and give the related attestations.
The Board of Statutory Auditors has taken note of the attestations given by the Chairman of the Board of Directors and the Executive responsible for preparing the company's accounting documentation regarding the adequacy in relation to the characteristics of the business and the effective application of the administrative and accounting procedures for preparing the separate and consolidated financial statements.

15. The Board of Statutory Auditors has monitored without identifying any exceptions the adequacy of the instructions given by the Company to its subsidiaries pursuant to art. 114, para. 2, of Decree No. 58/98, so that they provide the information needed to satisfy the disclosure requirements envisaged by law.

16. The periodic meetings between the Board of Statutory Auditors and the firm appointed to perform the legal audit of the accounts, pursuant to art. 150, para. 3, of Decree No. 58/1998, did not identify any matters that are considered necessary to highlight in this Report.

17. In terms of checking the way the corporate governance rules are actually implemented, as envisaged by the current Code of Self-Regulation issued by Borsa Italiana, the Board of Statutory Auditors performed this work with assistance from the manager of the Corporate Governance Office.

The Board of Directors in office from 16th April 2014 comprises 8 members, including 4 non-executive directors, of whom 3 were qualified as independent by the Board with reference to the declarations made by them. When co-opting directors and members of the Board of Statutory Auditors, the requirement to maintain the "gender balance" of corporate bodies was met.

The Board of Statutory Auditors has made the assessments required of it, identifying proper application of the criteria and procedures adopted by the Board of Directors to verify the independence status of the individual directors and compliance with the requirements for the composition of the Board taken as a whole. In addition, the Board of Statutory Auditors has checked that the Serving Auditors meet the same independence requirements expected of the directors and has adopted the recommendations of the Code, which require a declaration to be made and sent to the Board about any personal interest or interest on behalf of third parties in specific transactions presented to the Board of Directors. In this regard, it is confirmed that no situations arose in 2016 for which the members of the Board of Statutory Auditors had to make such declarations. Reference is made to the Report on Corporate Governance and the Ownership Structure for further information about the corporate governance of the Company. The Board of Statutory Auditors has no observations to make to the shareholders' meeting in this regard.

The Company has adopted the Code of self-regulation issued by the Committee for the corporate governance of companies listed in the STAR segment.

18. Lastly, the Board of Statutory Auditors has performed checks on compliance with the laws governing the preparation of the draft separate financial statements and the consolidated financial statements at 31st December 2016, the respective explanatory notes and the accompanying Directors' Report, both directly and with assistance from function managers, as well as with reference to the information obtained from the auditing firm. No omissions, censurable facts or irregularities perpetrated by the corporate bodies were identified during the supervisory activities carried out by the Board of Statutory Auditors.

It is confirmed that the accounting policies adopted for the preparation of the separate and consolidated financial statements at 31st December 2016 reflect the IFRS (International Financial Reporting Standards) issued by the International Accounting Standards Board.

19. With regard to art. 153, para. 2, of Decree No. 58/98, the Board of Statutory Auditors has no particular proposals to present to the shareholders' meeting.

As described above, the supervision and control activities carried out by the Board of Statutory Auditors did not identify any significant matters worth mentioning in the Report to the Meeting, or reporting to the supervisory and control bodies.

Based on all of the above, in conclusion to the supervisory activities performed during the year, the Board of Statutory Auditors has no observations to make pursuant to art. 153 of Decree No. 58/1998 concerning the matters for which it is responsible regarding the financial statements, the related explanatory notes and the report on operations, and concurs with the recommendation made by the Board of Directors to the shareholders' meeting concerning the allocation of the results for the year.

San Giovanni in Marignano, 21 March 2017

For the Board of Statutory Auditors
The President
Pierfrancesco Sportoletti

"Free translation from the original in Italian".

List of directorships and audit appointments held by the members of the Board of Statutory Auditors as of 21 March 2017, date of issue of that Board's Report to the Stockholders' Meeting Attachment pursuant to art. 144 quinquesdecies of the Issuers' Regulation, prepared in accordance with the instructions contained in Attachment 5-bis, Template 4 of the above Regulation

Daniela SAITTA
Appointments in other issuer: 1

Aeffe S.p.A.	Member of the Board of Statutory	31/12/16
Zucchi S.p.A.	Member of the Board of Statutory	31/12/18
Impresa S.p.A.	Special Commissioner	Resignation/termination
Dirpa S.C. a r.l.	Special Commissioner	Resignation/termination
Impresa P.I. Giuseppe Rabbiosi S.p.A.	Special Commissioner	Resignation/termination
S.a.f. S.r.l.	Special Commissioner	Resignation/termination
Consorzio Stabile T.& T.	Special Commissioner	Resignation/termination
Eutelia S.p.A.	Special Commissioner	Resignation/termination
Equiter S.r.l.	Special Commissioner	Resignation/termination
Capodarco Soc. Coop. Sociale Integrata	Judicial Administrator	30/03/17
Ist.to Vigilanza Partenopea Combattenti e Reduci S.r.l.	Special Commissioner	Resignation/termination
Voxson S.p.A.	Judicial Administrator	Resignation/termination
Aerolinee Itavia S.p.A.	Judicial Administrator	Resignation/termination
Nova Soc. Coop. a r.l.	Judicial Administrator	Resignation/termination
Soc. Generale Progettazioni Consulenze e Partecipazioni S.p.A. (ex Italconsult)	Judicial Administrator	Resignation/termination
SIOG Soc. Italiana Oleodotti Gaeta S.p.A	Judicial Administrator	Resignation/termination
S.I.C.I.E.T. S.p.A.	Judicial Administrator	Resignation/termination
G4 S.r.l.	Judicial Administrator	Resignation/termination
Domenico Bosi & Figli S.n.c.	Judicial Administrator	Resignation/termination
Gitran S.p.A.	Judicial Administrator	Resignation/termination
Smet S.r.l.	Judicial Administrator	Resignation/termination
Impresa Mario Genghini	Judicial Administrator	Resignation/termination
Sime S.p.A.	Judicial Administrator	Resignation/termination
Sofir S.p.A.	Judicial Administrator	Resignation/termination

Luca Sapucci
Appointments in other issuer: 0

Aeffe S.p.A	Member of the Board of Statutory	31/12/16
Pollini S.p.A	Member of the Board of Statutory	31/12/17
Pollini Retail S.r.l.	Member of the Board of Statutory	31/12/17
Velmar S.p.A.	Member of the Board of Statutory	31/12/17
Fratelli Ferretti Holding S.r.l.	Member of the Board of Statutory	31/12/18
Aeffe Retail S.r.l	Member of the Board of Statutory	31/12/17
Montegridolfo S.p.A.	Member of the Board of Statutory	31/12/17
Badioli S.p.A.	Member of the Board of Statutory	31/12/17

Fernando CIOTTI
Appointments in other issuer: 0

Aeffe S.p.A	Chairman of the Board of Statutory	31/12/16
Pollini Retail S.r.l.	Chairman of the Board of Statutory	31/12/17
Velmar S.p.A.	Chairman of the Board of Statutory	31/12/17
Fratelli Ferretti Holding S.r.l.	Chairman of the Board of Statutory	31/12/18
Aeffe Retail S.r.l	Chairman of the Board of Statutory	31/12/17
Moschino S.p.A.	Member of the Board of Statutory	31/12/17

Ria
Grant Thornton

Independent auditors' report
in accordance with art. 14 and 16 of Legislative Decree
n. 39 of January 27, 2010

Ria Grant Thornton S.p.A
Via San Donato, 197
40127 Bologna
Italy

T 0039 (0) 51 – 6045911
F 0039 (0) 51 – 6045999
E info.bologna@ria.it.gt.com
W www.ria-grantthornton.it

To the shareholders of
Aeffe S.p.A.

Report of the financial statements

We have audited the accompanying financial statements of Aeffe S.p.A., which comprise the statement of financial position as of December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/05.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree no. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.
An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Aeffe S.p.A. as of December 31, 2016 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/05.

Other aspects
The financial statements of Aeffe S.p.A. for the year ended December 31, 2015 were audited by the auditor in charge at the time who expressed an unmodified opinion on those statements on March 22, 2016.

Report on compliance with other laws and regulation

Opinion on the consistency of the financial statements with the report on operations and of certain information set out on corporate governance and ownership structure
We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion, as required by law, on the consistency of the report on operations and of the information set out in the report on corporate governance and ownership structure referred to in art. 123-bis, paragraph 4 of Legislative Decree n. 58/98, which are the responsibility of the directors of Aeffe S.p.A., with the financial statements of Aeffe S.p.A. in our opinion, the report on operations and of the information set out in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Aeffe S.p.A. as of December 31, 2016.

Bologna, March 21, 2017

Ria Grant Thornton S.p.A.

Signed by

Sandro Gherardini
Partner

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international.

EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe S.p.A. (the "Company") is an Italian legal entity and a Parent Company that holds, directly or indirectly, equity investments in the companies that lead the business sectors in which the Aeffe Group is active.

The Company is based in San Giovanni in Marignano (Rimini) and is currently listed in the – STAR Segment – of the MTA, the Italian Stock Exchange operated by Borsa Italiana.

The Company has the following branch offices and local units:

1) Office and showroom in Donizetti street n.48 – Milan (MI);
2) Storage in Olmi street – San Giovanni in Marignano (RN);
3) Office and showroom in Donizetti street n.47 – Milan (MI);
4) Storage in Chitarrara n. 910 – Monte Colombo (RN);
5) Storage in Tavollo snc street – San Giovanni in Marignano (RN);
6) Storage in Erbosa I street n. 92 – Gatteo (FC);
7) Storage in Raibano n. 55/A street – Coriano (RN).

These financial statements have been prepared in EUR, which is the functional currency of the economy in which the Company operates.

The financial statements are accompanied by notes that explain the Company's economic and financial position as of and for the year ended 31 December 2016. This information is presented on a comparative basis, after adjusting the prior year's financial statements for consistency.

Unless stated otherwise, all amounts have been rounded to thousands of EUR.

The financial statements comprise the balance sheet, the income statement, comprehensive income statement the statement of changes in shareholders' equity, the cash flow statement and these explanatory notes.

Unless stated otherwise in the accounting policies described below, these financial statements have been prepared on an historical cost basis.

The financial statements have been audited by BDO Italia S.p.A..

The Company is controlled by the company Fratelli Ferretti Holding S.r.l., of which in the attachment VI are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

DECLARATION OF CONFORMITY AND BASIS OF PRESENTATION

Pursuant to art. 3 of Decree 38/2005 dated 28 February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CONSOB and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27 July 2006 and communication DEM/6064293 dated 28 July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November 2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information is presented in the Directors' Report (Report on operations).

FINANCIAL STATEMENT FORMATS

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Company has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. Within the income statement, as intermediate results, they are exposed EBITDA and EBIT, considered representative indicators of company performance. The cash flow statement is presented using the "indirect" format.

With reference to Consob Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On July 24, 2014 the IASB issued the final version of IFRS 9 - Financial Instruments.

There follows the main aspects of the new international accounting principle:

- Classification and Measurement

Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments, thereby removing a source of complexity associated with previous accounting requirements.

- Impairment

During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The IASB has already announced its intention to create a transition resource group to support stakeholders in the transition to the new impairment requirements.

- Hedge accounting

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.

- Own credit

IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Early application of this improvement to financial reporting, prior to any other changes in the accounting for financial instruments, is permitted by IFRS 9.

The amendments will apply for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

On September 11, 2015 the IASB published the document Effective Date of IFRS 15, in which it has been deferred by one year, from the January 1, 2017 to the January 1, 2018, the effective date of the IFRS 15 "Revenue from Contracts with Customers".

On January 13, 2016 the IASB published the new accounting Standard, IFRS 16 Leases that will replaces IAS 17 Leases, 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.

It sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15. it is yet to be endorsed for application in the European Union.

On 19 January 2016 the IASB published amendments to IAS 12 Income Taxes. The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

On 29 January 2016 the IASB published amendments to IAS 7 Statement of Cash Flows. The improvements to disclosures require companies to provide information about changes in their financing liabilities and come as a response to requests from investors for information that helps them better understand changes in a company's debt. The amendments will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The IAS 7 amendments become mandatory for annual periods beginning on or after 1 January 2017.

On 12 April 2016 the IASB published Clarifications to IFRS 15 'Revenue from Contracts with Customers". The amendments include additional reliefs to reduce cost and complexity for a company when it first applies the new Standard. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 20 June 2016 the IASB published some amendments to IFRS 2 "Share-based Payment" clarifying the classification and measurement of share-based payment transactions and the accounting of some types of share-based paymentss. It also introduces an exception to IFRS 2 requesting to be treated entirely share-based payment the awards for which the Tax legislation provides for a deduction and therefore a subsequent payment to the Treasury. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published the 'Transfers of Investment Property (Amendments to IAS 40)' to clarify transfers of property to, or from, investment property, stating that the transfer occurred when, and only when, there is evidence of a change in use. The amendments are effective for periods beginning on or after 1 January 2018. Earlier application is permitted.

On 8 December 2016, the IASB published Annual Improvements to IFRSs 2014 – 2016 Cycle. The document introduces amendments to the following principles: (i) Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters The IASB proposes to delete the short-term exemptions in IFRS 7, IAS 19 and IFRS 10 because they have now served their intended purpose; (ii) amendments to IFRS 12 Disclosure of Interests in Other Entities: amendments to IAS 28 Investments in Associates and Joint Ventures related to the measurement at fair value of an investment in an associate or a joint venture. The application is effective for annual reporting periods beginning on or after 1 January 2018.

On 8 December 2016 the IASB published IFRIC Interpretation 22 "Foreign Currency Transactions and Advance

Consideration". The document clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The application is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

The company will adopt these new standards, amendments and interpretations, based on the data of scheduled Application, and assess potential impacts, when these will be approved by the European Union.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2016 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company and able to generate future economic benefits for the Company. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (*Impairment of Assets*). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.

Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Brands

Brands are recorded at cost and amortised systematically on a straight-line basis over their estimated useful life (40 years), commencing from the time the asset becomes available for use.

The Company has deemed it fair to attribute a finite life of 40 years to its brands, having regard for the prudent approach taken by other operators in the sector that consider the useful lives of their brands to be very long (given the extended utility of such assets), but not eternal or indefinite (duration not identifiable). This approach is consistent with the type of intangibles found in the fashion industry and with the long-established practices of other firms in the sector (market comparables).

Regarding the only brands owned by the Company, Alberta Ferretti and Philosophy, the exclusivity of the business, their historical profitability and their future income allow to consider their value recoverable, even in presence of difficult market conditions.

In order to calculate the recoverable value of brands registered in the balance sheet, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of these intangible assets, for a period equal to 40 years. To calculate the values on this basis is has been used for the year 2017 the Group budget. For the remaining periods it has been used an increase in turnover with a CAGR of 2.5%.. As royalty rates we used the averages for the sector and as discount rate we used the average cost of capital (WACC) which is 4.06% (4.13% last year).

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.

The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectual property	33%
Brands	2.5%

Research costs are charged to the income statement as incurred.

At 31 December 2016 the Company has not recorded intangible fixed assets with an “infinite” useful life in the intangible fixed assets.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.

Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.

Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.

Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.

As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).

The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2%
Plant and machinery	12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and furnishings	12%
Motor vehicles	20%
Cars	25%

Land is not depreciated.

Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Company, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.

Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Company are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Finance leases

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.

On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Company substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

At 31 December 2016, the Company has not recorded intangible fixed assets with an "infinite" useful life in the intangible fixed assets.

Intangible fixed assets, equity investments, tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired in order to determine if such activities may have been subject to a loss of value. If such evidence exists the activity's carrying amount is reduced to the related recoverable value.

Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.

The recoverable value of these assets is the higher between their fair value, net of disposal costs and their value in use. In order to determine value in use, the estimated future cash flows - including those deriving from the disposal of the asset at the end of its useful life - are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Company's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.

The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.

Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.

The written down value of goodwill is never reinstated.

Equity investments

Investments in subsidiary, associated companies and joint venture are recorded as historical cost, as written down by any impairment recognised pursuant to IAS 36. Their original value is reinstated in subsequent years if the reasons for write-downs cease to apply.

It is signalled that the situation caused by the international economic and financial crisis, even if in recover, has induced the Company to estimate the recoverable amount of some equity investments in subsidiaries of particular importance in order to verify the consistency of the book value.

For the companies Aeffe Retail S.p.A., Pollini S.p.A., Velmar S.p.A., Aeffe France S.a.r.l., and Aeffe USA Inc., the recoverable amount has been determined using the method called Discounted Cash Flow (DCF). From such analyses no impairment losses have been emerged.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their market or estimated realisable value. Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.

The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.

Obsolete and slow-moving inventories are written down to reflect their likely use or realization.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions

The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits

Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Company contributions to defined benefit plans are charged to the income statement on an accruals basis.

The Company's net liability for defined benefit plans is determined on an actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1st January 2005, the IFRS transition date, have been recognised.

Financial payables

Financial payables, excepting derivates, are recorded at their fair value, after transactions costs directly attributable.

Bank overdrafts and loans

Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.

Loans are classified as current liabilities unless the Company has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables

Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Treasury shares

Treasury shares are presented as a deduction from capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The company has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

Revenues

Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Company are recognised on the following basis:

(i) retail sales – on delivery of the goods;

(ii) wholesale sales – on shipment of the goods;

(*iii)* royalties and commissions – on an accruals basis.

Costs

Costs and expenses are recorded on an accruals basis.

The costs incurred during the year for the creation and production of samples are matched with revenues from the sales of the related collections; accordingly, they are charged to the income statement in proportion to the revenues earned. The residual costs to be expensed when the related revenues are earned are classified as other current assets.

Financial income and expense

This comprises all the financial items recorded in the income statement for the year, including the interest accrued on financial payables using the effective interest method (mainly bank overdrafts, long-term loans), exchange gains and losses, dividend income, and the lease interest identified using finance lease accounting (IAS 17).

Interest income and expense is recorded in the income statement in the year in which it is earned/incurred.

Dividends are recognised in the year in which the Company's right to collect them is established (when they are declared).

The interest embedded in finance lease payments is charged to the income statement using the effective interest method.

Taxes

Income taxes for the period include all taxes calculated on taxable income. Income taxes for the period are recorded in the income statement.

Taxes other than income taxes, such as property tax, are reported under operating expenses or, if the necessary conditions are fulfilled, are capitalized in the related real estate.

Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date.

Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.

Payables for deferred taxes relate to:

- positive components of income for the current period but taxable in future periods;
- negative components of income deductible in excess compared to the amount recorded in the income statement as a result of the application of the International Accounting Standards.

Receivables for deferred taxes are recognised:

- for all negative components of income non-deductible in the period under examination but that could be deducted in future periods;
- for the carryover of unused tax losses, if it is probable that taxable income, for which the tax loss may be used, will be generated.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to tax calculation on income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force on the balance sheet date.

The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs.

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the financial statements, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Company.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the Company applied the method described above in the paragraph entitled "Impairment of value of assets".

In particular, regarding the impairment tests related to equity investments, the main estimations used are the following:

Equity investment in Pollini S.p.A.: the evaluation emerges from the cash flow analysis of the entire Pollini Group. The cash flows have been gathered, for the year 2017, by the Group budget. It has been also estimated cash flow projections for the year 2018, 2019, 2020 and 2021 at a flat growth flat of 10%. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2021. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC), specifically calculated for the Pollini Group, equal to 6.78% (6.02% last year).

Equity investment in Aeffe Retail S.p.A., Velmar S.p.A. Aeffe France S.a.r.l., and Aeffe USA Inc.: the evaluation emerges from the cash flow analysis of each single company. The cash flows have been gathered, for the year 2017, by the Group budget. It has been also estimated cash flow projections for the year 2018, 2019, 2020 and 2021 at a growth rate basically stable compared to the one used in the budget 2017. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2021. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC) of the Group equal to 4.06% (4.13% last year).

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:
- – The inflation rate foreseen is 1.50%;
- – The discount rate used is 1.21%;
- – The annual rate in increase of the severance indemnity fund foreseen is 2.625%;
- – The expected turn-over of employees is 6% for Aeffe S.p.A.
- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:
- – The voluntary turnover rate foreseen is 0.00%;
- – The corporate turnover rate foreseen is 5.00%;
- – The discount rate used is 1.21%;

OTHER INFORMATION

Management of financial risk

The financial risks to which the Company is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the exchange risk, rate risk, price risk);
- credit risk;

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury.

The main goal of these guidelines consists of:

(v) **Liquidity risk**

The Company manages the liquidity risk with a view to guarantee the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

(vi) **Exchange risk:**

The Company operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the Company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using operating coverage. Alternatively, the Company, if exposed to the exchange risk, covers itself by loans in foreign currency.

(vii) **Rate risk:**

The interest rate risk to which the Company is exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Company to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards.

As of 31 December 2016 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 167 thousand annually (EUR 270 thousand as of 31 December 2015).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2016 there are no instruments that hedge interest-rate risk.

(viii) **Price risk**

The Company makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Company deals only with known and reliable clients. It is a policy of the Company that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, and customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits "exceeding 90 days", where necessary, legal steps are taken.

As regards foreign receivables, the Company proceeds as follows:

a) some of foreign receivables are guaranteed by primary credit insurance companies.
b) the residual uninsured part of receivables is managed:
    a. Most of them by request of letter of credit and 30% advances within two weeks of the order confirmation;

b. The remaining uninsured receivables not covered by insurance nor by request of letter of credit or by advance, are specifically authorized and managed following the procedure for Italian receivables.

This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the Company an income from the relationship.

As of the reference date of the financial statement, the maximum credit risk exposure was equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Trade receivables	63,925	59,353	4,572	7.7%
Other current receivables	11,699	12,603	(904)	(7.2%)
Total	**75,624**	**71,956**	**3,668**	**5.1%**

See note 7 for the comment and breakdown of the item "trade receivables" and note 10 for "other current receivables".

The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.

As of 31 December 2016, overdue but not written-down trade receivables amount to EUR 31,595 thousand (EUR 39,468 thousand in 2015). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
By 30 days	4,003	2,776	1,227	44.2%
31 - 60 days	1,495	2,483	(988)	(39.8%)
61 - 90 days	964	1,738	(774)	(44.5%)
Exceeding 90 days	25,133	32,471	(7,338)	(22.6%)
Total	**31,595**	**39,468**	**(7,873)**	**(19.9%)**

The decrease of overdue commercial receivables of EUR 7,873 thousand is the effect of a more and more careful financial management.

No risks of default with respect to such overdue receivables have to be highlighted.

Cash flow statement

The cash flow statement presented by the Company in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the cash flow statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.

Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.

Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are included in the cash flows from operating activities.

Under IAS 7, the cash flow statement must identify separately the cash flow deriving from operating, investing and financing activities:

(i) cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Company using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);

(ii) cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;

(iii) cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE BALANCE SHEET

NON-CURRENT ASSETS

1. Intangible fixed assets

The composition of intangible fixed assets is analysed in the following table, together with the changes that took place during the year:

(Values in thousands of EUR)	Brands	Other	Total
Net book value as of 01.01.15	**3,526**	**520**	**4,046**
Increases externally acquired		336	336
Disposals		(56)	(56)
Amortisation	(126)	(314)	(440)
Net book value as of 01.01.16	**3,400**	**486**	**3,886**
Increases externally acquired		298	298
Disposals		(16)	(16)
Amortisation	(126)	(284)	(410)
Net book value as of 31.12.16	**3,274**	**484**	**3,758**

Brands

This caption comprises the value of the brand names owned by the Company: "Alberta Ferretti" and "Philosophy".

The residual amortisation period for this caption is 26 years.

Other

The caption "Other" relates to user licenses for software.

2. Tangible fixed assets

The composition of tangible fixed assets is analysed in the following table, together with the changes that took place during the year:

(Values in thousands of EUR)

	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.15	**16,535**	**23,009**	**1,808**	**1,982**	**25**	**492**	**43,851**
Increases	130	5	89	39	17	271	551
Disposals			(14)		(2)	(22)	(38)
Depreciation		(561)	(497)	(589)	(15)	(205)	(1,867)
Other changes: incorporation of Nuova Stireria Tavoleto S.r.l.	280	393		119	1	1	794
Net book value as of 01.01.16	**16,945**	**22,846**	**1,386**	**1,551**	**26**	**537**	**43,291**
Increases		86	222	560	36	193	1,097
Disposals			(24)			(1)	(25)
Depreciation		(562)	(295)	(429)	(16)	(191)	(1,493)
Net book value as of 31.12.16	**16,945**	**22,370**	**1,289**	**1,682**	**46**	**538**	**42,870**

Tangible fixed assets have changed as follows:

- Increases of EUR 1,097 thousand for new investments. These mainly comprise lands, leasehold improvements, information tools and general and specific plant and machinery.
- Disposals of EUR 25 thousand in leasehold improvements.
- Depreciation of EUR 1,493 thousand, charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. Equity investments

This caption comprises the investments held in subsidiary and associated companies. A complete list, together with the information requested by Consob, is presented in Attachment I.

The investments increase of EUR 33,472 thousand due to the following aspects:

- increase of share capital, through waiver of financial receivables, towards the subsidiary Moschino S.p.A., for EUR 32,772 thousand;
- increase of share capital, through waiver of commercial receivables, towards the subsidiary Aeffe Retail S.p.A., for EUR 300 thousand;
- increase of share capital, through capital contributions payments, towards the subsidiary Velmar S.p.A., for EUR 400 thousand.

4. Other fixed assets

This caption principally includes amounts due by subsidiaries.

5. *Deferred tax assets and liabilities*

This caption is analysed below as of 31 December 2016 and 2015:

(Values in thousands of EUR)	Receivables		Liabilities	
	2016	2015	2016	2015
Tangible fixed assets			(17)	(20)
Intangible fixed assets			(130)	(149)
Provisions	510	317		
Costs deducible in future periods	988	806		
Income taxable in future periods			(39)	(82)
Tax losses carried forward	158	181		
Other tax assets (liabilities) from transition to IAS	623	383	(7,140)	(7,100)
Total	**2,279**	**1,687**	**(7,326)**	**(7,351)**

Changes in temporary differences during the year are shown in the following table:

(Values in thousands of EUR)	Opening balance	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	(20)	3		(17)
Intangible fixed assets	(149)	19		(130)
Provisions	317	193		510
Costs deducible in future periods	806	182		988
Income taxable in future periods	(82)	43		(39)
Tax losses carried forward	181	(23)		158
Other tax assets (liabilities) from transition to IAS	(6,717)	178	22	(6,517)
Total	**(5,664)**	**595**	**22**	**(5,047)**

The variation of EUR 595 thousand in the income statement mainly refers to the deferred on provisions for inventory write-down and for unrealized foreign exchange losses.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

6. *Stocks and inventories*

This caption comprises:

(Values in thousands of EUR)	31 December	31 December	Change	
	2016	2015	Δ	%
Raw, ancillary and consumable materials	4,452	4,562	(110)	(2.4%)
Work in progress	4,725	4,795	(70)	(1.5%)
Finished products and goods for resale	19,157	21,509	(2,352)	(10.9%)
Advance payments	17	54	(37)	(68.5%)
Total	**28,352**	**30,920**	**(2,568)**	**(8.3%)**

The decrease by EUR 2,568 thousand in inventories is mainly related to the sales growth of the Spring/Summer 2017 collections.

Raw materials and work in progress products mainly concern the Spring/Summer 2017 collections.

Finished products mainly relate to the Autumn/Winter 2016 and to the Spring/Summer 2017 collections and to the Autumn/Winter 2017 samples collections.

7. *Trade receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Customers receivables	12,420	8,724	3,696	42.4%
Subsidiaries receivables	51,838	50,929	909	1.8%
(Allowance for doubtful receivables)	(333)	(300)	(33)	11.0%
Total	**63,925**	**59,353**	**4,572**	**7.7%**

Trade receivables amount to EUR 63,925 thousand at 31 December 2016, showing an increase by 7.7% compared to the value at 31 December 2015, mainly determined by the sales growth.

The allowance for doubtful receivables was determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

In particular the allowance existing at 31 December 2015 has been used for the amount of EUR 267 thousand to cover losses related to receivables arisen in previous years.

The adjustment of the receivables nominal value to the estimated realisable value has been obtained through the allocation of EUR 300 thousand to allowance for doubtful receivables.

8. *Tax receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
VAT	1,604	2,955	(1,351)	(45.7%)
Corporate income tax (IRES)	799	1,190	(391)	(32.8%)
Other tax receivables	22	43	(21)	(48.1%)
Local business tax (IRAP)		279	(279)	(100.0%)
Total	**2,426**	**4,467**	**(2,041)**	**(45.7%)**

The variation of tax receivables is mainly due to the use of tax receivables in compensation of the tax payable for IRES of the period matured in the period by the company and by the fiscal consolidation other than the decrease of VAT receivable.

9. *Cash*

This caption comprises:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Bank and post office deposits	2,606	1,317	1,289	97.9%
Cheques	4	-	4	n.a.
Cash in hand	25	22	3	13.6%
Total	**2,635**	**1,339**	**1,296**	**96.8%**

Bank and postal deposits represent the nominal value of the current account balances with banks, including the interest accrued at period end.

Cash and cash equivalents represent the nominal value of the cash held at period end.

As of 31 December 2016, cash and cash equivalents are EUR 1,296 thousand higher than at the end of the previous year. The reasons for this are analysed in the cash flow statement.

10. Other receivables

This caption comprises:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Credits for prepaid costs (costs of producing collections)	8,856	9,666	(810)	(8.4%)
Advances for royalties and commissions	808	740	68	9.2%
Advances to suppliers	414	380	34	8.9%
Accrued income and prepaid expenses	513	340	173	50.9%
Other	1,108	1,477	(369)	(25.0%)
Total	**11,699**	**12,603**	**(904)**	**(7.2%)**

Credits for prepaid costs are related to the costs incurred to design and make samples for the Spring/Summer 2017 and Autumn/Winter 2017 collections, for which the corresponding revenues from sales have not been realised yet.

Accrued income and prepaid expenses refer mainly to owed rent, insurance premium, maintenance and subscriptions fees.

11. SHAREHOLDERS' EQUITY

The main elements comprising shareholders' equity as of 31 December 2016 are described below.

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ
Share capital	25,371	25,371	-
Legal reserve	2,909	2,863	46
Share premium reserve	71,240	71,240	-
Other reserves	24,929	24,057	872
Fair value reserve	7,742	7,742	-
IAS reserve	1,086	1,086	-
Reamisurement of defined benefit plans reserve	(655)	(586)	(69)
Profits/(Losses) carried-forward	2,348	2,348	-
Net profit / (loss)	1,715	919	796
Total	**136,685**	**135,040**	**1,645**

Share capital

Share capital as of 31 December 2016 (gross of treasury shares) is represented by 107,362,504 issued and fully-paid ordinary shares, par value EUR 0.25 each, totalling EUR 26,841 thousand. As of 31 December 2016 the Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares (non-considering treasury shares) is not changed during the period.

Legal reserve

The legal reserve amounts to EUR 2,909 thousand at 31 December 2016. It has increased by 46 thousand as an effect of the 5% allocation of the 2015 profit.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2015.

Other reserves

The caption records a positive variation as a consequence of the previous year's profit allocation for EUR 872 thousand.

We specify that reserves haven't changed for income or expenses recognized directly in equity.

Fair value reserve

The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Company at their fair value, as determined with reference to an independent appraisal.

IAS reserve

The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1.

Reamisurement of defined benefit plans reserve

The remeasurement of defined benefit plans reserve, formed as a result of the application, from 1st January 2014 (retrospectively), of the amendment to IAS 19, decreases of EUR 69 thousand compared to the value at 31 December 2015.

Profits/(Losses) carried-forward

The Profits/(losses) carried-forward at 31 December 2016, amounting to EUR 2,348 thousand, is not changed compared to 31 December 2015.

Net Profit /loss

This caption highlights a net profit of EUR 1,715 thousand.

Information on distributable reserves

The following schedule provides information on the way each equity reserve can be used and/or distributed, together with how they have been used in the past three years.

(Values in thousands of EUR)	Amount	Possible uses	Amount distributable	Uses in prior years		
				To cover losses	For capital increases	For distribution to shareholders
Share capital	25,371					
Legal reserve	2,909	B				
Share premium reserve:						
- including	69,075	A,B,C	69,075			
- including	2,165	B				
Other reserves:						
- inc. extraordinary reserve	24,526	A,B,C	24,526			
IAS reserve (art.6 D.Lgs. 38/2005)	1,086	B				
Fair Value reserve (art. 6 D.Lgs. 38/2005)	7,742	B				
Merger reserve	404	B				
Profit/(losses) carried-forward	2,348	A,B,C	2,348			
Total	**135,626**		**95,949**	**-**	**-**	**-**

<u>Restricted Reserves</u>

Pursuant to art. 109.4.b) of the Consolidated Income Tax Law approved by Decree 917 dated 22 December 1986, as modified by Decree 344 dated 12 December 2003, restricted reserves as of 31 December 2016 amount to EUR 1,302 thousand.

In the absence of freely-distributable reserves or profits, these reserves would be taxable upon distribution.

NON-CURRENT LIABILITIES

12. Provisions

The changes in the various provisions are analysed below:

(Values in thousands of EUR)	31 December 2015	Increases	Decreases	31 December 2016
Pensions and similar obligations	311	30	(59)	282
Total	**311**	**30**	**(59)**	**282**

The agents' termination indemnities reflect an estimate of the costs to be incurred on the termination of agency contracts, considering legal requirements and all other useful information, such as historical experience, the average duration of agency contracts and their rate of turnover. The amount stated represents the present value of the payments required to settle the obligation.

The section on "Contingent liabilities" describes the tax contingencies that are not covered by provisions since the Company is unlikely to incur charges in relation to them.

13. Post-employment benefits

The severance indemnities payable on a deferred basis to all employees of the Company are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship.

For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees whose severance indemnities are paid into approved supplementary pension funds which, in the circumstances, are deemed to represent defined contributions plans.

The main changes are described below:

(Values in thousands of EUR)	31 December 2015	Increases	Decreases / Other changes	31 December 2016
Post employment benefits	4,293	77	(86)	4,284
Total	**4,293**	**77**	**(86)**	**4,284**

Increases include the share of post employment benefits matured in the year and the related revaluation, while the entry decreases/other changes includes the decrease for the liquidation of the post employment benefits and the actuarial variation.

14. Non-current financial liabilities

Non-current financial payables are analysed in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Loans from financial institutions	22,712	17,883	4,829	27.0%
Amounts due to other creditors	2,407	35	2,372	6,777.1%
Total	**25,119**	**17,918**	**7,201**	**40.2%**

The increase in this entry is mainly due to the disbursement of a ten-year mortgage loan for an amount of EUR 11.5 million on a real estate based in Gatteo, headquarter of the subsidiary Pollini Spa. It should be noted that such real estate from 2002 to 2012 was object of a lease-back operation.

All other amounts due to banks relate to the portion of bank loans due beyond 12 months and comprise solely unsecured loans and bank finance. Such loans are not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice.

Furthermore, there are no covenants to comply with specific financial terms or negative pledges.

The amount due to other creditors increases of EUR 2,372 thousand as effect of bearing loans obtained from the American subsidiary Aeffe Usa Inc. . The amount of EUR 35 thousand resulting from the incorporation of the subsidiary Nuova Stireria Tavoleto S.r.l. occurred on 18 November 2015, is related to a loan directed to sustain the development of a software for improving production’s planning and control (Quick-Response).

The following table details the bank loans outstanding as of 31 December 2016, including both the current and the non-current portion:

(Values in thousands of EUR)	Total amount	Current portion	Non-current portion
Bank borrowings	30,435	7,723	22,712
Total	**30,435**	**7,723**	**22,712**

The total due beyond five years amount to EUR 2,495 thousand.

15. Non-current not financial liabilities

Non-current not financial liabilities refers to tax payable generated in Aeffe Spa, as a consequence of the adhesion of the subsidiaries to the fiscal consolidation, related to the fiscal losses.

Such caption decreases of EUR 555 thousand due to the use of tax losses carried forward by the parent company Aeffe S.p.A., thereby reducing the liability towards the subsidiaries.

CURRENT LIABILITIES

16. Trade payables

This caption is analysed below on a comparative basis:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Payables with subsidiaries	41,784	42,886	(1,102)	(2.6%)
Payables with third parties	30,006	27,558	2,448	8.9%
Total	**71,790**	**70,444**	**1,346**	**1.9%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

The variation of this caption is mainly given by the sales growth.

17. Tax payables

Tax payables are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Amounts due to tax authority for withheld taxes	5,872	1,363	4,509	330.8%
Total	**5,872**	**1,363**	**4,509**	**330.8%**

The increase of Tax payables is mostly due to the payable for IRES and IRAP generated in the period by Aeffe S.p.A. and the fiscal Group consolidated.

18. Short-term financial liabilities

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Due to banks	44,847	60,498	(15,651)	(25.9%)
Total	**44,847**	**60,498**	**(15,651)**	**(25.9%)**

Bank overdrafts include advances from banks, short-term loans and the current portion of long-term loans. Advances mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

These captions are analysed in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Current bank loans	37,124	55,778	(18,654)	(33.4%)
Current portion of long-term bank borrowings	7,723	4,720	3,003	63.6%
Total	**44,847**	**60,498**	**(15,651)**	**(25.9%)**

The decrease of loans is mostly due to the improvement of the operating cash flow.

19. Other liabilities

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Due to total security organization	1,994	1,808	186	10.3%
Due to employees	2,503	1,833	670	36.6%
Trade debtors - credit balances	2,078	1,835	243	13.2%
Other	701	403	298	73.9%
Total	**7,276**	**5,879**	**1,397**	**23.8%**

The amounts due to social security institutions, recorded at nominal value, relate to the social security charges on the wages and salaries of the Company's employees.

COMMENTS ON THE INCOME STATEMENT

20. Revenues from sales and services

In 2016 revenues amount to EUR 145,903 thousand compared to EUR 137,380 thousand of the year 2015, showing an increase of 6.2% (6.8% at constant exchange rates). Such increase has mainly interested the brands Moschino and Philosophy di Lorenzo Serafini.

41% of revenues are earned in Italy while 59% come from foreign markets.

Revenues are analysed by geographical area below:

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2016	%	2015	%	Δ	%
Italy	59,504	40.8%	54,058	39.3%	5,446	10.1%
Europe (Italy and Russia excluded)	29,439	20.2%	26,693	19.4%	2,746	10.3%
United States	10,563	7.2%	10,967	8.0%	(404)	(3.7%)
Russia	5,496	3.8%	5,777	4.2%	(281)	(4.9%)
Japan	3,651	2.5%	6,057	4.4%	(2,406)	(39.7%)
Rest of the world	37,250	25.5%	33,828	24.6%	3,422	10.1%
Total	**145,903**	**100.0%**	**137,380**	**100.0%**	**8,523**	**6.2%**

21. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Rental income	3,523	3,803	(280)	(7.4%)
Extraordinary income	363	828	(465)	(56.2%)
Other income	1,358	2,037	(679)	(33.3%)
Total	**5,244**	**6,668**	**(1,424)**	**(21.4%)**

The caption other income, which amounts to EUR 1,358 thousand in 2016, mainly refers to exchange gains on commercial transaction, provision of services and sales of raw materials and packaging.

22. Costs of raw materials

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Raw, ancillary and consumable materials and goods for resale	52,763	53,739	(976)	(1.8%)
Total	**52,763**	**53,739**	**(976)**	**(1.8%)**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.

23. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Subcontracted work	17,128	16,786	342	2.0%
Consultancy fees	7,206	7,838	(632)	(8.1%)
Advertising	3,857	3,814	43	1.1%
Commission	6,858	6,443	415	6.4%
Transport	1,871	1,874	(3)	(0.2%)
Utilities	545	597	(52)	(8.7%)
Directors' and auditors' fees	1,823	1,580	243	15.4%
Insurance	154	142	12	8.5%
Bank charges	310	376	(66)	(17.6%)
Travelling expenses	965	1,057	(92)	(8.7%)
Sundry industrial services	754	681	73	10.7%
Other services	1,337	1,289	48	3.7%
Total	**42,808**	**42,477**	**330**	**0.8%**

Costs of services change from EUR 42,477 thousand of 2015 to EUR 42,808 thousand of 2016, showing an increase of 0.8%, mainly due to the increase of costs for subcontracted work and costs for commissions linked to the growth of sales.

24. Costs of use of third parties assets

This caption comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Rental expenses	2,557	2,556	1	0.0%
Royalties	13,332	12,646	686	5.4%
Hire charges and similar	461	417	44	10.6%
Total	**16,350**	**15,619**	**731**	**4.7%**

The entry cost of use of third parties assets increase of EUR 731 thousand from EUR 15,619 thousand in 2015 to EUR 16,350 thousand in 2016, mainly due to higher royalties linked to the growth of sales.

25. Labour costs

This caption comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Labour costs	27,659	25,492	2,167	8.5%
Total	**27,659**	**25,492**	**2,167**	**8.5%**

Labour costs move from EUR 25,492 thousand in 2015 to EUR 27,659 thousand in 2016. The increase of EUR 2,167 thousand mainly relates to the enlargement of the production and of research and development department.

The applicable national payroll agreement is the textile and clothing sector contract of December 2013.

The average number of employees as of 31 December 2016 is analysed below:

(Average number of employees by category)	31 December	31 December	Change	
	2016	2015	Δ	%
Workers	134	133	1	0.8%
Office staff - supervisors	383	382	1	0.3%
Executive and senior managers	12	13	(1)	(7.7%)
Total	**529**	**528**	**1**	**0.2%**

26. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Taxes	276	302	(26)	(8.6%)
Gifts	276	119	157	131.9%
Contingent liabilities	74	114	(40)	(35.1%)
Other operating expenses	1,055	1,558	(503)	(32.3%)
Total	**1,681**	**2,093**	**(412)**	**(19.7%)**

The caption other operating expenses decreases from EUR 2,093 thousand in 2015 to EUR 1,681 thousand in 2016, mainly as effect of lower foreign exchange losses, generated by the variation of dollar and pound, and by lower credit losses.

27. Amortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Amortisation of intangible fixed assets	411	440	(30)	(6.7%)
Depreciation of tangible fixed assets	1,492	1,867	(375)	(20.1%)
Write-downs	300	300	-	n.a.
Total	**2,203**	**2,607**	**(405)**	**(15.5%)**

28. Financial income/ expenses

The caption "Financial income" comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2016	2015	Δ	%
Interest income	347	509	(162)	(31.8%)
Financial discounts	49	2	47	2,350.0%
Total	**396**	**511**	**(115)**	**(22.5%)**

The decrease in financial income amounts to EUR 162 thousand and is mainly linked to lower financial incomes on loans granted to Group's subsidiaries, as a result of the decrease in the average receivable of the year 2016, and to the alignment of interest rates to the market's ones.

The caption "Financial expenses" comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Interest expenses	1,820	2,744	(924)	(33.7%)
Foreign exchange losses	191	111	80	72.1%
Other expenses	178	117	61	52.1%
Totale	**2,189**	**2,972**	**(783)**	**(26.3%)**

The decrease in financial expenses is substantially linked to lower interest expenses as a result of the better banking conditions applied by banks and to the reduction of the banking indebtedness occurred during 2016.

29. Income taxes

This caption comprises:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015	Change Δ	%
Current income taxes	2,346	800	1,546	193.3%
Deferred income (expenses) taxes	(594)	(339)	(255)	75.2%
Taxes related to previous years	3	63	(60)	(95.2%)
Total income taxes	**1,755**	**524**	**1,231**	**234.9%**

The changes in deferred income (expenses) taxes are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2015 and 2016 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Profit before taxes	3,469	1,443
Theoretical tax rate	27.5%	27.5%
Theoretical income taxes (IRES)	**954**	**397**
Fiscal effect	291	(239)
Total income taxes excluding IRAP (current and deferred)	**1,245**	**158**
IRAP (current and deferred)	**509**	**366**
Total income taxes (current and deferred)	**1,754**	**524**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

COMMENTS ON THE CASH FLOW STATEMENT

The cash flow generated in 2016 amounts to EUR 1,294 thousand.

(Values in thousands of EUR)	Full year 2016	Full year 2015
OPENING BALANCE (A)	**1,339**	**578**
Cash flow (absorbed)/generated by operating activity (B)	12,095	325
Cash flow (absorbed)/generated by investing activity (C)	(1,754)	(2,426)
Cash flow (absorbed)/generated by financing activity (D)	(9,047)	2,862
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**1,294**	**761**
CLOSING BALANCE (F)=(A)+(E)	**2,633**	**1,339**

30. Net cash flow (absorbed)/generated by operating activity

The cash flow generated by operating activity during 2016 amounts to EUR 12,095 thousand.

The cash flow from operating activities is analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Profit before taxes	3,469	1,443
Amortisation	2,203	2,606
Accrual (+)/availment (-) of long term provisions and post employment benefits	(38)	(460)
Paid income taxes	2,162	(669)
Financial income (-) and financial charges (+)	1,793	2,461
Change in operating assets and liabilities	2,506	(5,056)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**12,095**	**325**

31. Net cash flow (absorbed)/generated by investing activity

The cash flow generated by investing activity during 2016 amounts to EUR 1,754 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Increase (-)/ decrease (+) in intangible fixed assets	(282)	(280)
Increase (-)/ decrease (+) in tangible fixed assets	(1,072)	(1,307)
Investments (-)/ Disinvestments (+)	(400)	(838)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(1,754)**	**(2,426)**

32. Net cash flow (absorbed)/generated by financing activity

The cash flow absorbed by financing activity during 2016 amounts to EUR 9,047 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2016	Full Year 2015
Other variations in reserves and profits carried-forward of shareholders' equity	(70)	672
Dividends paid	-	-
Proceeds (+)/repayments (-) of financial payments	(8,451)	3,929
Increase (-)/ decrease (+) in long term financial receivables	1,267	721
Financial income (+) and financial charges (-)	(1,793)	(2,461)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(9,047)**	**2,862**

OTHER INFORMATION

33. Stock option plans

Details about the stock options allocated to directors, general managers and executives with strategic responsibilities are provided in Attachment III.

34. Incentive plans

Regarding the long term incentive plans reserved to executive directors of Aeffe S.p.A., please refer to the indicated in the Report on remuneration available from the governance section of the following website: www.aeffe.com.

35. Net financial position

As required by Consob communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10 February 2005, the Company's net financial position as of 31 December 2016 is analysed below:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change
A - Cash in hand	29	22	7
B - Other available funds	2,606	1,317	1,289
C - Securities held for trading			
D - Cash and cash equivalents (A) + (B) + (C)	*2,635*	*1,339*	*1,296*
E - Short term financial receivables			
F - Current bank loans	(37,123)	(55,778)	18,655
G - Current portion of long-term bank borrowings	(7,723)	(4,720)	(3,003)
H - Current portion of loans from other financial istitutions			
I - Current financial indebtedness (F) + (G) + (H)	*(44,846)*	*(60,498)*	*15,652*
J - Net current financial indebtedness (I) + (E) + (D)	*(42,211)*	*(59,159)*	*16,948*
K - Non current bank loans	(25,119)	(17,918)	(7,201)
L - Issued obbligations			
M - Other non current loans			
N - Non current financial indebtedness (K) + (L) + (M)	*(25,119)*	*(17,918)*	*(7,201)*
O - Net financial indebtedness (J) + (N)	***(67,330)***	***(77,076)***	***9,746***

Short-term financial liabilities include advances from banks that mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

36. Earnings per share

Basic earnings per share

(Values in thousands of EUR)	31 December 2016	31 December 2015
Earnings for the period	1,715	919
Medium number of shares for the period	101,486	101,486
Basic earnings per share	**0.0169**	**0.009**

37. Intercompany transactions

Aeffe S.p.A. also operates via its own direct or indirect subsidiaries. Operations carried out with them mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The effect of these transactions on the individual captions reported in the 2016 and 2015 financial statements, as shown in the supplementary income statement and balance sheet prepared for this purpose, is summarised in the following tables:

COSTS AND REVENUES

(Values in thousands of EUR) Year 2016	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for	Costs of services	Costs for use of third parties assets	Other operating costs	Financial income (expenses)
Moschino Group	15,843	574	272	3,488	12,219	1	(75)
Pollini Group	388	2,590	17,628	28			307
Aeffe Retail Group	9,839	885	105	147			
Velmar S.p.A.	131	244	121	43			
Aeffe Usa Inc.	6,701	12		440			(28)
Aeffe UK L.t.d.	996	15	65	251			1
Aeffe France S.a.r.l.	636	4	95	761			34
Total Group companies	**34,534**	**4,322**	**18,286**	**5,158**	**12,219**	**1**	**238**
Total income statement	145,903	5,244	52,763	42,808	16,350	(1,681)	(1,793)
Incidence % on income statement	**23.7%**	**82.4%**	**34.7%**	**12.0%**	**74.7%**	**(0.1%)**	**(13.3%)**

(Values in thousands of EUR) Year 2015	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for	Costs of services	Costs for use of third parties assets	Other operating costs	Financial income (expenses)
Moschino Group	14,816	575	316	3,533	11,530		(166)
Pollini Group	1,226	2,898	19,999	26			414
Aeffe Retail Group	8,342	864	103	145			
Velmar S.p.A.	89	330	107	1	3		
Aeffe Usa Inc.	7,237	9		806			
Aeffe UK L.t.d.	1,020	16	56	250			7
Aeffe France S.a.r.l.	696	4	65	1,012			54
Total Group companies	**33,426**	**4,698**	**20,645**	**5,772**	**11,533**	**-**	**309**
Total income statement	137,380	6,689	53,739	42,477	15,619	(2,093)	(2,461)
Incidence % on income statement	**24.3%**	**70.2%**	**38.4%**	**13.6%**	**73.8%**	**0.0%**	**(12.6%)**

RECEIVABLES AND PAYABLES

(Values in thousands of EUR) Year 2016	Other fixed assets	Trade receivables	Trade payables	Non-current financial liabilities
Moschino Group		10,646	30,442	
Pollini Group	4,000	26,977	8,435	
Aeffe Retail Group		5,899	37	
Velmar S.p.A.		507	784	
Aeffe Usa Inc.		783	1,356	2,371
Aeffe UK L.t.d.		4,009	250	
Aeffe France S.a.r.l.	2,079	2,499	480	
Aeffe Japan Inc.		518		
Total Group companies	**6,079**	**51,838**	**41,784**	**2,371**
Total balance sheet	6,889	63,926	71,790	25,118
Incidence % on balance sheet	**88.2%**	**81.1%**	**58.2%**	**9.4%**

(Values in thousands of EUR) Year 2015	Other fixed assets	Trade receivables	Trade payables	
Moschino Group	32,772	8,261	29,317	
Pollini Group	4,000	29,184	7,351	
Aeffe Retail Group		7,228	2,621	
Velmar S.p.A.		16	1,589	
Nuova Stireria Tavoleto S.r.l.		319	568	
Aeffe Usa Inc.		3,702	305	
Aeffe UK L.t.d.	3,230	1,835	1,134	
Aeffe France S.a.r.l.		385		
Aeffe Japan Inc.				
Total Group companies	**40,002**	**50,930**	**42,885**	**-**
Total balance sheet	40,929	59,353	70,444	17,918
Incidence % on balance sheet	**97.7%**	**85.8%**	**60.9%**	**0.0%**

38. Transactions with related parties

Transactions between the Company and related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The following schedule summarises the Company's transactions with other related parties:

(Values in thousands of EUR)	31 December 2016	31 December 2015	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.A.			
Contract for the sale of artistic assets and design	300	300	Cost
Ferrim with Aeffe S.p.A.			
Property rental	1,779	1,783	Cost
Land acquired	-	130	Lands
Commerciale Valconca with Aeffe S.p.A.			
Revenues	1,247	733	Revenue
Cost of services	74	72	Cost
Property rental	50	50	Cost
Commercial	763	893	Receivable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet and cash flow as of 31 December 2016 and 31 December 2015:

(Values in thousands of EUR)	Balance 2016	Value rel. party 2016	%	Balance 2015	Value rel. party 2015	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	145,903	1,247	0.9%	137,380	733	0.5%
Costs of services	42,808	424	1.0%	42,477	422	1.0%
Costs for use of third party assets	16,350	1,779	10.9%	15,619	1,783	11.4%
Incidence of related party transactions on the balance sheet						
Lands	16,945		0.0%	16,945	130	0.8%
Other current receivables	11,699		0.0%	12,603		0.0%
Trade receivables	63,926	763	1.2%	59,353	893	1.5%
Trade payables	71,790		0.0%	70,444		0.0%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activity	12,095	(826)	n.a.	325	(1,855)	n.a.
Cash flow (absorbed) / generated by investing activity	(1,754)		0.0%	(2,426)	(130)	5.4%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(67,330)	(826)	1.2%	(77,076)	(1,985)	2.6%

39. Atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 dated 28 July 2006, it is confirmed that the Company did not enter into any atypical and/or unusual transactions (as defined in such Communication) during 201.

40. Significant non-recurring events and transactions pursuant to the Consob regulation of 28 July 2006

No significant non-recurring events, occurred the year, have to be reported.

41. Guarantees and commitments

(Values in thousands of EUR)	31 December 2016	31 December 2015	Change Δ	%
Guarantees given				
- on behalf of third parties	5,261	1,719	3,542	206.1%
Total	**5,261**	**1,719**	**3,542**	**206.1%**

42. Contingent liabilities

Fiscal disputes

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years concern costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The Company presented its counter analysis within the legally-prescribed time period. The Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

On 12 January 2012, the State Legal Bar disputed the validity of the judgment of the Bologna regional tax commission, by bringing an appeal before the Court of Cassation. The company, presented its counter-submission within the time limit established by the law.

The positive outcome at the first two levels of judgment means that the further development of this dispute can be considered in a positive light.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. The Bologna Regional Tax Commission ordered on 14 April 2011 the suspension of this judgment pending resolution of the dispute ruling related to the notice of assessment 81203T100570/20042 (tax year 2000). The judgment was summarized by Section 1 of the Regional Tax Commission of Bologna with the hearing on the merits on 26 May 2016, after postponed to 1 December 2016 and again postponed to 15 December 2016.

It was again placed the suspension of the trial pending a ruling of the Supreme Court.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies. On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted. On 13 July 2011, with tax return n. 137 2011 00031537 15 the company has been ordered to pay the amount registered in the roll by the Tax Office, provisionally awaiting trial, equal to half of the taxes in dispute, besides interests, for a total amount of EUR 161 thousand. This tax dispute has been disputed in December

2012 before the Bologna Provincial Tax Commission, who, with sentence no. 40/13/13, filed on 14 March 2013, has accepted the request of the company, annulling the contested measures with reference to the matter relating to intra-group costs for advertising contributions and confirming the contested measures related to the reliefs for costs to be incurred and intra-group costs for lease payments. The Office, with act of appeal notified to the company on 28 October 2013, appealed against the sentence of the Bologna Provincial Tax Commission requesting the reform in relation to the matter relating to intra-group costs for advertising contributions. The Company, on 23 December 2013, filed a timely notice of cross-appeal counterclaims and contextual interlocutory appeal. On 13 September 2016, the Company has formulated a proposed conciliation agreement aimed at achieving a settlement agreement that, if reached would not involve any outlay for the Company.

On 30 May 2014, following a general tax audit for IRES, IRAP and VAT for the tax years 2009, 2010 and 2011, by the Emilia Romagna Regional Management, Large Taxpayers Office, was issued a formal notice of assessment, with which the Tax Office has formulated remarks with recoveries of total taxes (IRES and IRAP) of EUR 210 thousand for 2009, EUR 350 thousand for 2010 and EUR 299 thousand for 2011. The complaints mainly concern the recovery of costs for commissions and advertising contributions granted to certain foreign subsidiaries and the failure to account for interest income on loans to foreign subsidiaries.

The company, on 29 July 2014, submitted comments pursuant to Article 12, paragraph 7, of Law 212 of 2000.

On 3 December 2014 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2009, the assessment notices n. TGB0EC700238/2014 (IRES) and n. TGB03C700239/2014 (IRAP), with a total recovery of taxes of EUR 210 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 25 September 2015 the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2010, the assessment notices n. TGB0EC700149/2015 (IRES) and n. TGB03C700150/2015 (IRAP), with a total recovery of taxes of EUR 350 thousand.

Both assessment notices were challenged before the competent Provincial Tax Commission of Bologna.

On 6 June 2016, the Large Taxpayers Office of Emilia Romagna Regional Management has notified, for 2011, the assessment notices n. TGB0EC700080/2016 (IRES) and n. TGB0CC700083/2016 (IRAP), with total tax recoveries of Euro 299 thousand.

The assessment notice TGB0CC700083/2016 (IRAP) has been challenged before the competent Provincial Tax Commission of Bologna.

For the assessment notice TGB0EC700080/2016 (IRES) is ongoing its membership with the verification process.

It is noted that regarding the deductibility of advertising contributions to foreign subsidiaries (which constitute the bulk of disputes) the company has already received feedback from the Provincial Tax Commission of Bologna that, with judgment 40/13/13 filed on 14 March 2013 on the litigation referred to in paragraph above, has already rejected this type of dispute.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal and legal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

43. Information pursuant to art. 149-duodecies of Consob's Issuers' Regulations

The following schedule, prepared pursuant to art. 149-duodecies of Consob's Issuers' Regulation, shows the fees incurred in 2016 for auditing services and non-auditing services provided by the appointed firm for auditors. No services were provided by members of the auditing firm's network.

(Values in thousands of EUR)	Service provider	2016 fees
Audit	RIA GRANT THORNTON S.p.A.	76
Certification of R&D costs	BDO Italia S.p.A	4
Total		**80**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT	I:	List of investments in subsidiary and other companies
ATTACHMENT	II:	Assets Balance Sheet with related parties
ATTACHMENT	III:	Liabilities Balance Sheet with related parties
ATTACHMENT	IV:	Income Statement with related parties
ATTACHMENT	V:	Cash Flow Statement with related parties
ATTACHMENT	VI:	Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding S.r.l. at 31 December 2015

ATTACHMENT I

List of investments in subsidiary companies

requested by Consob Communication no. DEM/6064293 dated 28 July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In subsidiaries companies:								
Italian companies								
Aeffe Retail S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/15			8,585,150	(404,473)	8,812,346	100%	8,585,150	26,293,345
At 31/12/16			8,585,150	(271,393)	8,840,952	100%	8,585,150	26,593,345
Moschino S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/15			20,000,000	(8,060,269)	23,856,608	70%	14,000,000	14,085,199
At 31/12/16			66,817,108	699,024	71,372,739	70%	14,000,000	46,857,175
Pollini S.p.A.	**Gatteo (FC) Italy**							
At 31/12/15			6,000,000	3,824,048	20,853,243	100%	6,000,000	41,945,452
At 31/12/16			6,000,000	4,853,842	25,838,027	100%	6,000,000	41,945,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/15			120,000	(1,497,199)	(75,491)	100%	60,000	7,890,057
At 31/12/16			120,000	131,844	456,393	100%	60,000	8,290,057
Foreign companies								
Aeffe France S.a.r.l.	**Paris (FR)**							
At 31/12/15			50,000	(317,616)	55,255	100%	n.d. *	4,568,720
At 31/12/16			50,000	(266,676)	(211,421)	100%	n.d. *	4,568,720
Aeffe UK L.t.d.	**London (GB)**							
At 31/12/15		GBP	310,000	(542,707)	(819,153)	100%	n.d. *	
			422,343	(739,383)	(1,116,012)	100%	n.d. *	478,400
At 31/12/16		GBP	310,000	(801,623)	(1,620,776)	100%	n.d. *	
			362,065	(936,257)	(1,892,988)	100%	n.d. *	478,400
Aeffe USA Inc.	**New York (USA)**							
At 31/12/15		USD	600,000	(195,437)	12,032,143	100%	n.d. *	
			551,116	(179,514)	11,051,844	100%	n.d. *	10,664,812
At 31/12/16		USD	600,000	(105,101)	11,927,042	100%	n.d. *	
			569,206	(99,707)	11,314,906	100%	n.d. *	10,664,812
Aeffe Japan Inc.	**Tokyo (Japan)**							
At 31/12/15		JPY	3,600,000	(3,020,276)	(268,990,201)	100%	n.d. *	-
			27,466	(23,043)	(2,052,264)	100%	n.d. *	-
At 31/12/16		JPY	3,600,000	(9,638,376)	(278,628,577)	100%	n.d. *	-
			29,173	(78,107)	(2,257,930)	100%	n.d. *	-
Total interests in subsidiaries:								**139,397,961**

* quota

List of investments in other companies

requested by Consob Communication no. DEM/6064293 dated 28 July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In other companies								
Conai								
At 31/12/15								109
At 31/12/16								109
Caaf Emilia Romagna								
At 31/12/15						0.688%	5,000	2,600
At 31/12/16						0.688%	5,000	2,600
Assoform								
At 31/12/15						1.670%	n.d. *	1,667
At 31/12/16						1.670%	n.d. *	1,667
Consorzio Assoenergia Rimini								
At 31/12/15						2.100%	n.d. *	516
At 31/12/16						2.100%	n.d. *	516
Effegidi								
At 31/12/15								6,000
At 31/12/16								6,000
Total interests in other companies:								**10,892**
* quota								
Total interests:								**139,408,853**

ATTACHMENT II

Balance Sheet Assets, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2016	of which related parties	31 December 2015	of which related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Trademarks		3,274		3,400	
Other intangible fixed assets		484		487	
Total intangible fixed assets	(1)	3,759		3,887	
Tangible fixed assets					
Lands		16,945		16,945	130
Buildings		22,370		22,846	
Leasehold improvements		1,288		1,386	
Plant and machinary		1,682		1,551	
Equipment		46		26	
Other tangible fixed assets		538		537	
Total tangible fixed assets	(2)	42,870		43,291	
Other fixed assets					
Equity investments	(3)	139,409	139,398	105,937	105,926
Other fixed assets	(4)	6,889	6,079	40,929	40,002
Deferred tax assets	(5)	2,279		1,687	
Total other fixed assets		148,577		148,552	
TOTAL NON-CURRENT ASSETS		**195,206**		**195,730**	
CURRENT ASSETS					
Stocks and inventories	(6)	28,352		30,920	
Trade receivables	(7)	63,926	52,601	59,353	51,823
Tax receivables	(8)	2,426		4,467	
Cash	(9)	2,635		1,340	
Other receivables	(10)	11,699		12,603	
TOTAL CURRENT ASSETS		**109,037**		**108,683**	
TOTAL ASSETS		**304,243**		**304,413**	

ATTACHMENT III

Balance Sheet Liabilities, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2016	of which related parties	31 December 2015	of which related parties
SHAREHOLDERS' EQUITY					
Share capital		25,371		25,371	
Share premium reserve		71,240		71,240	
Other reserves		24,929		24,056	
Fair Value reserve		7,742		7,742	
IAS reserve		1,086		1,086	
Legal reserve		2,909		2,863	
Remeasurement of defined benefit plans reserve		(655)		(585)	
Profits / (Losses) carried-forward		2,348		2,348	
Net profit / loss		1,715		919	
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**136,685**		**135,040**	
NON-CURRENT LIABILITIES					
Provisions	(12)	282		311	
Deferred tax liabilities	(5)	7,326		7,350	
Post employment benefits	(13)	4,284		4,293	
Long term financial liabilities	(14)	25,118	2,371	17,918	
Long term not financial liabilities	(15)	761		1,316	
TOTAL NON-CURRENT LIABILITIES		**37,771**		**31,188**	
CURRENT LIABILITIES					
Trade payables	(16)	71,790	41,784	70,444	42,885
Tax payables	(17)	5,872		1,363	
Short term financial liabilities	(18)	44,847		60,498	
Other liabilities	(19)	7,277		5,879	
TOTAL CURRENT LIABILITIES		**129,786**		**138,185**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**304,243**		**304,413**	

ATTACHMENT IV

Income Statement, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full year 2016	of which related parties	Full year 2015	of which related parties
REVENUES FROM SALES AND SERVICES	**(20)**	**145,903**	**35,781**	**137,380**	**34,159**
Other revenues and income	(21)	5,244	4,322	6,689	4,698
TOTAL REVENUES		**151,148**		**144,069**	
Changes in inventory		(2,422)		1,860	
Costs of raw materials, cons. and goods for resale	(22)	(52,763)	(18,286)	(53,739)	(20,645)
Costs of services	(23)	(42,808)	(5,582)	(42,477)	(6,194)
Costs for use of third parties assets	(24)	(16,350)	(13,998)	(15,619)	(13,316)
Labour costs	(25)	(27,659)		(25,492)	
Other operating expenses	(26)	(1,681)	(1)	(2,093)	
Amortisation and write-downs	(27)	(2,203)		(2,606)	
Financial income/(expenses)	(28)	(1,793)	238	(2,461)	309
PROFIT / LOSS BEFORE TAXES		**3,469**		**1,443**	
Income taxes	(29)	(1,755)		(524)	
NET PROFIT / LOSS		**1,715**		**919**	

ATTACHMENT V

Cash Flow Statement, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2016	of which related parties	Full Year 2015	of which related parties
OPENING BALANCE		**1,339**		**578**	
Profit before taxes		3,469		1,443	
Amortisation		2,203		2,606	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(38)		(460)	
Paid income taxes		2,162		(669)	
Financial income (-) and financial charges (+)		1,793		2,461	
Change in operating assets and liabilities		2,506	(1,879)	(5,056)	(10,576)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**12,095**		**324**	
Increase (-)/ decrease (+) in intangible fixed assets		(282)		(280)	
Increase (-)/ decrease (+) in tangible fixed assets		(1,072)	(130)	(1,307)	130
Investments (-)/ Disinvestments (+)		(400)	(400)	(838)	(838)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(1,754)**		**(2,426)**	
Other variations in reserves and profits carried-forward of shareholders' equity		(70)		672	
Dividends paid		-		-	
Proceeds (+)/repayment (-) of financial payments		(8,451)	(2,371)	3,929	
Increase (-)/ decrease (+) in long term financial receivables		1,267	851	721	601
Financial income (+) and financial charges (-)		(1,793)		(2,461)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(9,047)**		**2,863**	
CLOSING BALANCE		**2,633**		**1,339**	

ATTACHMENT VI

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2015

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2015	STATUTORY FINANCIAL STATEMENTS 2014
BALANCE SHEET		
ASSETS		
Intangible fixed assets	162,405	131,596
Tangible fixed assets	1,547,778	1,623,765
Equity investments	60,695,372	66,639,155
Non current assets	**62,405,555**	**68,394,516**
Trade receivables	1,381,624	1,416,374
Tax receivables	341,690	1,905,720
Cash	83,161	91,924
Other receivables	87,280	188,356
Current assets	**1,893,755**	**3,602,374**
Total assets	**64,299,310**	**71,996,890**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	63,195,446	63,627,616
Other reserves	15,038	15,038
Approximations		(1)
Net profit/(loss)	(666,366)	(432,169)
Shareholders' equity	**62,644,118**	**63,310,484**
Provisions	195,885	230,526
Long term financial liabilities		
Non-current liabilities	**195,885**	**230,526**
Trade payables	1,459,307	8,455,880
Current liabilities	**1,459,307**	**8,455,880**
Total shareholders' equity and liabilities	**64,299,310**	**71,996,890**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	343,594	373,893
Total revenues	**343,594**	**373,893**
Operating costs	(393,855)	(727,332)
Costs for use of third parties assets	(489,341)	(478,179)
Amortisation and write-downs	(76,175)	(59,766)
Provisions	(24,894)	(14,873)
Financial income (expenses)	213,695	312,592
Profit (loss) from affiliates		
Financial assets adjustments	(290,916)	
Extraordinary profit/(loss)		(1,746)
Profit before taxes	**(717,892)**	**(595,411)**
Income taxes	51,526	163,242
Net profit/(loss)	**(666,366)**	**(432,169)**

Certification of the Financial Statements pursuant to art.81-ter of Consob Regulation N. 11971 of 14 May 1999, as amended

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A.'s financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- the adequacy with respect to the Company structure and
- the effective application

of the administrative and accounting procedures applied in the preparation of the statutory financial statements at 31 December 2016.

The undersigned moreover attest that the statutory financial statements:

i. have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Council, dated 19 July 2002;

ii. correspond to the amounts shown in Company's accounts, books and records;

iii. provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

The report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which they are exposed.

9 March 2017

President of the board of directors

Massimo Ferretti

Manager responsible for preparing Aeffe S.p.A. financial reports

Marcello Tassinari