Disclaimer

The consolidated and statutory financial statements at 31 December 2018 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

Amid a slowdown in the euro area, the Italian economy slipped into a contraction. After solid real GDP growth in 2017 at 1.6 %, economic activity slowed down over 2018. Exports and industrial production started weakening at the beginning of the year, amid concerns about global trade. The investment recovery remains uneven but is losing momentum overall. This is also partly due to domestic policy uncertainty, negatively affecting business confidence and the real economy. Real GDP grew by 1.0 % in 2018 and is expected to decelerate sizeably in 2019 amid high uncertainty about domestic policies and the global outlook before picking up in 2020.

Growth prospects are subdued and subject to uncertainty and intensified downside risks. Real GDP growth is projected at 0.2 % in 2019 and at 0.8 % in 2020.

Potential growth is projected to rise moderately but continues to lag behind peer countries. Weak productivity growth is a major constraint on economic expansion. The productivity gap between Italy and the rest of the EU remains substantial.

In the light of the good results of the 2018 financial year, the AEFFE Group continues its commitment in terms of research, creativity and high quality manufacturing with the aim of strengthening the positioning of the portfolio's brands, such as Alberta Ferretti, Philosophy di Lorenzo Serafini, Moschino , Pollini, Jeremy Scott and Cédric Charlier.

In a mature and highly competitive market such as fashion and luxury industry, the high and constant attention to quality, creativity and distinctiveness are the cornerstones of the medium-long term strategy.

In terms of geographical areas, AEFFE carefully monitors the evolution of high potential markets, in particular the Far East area, evaluating the optimization of the franchise network development plan and selective openings of monobrand directly operated stores (DOS). Furthermore, following the internalization of online store management of proprietary brands completed in the third quarter of 2018, the Group expects further synergies deriving from the multi-channel distribution approach, ie the integration of the various sales channels, physical and on-line, also with a view to customizing the customer experience.

We are therefore confident about the future, in the light of the trend registered in 2018 and the Group vitality, also the 2019 will be at the sign of further development and consolidation of our brands.

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
Daniela Saitta
Sabrina Borocci
Alessandro Bonfiglioli

Board of Statutory

President
Angelo Miglietta

Statutory Auditors
Fernando Ciotti
Carla Trotti

Alternate Auditors
Nevio Dalla Valle
Daniela Elvira Bruno

Board of Compensation Committee

President
Daniela Saitta

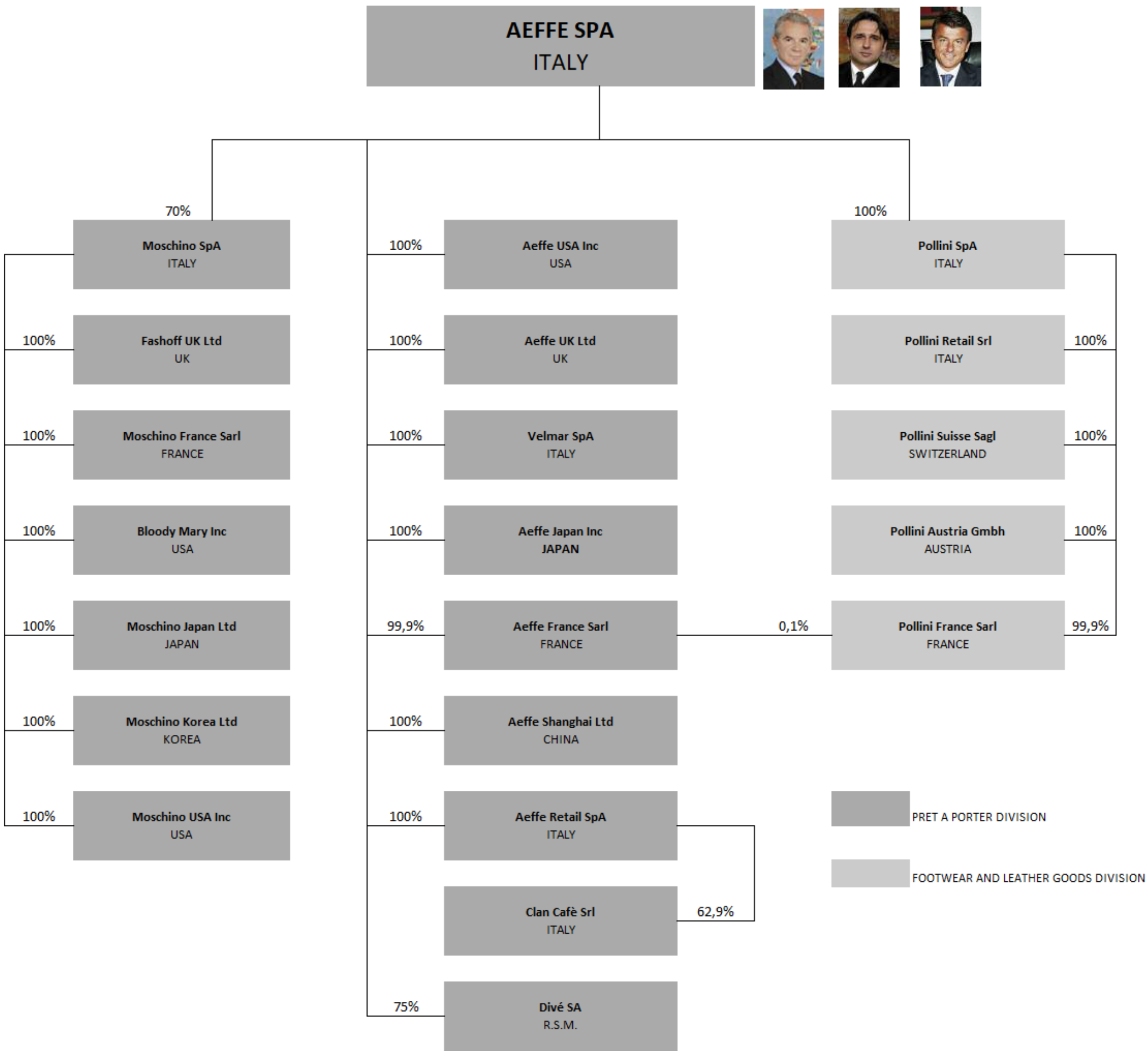
Members
Roberto Lugano
Sabrina Borocci

Board of Internal Control Committee

President
Roberto Lugano

Members
Daniela Saitta
Alessandro Bonfiglioli

Organisation chart



Brands portfolio

AEFFE
Clothing - Accessories

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

POLLINI
Footwear – Leather goods

- POLLINI
- MOSCHINO
- LOVE MOSCHINO

MOSCHINO
Licences – Design

- MOSCHINO
- BOUTIQUE MOSCHINO
- LOVE MOSCHINO

VELMAR
Beachwear - Lingerie

- MOSCHINO
- 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 – PHILOSOPHY – POLLINI – CEDRIC CHARLIER)
Via Donizetti, 48
20122 - Milan
Italy

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

PARIS
(FERRETTI – PHILOSOPHY – 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
Paris
London
Shanghai

POLLINI
Milan
Venice
Bolzano
Varese

SPAZIO A
Florence
Venice

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

Main economic-financial data

		Full Year 2018	Full Year 2017
Total revenues	(Values in millions of EUR)	352.0	316.5
Gross operating margin (EBITDA) *	(Values in millions of EUR)	43.3	36.6
Net operating profit (EBIT)	(Values in millions of EUR)	29.6	22.7
Profit before taxes	(Values in millions of EUR)	28.8	18.9
Net profit for the Group	(Values in millions of EUR)	16.7	11.5
Basic earnings per share	(Values in units of EUR)	0.165	0.113
Cash Flow (net profit + depreciation)	(Values in millions of EUR)	29.0	23.1
Cash Flow/Total revenues	(Values in percentage)	8.2	7.3

* EBITDA is represented by operating profit before provisions and depreciation. EBITDA thus defined is a measure used by management to monitor and evaluate the operational performance and is not identified as an accounting measure under both Italian Accounting Principles and IFRS and therefore should not be considered an alternative measure for evaluating the Group's results. Since EBITDA is not regulated by applicable accounting standards, the criteria used by the Group might not be consistent with that adopted by others and therefore may not be comparable.

		31 December 2018	31 December 2017
Net capital invested	(Values in millions of EUR)	228.7	229.0
Net financial indebtedness	(Values in millions of EUR)	31.3	50.6
Group net equity	(Values in millions of EUR)	164.6	146.1
Group net equity per share	(Values in units of EUR)	1.5	1.4
Current assets/ current liabilities	(Ratio)	1.8	1.9
Current assets less invent./ current liabilities (ACID test)	(Ratio)	0.8	0.8
Net financial indebtedness/ Net equity	(Ratio)	0.2	0.3
ROI: Net operating profit/ Net capital invested	(Values in percentage)	13.0	9.9

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

AEFFE

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

The global economy has continued to grow in recent months, but signs have emerged of a deterioration in cyclical conditions in many advanced and emerging economies. The prospects for world trade continued to weaken after the slowdown in the first part of last year. The uncertainties over economic conditions have had repercussions on the international financial markets, lowering long-term interest rates and share prices. The risk factors weighing on global economic prospects include the possible repercussions of a negative outcome to the trade negotiations between the United States and China, the worsening of financial tensions in the emerging economies and the arrangements for the United Kingdom's withdrawal from the European Union.

In the euro area, economic activity grew at a slower pace; in November industrial production fell sharply in Germany, France and Italy. Inflation decreased as a result of the deceleration in energy prices, though it was still firmly in positive territory. The ECB Governing Council confirmed its intention to maintain ample monetary stimulus for an extended period of time.

In Italy, the available cyclical indicators point to a possible decline in economic activity in the last three months of the year after the interruption in growth in the third quarter. The decline in the summer months was partly attributable to the fall in domestic demand, especially investment, and to a slight reduction in household spending. The survey carried out by the Bank of Italy in collaboration with Il Sole 24 Ore points to a slowdown in investments planned by industrial and service firms owing to the uncertainty surrounding political and economic factors and trade tensions.

The performance of Italian exports remained favourable in the second half of the year. However, the slowdown in global trade influenced firms' assessments of foreign orders.

Supply conditions remain relaxed overall; interest rates on loans increased slightly compared with May, before the emergence of tensions on the government bond market. However, persistently higher yields on government bonds and rising bank funding costs would increase the cost of credit. In the latest business surveys, firms indicated a tightening in credit access conditions.

The central projection for GDP growth is 0.6 per cent this year, 0.4 points lower than the previous projection. The downward revision was on account of three main considerations: new information pointing to a sharper cyclical slowdown in the last part of 2018, which reduced the carry-over effect on growth by 0.2 points; the cutback in firms' investment plans, as confirmed by recent surveys; and the expected slowdown in global trade. The agreement reached between the Government and the European Commission has had moderately positive effects on growth: the positive stimulus provided by the lower long-term interest rates will amply compensate the direct effects of the revision in the budgetary measures. In the two years 2020-21, the central projection for growth is 0.9 and 1.0 per cent respectively. These are the central values of a probability distribution which has a particularly large dispersion.

Inflation is expected to increase gradually, from 1.0 per cent in 2019 to 1.5 per cent on average in the next two years, following an acceleration in private sector wages and a gradual alignment in inflation expectations.

In addition to the global factors fuelling uncertainty, downside risks to growth also stem from the possibility of renewed increases in interest rates on government bonds, of a faster deterioration in private sector borrowing conditions and of a sharper drop in firms' propensity to invest. On the other hand, the growth rate might actually exceed this projected scenario if sovereign spreads diminish further.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

As for Altagamma Worldwide Luxury Market Monitor, carried out by Bain & Company, the personal luxury goods market recorded a solid performance in 2018, with a rise of 2% in Euros, and 6% at constant rates: so growth was unchanged growth in percentage real terms compared to the previous year. A positive performance was recorded in all geographical areas, except for the Middle East, which was stable; China saw a highly positive trend, driven by the repatriation of purchases due to lower Chinese tourist flows to Europe, and in the rest of Asia, sustained by both local consumption and renewed acquisitions by the Chinese in neighbouring countries. The online channels confirmed their acceleration, reaching a 10% penetration of the global market; as regards physical channels, the best performances were reported by airports, retail and outlets.

The forecasts, albeit difficult to make in the current context, remain positive: from now to 2025, an average annual market growth of 3 to 5% in real terms is forecast, driven by solid fundamentals and the attitudes of global consumers to this type of consumption. We can't rule out encountering some minor turbulence in the short-term (including a soft recession in the US, and a slight slowdown in the Chinese economy), which does not deflect from the strong market potential in the future.

The forecasts for 2019 confirm a solid 5% growth: higher growth for leather, footwear and accessories (7%) and for perfumes and cosmetics (5%). Healthy growth for Hard Luxury, lower growth for clothing (2%). Art de la Table stable. Markets: Asia is expected to be the market with the most rapid growth (10%), also due to the lowering of excise duties in China. Followed by Japan (5%) and North America (4%), the latter in the first half in particular. Good prospects also for Europe (3%).

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 Folies", "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 Folies", "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 Folies".

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 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 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. The company also acts as an agent for the French market for the brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

Aeffe Shanghai

Aeffe Shanghai is 100% owned by Aeffe S.p.A. and manages the store in Shanghai, which sells clothing and accessories under the Alberta Ferretti label.

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 collections Moschino, Alberta Ferretti and Philosophy di Lorenzo Serafini.

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 two single-brand Moschino stores in Paris.

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. This contract ended in September 2018.

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 2018	% on revenues	Full Year 2017	% on revenues	Change	%
REVENUES FROM SALES AND SERVICES	**346,556,367**	**100.0%**	**312,604,739**	**100.0%**	**33,951,628**	**10.9%**
Other revenues and income	5,450,452	1.6%	3,857,091	1.2%	1,593,361	41.3%
TOTAL REVENUES	**352,006,819**	**101.6%**	**316,461,830**	**101.2%**	**35,544,989**	**11.2%**
Changes in inventory	4,529,177	1.3%	10,243,168	3.3%	(5,713,991)	(55.8%)
Costs of raw materials, cons. and goods for resale	(114,810,886)	(33.1%)	(106,306,060)	(34.0%)	(8,504,826)	8.0%
Costs of services	(100,583,191)	(29.0%)	(91,038,590)	(29.1%)	(9,544,601)	10.5%
Costs for use of third parties assets	(25,391,209)	(7.3%)	(23,340,025)	(7.5%)	(2,051,184)	8.8%
Labour costs	(68,502,867)	(19.8%)	(65,376,702)	(20.9%)	(3,126,165)	4.8%
Other operating expenses	(3,918,553)	(1.1%)	(4,071,124)	(1.3%)	152,571	(3.7%)
Total Operating Costs	(308,677,529)	(89.1%)	(279,889,333)	(89.5%)	(28,788,196)	10.3%
GROSS OPERATING MARGIN (EBITDA)	**43,329,290**	**12.5%**	**36,572,497**	**11.7%**	**6,756,793**	**18.5%**
Amortisation of intangible fixed assets	(6,474,744)	(1.9%)	(6,555,292)	(2.1%)	80,548	(1.2%)
Depreciation of tangible fixed assets	(5,285,848)	(1.5%)	(5,004,115)	(1.6%)	(281,733)	5.6%
Revaluations/(write-downs) and provisions	(1,921,681)	(0.6%)	(2,316,749)	(0.7%)	395,068	(17.1%)
Total Amortisation, write-downs and provisions	(13,682,273)	(3.9%)	(13,876,156)	(4.4%)	193,883	(1.4%)
NET OPERATING PROFIT / LOSS (EBIT)	**29,647,017**	**8.6%**	**22,696,341**	**7.3%**	**6,950,676**	**30.6%**
Financial income	744,006	0.2%	1,418,353	0.5%	(674,347)	(47.5%)
Financial expenses	(1,594,204)	(0.5%)	(5,175,881)	(1.7%)	3,581,677	(69.2%)
Total Financial Income / (expenses)	(850,198)	(0.2%)	(3,757,528)	(1.2%)	2,907,330	(77.4%)
PROFIT / LOSS BEFORE TAXES	**28,796,819**	**8.3%**	**18,938,813**	**6.1%**	**9,858,006**	**52.1%**
Taxes	(11,598,783)	(3.3%)	(7,436,754)	(2.4%)	(4,162,029)	56.0%
NET PROFIT / LOSS	**17,198,036**	**5.0%**	**11,502,059**	**3.7%**	**5,695,977**	**49.5%**
(Profit) / loss attributable to minority shareholders	(471,935)	(0.1%)	(11,716)	(0.0%)	(460,219)	3,928.1%
NET PROFIT / LOSS FOR THE GROUP	**16,726,101**	**4.8%**	**11,490,343**	**3.7%**	**5,235,758**	**45.6%**

Sales

In 2018 consolidated revenues amount to EUR 346,556 thousand compared to EUR 312,605 thousand of the year 2017, showing an increase of 10.9% (+11.2% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 265,638 thousand with an increase of 10.8% at current exchange rates (+11.2% at constant exchange rates) compared to 2017. The revenues of the footwear and leather goods division increase by 9.3% to EUR 118,305 thousand.

Sales by brand

(Values in thousands of EUR)	Full Year 2018	%	Full Year 2017	%	Change Δ	%
Alberta Ferretti	32,117	9.3%	30,864	9.9%	1,253	4.1%
Philosophy	18,181	5.2%	16,324	5.2%	1,857	11.4%
Moschino	250,820	72.4%	220,739	70.6%	30,081	13.6%
Pollini	35,976	10.4%	34,363	11.0%	1,613	4.7%
Other	9,462	2.7%	10,315	3.3%	(853)	(8.3%)
Total	**346,556**	**100.0%**	**312,605**	**100.0%**	**33,951**	**10.9%**

In 2018, the Alberta Ferretti brand increases by 4.1% (+4.4% at constant exchange rates), contributing to 9.3% of consolidated sales, while Philosophy di Lorenzo Serafini brand increases by 11.4% (+11.9% at constant exchange rates), contributing to 5.2% of consolidated sales.

In the same period Moschino brand increases by 13.6% (+13.9% at constant exchange rates), contributing to 72.4% of consolidated sales.

Pollini brand records a growth of 4.7% (+4.8% at constant exchange rates), generating 10.4% of consolidated sales, while brands under license decreases by 8.3% (-7.2% at constant exchange rates), equal to 2.7% of consolidated sales.

Sales by geographical area

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2018	%	2017	%	Δ	%
Italy	168,453	48.6%	152,116	48.7%	16,337	10.7%
Europe (Italy excluded)	80,301	23.2%	76,865	24.6%	3,436	4.5%
Asia and Rest of the World	80,092	23.1%	65,019	20.8%	15,073	23.2%
America	17,710	5.1%	18,605	5.9%	(895)	(4.8%)
Total	**346,556**	**100.0%**	**312,605**	**100.0%**	**33,951**	**10.9%**

In 2018, sales in Italy register a positive trend posting a 10.7% increase to EUR 168,453 thousand, contributing to 48.6% of consolidated sales, thanks to organic growth both in wholesale and retail channel, which both benefited from local customers and high-end tourist flows.

Sales in Europe increase by 4.5% (+4.6% at constant exchange rates), contributing to 23.2% of consolidated sales, driven especially by the good performance in UK, Germany and Eastern Europe.

In Asia and in the Rest of the World, the Group's sales total EUR 80,092 thousand, amounting to 23.1% of consolidated sales, recording an increase of 23.2% (+23.6% at constant exchange rates) especially driven by excellent trend in Greater China, which posted a 27.8% growth.

Sales in America, contributing to 5.1% of consolidated sales, post in the period a decrease of 4.8% (-1.3% at constant exchange rates).

Sales by distribution channel

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2018	%	2017	%	Δ	%
Wholesale	247,827	71.5%	219,173	70.1%	28,654	13.1%
Retail	87,094	25.1%	83,310	26.7%	3,784	4.5%
Royalties	11,635	3.4%	10,122	3.2%	1,513	14.9%
Total	**346,556**	**100.0%**	**312,605**	**100.0%**	**33,951**	**10.9%**

The revenues generated by the Group during 2018 are analysed below:

- 71.5% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 219,173 thousand in 2017 and EUR 247,827 thousand in 2018, up 13.1% (+13.4% at constant exchange rates);
- 25.1% from sales outlets managed directly by the Group (retail channel), which contributes EUR 83,310 thousand in 2017 and EUR 87,094 thousand in 2018, +4.5% (+4.8% at constant exchange rates);

- 3.4% 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 10,122 thousand in 2017 to EUR 11,635 thousand in 2018, by 14.9%.

Labour costs

Labour costs change from EUR 65,377 thousand in 2017 to EUR 68,503 thousand in 2018, recording an increase of EUR 3,126 thousand, and an incidence on revenues which changes from 20.9% in 2017 to 19.8% in 2018.

The workforce increases from an average of 1,307 units in 2017 to 1,350 units in 2018.

Average number of employees by category	Full Year	Full Year	Change	
	2018	2017	Δ	%
Workers	248	233	15	6.4%
Office staff-supervisors	1,080	1,051	29	2.8%
Executive and senior managers	22	23	(1)	(4.3%)
Total	**1,350**	**1,307**	**43**	**3.3%**

Gross Operating Margin (EBITDA)

In 2018 consolidated EBITDA is positive for EUR 43,329 thousand (with an incidence of 12.5% of consolidated sales), showing an increase of 18.5% compared to an EBITDA of EUR 36,572 thousand in 2017 (with an incidence of 11.7% 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 31,645 thousand (11.9% on sales), compared to an EBITDA of EUR 26,821 thousand in 2017 (11.2% on sales), with an increase of EUR 4,824 thousand.

In 2018 EBITDA of the footwear and leather goods division is EUR 11,684 thousand (9.9% on sales), compared to an EBITDA of EUR 9,751 thousand in 2017 (9.0% on sales), with a EUR 1,933 thousand increase.

Net operating result (EBIT)

Consolidated EBIT is equal to EUR 29,647 thousand (8.6% on sales), recording an improvement of EUR 6,951 thousand, compared to EUR 22,696 thousand of 2017 (7.3% on sales).

Result before taxes

Thanks to improvement in operating profit, the Result before taxes posts a profit of EUR 28,797 thousand, showing a EUR 9,858 thousand growth compared to EUR 18,939 thousand in 2017.

Net result

Net result posts a profit of EUR 17,198 thousand in 2018 compared to EUR 11,502 thousand in 2017, with an increase in absolute value of EUR 5,696 thousand.

Net result for the Group

Consolidated net result for the Group increases from EUR 11,490 thousand in 2017 to EUR 16,726 thousand in 2018, with a growth of EUR 5,236 thousand.

CONSOLIDATED BALANCE SHEET

(Values in units of EUR)	31 December 2018	31 December 2017	Change Δ	%
Trade receivables	43,138,560	42,064,915	1,073,645	2.6%
Stock and inventories	104,261,515	97,817,891	6,443,624	6.6%
Trade payables	(76,949,819)	(68,618,776)	(8,331,043)	12.1%
Operating net working capital	**70,450,256**	**71,264,030**	**(813,774)**	**(1.1%)**
Other short term receivables	34,852,460	26,914,468	7,937,992	29.5%
Tax receivables	7,759,828	5,411,024	2,348,804	43.4%
Derivative assets	219,632	-	219,632	n.a.
Other short term liabilities	(21,081,936)	(17,642,193)	(3,439,743)	19.5%
Tax payables	(6,452,612)	(3,611,468)	(2,841,144)	78.7%
Derivative liabilities		(997,532)	997,532	(100.0%)
Net working capital	**85,747,628**	**81,338,329**	**4,409,299**	**5.4%**
Tangible fixed assets	60,298,801	59,104,297	1,194,504	2.0%
Intangible fixed assets	103,132,467	109,678,612	(6,546,145)	(6.0%)
Equity investments	131,558	131,558	-	n.a.
Other fixed assets	2,810,046	3,564,214	(754,168)	(21.2%)
Fixed assets	**166,372,872**	**172,478,681**	**(6,105,809)**	**(3.5%)**
Post employment benefits	(5,491,570)	(5,916,166)	424,596	(7.2%)
Provisions	(2,558,544)	(2,415,237)	(143,307)	5.9%
Assets available for sale	436,885	436,885	-	n.a.
Liabilities available for sale	-	-	-	n.a.
Long term not financial liabilities	(770,731)	(787,692)	16,961	(2.2%)
Deferred tax assets	15,073,001	14,335,779	737,222	5.1%
Deferred tax liabilities	(30,093,668)	(30,436,700)	343,032	(1.1%)
NET CAPITAL INVESTED	**228,715,873**	**229,033,879**	**(318,006)**	**(0.1%)**
Share capital	25,371,407	25,371,407	-	n.a.
Other reserves	123,799,107	116,229,168	7,569,939	6.5%
Profits / (Losses) carried-forward	(1,287,069)	(6,957,390)	5,670,321	(81.5%)
Profits / (Loss) for the period	16,726,101	11,490,343	5,235,758	45.6%
Group interest in shareholders' equity	**164,609,546**	**146,133,528**	**18,476,018**	**12.6%**
Minority interests in shareholders' equity	32,849,847	32,306,940	542,907	1.7%
Total shareholders' equity	**197,459,393**	**178,440,468**	**19,018,925**	**10.7%**
Short term financial receivables	(1,420,000)	(1,420,000)	-	n.a.
Cash	(28,037,213)	(22,808,913)	(5,228,300)	22.9%
Long term financial liabilities	16,408,975	22,079,795	(5,670,820)	(25.7%)
Long term financial receivables	(2,302,096)	(2,591,605)	289,509	(11.2%)
Short term financial liabilities	46,606,814	55,334,134	(8,727,320)	(15.8%)
NET FINANCIAL POSITION	**31,256,480**	**50,593,411**	**(19,336,931)**	**(38.2%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**228,715,873**	**229,033,879**	**(318,006)**	**(0.1%)**

NET INVESTED CAPITAL

Net invested capital decreases by 0.1% compared with 31 December 2017.

Net working capital

Net working capital amounts to EUR 85,748 thousand (24.7% on sales) compared with EUR 81,338 thousand at 31 December 2017 (26.0% 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 decreases in all by 1.1% (EUR -814 thousand) with a decrease of incidence on sales, from 22.8% in 2017 to 20.3% in 2018, thanks to the better management of the operating net working capital.
- the sum of other receivables and payables increases in all of EUR 4,498 thousand compared with the previous year mainly for higher receivables for prepaid costs;
- the sum of tax receivables and tax payables decrease in all of EUR 492 thousand. Such increase is mainly due to the increase of VAT receivable and to the decrease of the tax payable for IRES.

Fixed assets

At 31 December 2018, fixed assets decrease by EUR 6,106 thousand compared to 31 December 2017.

Changes in the main items are described below:

- the increase in Tangible fixed assets of EUR 1,195 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 6,750 thousand;
    - decreases for the depreciation of the year equal to EUR 5,286 thousand.
- the decrease in Intangible fixed assets of EUR 6,546 thousand is mainly due to the following effects:
    - increases for EUR 1,409 thousand, mainly related to key money and software;
    - decreases for sales and disposals equal to EUR 1,481 thousand;
    - decreases for the amortisation of the year equal to EUR 6,475 thousand.

NET FINANCIAL POSITION

The net financial position of the Group amounts to EUR 31,256 thousand as of 31 December 2018 compared with EUR 50,593 thousand as of 31 December 2017. The decrease is mainly due to a better management of net working capital.

SHAREHOLDERS' EQUITY

The shareholders' equity increases by EUR 19,019 thousand from EUR 178,440 thousand as of 31 December 2017 to EUR 197,459 thousand as of 31 December 2018. 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:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	3.000%
Other shareholders(*)	35.203%

(*) 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 2018 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 2018	Net profit /loss for the full year 2018
Taken from the corporate financial statements of the parent company	**152,315**	**8,781**
Share of the consolidated subsidiaries's equity and profit /loss attributable to the Group, net of the carrying amount of equity interests	13,298	13,461
Effect of business combination reopening	32,105	(1,412)
Reversal of the intercompany inventory margin	(4,336)	(3,374)
Transition to parent company accounting policies	2,390	(7)
Other adjustments	1,687	(251)
Total consolidation adjustments	**45,144**	**8,417**
Group interest in shareholders' equity	**164,610**	**16,726**
Minority interest	**32,849**	**472**
Total shareholders' equity	**197,459**	**17,198**

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 2018) by the Committee for Corporate Governance and Borsa Italiana S.p.A.. Unless specified otherwise, the references in this paragraph relate to the 2018 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 2018, 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 2018 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 "Related party transactions".

9. INFORMATION RELATIVE TO PERSONNEL AND ENVIRONMENT

Regarding the information relative to personnel and environment, please refer to the indicated in the consolidated non-financial statement.

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

In the light of the good results of the 2018 financial year, the AEFFE Group continues its commitment in terms of research, creativity and high quality manufacturing with the aim of strengthening the positioning of the portfolio's brands, such as Alberta Ferretti, Philosophy di Lorenzo Serafini, Moschino , Pollini, Jeremy Scott and Cédric Charlier, with particular attention to proprietary brands.

In a mature and highly competitive market such as fashion and luxury industry, the high and constant attention to quality, creativity and distinctiveness are the cornerstones of the medium-long term strategy.

In terms of geographical areas, AEFFE carefully monitors the evolution of high potential markets, in particular the Far East area, evaluating the optimization of the franchise network development plan and selective openings of monobrand directly operated stores (DOS). Furthermore, following the internalization of online store management of proprietary brands completed in the third quarter of 2018, the Group expects further synergies deriving from the multi-channel distribution approach, ie the integration of the various sales channels, physical and on-line, also with a view to customizing the customer experience.

13. CONSOLIDATED NON FINANCIAL STATEMENT

The Group prepares the consolidated non financial Statement pursuant to Legislative Decree 254/2016 and Consob Resolution no. 20267 of 18 January 2018 in a separate document, published on the Internet site, in the Investor Relations, Financial Statements and Reports section.

14. INFORMATION PURSUANT TO ART.1, PARAGRAPH 125, THIRD PERIOD, L.124/2017

With regard to the regulations on the transparency of public disbursements, the disclosure is provided regarding "subsidies, contributions, paid offices and in any case economic benefits of any kind received"

Nature	**Amount**
Moschino SpA	
Patent box	755,984
Credit for R&D	1,122,827
Aeffe SpA	
GSE incentive rate	204,979
Credit for energy requalification	60,000
TOTAL BENEFITS	**2,143,790**

Financial statements

CONSOLIDATED BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2018	31 December 2017	Change
NON-CURRENT ASSETS				
Intangible fixed assets				
Key money		23,556,467	26,852,574	(3,296,107)
Trademarks		78,481,588	81,975,169	(3,493,581)
Other intangible fixed assets		1,094,412	850,869	243,543
Total intangible fixed assets	(1)	103,132,467	109,678,612	(6,546,145)
Tangible fixed assets				
Lands		17,118,773	17,118,773	-
Buildings		23,436,161	22,167,805	1,268,356
Leasehold improvements		12,551,514	12,597,761	(46,247)
Plant and machinary		3,050,863	2,863,830	187,033
Equipment		260,569	260,126	443
Other tangible fixed assets		3,880,921	4,096,002	(215,081)
Total tangible fixed assets	(2)	60,298,801	59,104,297	1,194,504
Other fixed assets				
Equity investments	(3)	131,558	131,558	-
Long term financial receivables	(4)	2,302,096	2,591,605	(289,509)
Other fixed assets	(5)	2,810,046	3,564,214	(754,168)
Deferred tax assets	(6)	15,073,001	14,335,779	737,222
Total other fixed assets		20,316,701	20,623,156	(306,455)
TOTAL NON-CURRENT ASSETS		**183,747,969**	**189,406,065**	**(5,658,096)**
CURRENT ASSETS				
Stocks and inventories	(7)	104,261,515	97,817,891	6,443,624
Trade receivables	(8)	43,138,560	42,064,915	1,073,645
Tax receivables	(9)	7,759,828	5,411,024	2,348,804
Derivate assets	(10)	219,632	-	219,632
Cash	(11)	28,037,213	22,808,913	5,228,300
Short term financial receivables	(12)	1,420,000	1,420,000	-
Other receivables	(13)	34,852,460	26,914,468	7,937,992
TOTAL CURRENT ASSETS		**219,689,208**	**196,437,211**	**23,251,997**
Assets available for sale	(14)	436,885	436,885	-
TOTAL ASSETS		**403,874,062**	**386,280,161**	**17,593,901**

(*) 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 2018	31 December 2017	Change
SHAREHOLDERS' EQUITY	**(15)**			
Group interest				
Share capital		25,371,407	25,371,407	-
Other reserves		123,799,107	116,229,168	7,569,939
Profits / (losses) carried-forward		(1,287,069)	(6,957,390)	5,670,321
Net profit / (loss) for the Group		16,726,101	11,490,343	5,235,758
Group interest in shareholders' equity		164,609,546	146,133,528	18,476,018
Minority interest				
Minority interests in share capital and reserves		32,377,912	32,295,224	82,688
Net profit / (loss) for the minority interests		471,935	11,716	460,219
Minority interests in shareholders' equity		32,849,847	32,306,940	542,907
TOTAL SHAREHOLDERS' EQUITY		**197,459,393**	**178,440,468**	**19,018,925**
NON-CURRENT LIABILITIES				
Provisions	(16)	2,558,544	2,415,237	143,307
Deferred tax liabilities	(6)	30,093,668	30,436,700	(343,032)
Post employment benefits	(17)	5,491,570	5,916,166	(424,596)
Long term financial liabilities	(18)	16,408,975	22,079,795	(5,670,820)
Long term not financial liabilities	(19)	770,731	787,692	(16,961)
TOTAL NON-CURRENT LIABILITIES		**55,323,488**	**61,635,590**	**(6,312,102)**
CURRENT LIABILITIES				
Trade payables	(20)	76,949,819	68,618,776	8,331,043
Tax payables	(21)	6,452,612	3,611,468	2,841,144
Derivate liabilities	(10)	-	997,532	(997,532)
Short term financial liabilities	(22)	46,606,814	55,334,134	(8,727,320)
Other liabilities	(23)	21,081,936	17,642,193	3,439,743
TOTAL CURRENT LIABILITIES		**151,091,181**	**146,204,103**	**4,887,078**
Liabilities available for sale		-	-	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**403,874,062**	**386,280,161**	**17,593,901**

(*) 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 2018	Full Year 2017
REVENUES FROM SALES AND SERVICES	**(24)**	**346,556,367**	**312,604,739**
Other revenues and income	(25)	5,450,452	3,857,091
TOTAL REVENUES		**352,006,819**	**316,461,830**
Changes in inventory		4,529,177	10,243,168
Costs of raw materials, cons. and goods for resale	(26)	(114,810,886)	(106,306,060)
Costs of services	(27)	(100,583,191)	(91,038,590)
Costs for use of third parties assets	(28)	(25,391,209)	(23,340,025)
Labour costs	(29)	(68,502,867)	(65,376,702)
Other operating expenses	(30)	(3,918,553)	(4,071,124)
Amortisation, write-downs and provisions	(31)	(13,682,273)	(13,876,156)
Financial Income / (expenses)	(32)	(850,198)	(3,757,528)
PROFIT / LOSS BEFORE TAXES		**28,796,819**	**18,938,813**
Taxes	(33)	(11,598,783)	(7,436,754)
NET PROFIT / LOSS		**17,198,036**	**11,502,059**
(Profit) / loss attributable to minority shareholders		(471,935)	(11,716)
NET PROFIT / LOSS FOR THE GROUP		**16,726,101**	**11,490,343**
Basic earnings per share	(34)	0.165	0.113
Dilutive earnings per share	(34)	0.165	0.113

(*) 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 2018	Full Year 2017
Profit/(loss) for the period (A)		**17,198,036**	**11,502,059**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		78,171	(43,304)
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)		**78,171**	**(43,304)**
Other comprehensive income that will be reclassified subsequently to profit or loss:			
Gains/(losses) on cash flow hedges		1,155,887	
Gains/(losses) on exchange differences on translating foreign operations		586,837	(1,087,811)
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)		**1,742,724**	**(1,087,811)**
Totale Other comprehensive income, net of tax(B1)+(B2)=(B)		**1,820,895**	**(1,131,115)**
Total Comprehensive income / (loss) (A) + (B)		**19,018,931**	**10,370,944**
Total Comprehensive income / (loss) attributable to:		**19,018,931**	**10,370,944**
Owners of the parent		18,476,618	10,362,198
Non-controlling interests		542,313	8,746

CONSOLIDATED CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2018	Full Year 2017
OPENING BALANCE		**22,809**	**14,521**
Profit before taxes		28,797	18,939
Amortisation / write-downs		13,682	13,876
Accrual (+)/availment (-) of long term provisions and post employment benefits		(281)	(594)
Paid income taxes		(9,845)	(12,230)
Financial income (-) and financial charges (+)		850	3,757
Change in operating assets and liabilities		(7,677)	(6,509)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(35)**	**25,526**	**17,239**
Increase (-)/ decrease (+) in intangible fixed assets		(1,257)	(1,102)
Increase (-)/ decrease (+) in tangible fixed assets		(6,657)	(2,732)
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-	-
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(36)**	**(7,914)**	**(3,834)**
Other variations in reserves and profits carried-forward of shareholders' equity		1,820	(1,131)
Dividends paid		-	-
Proceeds (+)/ repayments (-) of financial payments		(14,398)	(2,241)
Increase (-)/ decrease (+) in long term financial receivables		1,044	2,013
Financial income (+) and financial charges (-)		(850)	(3,758)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(37)**	**(12,384)**	**(5,117)**
CLOSING BALANCE		**28,037**	**22,809**

(*) 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	Cash flow 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 2017	**25,371**	**71,240**		**27,435**	**7,901**	**11,459**	**(8,883)**	**(1,130)**	**3,641**	**(1,262)**	**135,772**	**32,298**	**168,070**
Allocation of 2016 profit/(loss)	-	-		1,715	-	-	1,926	-	(3,641)	-	-	-	-
Dividends paid	-	-			-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-		-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2017	-	-			-	-		(43)	11,490	(1,086)	10,361	9	10,370
Other changes	-	-		-	-	-			-	-	-	-	-
BALANCES AT 31 December 2017	**25,371**	**71,240**	**-**	**29,150**	**7,901**	**11,459**	**(6,957)**	**(1,173)**	**11,490**	**(2,348)**	**146,133**	**32,307**	**178,440**

(Values in thousands of EUR)	Share capital	Share premium reserve	Cash flow 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
At December 31, 2017	**25,371**	**71,240**		**29,150**	**7,901**	**11,459**	**(6,957)**	**(1,173)**	**11,490**	**(2,348)**	**146,133**	**32,307**	**178,440**
Effects deriving from the application of IFRS 9			**(998)**				**998**						
At January 1, 2018	**25,371**	**71,240**	**(998)**	**29,150**	**7,901**	**11,459**	**(5,959)**	**(1,173)**	**11,490**	**(2,348)**	**146,133**	**32,307**	**178,440**
Allocation of 2017 profit/(loss)	-	-	-	6,817	-	-	4,673	-	(11,490)	-	-	-	-
Dividends paid	-	-		-	-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-		-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2018	-	-	1,156	-	-	-	-	78	16,726	516	18,476	543	19,019
Other changes	-	-		-	-	-	-	-	-		-		-
BALANCES AT 31 December 2018	**25,371**	**71,240**	**158**	**35,967**	**7,901**	**11,459**	**(1,286)**	**(1,095)**	**16,726**	**(1,832)**	**164,609**	**32,850**	**197,459**

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Independent auditors' report
in accordance with article 14 of Legislative Decree
n. 39 of January 27, 2010 and article 10 of EU Regulation n. 537/2014

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

T +39 051 6045911
F +39 051 6045999

To the shareholders of
Aeffe S.p.A.

Report on the Audit of the consolidated financial statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005.

Basis for opinion

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

Key Audit Matters

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

<u>Valuation of intangible fixed assets</u>

The consolidated financial statements include the followings fixed intangible assets with a finite useful life:

- *BRANDS,* including “Alberta Ferretti”, “Moschino” and “Pollini”, equal to Euro 78,5 million as of 31st December 2018, are recognized at cost and are amortized systematically on a straight-line basis during their estimated useful life of 40 years.
- *KEY MONEY* equal to Euro 23,6 million at 31st December 2018 are 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. 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.

Notwithstanding the fact that International Accounting Standards (IAS 36) only require goodwill and other indefinite-lived intangible assets to be subject to impairment tests on a yearly basis, the management has also tested the net book value of brands and key money, in order to compare their realizable values with their book values, as discussed in the following paragraphs.

BRANDS
For the purpose of verifying the recoverability of the brands subject to impairment test, the management applied the actualization of royalties’ method. The method consists in measuring the sum of the net present values of the estimated cash flows from royalties, which the market will attribute to the owner of an intangible asset for its exclusive license.

The Group disclosed information regarding brands in Note 1 of the consolidated financial statements, as well as in note on the accounting principles adopted by the Group and in the paragraph describing the use of estimates.

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

In particular, followings calculations are performed:

- in the equity method, current 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 transfer-value of the rental contract for each boutique (considered as “cash-generating units”);
- in the financial method, current value was calculated using cash-flow analyses of the characteristic activity of each boutique (“cash generating unit”). The underlying cash flows of the “cash-generating units” attributable to each key money were derived from a budget simulation.

The Group disclosed information regarding key money in Note 1 of the consolidated financial statements, as well as in note on the accounting principles adopted by the Group and in the paragraph describing the use of estimates.

Impairment tests are subject to complex estimates that require discretional assumptions. For this reason, we considered the valuation of brands and key money a key audit matter in the context of our audit of the consolidated financial statements as a whole.

Auditing procedures performed in response to key audit matter
As part of our audit of the consolidated financial statement as of 31st December 2018, we performed the followings procedures in response to key audit matters, for each of the two type of fixed intangible assets with a finite useful life.

BRANDS

- We evaluated the soundness of amortization rates adopted.

- We reviewed and understood the process underlying the preparation of the impairment test with respect to the brands, approved by the Board of Directors of Aeffe Group.
- We reviewed and understood the process underlying the preparation of the Budget Plan of Aeffe Group, staring in the 2019.
- We analyzed assumptions underlying the calculation of royalties and their correspondence with the consolidated financial statements.
- We evaluated the soundness of the hypothesis and estimates underlying the impairment test of the brands. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

KEY MONEY

- We evaluated the soundness of amortization rates adopted.
- We reviewed and understood the process underlying the preparation of the impairment test regarding the key money, approved by the Board of Directors of Aeffe Group.
- We analyzed assumptions underlying the calculation of royalties and their correspondence with the lease contracts in force with the Group.
- We compared the lease contracts with respect to current conditions offered in the open market.
- We evaluated the soundness of the hypothesis and estimates underlying the impairment test of the key money. Specifically, we performed the calculation of the economic-recoverability taking into account the difference between the economic conditions of lease contracts (i.e. instalments formalized in lease contracts) and the conditions currently offered in the open market. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

Responsibilities of Directors and Board of statutory auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Other information pursuant to article 10 of EU Regulation n.537/14

We were initially engaged by the shareholders of Aeffe S.p.A. on April 16, 2016 to perform the audits of the financial statements and the consolidated financial statements of each fiscal year starting from December 31, 2016 to December 31, 2024.

We declare that we did not provide prohibited non-audit service, referred to article 5, par.1, of EU Regulation 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report, prepared in accordance with the article 11 of the EU Regulation 537/2014, submitted to the Board of Statutory Auditors.

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Report on compliance with other Laws and Regulations

Opinion pursuant to article 14, par.2, subpar. e), of D.Lgs. 39/10 and of article 123-bis, par.4, of D.Lgs. 58/98

The Directors of Aeffe Group are responsible for the preparation of the Director's Report and of the Report on Corporate Governance and Ownership Structure Aeffe as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the Director's Report 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, with the consolidated financial statements of Aeffe Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Director's Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Aeffe Group as at December 31, 2018 and are compliant with the applicable laws and regulations.

With reference to the assessment pursuant to art.14, par.2, subpar. e), of Legislative Decree n.39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree n.254 of 30 December 2016

Management of Aeffe Group is responsible for the preparation of the non-financial statement pursuant to Legislative Decree n.254 of 30 December 2016. We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree n.254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by another auditor.

Bologna, March 26, 2019

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 Folies", "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 2018 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 2018 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 2018 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%	
Aeffe Japan Inc.	Tokyo (J)	JPY	3,600,000	100%	
Aeffe Shanghai Ltd.	Shanghai (CN)	CNY	10,000,000	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	50,000		70% (ii)
Moschino USA Inc.	New York (USA)	USD	10,000		70% (ii)
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.

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 2018	Average exchange rate 2018	Actual exchange rate 31 December 2017	Average exchange rate 2017
Chinese Renminbi	7.8751	7.8081	7.8044	7.6264
United States Dollars	1.1450	1.1810	1.1993	1.1293
United Kingdom Pounds	0.8945	0.8847	0.8872	0.8762
Japanese Yen	125.8500	130.3959	135.0100	126.6545
South Korean Won	1,277.9300	1,299.0713	1,279.6100	1,275.8300
Swiss franc	1.1269	1.1550	1.1702	1.1115

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 POLICIES

The accounting policies adopted in the preparation of this consolidated financial statement are the same used as those used in the preparation of the consolidated financial statement as of December 31, 2017, except for the following interpretations and amendments to the accounting principles that have been mandatory since January 1, 2018.

Accounting standards, amendments and interpretations approved by the European Union, applicable from 1 January 2018, which were applied for the first time in the consolidated half-yearly financial statements of the AEFFE Group closed as at 31 December 2018

- **IFRS 15 "Revenues from contracts with customers"**: issued in May 2014, introduces a new five-phase model that will apply to revenues deriving from contracts with customers and replaces all the current requirements in the IFRS for the recognition of revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity deems to be entitled in exchange for the transfer of goods or services to the customer. The standard is effective for annual periods beginning on or after 1 January 2018, with full or modified retrospective application.

  The Group has applied the new standard from the mandatory effective date that, in the case of the AEFFE Group, is from 1 January 2018. In 2017, the Group carried out an assessment of the impact of IFRS 15 simulating the application of the standard to contracts belonging to the main revenue flows identified at Group level; considering the nature of the business, the impacts have been estimated as non-material for the Group. It should also be noted that the Group has chosen, for the transition, the modified retrospective application method and therefore the comparative data will not be changed (year 2017).

  In applying IFRS 15, the Group has considered the following points:

  Retail and Wholesale Sales: the application of IFRS 15 to contracts with customers in which the sale of goods is the only obligation did not have an impact on the Group, especially with regard to retail flows. Revenue recognition takes place when the control of the activity has been transferred to the customer, generally at the time of delivery of the asset, similarly to what happens according to the currently applicable standards. As part of the process of identifying the various performance obligations, the right to return was identified as an element that could result in deferred recognition of revenues compared to the present accounting treatment. In particular, when a contract with a customer provides for a right of return of the goods, the Group currently accounts for the right of return (albeit of non-material amount) using an approach based on the return forecast, similar to the expected value method provided by IFRS 15.

- **IFRS 9 "Financial instruments"**: on 22 November 2016 the European Union issued Regulation no. 2016/2067 which approved IFRS 9 (Financial Instruments), which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 brings together all aspects related to the subject accounting for financial instruments: classification and measurement, loss of value and hedge accounting.

  The group decided to adopt the hedge accounting provisions relating to the forward excange contracts envisaged by IFRS 9. These transactions were not designated as hedges for IAS 39 as they did not meet the efficacy ratio of 80-125%. The change in policy by virtue of the adoption of the new IFRS 9 was applied prospectively from 1 January 2018, therefore there will be no restatement on the financial statements closed on 31/12/2017. On the other hand, the loss deriving from the valuation of derivatives opened at the balance sheet date, equal to Euro 998 thousand, entered in the income statement as of 31/12/2017 (supplying the result to the new account), has been transferred, at 01/01/2018, in a special cash flow hedge reserve.

- **Amendment to IFRS 4**: "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". Amendments issued by the IASB on 12 September 2016, endorsed by the European Union on 3 November 2017 and applicable with effective date as from 1 January 2018. The amendment deals with concerns arising in the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. In addition, two options are provided for companies that underwrite insurance contracts with reference to IFRS 4: i) an option that allows companies to reclassify from the income statement to the statement of comprehensive income some revenues or costs deriving from certain financial assets; ii) a temporary exemption from the application of IFRS 9 whose main activity is the signing of contracts as described by IFRS 4. The adoption of this standard did not have any impact on the Group's financial statements;

- **Amendment to IFRS 2**: "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)". Amendments published by the IASB on 20 June 2016. The document contains some clarifications regarding the recognition of the effects of vesting conditions in the presence of cash-shared share-based payments, the classification of share-based payments with net settlement characteristics and the accounting for changes. the terms and conditions of a share-based payment that modify the classification from cash-settle to equity-settled. The amendments apply as of January 1, 2018. The adoption of this standard did not have any impact on the Group's financial statements;

New accounting standards and interpretations approved by the European Union and effective from financial years after 31 January 2018

- **IFRS 16 "Leases"**: on 13 January 2016, the IASB published the new IFRS 16 - Leases. The document will replace the previous IAS 17 standard no longer suitable for the representation of leasing in the current economic context. The new accounting standard provides that all leasing contracts must be recognized in the balance sheet as assets and liabilities, whether they are "financial" or "operational".

  Leasing contracts with a duration of 12 months or less and those with low-value items are excluded from application of IFRS 16. IFRS 16 applies from financial years beginning on or after 1 January 2019. Early application is permitted for companies that also adopt IFRS 15 (Revenue from contracts with customers). The group decided not to opt for the early application of IFRS 16 therefore the effects of this principle will be reflected starting from 01/01/2019.

  It was therefore decided to use a retrospective application, without restatement of the comparative information. The cumulative effect will be recognized as a reduction in the new opening earnings. The incremental borrowing rate will be the one on the application date of the principle excluding the initial direct costs from the valuation of the right to use the asset.

  At 12/31/2018, operating lease commitments amounted to approximately € 125 million.

  Assuming that the latter remain substantially in line at 12/31/2018, the effect that will be reflected at 01/01/2019 (opening balance sheet object of the transition) will concern:

  - Leasing liabilities with an estimated increase of approximately € 113 million (Financial liabilities)
  - Assets deriving from the right to use the asset with an estimated increase of approximately € 106 million (Fixed assets)

  The application of the new standard will also lead to the cancellation of operating lease installments, recognized as costs for services, which will be recalculated amortization of "Right of use Assets" and financial charges linked to the amortized cost valuation of the financial debt for leasing. This will therefore lead to an increase in EBITDA, which for 12/31/2018 is expected to amount to approximately € 15 million.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union

Description	Effective date foreseen by the principle
IFRS 14 Regulatory Deferral Accounts	**(*)**
IFRS 17 Insurance Contracts	01/01/2021
Interpretations	01/01/2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	01/01/2018
IFRIC 23 Uncertainty over Income Tax Treatments	01/01/2019
Amendments	01/01/2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until completion of the IASB project on the *equity method*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01/01/2018
Annual Improvements to IFRS Standards 2015-2017 Cycle	01/01/2019
Amendments to IAS 40: Transfers of Investment Property	01/01/2018
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	01/01/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	01/01/2019

(*) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the approval process pending the new accounting principle on "rate-regulated activities”.

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 2018, 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 2018, 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%
Plant and machinery	12,5%
Photovoltaic systems	9%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and fixtures	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.

Derivative financial instruments

The fundamental characteristics of derivative financial instruments are set out in the paragraph Derivative financial instruments (Note 10). The Group uses derivative financial instruments to hedge the risks associated with currency exposure arising from its operations, without any speculative or trading purpose. Accounting for derivative transactions, since these refer to a risk linked to the variability of expected cash flows (forecast transaction), are performed in accordance with the cash flow hedge rules. The rules of hedge accounting require the recognition of derivatives at their fair value in the balance sheet;

the recording of changes in fair value differs depending on the type of hedge at the valuation date:

• for derivatives used to hedge expected transactions (ie cash flow hedges), changes in fair value are recognized directly in the specific shareholders' equity reserve, except for the portion of variation relating to the ineffective portion of the hedge that is allocated to the account economic, financial income and charges; the fair value differences already recognized directly in the specific equity reserve are fully charged to the income statement, adjusting the operating margins, at the time the assets / liabilities relating to the hedged items are recognized;

• for derivatives used to hedge assets and liabilities recognized in the financial statements (ie fair value hedges), the differences in fair value are recognized entirely in the income statement under financial income and expense. In addition, the value of the hedged item (assets / liabilities) is adjusted for the change in value attributable to the hedged risk, using financial income and expenses as a contra entry.

Revenue

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

A part of the group's revenues derives from the recognition of the Roylalties, agreed, based on a predetermined percentage in the contract with the customer, on the net turnover. The royalties accrue "at point in time", therefore at the time of issue by the Licensee, of the invoices for the sale of the products granted.

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return. Being intra-group transactions they do not impact the consolidated financial statements as they are eliminated.

With regard to the recognition of Royalties, these are calculated based on a percentage of the Licensee's net sales. The percentage may vary depending on the type of product.

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 Group carried out an analysis aimed at assessing the existence of impairment indicators relating to the recoverability of the intangible and tangible fixed assets attributable to the single directly managed stores ("DOS"). For these types of assets, the recoverable amount was defined as the higher amount between the fair value net of disposal costs and the value in use.

The evaluation focuses both on the value of the stores' assets (replacement cost and market goodwill that can be determined for each store), and on the economic value obtainable from each point of sale.

The method of the goodwill expresses the "fair value" based on current market values in the event of sale to third parties of the lease contract (surveys of the first half of 2018 of the Agency of the Territory of the Revenue Agency).

The value of the goodwill is calculated on the basis of the sale to third parties of the lease with respect to market conditions, valuing the sum of:

- discounting of the lease installments with existing terms and conditions;
- comparison between the current and the market conditions recorded in Italy by the real estate osservatory of the Agenzia del Territorio of the Revenue Agency (I semester 2018).

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

- annual value of the rental contracts from the total spent in 2018;
- 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 2018;
- Risk-free rate for established contracts, 3.48%;
- Hypothetical renewal rate after the first expiration, 5%;

The financial method expresses the value in use of the individual points of sale. The evaluation derives from the analysis of the cash flows generated by the characteristic activity of the single points of sale.

These cash flows are calculated using a projection up to the Terminal Value starting from the income statements of the individual locations and are discounted at a discount rate (Weighted Average Cost of Capital - WACC) that considers corporate risk and corporate indebtedness.

The value thus found represents the actual capacity of the analyzed network of shops to generate financial flows.

Economic forecasts for each sales point for the financial year 2019 prepared by the Management of the Aeffe Group. For this year, turnover trends were considered, which, depending on the case, envisage a variation with respect to the 2018 final figures between 3% and + 67.5%;

Forecast for financial years 2020, 2021 and forward hypothesis for each local according to the following criteria:

- a 5% increase in turnover for the previous year;

- percentage of the cost of goods sold on the basis of the previous years' history;

- growth in fixed costs equal to the estimate of programmed inflation (estimated at 2%);

- substantially flat working capital (CCN);

- WACC equal to 6.39% (5.63% 31/12/2017);

Brands

The management assesses at least once a year the intangible assets with a finite useful life (near the closing of the financial statements), in a stringent manner with respect to the requirements of the IAS 36 international accounting standard and equating them to the assets with an indefinite useful life.

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 the residual useful life. To calculate the values, the management has used the Group budget starting from the year 2019. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") variable from 1.08% to 2.33%. As royalty rates we used the averages for the sector (10%) and as discount rate we used the average cost of capital (WACC) which is 6.39% (5.63% 31/12/2017).

- 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 1.55%;
  - 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 1.13%.

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 2018 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 68 thousand annually (EUR 108 thousand as of 31 December 2017).

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 2018 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 31,842 thousand as of 31 December 2018, represent 74% of the receivables entered in the financial statements. This percentage strongly increases compared to the 72% 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 2018	31 December 2017	Change Δ	%
Trade receivables	43,139	42,065	1,074	2.6%
Other current receivables	34,852	26,914	7,938	29.5%
Other fixed assets	2,810	3,564	(754)	(21.2%)
Total	**80,801**	**72,543**	**8,258**	**11.4%**

See note 5 for the comment and breakdown of the item "other fixed assets" note 8 "trade receivables" and note 13 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 2018, overdue but not written-down trade receivables amount to EUR 11,297 thousand (EUR 11,858 thousand in 2017). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
By 30 days	5,530	7,343	(1,813)	(24.7%)
31 - 60 days	2,081	2,918	(837)	(28.7%)
61 - 90 days	843	697	146	20.9%
Exceeding 90 days	2,843	900	1,943	215.9%
Total	**11,297**	**11,858**	**(561)**	**(4.7%)**

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 01.01.17	**85,469**	**28,923**	**740**	**115,132**
Increases	-	865	490	1,355
- increases externally acquired	-	*865*	*490*	*1,355*
- increases from business aggregations	-	-	-	-
Disposals	-	(253)	-	(253)
Translation differences and other variations	-	-		-
Amortisation	(3,494)	(2,682)	*(379)*	(6,555)
Net book value as of 31.12.17	**81,975**	**26,853**	**851**	**109,679**
Increases	-	696	713	1,409
- increases externally acquired	-	*696*	*713*	*1,409*
- increases from business aggregations	-	-	-	-
Disposals	-	(1,479)	(2)	(1,481)
Translation differences and other variations	-	-	-	-
Amortisation	(3,493)	(2,514)	*(468)*	(6,475)
Net book value as of 31.12.18	**78,482**	**23,556**	**1,094**	**103,132**

The intangible fixed assets highlight the following variations:

- increases, equal to EUR 1,409 thousand, mainly related to key money and software;
- decreases, equal to EUR 1,481 thousand, mainly related to the closure of 3 stores;
- amortisation of the period is EUR 6,475 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 2018	31 December 2017
Alberta Ferretti	24	3,023	3,149
Moschino	26	43,769	45,696
Pollini	22	31,690	33,130
Total		**78,482**	**81,975**

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.

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 01.01.17	**17,119**	**22,659**	**14,465**	**2,666**	**311**	**4,156**	**61,376**
Increases	-	72	1,046	871	78	1,160	3,227
Disposals	-	-	(126)	(22)	(6)	(67)	(221)
Translation differences and other variations	-	-	(199)	-	(9)	(66)	(274)
Depreciation	-	(563)	(2,589)	(651)	(114)	(1,087)	(5,004)
Net book value as of 31.12.17	**17,119**	**22,168**	**12,597**	**2,864**	**260**	**4,096**	**59,104**
Increases	-	1,835	2,961	916	124	914	6,750
Disposals	-	-	(262)	(20)	-	(42)	(324)
Translation differences and other variations	-	-	38	-	2	15	55
Depreciation	-	(567)	(2,783)	(709)	(125)	(1,102)	(5,286)
Net book value as of 31.12.18	**17,119**	**23,436**	**12,551**	**3,051**	**261**	**3,881**	**60,299**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 6,750 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 324 thousand;
- Increase for differences arising on translation and other variation of EUR 55 thousand which mainly relates to the translation differences of the foreign subsidiaries.
- Depreciation of EUR 5,286 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 decrease from EUR 2,592 thousand at December 31, 2017 to EUR 2,302 thousand at December 31, 2018. The variation is mainly determined by amount accrued during the year and reclassified in current receivables.

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 2018 and at 31 December 2017:

(Values in thousands of EUR)	Receivables		Liabilities	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Tangible fixed assets	5	49	(19)	(17)
Intangible fixed assets	46	3	(144)	(144)
Provisions	3,992	2,926	(1)	(2)
Costs deductible in future periods	5,637	6,224	(27)	(35)
Income taxable in future periods	1,195	360	(1,608)	(1,565)
Tax losses carried forward	3,121	3,684	-	-
Other	5	5	(87)	(84)
Tax assets (liabilities) from transition to IAS	1,072	1,085	(28,208)	(28,590)
Total	**15,073**	**14,336**	**(30,094)**	**(30,437)**

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	1	(47)	-	(14)
Intangible fixed assets	(141)	-	43	-	(98)
Provisions	2,924	13	1,047	7	3,991
Costs deductible in future periods	6,189	6	(577)	(8)	5,610
Income taxable in future periods	(1,205)	(18)	810	-	(413)
Tax losses carried forward	3,684	88	(357)	(294)	3,121
Other	(79)	(4)	3	(2)	(82)
Tax assets (liabilities) from transition to IAS	(27,505)	-	462	(93)	(27,136)
Total	**(16,101)**	**86**	**1,384**	**(390)**	**(15,021)**

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 2018	31 December 2017	Change Δ	%
Raw, ancillary and consumable materials	14,412	14,563	(151)	(1.0%)
Work in progress	9,770	8,901	869	9.8%
Finished products and goods for resale	79,830	74,328	5,502	7.4%
Advance payments	250	26	224	861.5%
Total	**104,262**	**97,818**	**6,444**	**6.6%**

The entry stocks and inventories increases of EUR 6,444 thousand mainly due to the increase in turnover.

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2019 collections, while finished products mainly concern the Autumn/Winter 2018 and the Spring/Summer 2019 collections and the Autumn/Winter 2019 sample collections.

8. Trade receivables

This item is illustrated in the following table:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Trade receivables	46,537	45,796	741	1.6%
(Allowance for doubtful account)	(3,398)	(3,731)	333	(8.9%)
Total	**43,139**	**42,065**	**1,074**	**2.6%**

Trade receivables amount to EUR 46,537 thousand at 31 December 2018, up 1.6% since 31 December 2017.

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 2018	31 December 2017	Change Δ	%
VAT	3,702	2,972	730	24.6%
Corporate income tax (IRES)	1,133	846	287	33.9%
Local business tax (IRAP)	196	292	(96)	(32.9%)
Amounts due to tax authority for withheld taxes	4	4	-	n.a.
Other tax receivables	2,725	1,297	1,428	110.1%
Total	**7,760**	**5,411**	**2,349**	**43.4%**

As of 31 December 2018, the Group's tax receivables amount to EUR 7,760 thousand. The variation of EUR 2,349 thousand compared with the value at 31 December 2017 is mainly due to the increase of VAT receivable and to the recognition of the tax credit in the subsidiary Moschino Spa for incremental investments made in research and development activities.

10. Derivate assets and liabilities

The AEFFE Group, characterized by an important presence in international markets, is exposed to exchange rate risk mainly for purchases by the subsidiary Pollini in US Dollars (USD). The Group signs forward currency derivative contracts (USD) at term (Forward) with primary credit institutions to cover the aforementioned risk. These contracts are set up to cover a specific percentage of expected purchase volumes in USD. At the balance sheet date, the notional amount of forward currency contracts stipulated is USD 26,000 thousand (USD 24,000 thousand at 01/01/2018). All contracts opened at 12/31/2018 will expire in 2019.

The composition of the derivative financial instruments in place at December 31, 2018 and January 1, 2018 is summarized below with an indication of the respective current and non-current accounting values referring to the fair value and fair value of the cash flow hedge reserve, this last shown net of the related deferred tax effect:

	31 December 2018			1 January 2018		
(Values in thousands of EUR)	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
Forward contracts for cash flow hedge exchange rate risk	-	-	-	-	-	-
TOTAL NON CURRENT	**-**	**-**	**-**	**-**	**-**	**-**
Forward contracts for cash flow hedge exchange rate risk	220	-	158	-	998	(998)
TOTAL CURRENT	**220**	**-**	**158**	**-**	**998**	**(998)**

The cash flow hedge reserve relating to forward contracts hedging the currency risk on currencies amounts to Euro 158 thousand net of the related tax effect (Euro -62 thousand).

The transfer to the 2018 income statement of the effect of the hedging transactions on exchange rate risk was equal to Euro 569 thousand brought to increase costs.

11. Cash

This item includes:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Bank and post office deposits	27,483	22,057	5,426	24.6%
Cheques	61	24	37	154.2%
Cash in hand	493	728	(235)	(32.3%)
Total	**28,037**	**22,809**	**5,228**	**22.9%**

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 2018 compared with the amount recorded at 31 December 2017, is EUR 5,228 thousand. About the reason of this variation see the Cash Flow Statement.

12. *Short term financial receivables*

This item includes:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Financial receivables	1,420	1,420	-	n.a.
Total	**1,420**	**1,420**	**-**	**n.a.**

13. *Other receivables*

This caption comprimes:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Credits for prepaid costs	26,851	20,549	6,302	30.7%
Advances for royalties and commissions	191	235	(44)	(18.7%)
Advances to suppliers	235	186	49	26.3%
Accrued income and prepaid expenses	3,455	2,748	707	25.7%
Other	4,120	3,196	924	28.9%
Total	**34,852**	**26,914**	**7,938**	**29.5%**

Other short term receivables increase of EUR 7,938 thousand mainly for the increase in credits for prepaid costs.

Credits for prepaid costs relate to the costs incurred to design and make samples for the Spring/Summer 2019 and Autumn/Winter 2019 collections for which the corresponding revenues from sales have not been realised yet.

14. *Assets and liabilities available for sale*

This item is not changed during the period.

(Values in thousands of EUR)	31 December 2018	31 December 2017
Other fixed assets	437	437
Total Assets	**437**	**437**

15. *Shareholders' equity*

Described below are main categories of shareholders' equity at 31 December 2018, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change
Share capital	25,371	25,371	-
Share premium reserve	71,240	71,240	-
Cash flow reserve	158	-	158
Other reserves	35,967	29,150	6,817
Fair value reserve	7,901	7,901	-
IAS reserve	11,459	11,459	-
Profits / (losses) carried-forward	(1,286)	(6,957)	5,671
Remeasurement of defined benefit plans reserve	(1,095)	(1,173)	78
Net profit / (loss) for the Group	16,726	11,490	5,236
Translation reserve	(1,832)	(2,348)	516
Minority interests	32,850	32,307	543
Total	**197,459**	**178,440**	**19,019**

Share capital

Share capital as of 31 December 2018, 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 2018 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 2017.

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 2017.

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 78 thousand compared to the value at 31 December 2017.

Translation reserve

The increase of EUR 516 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 mainly due 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

16. Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2017	Increases	Decreases	31 December 2018
Pensions and similar obligations	460	5	-	465
Other	1,955	212	(73)	2,094
Total	**2,415**	**217**	**(73)**	**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.

The other provisions mainly relate to provisions for future charges and risks linked to organizational changes.

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".

17. 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 2017	Increases	Decreases / Other changes	31 December 2018
Post employment benefits	5,916	248	(672)	5,492
Total	**5,916**	**248**	**(672)**	**5,492**

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 loss.

18. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Loans from financial institutions	16,337	22,008	(5,671)	(25.8%)
Amounts due to other creditors	72	72	-	n.a.
Total	**16,409**	**22,080**	**(5,671)**	**(25.7%)**

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. 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 2018, including the current portion and the long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long term portion
Bank borrowings	29,271	12,934	16,337
Total	**29,271**	**12,934**	**16,337**

There are no amounts due beyond five years.

19. Long-term not financial liabilities

The item remained essentially in line with the previous period.

CURRENT LIABILITIES

20. Trade payables

Tax payables are analysed in comparison with the related balances as of 31 December 2017:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Trade payables	76,950	68,619	8,331	12.1%
Total	**76,950**	**68,619**	**8,331**	**12.1%**

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

The value at 31 December 2018 increase of 12.1% compared to the previous year as a result of the sales growth.

21. Tax payables

Tax payables are analysed in comparison with the related balances as of 31 December 2017 in the following table:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Local business tax (IRAP)	374	382	(8)	(2.1%)
Corporate income tax (IRES)	3,325	332	2,993	901.5%
Amounts due to tax authority for withheld taxes	2,569	2,397	172	7.2%
VAT due to tax authority	165	390	(225)	(57.7%)
Other	20	110	(90)	(81.8%)
Total	**6,453**	**3,611**	**2,842**	**78.7%**

At December 31, 2018, the Group's payables to tax institutions amounted to EUR 6,453 thousand. The change of EUR 2,842 thousand compared to 31 December 2017 is mainly due to the increase of IRES payable.

22. Short term financial liabilities

A breakdown of this item is given below:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Due to banks	46,607	55,334	(8,727)	(15.8%)
Total	**46,607**	**55,334**	**(8,727)**	**(15.8%)**

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.

23. Other liabilities

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

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Due to total security organization	4,442	4,221	221	5.2%
Due to employees	5,989	5,810	179	3.1%
Trade debtors - credit balances	2,162	1,608	554	34.5%
Accrued expenses and deferred income	4,703	2,221	2,482	111.8%
Other	3,786	3,782	4	0.1%
Total	**21,082**	**17,642**	**3,440**	**19.5%**

The other short term liabilities amount to EUR 21,082 thousand at 31 December 2018 increasing of EUR 3,440 thousand compared with the previous year.

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.

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 Folies", "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 Folies".

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 2018 and 2017 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**265,638**	**118,305**	**(37,387)**	**346,556**
Intercompany revenues	(8,902)	(28,485)	37,387	-
Revenues with third parties	**256,736**	**89,820**	-	**346,556**
Gross operating margin (EBITDA)	**31,645**	**11,684**	-	**43,329**
Amortisation	(8,902)	(2,858)	-	(11,760)
Other non monetary items:				
Write-downs	(1,725)	(197)	-	(1,922)
Net operating profit / loss (EBIT)	**21,018**	**8,629**	-	**29,647**
Financial income	348	594	(198)	744
Financial expenses	(1,043)	(749)	198	(1,594)
Profit / loss before taxes	**20,323**	**8,474**	**-**	**28,797**
Income taxes	(8,916)	(2,683)	-	(11,599)
Net profit / loss	**11,407**	**5,791**	**-**	**17,198**

(Values in thousands of EUR) 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**239,815**	**108,216**	**(35,426)**	**312,605**
Intercompany revenues	(7,785)	(27,641)	35,426	-
Revenues with third parties	**232,030**	**80,575**	-	**312,605**
Gross operating margin (EBITDA)	**26,821**	**9,751**	-	**36,572**
Amortisation	(8,746)	(2,813)	-	(11,559)
Other non monetary items:				
Write-downs	(2,055)	(262)	-	(2,317)
Net operating profit / loss (EBIT)	**16,020**	**6,676**	-	**22,696**
Financial income	884	945	(411)	1,418
Financial expenses	(1,714)	(3,872)	411	(5,175)
Profit / loss before taxes	**15,190**	**3,749**	**-**	**18,939**
Income taxes	(6,086)	(1,351)	-	(7,437)
Net profit / loss	**9,104**	**2,398**	**-**	**11,502**

The following tables indicate the main patrimonial and financial data at 31 December 2018 and 2017 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 31 December 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*308,635*	*120,993*	*(48,587)*	381,041
of which non-current assets (*)				
Intangible fixed assets	*67,305*	*35,827*	-	*103,132*
Tangible fixed assets	*56,635*	*3,664*	-	*60,299*
Other non-current assets	*4,895*	*739*	*(390)*	*5,244*
OTHER ASSETS	*19,445*	*3,388*	-	22,833
CONSOLIDATED ASSETS	**328,080**	**124,381**	**(48,587)**	**403,874**

(*) 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 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	145,796	72,660	*(48,587)*	169,869
OTHER LIABILITIES	26,637	9,909	-	36,546
CONSOLIDATED LIABILITIES	**172,433**	**82,569**	**(48,587)**	**206,415**

(Values in thousands of EUR) 31 December 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*300,470*	*118,309*	*(52,246)*	366,533
of which non-current assets (*)				
Intangible fixed assets	*71,743*	*37,936*	*-*	*109,679*
Tangible fixed assets	*55,289*	*3,815*	*-*	*59,104*
Other non-current assets	*6,080*	*597*	*(390)*	*6,287*
OTHER ASSETS	*17,132*	*2,615*	-	19,747
CONSOLIDATED ASSETS	**317,602**	**120,924**	**(52,246)**	**386,280**

(*) 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 2017	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	*150,189*	*75,849*	*(52,246)*	173,792
OTHER LIABILITIES	23,851	10,197	-	34,048
CONSOLIDATED LIABILITIES	**174,040**	**86,046**	**(52,246)**	**207,840**

Segment information by geographical area

The following table indicates the revenues for the full year 2018 and 2017 divided by geographical area:

(Values in thousands of EUR)	Full Year 2018	%	Full Year 2017	%	Change Δ	%
Italy	168,453	48.6%	152,116	48.7%	16,337	10.7%
Europe (Italy excluded)	80,301	23.2%	76,865	24.6%	3,436	4.5%
Asia and Rest of the World	80,092	23.1%	65,019	20.8%	15,073	23.2%
America	17,710	5.1%	18,605	5.9%	(895)	(4.8%)
Total	**346,556**	**100.0%**	**312,605**	**100.0%**	**33,951**	**10.9%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

24. Revenues from sales and services

Accounting Policy:

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

A part of the group's revenues derives from the recognition of the Roylalties, agreed, based on a predetermined percentage in the contract with the customer, on the net turnover. The royalties accrue "at point in time", therefore at the time of issue by the Licensee, of the invoices for the sale of the products granted.

Determination of the transaction price:

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return. Being intra-group transactions they do not impact the consolidated financial statements as they are eliminated.

With regard to the recognition of Royalties, these are calculated based on a percentage of the Licensee's net sales. The percentage may vary depending on the type of product.

Breakdown of revenues from sales and services (IFRS 15)

(Values in thousands of EUR) Full Year 2018	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
Geographical area	**265,638**	**118,305**	**(37,387)**	**346,556**
Italy	129,197	74,795	(35,539)	168,453
Europe (Italy excluded)	45,706	35,628	(1,033)	80,301
Asia and Rest of the World	73,300	6,848	(56)	80,092
America	17,435	1,034	(759)	17,710
Brand	**265,638**	**118,305**	**(37,387)**	**346,556**
Alberta Ferretti	32,244	2,446	(2,573)	32,117
Philosophy	18,181	462	(462)	18,181
Moschino	205,625	79,322	(34,127)	250,820
Pollini	80	35,946	(50)	35,976
Other	9,508	129	(175)	9,462
Distribution channel	**265,638**	**118,305**	**(37,387)**	**346,556**
Wholesale	181,526	96,790	(30,489)	247,827
Retail	65,639	21,455	-	87,094
Royalties	18,473	60	(6,898)	11,635
Timing of goods and services transfer	**265,638**	**118,305**	**(37,387)**	**346,556**
POINT IN TIME (transfer of significant risks and benefits connected to the property of the asset)	247,165	118,245	(30,489)	334,921
POINT IN TIME (Royalties accrual on Licensee's turnover)	18,473	60	(6,898)	11,635

In 2018 consolidated revenues amount to EUR 346,556 thousand compared to EUR 312,605 thousand of the year 2017, showing an increase of 10.9% (+11.2% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 265,638 thousand with an increase of 10.8% at current exchange rates (+11.2% at constant exchange rates) compared to 2017. The revenues of the footwear and leather goods division increase by 9.3% to EUR 118,305 thousand.

25. Other revenues and income

This item comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Extraordinary income	53	45	8	17.8%
Other income	5,397	3,812	1,585	41.6%
Total	**5,450**	**3,857**	**1,593**	**41.3%**

The caption extraordinary income, composed mainly by recovery of receivables from bankrupt customers, time expiry of receivables and payables that arose in prior years, increases of EUR 8 thousand compared to the previous year.

The caption other income, that amounts to EUR 5,397 thousand in 2018, mainly includes exchange gains on commercial transaction, rental income sales of raw materials and packaging.

26. Costs of raw materials

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	114,811	106,306	8,505	8.0%
Total	**114,811**	**106,306**	**8,505**	**8.0%**

The entry purchase of raw materials increase of EUR 8,505 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.

27. Costs of services

This item comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Subcontracted work	31,768	30,046	1,722	5.7%
Consultancy fees	20,782	16,623	4,159	25.0%
Advertising	15,080	14,113	967	6.9%
Commission	8,469	7,099	1,370	19.3%
Transport	6,794	5,987	807	13.5%
Utilities	1,929	1,985	(56)	(2.8%)
Directors' and auditors' fees	3,660	3,399	261	7.7%
Insurance	627	618	9	1.5%
Bank charges	1,649	1,913	(264)	(13.8%)
Travelling expenses	2,338	2,061	277	13.4%
Other services	7,487	7,195	292	4.1%
Total	**100,583**	**91,039**	**9,544**	**10.5%**

Costs of services increase from EUR 91,039 thousand in the year 2017 to EUR 100,583 thousand in the year 2018, by 10.5%. 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, Alberta Ferretti and Philosophy di Lorenzo Serafini brands;
- the increase of costs for commissions always linked to the growth of sales.

28. Costs for use of third parties assets

This item comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Rental expenses	22,488	21,202	1,286	6.1%
Royalties	1,826	1,256	570	45.4%
Hire charges and similar	1,077	882	195	22.1%
Total	**25,391**	**23,340**	**2,051**	**8.8%**

The costs for use of third parties assets increases by EUR 2,051 thousand from EUR 23,340 thousand in 2017 to EUR 25,391 thousand in 2018.

29. Labour costs

Labour costs increase by EUR 3,126 thousand from EUR 65,377 thousand in 2017 to EUR 68,503 thousand in 2018, recording an incidence on revenues which changes from 20.9% in 2017 to 19.8% in 2018.

In 2018 the Group invested mainly in Research and Development, in commercial and communication/marketing departments.

This item comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Labour costs	68,503	65,377	3,126	4.8%
Total	**68,503**	**65,377**	**3,126**	**4.8%**

In 2018 the average number of employees of the Group is:

Average number of employees by category	Full Year	Full Year	Change	
	2018	2017	Δ	%
Workers	248	233	15	6.4%
Office staff-supervisors	1,080	1,051	29	2.8%
Executive and senior managers	22	23	(1)	(4.3%)
Total	**1,350**	**1,307**	**43**	**3.3%**

30. Other operating expenses

This item includes:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Taxes	821	816	5	0.6%
Gifts	452	272	180	66.2%
Contingent liabilities	558	100	458	458.0%
Write-down of current receivables	90	506	(416)	(82.2%)
Foreign exchange losses	1,214	1,550	(336)	(21.7%)
Other operating expenses	784	827	(43)	(5.2%)
Total	**3,919**	**4,071**	**(152)**	**(3.7%)**

The caption other operating expenses, that amounts to EUR 3,919 thousand is substantially in line with the value of the previous year.

31. Amortisation, write-downs and provisons

This item includes:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Amortisation of intangible fixed assets	6,475	6,555	(80)	(1.2%)
Depreciation of tangible fixed assets	5,286	5,004	282	5.6%
Write-downs and provisions	1,921	2,317	(396)	(17.1%)
Total	**13,682**	**13,876**	**(194)**	**(1.4%)**

This caption remains substantially in line with the previous year changing from EUR 13,876 thousand in 2017 to EUR 13,682 thousand in 2017.

32. Financial income/expenses

This item include:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Interest income	142	152	(10)	(6.6%)
Foreign exchange gains	513	1,245	(732)	(58.8%)
Financial discounts	89	21	68	323.8%
Financial income	**744**	**1,418**	**(674)**	**(47.5%)**
Bank interest expenses	445	1,045	(600)	(57.4%)
Other interest expenses	277	288	(11)	(3.8%)
Foreign exchange losses	396	3,025	(2,629)	(86.9%)
Other expenses	476	818	(342)	(41.8%)
Financial expenses	**1,594**	**5,176**	**(3,582)**	**(69.2%)**
Total	**850**	**3,758**	**(2,908)**	**(77.4%)**

The decrease in financial income/expenses amounts to EUR 2,908 thousand. Such effect is substantially linked to lower foreign exchange losses and to lower financial expenses.

33. Income taxes

This item includes:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Current income taxes	12,934	9,213	3,721	40.4%
Deferred income (expenses) taxes	(1,384)	(1,632)	248	(15.2%)
Taxes related to previous years	49	(144)	193	n.a.
Total taxes	**11,599**	**7,437**	**4,162**	**56.0%**

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 2018 and 2017 is illustrated in the following table:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Profit / loss before taxes	28,797	18,939
Theoretical tax rate	24.0%	24.0%
Theoretical income taxes (IRES)	**6,911**	**4,545**
Fiscal effect	211	1,891
Effect of foreign tax rates	2,567	1,667
Total income taxes excluding IRAP (current and deferred)	**9,689**	**8,103**
IRAP (current and deferred)	**1,910**	**(666)**
Total income taxes (current and deferred)	**11,599**	**7,437**

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.

34. Earnings per share

Reference earnings

The calculation of basic and dilutive earnings per share is based on the following elements:

(Values in thousands of EUR)	Full Year	Full Year
From continuing and discontinued activities	2018	2017
Earnings for determining basic earnings per share	16,726	11,940
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**16,726**	**11,940**

(Values in thousands of EUR)	Esercizio	Esercizio
From continuing activities	2018	2017
Earnings for the period	16,726	11,940
Earnings from discontinued operations	-	-
Earnings for determining basic earnings per share	**16,726**	**11,940**
Dilutive effects	-	-
Earnings for determing dilutive earnings per share	**16,726**	**11,940**

In both periods, December 2018 and December 2017, there is no evidence of dilution of consolidated net earnings.

Number of reference share

	Esercizio	Esercizio
	2018	2017
Average number of shares for determing earnings per share	**101,486**	**101,486**
Share options	-	-
Average number of shares for determing diluted earnings per	**101,486**	**101,486**

Basic earnings per share

Group net earnings attributable to holders of ordinary shares of parent company AEFFE S.p.A., amounts to EUR 16,726 thousand (December 2017: EUR 11,940 thousand).

Dilutive earnings per share

The calculation of diluted earnings per share for the period January - December 2018, matches with the calculation of basic earnings per share, as there are no tools with potential dilutive effects.

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow generated during 2018 is EUR 5,228 thousand.

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
OPENING BALANCE (A)	**22,809**	**14,521**
Cash flow (absorbed)/ generated by operating activity (B)	25,526	17,239
Cash flow (absorbed)/ generated by investing activity (C)	(7,914)	(3,834)
Cash flow (absorbed)/ generated by financing activity (D)	(12,384)	(5,117)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**5,228**	**8,288**
CLOSING BALANCE (F)=(A)+(E)	**28,037**	**22,809**

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

The cash flow generated by operating activity during 2018 amounts to EUR 25,526 thousand.

The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Profit before taxes	28,797	18,939
Amortisation / write-downs	13,682	13,876
Accrual (+)/availment (-) of long term provisions and post employment benefits	(281)	(594)
Paid income taxes	(9,845)	(12,230)
Financial income (-) and financial charges (+)	850	3,757
Change in operating assets and liabilities	(7,677)	(6,509)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**25,526**	**17,239**

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

The cash flow absorbed by investing activity during 2018 amounts to EUR 7,914 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Increase (-)/ decrease (+) in intangible fixed assets	(1,257)	(1,102)
Increase (-)/ decrease (+) in tangible fixed assets	(6,657)	(2,732)
Investments ans write-downs (-)/ Disinvestments and revaluations (+)	-	-
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(7,914)**	**(3,834)**

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

The cash flow absorbed by financing activity during 2018 amounts to EUR 12,384 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Other variations in reserves and profits carried-forward of shareholders' equity	1,820	(1,131)
Dividends paid	-	-
Proceeds (+)/ repayments (-) of financial payments	(14,398)	(2,241)
Increase (-)/ decrease (+) in long term financial receivables	1,044	2,013
Financial income (+) and financial charges (-)	(850)	(3,758)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(12,384)**	**(5,117)**

OTHER INFORMATION

38. *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.

39. *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 2018 is analysed below:

(Values in thousands of EUR)	31 December 2018	31 December 2017
A - Cash in hand	554	752
B - Other available funds	27,483	22,057
C - Securities held for trading	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*28,037*	*22,809*
E - Short term financial receivables	1,420	1,420
F - Current bank loans	(33,672)	(44,488)
G - Current portion of long-term bank borrowings	(12,934)	(10,847)
H - Current portion of loans from other financial istitutions	-	-
I - Current financial indebtedness (F) + (G) + (H)	*(46,606)*	*(55,335)*
J - Net current financial indebtedness (I) + (E) + (D)	*(17,149)*	*(31,106)*
K - Non current bank loans	(16,337)	(22,007)
L - Issued obbligations	2,302	2,592
M - Other non current loans	(72)	(72)
N - Non current financial indebtedness (K) + (L) + (M)	*(14,107)*	*(19,487)*
O - Net financial indebtedness (J) + (N)	**(31,256)**	**(50,593)**

The net financial position of the Group amounts to EUR 31,256 thousand as of 31 December 2018 compared with EUR 50,593 thousand as of 31 December 2017.

40. *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 2018	Full Year 2017	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Contract for the sale of artistic assets and design	1,000	751	Cost
Commercial	-	205	Payable
Commerciale Valconca with Aeffe S.p.a.			
Commercial	1,390	1,350	Revenue
Property rental	50	50	Cost
Cost of services	73	73	Cost
Commercial	638	735	Receivable
Ferrim with Aeffe S.p.a.			
Property rental	1,805	1,789	Cost
Aeffe USA with Ferrim USA			
Property rental	698	714	Cost
Financial income	118	123	Financial income
Commercial	439	304	Receivable
Commercial	60	-	Payable
Non current financial	1,882	1,752	Receivable
Current financial	1,000	1,000	Receivable

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 2018 and 31 December 2017.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2018	%	Balance Full Year	Value rel. party 2017	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	346,556	1,390	0.4%	312,605	1,350	0.4%
Costs of services	100,583	1,073	1.1%	91,039	824	0.9%
Costs for use of third party assets	25,391	2,553	10.1%	23,340	2,553	10.9%
Financial Income / expenses	850	118	13.8%	3,758	123	3.3%
Incidence of related party transactions on the balance sheet						
Non current financial receivables	2,302	1,882	81.8%	2,592	1,752	67.6%
Trade receivables	43,139	1,077	2.5%	42,065	1,039	2.5%
Current financial receivables	1,420	1,000	70.4%	1,420	1,000	70.4%
Trade payables	76,950	60	0.1%	68,619	205	0.3%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	25,526	(2,301)	n.a.	17,239	(1,760)	n.a.
Cash flow (absorbed) / generated by financing activities	(12,384)	(130)	1.0%	(5,117)	379	n.a.
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(31,256)	(2,431)	7.8%	(50,593)	(1,381)	2.7%

41. Atypical and/or unusual transactions

Pursuant to Consob communication DEM/6064293 dated 28th July 2006, it is confirmed that in 2018 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

42. *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.

43. *Guarantees and commitments*

As of 31 December 2018, the Group has given performance guarantees to third parties totaling EUR 12,523 thousand (EUR 9,774 thousand as of 31 December 2017).

44. *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.

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.

45. 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 2018 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	Service provider	2018 fees
Audit	RIA GRANT THORNTON	124
Audit	BDO ITALIA	56
Audit	WARD DIVECHA	8
Audit	ARI AUDIT	3
Stamp of approval of VAT declaration	RIA GRANT THORNTON	1
Stamp of approval of VAT declaration	BDO ITALIA	2
Audit non-financial statement (DNF)	BDO ITALIA	10
Assistance European Regulation 679/2016	BDO ITALIA	51
Total		**255**

ATTACHMENTS TO THE EXPLANATORY NOTES

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 2018	of which Related parties	31 December 2017	of which Related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Key money		23,556,467		26,852,574	
Trademarks		78,481,588		81,975,169	
Other intangible fixed assets		1,094,412		850,869	
Total intangible fixed assets	(1)	103,132,467		109,678,612	
Tangible fixed assets					
Lands		17,118,773		17,118,773	
Buildings		23,436,161		22,167,805	
Leasehold improvements		12,551,514		12,597,761	
Plant and machinary		3,050,863		2,863,830	
Equipment		260,569		260,126	
Other tangible fixed assets		3,880,921		4,096,002	
Total tangible fixed assets	(2)	60,298,801		59,104,297	
Other fixed assets					
Equity investments	(3)	131,558		131,558	
Long term financial receivables	(4)	2,302,096	1,882,096	2,591,605	1,751,605
Other fixed assets	(5)	2,810,046		3,564,214	
Deferred tax assets	(6)	15,073,001		14,335,779	
Total other fixed assets		20,316,701		20,623,156	
TOTAL NON-CURRENT ASSETS		**183,747,969**		**189,406,065**	
CURRENT ASSETS					
Stocks and inventories	(7)	104,261,515		97,817,891	
Trade receivables	(8)	43,138,560	1,077,496	42,064,915	1,039,292
Tax receivables	(9)	7,759,828		5,411,024	
Derivative assets	(10)	219,632		-	
Cash	(11)	28,037,213		22,808,913	
Short term financial receivables	(12)	1,420,000	1,000,000	1,420,000	1,000,000
Other receivables	(13)	34,852,460		26,914,468	
TOTAL CURRENT ASSETS		**219,689,208**		**196,437,211**	
Assets available for sale	(14)	436,885		436,885	
TOTAL ASSETS		**403,874,062**		**386,280,161**	

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 2018	of which Related parties	31 December 2017	of which Related parties
SHAREHOLDERS' EQUITY	**(15)**				
Group interest					
Share capital		25,371,407		25,371,407	
Other reserves		123,799,107		116,229,168	
Profits / (losses) carried-forward		(1,287,069)		(6,957,390)	
Net profit / (loss) for the Group		16,726,101		11,490,343	
Group interest in shareholders' equity		164,609,546		146,133,528	
Minority interest					
Minority interests in share capital and reserves		32,377,912		32,295,224	
Net profit / (loss) for the minority interests		471,935		11,716	
Minority interests in shareholders' equity		32,849,847		32,306,940	
TOTAL SHAREHOLDERS' EQUITY		**197,459,393**		**178,440,468**	
NON-CURRENT LIABILITIES					
Provisions	(16)	2,558,544		2,415,237	
Deferred tax liabilities	(6)	30,093,668		30,436,700	
Post employment benefits	(17)	5,491,570		5,916,166	
Long term financial liabilities	(18)	16,408,975		22,079,795	
Long term not financial liabilities	(19)	770,731		787,692	
TOTAL NON-CURRENT LIABILITIES		**55,323,488**		**61,635,590**	
CURRENT LIABILITIES					
Trade payables	(20)	76,949,819	59,971	68,618,776	204,906
Tax payables	(10)	6,452,612		3,611,468	
Derivative liabilities	(21)	-		997,532	
Short term financial liabilities	(22)	46,606,814		55,334,134	
Other liabilities	(23)	21,081,936		17,642,193	
TOTAL CURRENT LIABILITIES		**151,091,181**		**146,204,103**	
Liabilities available for sale		-		-	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**403,874,062**		**386,280,161**	

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 2018	of which Related parties	Full Year 2017	of which Related parties
REVENUES FROM SALES AND SERVICES	**(24)**	**346,556,367**	**1,390,484**	**312,604,739**	**1,349,985**
Other revenues and income	(25)	5,450,452		3,857,091	
TOTAL REVENUES		**352,006,819**		**316,461,830**	
Changes in inventory		4,529,177		10,243,168	
Costs of raw materials, cons. and goods for resale	(26)	(114,810,886)		(106,306,060)	
Costs of services	(27)	(100,583,191)	(1,072,936)	(91,038,590)	(823,840)
Costs for use of third parties assets	(28)	(25,391,209)	(2,552,936)	(23,340,025)	(2,552,334)
Labour costs	(29)	(68,502,867)		(65,376,702)	
Other operating expenses	(30)	(3,918,553)		(4,071,124)	
Amortisation, write-downs and provisions	(31)	(13,682,273)		(13,876,156)	
Financial Income / (expenses)	(32)	(850,198)	117,358	(3,757,528)	122,731
PROFIT / LOSS BEFORE TAXES		**28,796,819**		**18,938,813**	
Taxes	(33)	(11,598,783)		(7,436,754)	
NET PROFIT / LOSS		**17,198,036**		**11,502,059**	
(Profit) / loss attributable to minority shareholders		(471,935)		(11,716)	
NET PROFIT / LOSS FOR THE GROUP		**16,726,101**		**11,490,343**	

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 2018	of which Related parties	Full Year 2017	of which Related parties
OPENING BALANCE		**22,809**		**14,521**	
Profit before taxes		28,797	(2,118)	18,939	(1,904)
Amortisation / write-downs		13,682		13,876	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(281)		(594)	
Paid income taxes		(9,845)		(12,230)	
Financial income (-) and financial charges (+)		850		3,757	
Change in operating assets and liabilities		(7,677)	(183)	(6,509)	144
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(35)**	**25,526**		**17,239**	
Increase (-)/ decrease (+) in intangible fixed assets		(1,257)		(1,102)	
Increase (-)/ decrease (+) in tangible fixed assets		(6,657)	-	(2,732)	-
Investments and write-downs (-)/ Disinvestments and revaluations (+)		-		-	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(36)**	**(7,914)**		**(3,834)**	
Other variations in reserves and profits carried-forward of shareholders' equity		1,820		(1,131)	
Dividends paid		-		-	
Proceeds (+)/ repayments (-) of financial payments		(14,398)		(2,241)	
Increase (-)/ decrease (+) in long term financial receivables		1,044	(130)	2,013	379
Financial income (+) and financial charges (-)		(850)		(3,758)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(37)**	**(12,384)**		**(5,117)**	
CLOSING BALANCE		**28,037**		**22,809**	

ATTACHMENT V

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2017

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2017	STATUTORY FINANCIAL STATEMENTS 2016
BALANCE SHEET		
ASSETS		
Intangible fixed assets	86,926	127,574
Tangible fixed assets	2,052,505	2,248,163
Equity investments	65,742,281	63,397,878
Non current assets	**67,881,712**	**65,773,615**
Trade receivables	1,051,210	1,391,856
Tax receivables		-
Cash	140,134	21,753
Other receivables	3,966	3,308
Current assets	**1,195,310**	**1,416,917**
Total assets	**69,077,022**	**67,190,532**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	61,594,665	62,529,081
Other reserves	15,038	15,038
Profits / (losses) carried-forward		
Net profit / loss	(318,691)	(934,416)
Shareholders' equity	**61,391,012**	**61,709,703**
Provisions	160,625	184,132
Long term financial liabilities	-	-
Non-current liabilities	**160,625**	**184,132**
Trade payables	7,525,385	5,296,697
Current liabilities	**7,525,385**	**5,296,697**
Total shareholders' equity and liabilities	**69,077,022**	**67,190,532**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	357,701	366,894
Total revenues	**357,701**	**366,894**
Operating expenses	(386,881)	(305,149)
Costs for use of third parties assets		(215,672)
Amortisation and write-downs	(236,307)	(165,803)
Other operating expenses	(16,866)	(15,112)
Financial income / (expenses)	55,515	47,040
Financial assets adjustments	(150,722)	(717,550)
Profit / (loss) before taxes	**(377,560)**	**(1,005,352)**
Income taxes	58,869	70,936
Net profit / (loss)	**(318,691)**	**(934,416)**

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 2018.

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.

12 March 2019

President of the board of directors

Massimo Ferretti

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

Marcello Tassinari

CONSOLIDATED NON-FINANCIAL DECLARATION

1. METHODOLOGY

For the second consecutive year, the Aeffe Group (hereafter also 'Aeffe' or 'the Group') presents its Shareholders and stakeholders with a non-financial declaration indicating the most significant social and environmental results.

Aeffe is in fact within the scope of Legislative Decree 254/2016 - issued pursuant to Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 - which requires the disclosure of a non-financial communication for the year ended 31 December 2018.

Accordingly, this Declaration fulfills the commitment made by Aeffe to report on the social and environmental impact of its activities, its respect for human rights and its policies in these fields and on diversity and the fight against corruption, in compliance with the provisions of Decree 254/2016.

In order to comply with the criteria for reporting non-financial information envisaged in Decree 254/2016, the Group has adopted the GRI Standards as guidelines. This reference model, issued in 2016 by the Global Reporting Initiative, is the most widely adopted at an international level for reporting on sustainability.

Chapter 7 of this Declaration presents, in summary form, a table that correlates the information reported by the Group with the relevant GRI indicators, at the Referenced level of application.

1.1. Analysis of materiality

With a view to determining the significant topics to be discussed in this Declaration, Aeffe reached the following conclusions after analyzing Art. 3 of Decree 254/2016:

- use of energy resources, distinguishing between renewable and non-renewable ones: this topic is deemed material and is specifically reported in Chapter 4 of this Declaration;

- use of water resources: this topic is not deemed material in terms of properly presenting the nature of Aeffe, since water is only used in washrooms; despite this, the Group has developed an internal process to report on water consumption (Chapter 4);

- greenhouse gas emissions and atmospheric pollution: this topic is not deemed material in terms of properly presenting the nature of Aeffe, since the Group does not have any installations that release these types of emission in significant amounts; this notwithstanding, the Group has developed and internal process to report on direct greenhouse gas emissions (Chapter 4);

- other environmental impacts: the topic of waste is deemed to be material and is reported specifically in Chapter 4 of this Declaration;

- social aspects and personnel management: this topic is deemed to be material and is reported specifically in Chapter 3 of this Declaration;

- non-discrimination and equal opportunities: this topic is deemed to be material and is reported specifically in Chapter 2 of this Declaration;

- respect for human rights: this topic is deemed to be material and is reported specifically in Chapter 5 of this Declaration;

- fight against corruption: this topic is deemed to be material and is also reported specifically in Chapter 5 of this Declaration.

Following this preliminary analysis, which was based on the requirements set out in the Decree, the Group launched a further process to update the material topics.

The analysis of materiality was carried out with the direct contribution of the individual Companies referenced in the non-financial declaration, who received a questionnaire designed to assess the topics that are relevant for the Group and, indirectly, for its stakeholders.

The following internal functions were involved in the process of determining which topics are significant: General Management, Operational Management, Administration Finance and Control Department, Human Resources, Health & Safety Officer.

Conscious of its social role and strong local roots, the Group identified and selected its stakeholders on those basis, classifying them into the following categories: customers, vendors, shareholders and media.

The above analysis identified the following:

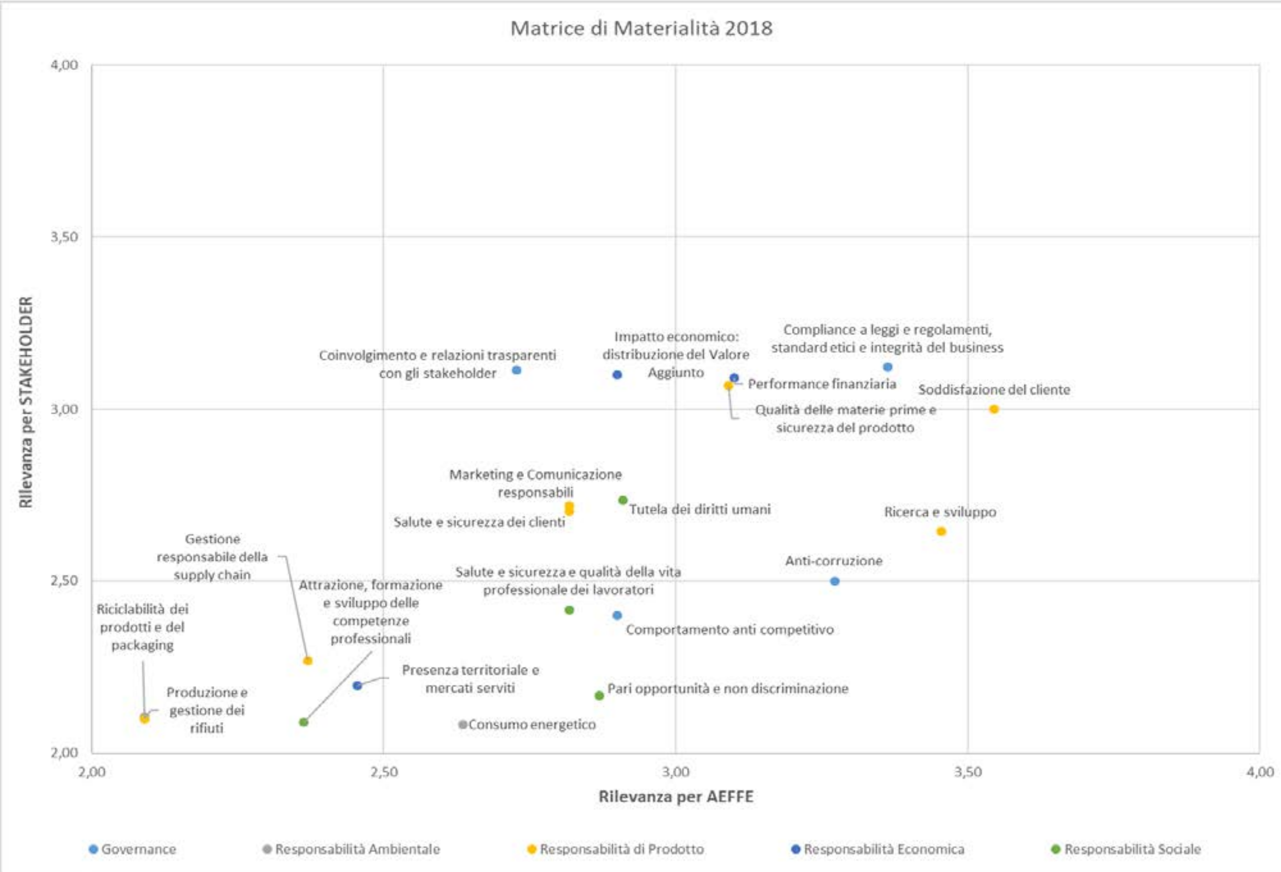
- compliance to statutory rules and regulations, ethical standards and business integrity, anti-competitive behavior, stakeholder engagement and transparent relations: these issues are deemed material and are specifically reported in Chapter 2 of this Declaration;

- responsible management of the supply chain: this topic is deemed to be material and is reported specifically in Chapter 6 of this Declaration;

- recyclability of products and packaging, quality of raw materials and product safety, customer satisfaction, customer health and safety, research & development, responsible marketing and communications: these topics are deemed material and are reported specifically in Chapter 6 of this Declaration;

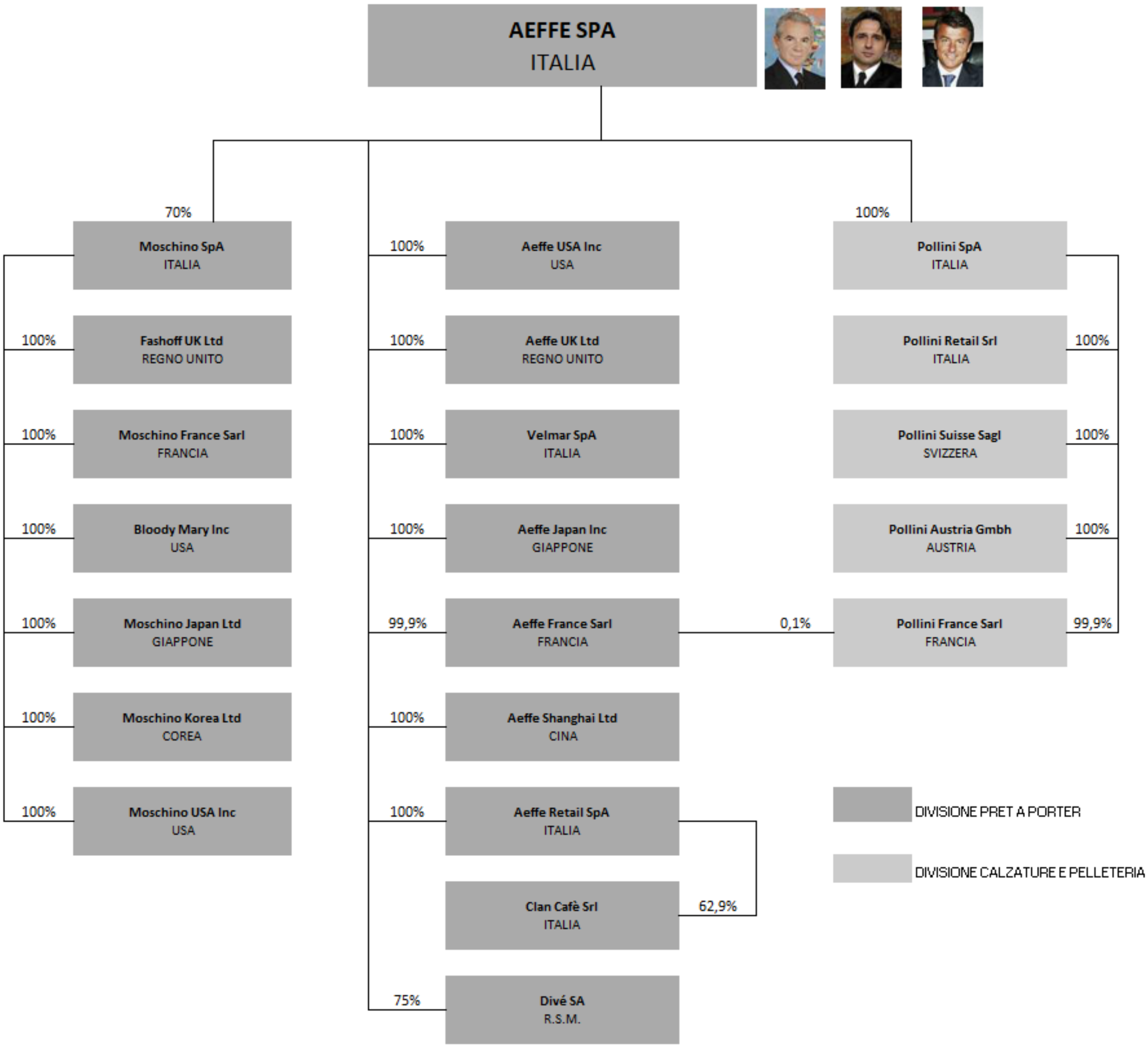
- financial performance, territorial coverage and markets served, economic impact, value added distribution: these topics are considered material and are specifically reported within Chapter 6 of this Declaration, with references made to other sections of the Financial Statements.

The following figure shows the Group's Materiality Matrix, as defined after updating the analysis carried out in 2018.



1.2. Scope of the Non-Financial Declaration

The following figure presents the corporate structure of the Group, including the controlling interests at 31st December 2018.



Aeffe has included the following Group companies within the reporting scope of this Non-Financial Declaration (NFD):

- Aeffe S.p.A.;
- Aeffe Retail S.p.A.;
- Aeffe USA Inc;
- Velmar S.p.A.;
- Pollini S.p.A.;
- Pollini Retail Srl;
- Moschino S.p.A.;
- Moschino Korea Ltd.

The following Group companies have been excluded from the reporting scope: Aeffe France Sarl; Aeffe UK Ltd; Aeffe Japan Inc; Aeffe Shanghai Ltd; Clan cafè Srl; Divè SA; Pollini Suisse Sagl; Pollini Austria Gmbh; Pollini France Sarl; Moschino France Sarl; Moschino USA Inc; Bloody Mary Inc; Moschino Japan Ltd; Fashoff UK Ltd.

These exclusions are explained by the fact that the socio-economic and environmental impacts of the above companies are not deemed to be significant, considering their incidence in terms of consolidated sales and employment. This possibility is envisaged in Art. 4 of Decree 254/2016, pursuant to which the Consolidated Declaration may exclude subsidiaries that, despite inclusion in the consolidated financial statements, are not needed in order to understand the activities of the Group, its performance, its results and the impact of its activities.

The following table indicates the reporting scope adopted for the provision of information on each material topic.

In this NFD, "Group" means the above-mentioned companies included within the reporting scope.

MATERIAL TOPICS	REPORTING SCOPE	REFERENCES	NOTES
Compliance to statutory rules and regulations, ethical standards and business integrity	Group	Chapter 2, Governance	
Anti-competitive Behavior	Group	Chapter 2, Governance	
Stakeholder Engagement and Transparent Relations	Group	Chapter 2, Governance	
Equal Opportunities and Non-Discrimination	Group	Chapter 3, Human Resources	
Attraction, Training and development of professional skills	Group	Chapter 3, Human Resources	
Health and safety and workers' quality of professional life	Aeffe S.p.A. Aeffe Retail S.p.A. Velmar S.p.A. Pollini S.p.A. Pollini Retail S.r.l. Moschino S.p.A.	Chapter 3, Human Resources	Only the Italian companies have been included in the scope of this report. Compliance with local rules is guaranteed for foreign companies.
Production and management of waste	Aeffe S.p.A. and Pollini S.p.A.	Chapter 4, Environment	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Energy consumption	Aeffe S.p.A. and Pollini S.p.A.	Chapter 4, Environment	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Water consumption	Aeffe S.p.A. and	Chapter 4, Environment	This limitation is justified by the fact that the activities of the

	Pollini S.p.A.		other companies within the reporting scope are commercial rather than production related.
Direct greenhouse gas emissions	Aeffe S.p.A. and Pollini S.p.A.	Chapter 4, Environment	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Anti-corruption	Group	Chapter 5, Human rights and the fight against corruption	
Safeguarding of human rights	Group	Chapter 5, Human rights and the fight against corruption	
Responsible management of the supply chain	Aeffe S.p.A. and Pollini S.p.A.	Chapter 6, Other Material Topics	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Recyclability of products and packaging	Aeffe S.p.A. and Pollini S.p.A.	Chapter 6, Other Material Topics	This limitation is justified by the fact that the activities of the other companies within the reporting scope are commercial rather than production related.
Quality of raw materials and product safety	Group	Chapter 6, Other Material Topics	
Customer Satisfaction	Group	Chapter 6, Other Material Topics	
Customer health and safety	Group	Chapter 6, Other Material Topics	
Research and Development	Group	Chapter 6, Other Material Topics	
Responsible Marketing and Communication	Group	Chapter 6, Other Material Topics	
Financial performance	Group	Chapter 6, Other Material Topics	
Territorial Presence and Markets Served	Group	Chapter 6, Other Material Topics	
Economic Impact: Value Added Distribution	Group	Chapter 6, Other Material Topics	

1.3. Reporting process

The contents of this Consolidated Non-Financial Declaration have been checked and approved in the following manner:

- A small working party was identified within the General Management team of the Aeffe Group, representing the following functions:

- Operational Management – Aeffe S.p.A.
- Technical Product Director – Aeffe S.p.A.
- HR Manager – Aeffe S.p.A., Velmar S.p.A., Aeffe Retail S.p.A.
- Consolidated Financial Statements Manager – Aeffe Group
- General Manager – Velmar S.p.A.
- HSO – Aeffe S.p.A., Velmar S.p.A., Moschino S.p.A., Aeffe Retail S.p.A.
- Legal Department Manager – Aeffe Group

- Each company within the reporting scope contributed the information requested (both qualitative and numeric), identifying a data owner and requiring the contents of each data collection form to be validated by the manager of the entity concerned.

- The consolidated information and data was then collected and aggregated by the managers of the above functions, each to the extent of their own responsibilities.

- Lastly, the final contents were approved by the General Management of the Group and by the Board of Directors of Aeffe S.p.A. at its meeting of 12 March 2019.

- The content of this Declaration was examined and checked by the designated auditing firm, applying the methodologies envisaged in ISAE 3000 (Limited Assurance).

This Declaration is published, together with the report on the 2018 Financial Statements of the Aeffe Group, in the Investor Relations - Financial Statements and Report section of the website http://www.aeffe.com.

2. GOVERNANCE

Aeffe S.p.A., the parent company, has adopted the traditional administration and control model, with a Board of Directors and Board of Statutory Auditors appointed at the Shareholders' Meeting; in addition, the Code of Self-Regulation promoted by Borsa Italiana S.p.A. has been used as the point of reference for defining the system of corporate governance.

Body	No. Members	Function
Board of Directors	8	The Company is managed by a Board of Directors composed by a number of Executive and Non-Executive Directors, with female directors accounting for at least a third of the total. The ordinary Shareholders' Meeting is responsible for appointing the members of the Board of Directors, from the lists of candidates presented by the shareholders, in compliance with the current legislation on gender balance. The Board of Directors exercises the widest powers of ordinary and extraordinary administration, without any exceptions, and has the right to perform all deeds deemed appropriate for the pursuit and achievement of the company's objects, with the sole exclusion of those reserved by law for the shareholders' meeting.

Board of Statutory Auditors	5	The Board of Auditors checks compliance with the law and with the company statutes and it can challenge any non-compliant deliberation before the courts. Furthermore, the Board verifies the appropriateness of the administrative and accounting management and the company's administration, reporting any relevant fact to the Shareholders Meeting. The Auditors can also report any management irregularity to the courts.
Compensation Committee	3	The role of the Compensation Committee is to make proposals to the Board, in the absence of the directors involved, concerning the remuneration of the executive directors and those with specific responsibilities, as well as - at the request of the executive directors - to establish criteria for the remuneration of the Company's senior managers, including any stock-option plans or allocations of shares, as well as any short and medium/long-term MBO bonuses. The Compensation Committee periodically checks the criteria adopted for the remuneration of executives with strategic responsibilities, monitors their application based on information provided by the executive directors and makes general recommendations to the Board on this subject.
Audit Committee	3	The Audit Committee has a consultative function and makes recommendations to the Board concerning: (a) the guidelines of the internal reporting and risk management systems, aimed at ensuring that the key risks associated with the Group and Company are adequately identified, measured, managed and monitored, also identifying the criteria under which suck risks can be compatible with the healthy and correct management of the company; (b) any decision relating to the appointment, revocation and remuneration of the Internal Audit Manager, as well as the resources afforded to her or him; (c) the appointment of the Executive Director charged with supervising the Internal Audit system; (d) evaluating the appropriateness, effectiveness and actual functioning of the Internal Audit system at least once a year; (e) describing the essential elements of the Internal Audit system in the Corporate Governance report. The Audit Committee also: (a) ensures, together with the Board of Auditors and the Director in charge of the company's accounting, that the accounting standards used to prepare the Consolidated Financial Statements are consistent and correctly applied; (b) upon request from the Chairman, provides an opinion on specific issues related to the identification of key corporate risks, or to the design, execution and management of the Internal Audit system; (c) assesses the work schedule of the Internal Audit as well as its reports; (d) evaluates the proposals tendered by companies applying to be appointed auditors, evaluates their work plan and the results set forth in the report drawn up by the auditors together with any suggestions the latter may have put forward; (e) monitors the effectiveness of the reporting (f) where necessary, asks the Internal Audit department to further check specific operational areas, communicating its findings to the Chairman of the Board of Auditors.

The Aeffe Group operates at an international level in the fashion and luxury sector, producing and distributing a wide range of products that include prêt-à-porter, footwear and leather goods, which are distributed via both the Retail channel and the Wholesale channel.

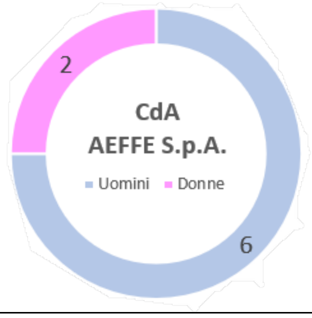
Subsidiaries are grouped into 3 geographical areas: Europa, North America and the Far East; accordingly, considering the entire distribution structure, the Aeffe Group is present in nearly 80 countries throughout the world.

In compliance with Decree 254/2016, for all issues pertaining to governance.

MATERIAL TOPICS
- Compliance to statutory rules and regulations, ethical standards and business integrity - Anti-competitive Behavior - Stakeholder Engagement and Transparent Relations
ASSOCIATED RISKS
Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Risks deriving from non-compliance with or violation of the relevant regulations resulting, for example, in the payment of monetary fines and/or involvement in court cases; - Risk of court cases linked to racism or inequality, resulting in loss of reputation; - Risk of lower sales and reduced economic performance.
IMPROVEMENT OBJECTIVES
- Extend the internal auditing processes adopted by the parent company to all companies within the reporting scope; - Consider implementing suitable voluntary management systems (ISO standards) in order to manage more completely the risks identified.
POLICY AND MANAGEMENT MODEL
Policies *The Aeffe Group is committed to guaranteeing equal opportunities for all collaborators. All decisions made by the Group are based on merit, skill and ability.* *The Group rejects all forms of direct or indirect discrimination based on age, state of health, gender, religion, race, political and cultural opinions, or personal or social status.* *Aeffe is committed to building awareness in every possible way, in order to spread as much knowledge as possible about these matters and help those persons most affected.* **Management Model** The risk management and internal control system used by Aeffe comprises a set of rules, procedures and organizational structures that ensure the healthy and proper management of the business, consistent with the established objectives of sustainable business development, via the adoption of appropriate procedures to identify, measure, manage and monitor the principal control risks. The organization, management and control model pursuant to Decree 231/2001 is part of the broader system of control already adopted to provide reasonable assurance that corporate objectives are met in compliance with current laws and regulations. See the Report on Corporate Governance, available on the website www.aeffe.com for information about the governance model adopted by the Group (including adoption of the 231 model by the Italian companies and its practical application in monitoring and control terms).

RESULTS ACHIEVED
There were no incidents linked to discrimination of any kind within the reporting scope during 2018. On matters relating to diversity within the highest positions in governance, Group leader Aeffe S.p.A. Complies with current regulations, ensuring that women account for at least a third of its Board of Directors.

Board of Directors by age band	2018 and 2017			
	under 30	30-50	over 50	Total
	-	2	6	**8**



3. HUMAN RESOURCES

In compliance with Decree 254/2016, for all issues pertaining to the management of Human Resources

MATERIAL TOPICS
- Equal Opportunities and Non-Discrimination - Attraction, Training and development of professional skills - Health and safety and workers' quality of professional life -
ASSOCIATED RISKS
Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Increase in employee turnover and loss of skilled personnel with important roles in key processes; - Strengthening of competitors; - Increase in the accident rate; - Increase in work-related stress; - Failure to achieve the established objectives due to bad planning and/or due to the wrong execution of properly planned action. Furthermore, there other risks linked to organizational issues, including: - Changes in the organizational model; - Failure to train; - Loss of know-how.
IMPROVEMENT OBJECTIVES
The primary objective of Aeffe's Human Resource management is to improve employees performance and plan Improvement action its associated organizational processes. In recognition of this, each individual should be considered in a holistic manner, not simply looking at professional experiences, but seeking to get to know the person, his or her attitude, motivation and potential.

- Short term improvement objectives and commitments:

  - maintaining an on-going, constructive dialog with employees, with the common aim of creating value for the business through a listening channel for all employees;
  - outsourcing the activities that add less value to the HR function (e.g. using agencies to hire seasonal workers, search and shortlist junior profiles);
  - saving time and money by providing compliance training for employees via a digital e-learning platform;
  - carrying out a detailed analysis on the age bands of the entire organization, in order to ascertain the current age balance within the organization and adapt the tasks of the various positions. This analysis is necessary in the short term, in order to arrive at best practices for managing our employees age, helping the organization adapt as employees get older, contributing to lengthen working life and promote equal opportunities for workers of different age bands.

- Medium and long term improvement objectives and commitments:

  - attracting valuable resources, ensuring effective training for the development of a range of skills, planning career paths that enhance human capital. All this is to be achieved with due care to employment costs;
  - introducing smart working (a pilot project for Aeffe S.p.A. will be introduced with the next three-year contract 2019-2021 in selected departments/offices). Over time, HR will be asked to enable all employees to use smart working (wherever possible), complying with company needs and deadlines, having regard for processes and the seasonal character of the business. Developing an agile work culture;
  - Improving the flow of outward communication (via social networks, corporate intranet and Group websites).

POLICY AND MANAGEMENT MODEL

Policies

People are the true capital of Aeffe: in order to preserve and enrich this capital, our people are constantly stimulated and led down a personal and professional growth path, within which the potential and creativity of each individual are realized to the full.

Aeffe Group management seeks to provide its human capital with a comfortable and safe working environment: the risks to which workers and other interested parties are exposed are identified and evaluated, determining suitable preventive actions.

The Group guarantees respect for the right of all personnel to form, organize and participate in trade unions of their choice and to engage in collective bargaining, without this having any adverse consequences or resulting in reprisals.

Management Model

The occupational health and safety systems of all companies in the Group are organized in accordance with current domestic legislation (Decree 81/08 and subsequent amendments, and equivalent rules for foreign companies).

The health and safety of employees is organized and managed internally by a specific office that covers the entire working population of all Italian companies. For all matters related to Safety at Work, workers are represented, as required by current legislation, by a Workers' Representative for Safety who reports to the employer and the Health and Safety Officer.

In order to mitigate associated risks, the Group not only complies with all current regulations and ensures a healthy work place, but also provides employees with training and incentives to ensure that staff acquire new skills, and feel listened and rewarded.

Based on an assessment of business risks carried out in accordance with Decree 81/08, there are no professional activities or duties that expose the workers of the Group to a high risk of contracting work-related diseases.

The company is currently working to create a corporate identity that encompasses all the Group's websites, ensuring that the content across all digital channels provides a consistent corporate image. A carefully crafted employer branding will attract the right people. The key aim is to improve outbound communication flows, via social networks and 'experience' websites, but also internal communication through an upgraded corporate intranet.

RESULTS ACHIEVED

The key activities carried out by the parent company in the course of the past year are reported below.

- HUMAN RESOURCES

In 2018, Aeffe honored its commitment to launch an IT system for all its human resources: currently all the employees of the Group's Italian companies are able to download their salary slips, attendance records and certificates, as well as any communication and corporate message, from a platform which they access with user name and password. Their profiles will include a personal library containing documents like policy, regulations, how to obtain authorizations and so on.

In 2019, Aeffe plans to extend the Infinity IT system to the Safety department, considering that databases ought to be shared across departments. This will end the practice of working on copies of the databases, thus bringing efficient and immediate data sharing between these two departments.

In 2018, several K-Client were identified (*Executive, Line Manager and Coordinator*) and they will have immediate access to the HR data (*hard skills e soft skills*) of the people they manage. The HR team will need to be able to train these resources on how to use the IT system, ensuring Level 1 support, in particular, on customization, data extraction and further software development, so that the entire system can be extended to the entire employee population.

In 2019, the HR Infinity portal by Zucchetti will be open to a range of other actors within the organization.

- MARKETING

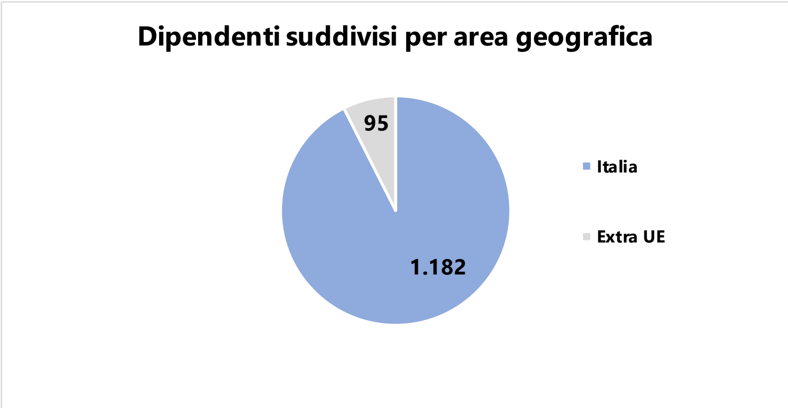
E-commerce was partially internalized. This required developing digital skills, through photo shoots, Level 2 customer care support and customer experience. Furthermore, skills and know-how were developed in the field of product shipping and returns, which were outsourced to a third party in the past.

a. Human resources

- Composition of the workforce

Total number of employees, analyzed by contract type and gender						
Contract type	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent	259	862	**1,121**	250	845	1,095
Fixed term	26	130	**156**	14	115	129
Total	**285**	**992**	**1,277**	**264**	**960**	**1,224**

Total number of employees, analyzed by job type and gender						
Job type	2018			2017		
	Men	Women	Total	Men	Women	Total
Full-time	271	830	**1,101**	252	814	**1,066**
Part-time	14	162	**176**	12	146	**158**
Total	**285**	**992**	**1,277**	**264**	**960**	**1,224**



- New employee hires and employee turnover

Hiring rates and employee turnover 2018								
	Men	**Women**	**Total**	**under 30**	**30-50**	**over 50**	**Italy**	**Non-EU**
Total employees	285	992	**1,277**	184	758	335	1,182	95
New hires	73	219	**292**	118	153	21	253	39
Total leavers	48	173	**221**	74	122	25	214	7
Hiring rate	**26%**	**22%**	**23%**	**64%**	**20%**	**6%**	**21%**	**41%**
Employee turnover	**17%**	**17%**	**17%**	**40%**	**16%**	**7%**	**18%**	**7%**

The Aeffe Group considers the attraction of new talent to be essential for the success of its brands: the Group looks increasingly to the future, giving preference to the recruitment of young people and women, with an overall hiring rate of 21%.

- Collective bargaining agreements

The policies and procedures followed by the Group for the management of working relationships are consistent with the various National Employment Contracts applied by the companies concerned. All employees of the Italian companies in the Aeffe Group are covered by National Employment Contracts, as follows:

- Clothing (Aeffe S.p.A., Velmar S.p.A.)
- Leather and shoes (Pollini S.p.A.)
- Retail (Aeffe Retail S.p.A., Pollini Retail S.r.l.)
- Textile (Moschino S.p.A.)
- Federmanager (Managers of all companies)

Additional contracts were negotiated for the production plants of Aeffe S.p.A., Pollini S.p.A. and Velmar S.p.A.

Even though local employment rules are different from those applicable in Italy, the employees of Aeffe USA Inc (USA) and Moschino Korea Ltd (South Korea) are covered by equivalent contracts within those legislations.

From 1 January 2018, all non-managerial employees of Aeffe S.p.A., Velmar S.p.A., Pollini S.p.A., Aeffe Retail S.p.A. and Pollini Retail S.r.l. enjoy the benefits of the National Contract CCNL UNISALUTE: a health insurance plan for employees and their families.

b. Employees diversity and equal opportunities*

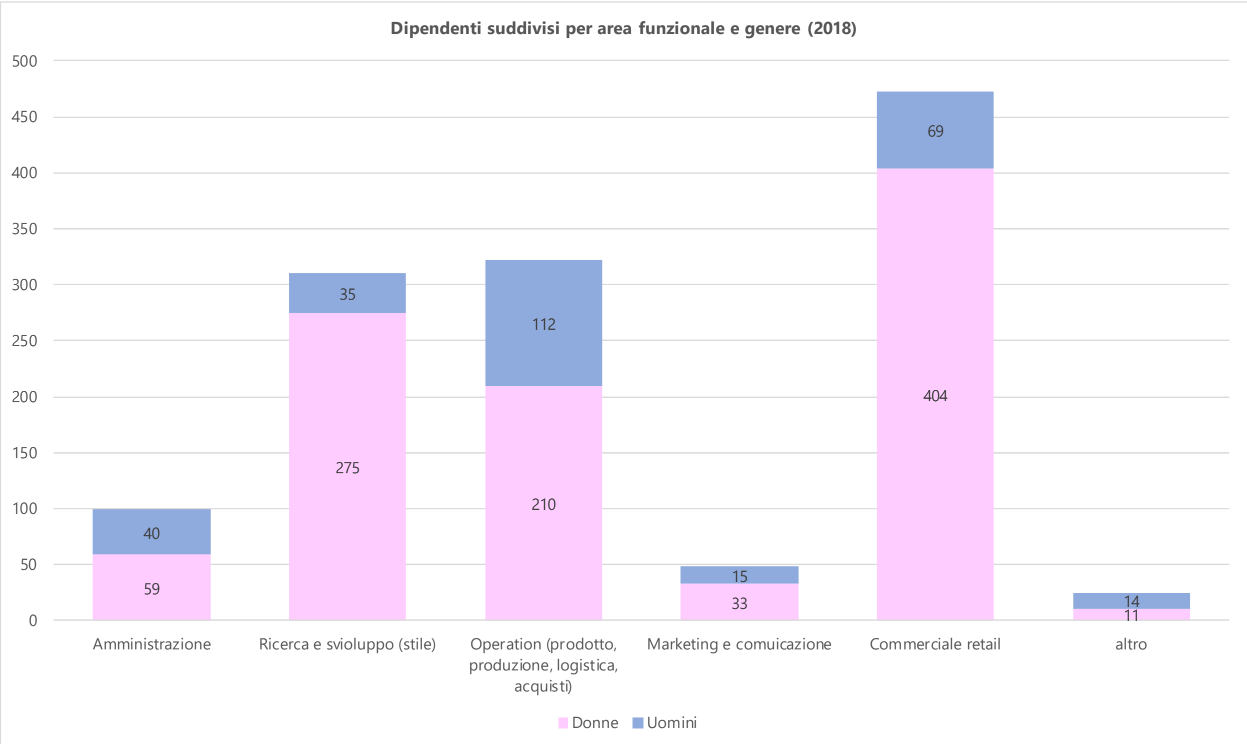
*The categories listed here not exactly match the categories in the Financial Statements, which refer to those identified in the various National Contracts; the Group is committed to supplying homogeneous data from next year.

The data below illustrates the Group's workforce, analyzed by professional category, gender and age group.

Workforce						
Category	**2018**			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	15	8	**23**	15	8	**23**
Managers	37	35	**72**	26	33	**59**

Clerical staff	173	695	**868**	172	739	**911**
Factory workers	60	254	**314**	51	180	**231**
Total	**285**	**992**	**1,277**	**264**	**960**	**1,224**
Percentage	**22.1%**	**77.9%**	**100%**	**21.6%**	**78.4%**	**100%**

Workforce, analyzed by age band								
Category	**2018**				**2017**			
	under 30	**30-50**	**over 50**	**Total**	**under 30**	**30-50**	**over 50**	**Total**
Executives	-	8	15	**23**	-	7	16	**23**
Managers	2	46	24	**72**	2	35	22	**59**
Clerical staff	152	543	173	**868**	158	571	182	**911**
Factory workers	30	161	123	**314**	11	101	119	**231**
Total	**184**	**758**	**335**	**1,277**	**171**	**714**	**339**	**1,224**
Percentage	**14.4%**	**59.4%**	**26.2%**	**100%**	**14%**	**58.3%**	**27.7%**	**100%**



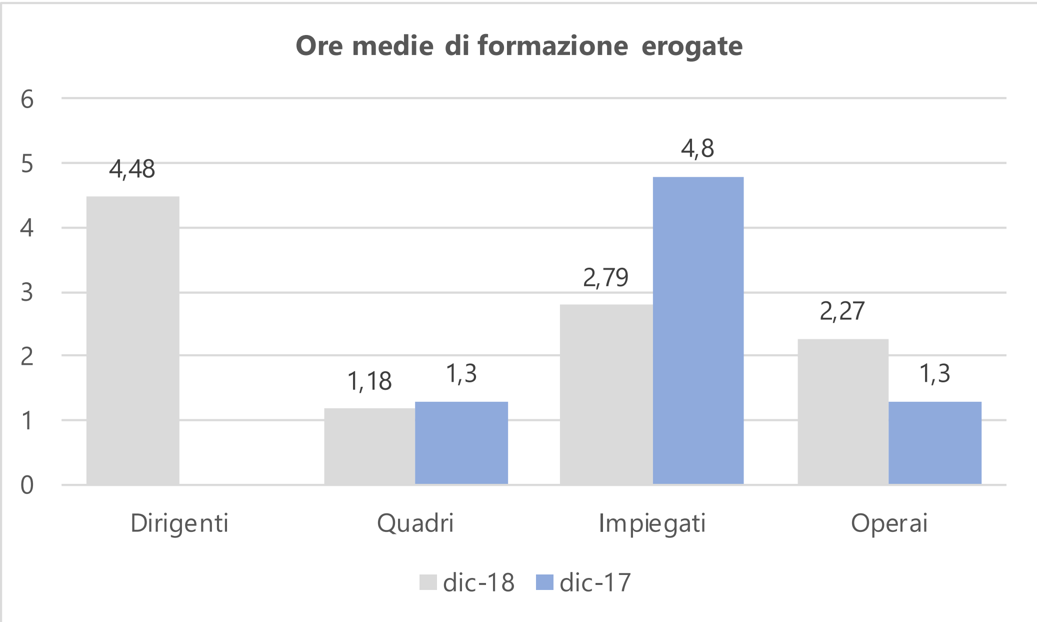
c. Training*

*The categories listed here not exactly match the categories in the Financial Statements, which refer to those identified in the various National Contracts; the Group is committed to supplying homogeneous data from next year.

The figures shown refer to the following companies: Aeffe S.p.A., Velmar S.p.A., Pollini S.p.A., Pollini Retail S.r.l. and Moschino S.p.A.

Total annual number of training hours provided to employees, analyzed by job category and gender						
Category	**2018**			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	70	24	**94**	0	0	**0**
Managers	42	74	**116**	33	42	**75**
Clerical staff	368	2,024	**2,392**	634	3,455	**4,089**
Factory workers	65	645	**710**	38	338	**376**
Total	**545**	**2,767**	**3,312**	**705**	**3,835**	**4,540**

The above tables were prepared with reference to the actual training provided, applying the relevant percentages of the working populations at the companies within the reporting scope, for the analyses by category and gender.



d. Health and safety*

*The data below refer to the following companies: Aeffe S.p.A., Aeffe Retail S.p.A., Pollini S.p.A., Pollini Retail S.r.l, Moschino S.p.A. and Velmar S.p.A.

There were 13 accidents during 2018 (involving 2 men and 11 women), 4 fewer than in 2017. Of these, 4 occurred in the workplace and 9 while traveling between home and work.

There were no instances of work-related illness, while the average per capita number of days lost (through accident or illness) by employees in 2018 was 6.96.

Health and safety indicators	2018			2017**		
	Women	Men	Total	Women	Men	Total
Accident rates (frequency index) (No. accidents/tot. Hours worked)*1000000	7.75	4.47	**6.96**	12.04	14.12	**11.43**
Rate of lost days (seriousness index) (No. Days lost due to accidents and work related illness/tot. Workable hours)*1000	0.10	0.07	**0.09**	0.27	0.08	**0.23**

** 2017 data also include Aeffe Retail S.p.A., Pollini Retail S.r.l., Moschino S.p.A. and Velmar S.p.A. These companies were not within the reporting scope for his indicator in the 2017 NFD.

4. ENVIRONMENT

In compliance with Decree 254/2016, for the material topics regarding the environment and management of natural resources.

MATERIAL TOPICS

- Production and management of waste
- Energy consumption
- Water consumption
- Direct greenhouse gas emissions

ASSOCIATED RISKS

The environmental risks generated by company activities are clearly identified by the implemented management model (pursuant to Decree 231/01) and are assessed within the established time frame in order to guarantee compliance with current applicable rules at all levels.

Aeffe management identifies and evaluates the related risk, determining suitable preventive actions.

Risks include:

- Cause adverse environmental impacts, especially from the poor management of hazardous waste;
- Incur monetary fines and penalties;
- Loss of reputation.

IMPROVEMENT OBJECTIVES

In the medium term, the objectives of the AEFFE S.p.A. Group go beyond compliance with environmental legislation, and aim to reduce the environmental impact of its activities, though actions carried out to reduce consumption and achieve energy efficiency, as envisaged by Decree 102/14.

POLICY AND MANAGEMENT MODEL

Policies

Management is sensitive to the impact that the conduct of individuals might have on the natural environment in which the Group operates, with a view to passing on a more sustainable environment to future generations.

To achieve this, Aeffe strives to adopt solutions that minimize the adverse effects that its activities might have on the environment. In particular:

- *the rational consumption of energy resources over the entire product life cycle, not least via the installation of photovoltaic panels at certain Group locations deemed to have the greatest impact;*
- *the production of waste via the careful management of scrap and product waste;*
- *the reduction of quantities used, as well as the use of raw materials derived from sustainable sources.*
-

Management Model

The management and reduction of environmental risks is guaranteed through responsible management of the company's activities - regarding sources as well as consumption - in compliance with all relevant legislation, including environmental rules.

The factories of Aeffe S.p.A. and Pollini S.p.A. produce waste, classified as special, which is treated and disposed of in accordance with current legislation. All waste produced and stored at Group locations is transferred to authorized and appropriately selected waste managers, which arrange to process it, depending on type, in accordance with the environmental legislation currently in force.

RESULTS ACHIEVED

In addition to the photovoltaic system installed at the main branch of AEFFE S.p.A., which reduces the consumption of electricity generated by its activities, the Group has decided to take further steps to reduce its environmental impact and achieve energy efficiency in its various branches, in accordance with its Ethical Code and the Management System implemented under Decree 231/01, and following the Energy Audit carried out in December 2015 under Decree 102/14. Launched in 2017 as a pilot project for POLLINI S.p.A., the scheme produced significant positive results in 2018, encouraging the company to plan a new project for the main branch of AEFFE S.p.A., which aims to reduce the impact of its energy requirements through the appropriate management of its necessary resources.

The energy efficiency project for AEFFE S.p.A. was launched in late 2018 and was still in fine-tuning stage in early 2019. It is anticipated that the company will be able to assess its benefits by the end of the current year.

After evaluating the actual results of this initiative, AEFFE S.p.A. plans to extend these efficiency-enhancing measures to all companies within the Group.

Energy consumption within the organization:

Fuel consumption	Notes	Units	Total 2018	Total 2017
POLLINI				
Natural gas	*For heating*	Scm	**192,848.00**	**201,688.00**
Vehicle fuel	*For the company fleet*			
Diesel		Liters	**63,280.91**	**57,890.00**

AEFFE				
Natural gas	*For heating*	Scm	**162,249.00**	**168,052.00**
Vehicle fuel	*For the company fleet*			
Diesel		Liters	**117,085.00**	**120,063.00**
Gasoline		Liters	**1,952.00**	**1,197.00**

Purchased energy consumption	Units	Total 2018	Total 2017
Electricity from NON renewable sources	KWh	**4,368,927.26**	**4,399,500.22**
Total own produced energy	KWh	**589,185.39**	**657,101.71**
Of which - consumed	KWh	**490,563.39**	**540,119.71**
Of which - sold	KWh	**98,622.00**	**116,982.00**

Consumption reduction:

A new measure was put in place to reduce consumption of natural gas, by remotely controlling the heating of the Pollini production plant (office building excluded). The heating temperatures and timetables were optimized in the Pollini S.p.A. production plants. In 2018, the energy reduction amounted to 6,661 Gj, saving nearly 75 metric tons of CO2 equivalent.

Water consumption:

The water consumption levels reported below have been deduced from the water bills of the plants indicated above, which are connected to the local water mains and are considered the most representative of the Group.

Water consumption	31.12.2018		31.12.2017	
	Units	Volume	Units	Volume
Water from mains (AEFFE)	**mc**	**20,399.00**	**mc**	**24,492.00**
Water from mains (POLLINI)	**mc**	**2,145.00**	**mc**	**1,884.00**
Total	**mc**	**22,542.00**	**mc**	**26,376.00**

Direct greenhouse gas emissions:

Direct emissions (as shown in the table below) were calculated using the reliable calculation and conversion tools listed below:

- http://www.snam.it/it/stoccaggio/strumenti/convertitore.html
- https://www.eecabusiness.govt.nz/tools/wood-energy-calculators/co2-emission-calculator

EMISSIONS SCOPE 1	Notes	2018		2017	
		Total GJ	Total GHG emissions	Total GJ	Total GHG emissions
POLLINI					
Natural gas	*For heating*	7,686.92	462.91	8,039.28	484.13
Vehicle fuel	*For the company fleet*				
Diesel		2,429.99	172.12	2,352.07	172.51
AEFFE					
Natural gas	*For heating*	6,392.61	384.96	6,621.25	398.76
Vehicle fuel	*For the company fleet*				
Diesel		4,757.16	336.97	4,878.16	357.79
Gasoline		79.31	5.82	48.63	3.57
TOTAL SCOPE 1 (includes CO_2 only)		21,345.99	1,362.78	21,939.39	1,416.76

Waste disposal*:

* The data only relates to Aeffe S.p.A. and Pollini S.p.A., since the other companies do not produce waste, other than normal urban waste.

No dangerous waste is produced in the Aeffe S.p.A. plant.

The waste produced and stored at the company's premises is classified as 'non dangerous waste'. This is transferred to selected and authorized disposers who process it according to type and in compliance with all applicable laws.

Disposal method	31.12.2018			
	Dangerous waste by weight (t)	Non-dangerous waste by weight (t)	Total	% of total
Recycling - POLLINI	0.0000	4.5800	4.5800	4%
Reuse, incl. rec. Energy - POLLINI	0.0435	105.550	105.594	95%
Other - POLLINI	0.5540	0.7830	1.3370	1%
TOTAL	**0.5975**	**110.913**	**111.511**	**100%**

5. HUMAN RIGHTS AND THE FIGHT AGAINST CORRUPTION

In compliance with Decree 254/2016, the NFD content on the material topics regarding human rights and the fight against corruption are set out below.

MATERIAL TOPICS
- Anti-corruption - Safeguarding of human rights
ASSOCIATED RISKS
Aeffe management identifies and evaluates the related risk, determining suitable preventive actions. Risks include: - Risks deriving from non-compliance with or violation of the relevant regulations resulting, for example, in the payment of monetary fines and/or involvement in court cases; - Risk of court cases linked to failure to safeguard human rights, resulting in loss of reputation; - Risk of lower sales and reduced economic performance
IMPROVEMENT OBJECTIVES
- Implementation and verification of respect for all human rights and constant supervision to avoid all possibility of corruption; - Inclusion of a clause in all types of contract with third parties regarding the commitment of the Aeffe Group to respect human rights and combat corruption.
POLICY AND MANAGEMENT MODEL
Policies *One of the key factors supporting the reputation of Aeffe is the ability of the Group to conduct business with integrity, transparency, legality, impartiality and prudence, in compliance with the law.* *Aeffe is committed to tackling, combating and condemning corruption in all its forms, including extortion, bribery and racketeering: pursuit of the interests of or advantages for the Group cannot, under any circumstances, justify unethical, dishonest or illegal conduct. For this reason, the fight against corruption in all its forms, active or passive, is considered to be an unforsakable commitment.* *Aeffe promotes respect for work and for workers, striving to abolish child labor and slavery and to assure all workers of the same opportunities to work and grow professionally, as well as fair economic treatment based on meritocratic criteria.* **Management Model** In order to manage the risks linked to human rights and the fight against corruption, Aeffe S.p.A. and Pollini S.p.A. adopted an organization, management and control model pursuant to Decree 231/2001 (to which reference is made for further details) that also covers the management of other topics. The other companies in the Group that fall within the reporting scope are under the direction and coordination of the parent company. All other companies (Italian and foreign) within the reporting scope operate in compliance with the guidelines and Code of Ethics of Aeffe S.p.A., including those covering the fight against corruption and the safeguarding of human rights, the internal processes for which have all been evaluated. All new hires are given a file on the 231 organizational model as well as the Code of Ethics issued by the parent company.

RESULTS ACHIEVED
No cases of corruption were identified within the reporting scope during the year. All members of the Board of Directors of the parent company and all employees have been informed about the policies and protocols in force regarding the fight against corruption.

6. OTHER MATERIAL TOPICS

In compliance with Decree 254/2016, on the material topics below

MATERIAL TOPICS
- Responsible management of the supply chain - Recyclability of products and packaging - Quality of raw materials and product safety - Customer Satisfaction - Customer health and safety - Research and Development - Responsible Marketing and Communication - Financial performance - Territorial Presence and Markets Served - Economic Impact: Value Added Distribution
ASSOCIATED RISKS
Evaluation of related risks: - Loss of image and reputation due to entrusting the process to vendors that do not comply with the Code of Ethics of Aeffe S.p.A. or with current regulations; - Contraction of economic results and failure to achieve objectives.
IMPROVEMENT OBJECTIVES
- Vendor selection based increasingly on meritocratic criteria, considering their professionalism, financial strength, code of ethics and compliance with all current regulations; - Constant monitoring and audit of the supply chain, including periodic inspections by Group personnel; - Constant updating of the framework contract that governs the supply relationship in accordance with the new international regulations.

POLICY AND MANAGEMENT MODEL

Policies

The Aeffe Group is committed to using raw materials that comply with ecological standards, striving constantly to ensure the quality of products sold and their safety.
This commitment also extends to ensuring compliance with international requirements, even by vendors, adopting a precautionary approach to current challenges and studying the environmental and social impact of products throughout their life cycles.

Management Model

The industrial processes of the Aeffe Group are managed by the Operating Companies on a Divisional basis; accordingly, R&D, procurement, production and testing are coordinated by the Divisions that, in this way, optimize and supervise relations with each individual vendor.
One of the key characteristics of the procurement of raw materials is rigorous quality control: goods are always delivered to Group companies by their vendors and checked by dedicated internal functions, before being sent to the external workshops responsible for the different phases of the production process. Purchases are made on the basis of projections that take account of the progress made by the sales campaigns, the data for which is updated every week.
Selection depends on identifying the most suitable vendors for each type of raw material, with constant monitoring of their performance in terms of meeting delivery and quality specifications.
The Aeffe Group bases its business strategy on product quality, ensuring implementation by leveraging the skill and professionalism of its human resources to satisfy the differing requirements of stakeholders.
The safety, reliability and high-level performance of the products offered are all fundamental factors, based on constant evolution and innovation, in order to assure customers of the maximum quality and satisfaction.
The Group seeks to promote its business culture, founded on quality and an ethical approach, via constant dialog with its stakeholders. This constant dialog and close collaboration with vendors and customers is fundamental for mutual development and to meet market expectations.
Styling activities are developed via the creation of collections and definition of the key aspects relating to brand image and selection of the messages to be communicated to the public.
One of the Group's key strengths is the creative independence of each fashion house: research and experimenting are an essential feature of the each stylist's mindset. These activities take place on an on-going basis in the Group, enabling a constant renewal that aims to capture and anticipate the markets latent desires and latest trends.
The creative development of each product is carried out by the stylist and the styling office, which devise each collection based on their intuition and experience, supported by the information about market trends identified by internal functions within the Group.
All products, whether garments or footwear, carry a label containing information about the composition of the fabrics used and the washing instructions to be followed by the end consumer in order to look after the product properly, as well as the “Made in” information.

RESULTS ACHIEVED

a. Responsible management of the supply chain and sustainable procurement*

* The data below relates solely to Aeffe S.p.A. and Pollini S.p.A.

Vendors analyzed by geographical area	31.12.2018		31.12.2017**	
	€	%	€	%
Total	145,961,673	**100%**	140,600,224	**100%**
Expenditure for vendors in Italy	95,481,398	**65.4%**	94,145,774	**67.0%**
Expenditure for vendors in Europe	17,348,835	**11.9%**	16,149,158	**11.5%**
Expenditure for vendors in Rest of the World	33,131,441	**22.7%**	30,305,291	**21.6%**

** 2017 data are different from those published in the previous NFD, as a new methodology was used, which is more representative compared to the information extracted from the IT systems.

New vendors	31.12.2018	31.12.2017
TOTAL NEW VENDORS	**288**	**202**
New vendors selected through **environmental** criteria	52	30
New vendors selected through **social** criteria	20	10
Percentage of new vendors selected through **environmental** criteria	18%	15%
Percentage of new vendors selected through **social** criteria	7%	5%

b. Responsible product management*

* The data relates solely to Aeffe S.p.A. and Pollini S.p.A.

- Materials

Volume of purchased materials and volume of material from recycled or certified sources			
Material	**Total volume (€)**	**Vol. materials from recycled sources (€)**	**Vol. materials from certified OEKO-TEX (€)**
Cotton	3,265,681	-	1,959,409
Wool	3,546,454	212,746.00	2,127,872
Synthetic fibers	2,622,142	-	1,048,857
Acrylic	165,794	-	66,318
Silk	2,071,307	-	1,242,784
Linen	137,072	-	82,243
Leather	5,428,771	-	483,545
Rubber	471	-	-
Metal	3,395,985	-	172,164

Plastic	844,267	-	-
Cardboard	395,520	-	-
Other (viscose, acetate, triacetate and cupro)	7,577,159	-	2,273,148
TOTAL	**29,450,623**	212,746.00	9,456,340

- Product health and safety

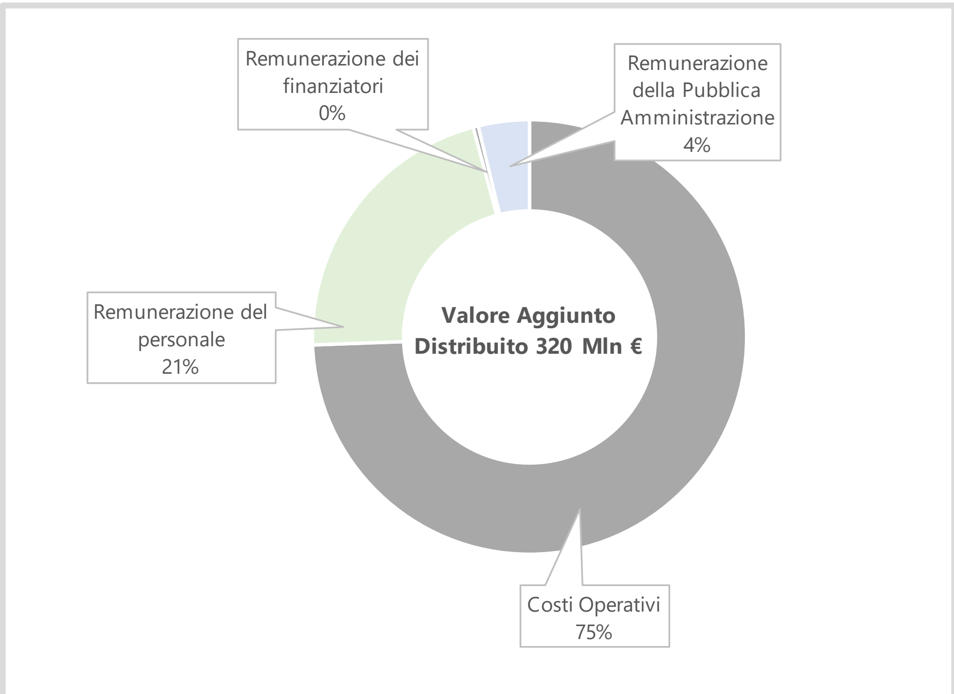
No non-conformities were found regarding the impact on health and safety of the products offered by the Aeffe Group within the referenced time period.

c. Financial performance

The Income Statement of the entire Aeffe Group is presented below, classified in terms of value added. See the information presented elsewhere in the financial statements for further details.

	Valore Economico	2018	2017
	Ricavi	346.556.367	312.604.739
	Altri proventi	4.230.653	2.627.363
	Proventi finanziari	230.481	173.018
	Valore Economico Generato	**351.017.500**	**315.405.120**
	Ripartito fra:		
1	Costi operativi	238.117.994	211.641.664
2	Remunerazione del personale	68.502.867	65.376.702
3	Remunerazione dei finanziatori	1.198.488	2.150.618
4	Remunerazione della Pubblica Amministrazione*	12.166.684	8.252.515
	Totale Valore Economico Distribuito	**319.986.033**	**287.421.499**
	Trattenuto dal Gruppo (Riserve, Ammortamenti, Svalutazioni, Differenze cambio)	**31.031.468**	**27.983.622**

*the remuneration of the Public Administration includes the change in deferred taxation



1) The amount listed under **cost of operations,** increased from €211.6 million to €238.1 million compared to the previous year, an increase of nearly 13%; as shown in the graphic below, its share of the global economic value amounts to 75%;
2) The amount listed under **employees,** in the form of wages, salaries and social security charges increased from €65.4 million to €68.5 million compared to the previous year, an increase of nearly 5%; as shown in the graphic below, its share of the global economic value amounts to 21%;
3) **capital and credit capital providers** were remunerated with €1.2 million, a decrease of nearly 44% from 2017; the share of global gross value added they received amounted to 0.4%;
4) the ***Public Administration*** received €12.2 million in tax and duties, an increase of 47% compared to the previous year; and was thus attributed 4% of global economic value.

7. GRI STANDARDS CORRELATION TABLE

GRI Standard Title	GRI Disclosure Number	GRI Disclosure Title	Page number
GRI 102: General Disclosures 2016 - Organizational Profile	**102-1**	Name of the organization	p. 11
	102-2	Activities, brands, products and services	pp. 6, 13-17, 38, 90
	102-3	Location of headquarters	p. 7
	102-4	Locations of operations	pp. 8-9
	102-5	Ownership and legal form	Legal form of the Parent Company: Joint-stock company
	102-6	Markets served	pp. 8-9
	102-7	Scale of the organization	pp. 10, 99
	102-8	Information on employees and other workers	pp. 99
	102-9	Supply chain	pp. 109-110
	102-10	Significant changes to the organization and its supply chain	There were no significant changes to the corporate structure in 2018 with respect to 2017.
	102-12	External initiatives	During 2018, the Group decided to allocate the majority of its charitable donations totaling about €40 thousand in favor of health, for the benefit in particular of children (il porto dei piccoli), oncological diseases (Fondazione IEO) and University education (Fondazione RUI). In addition, a contribution of €160

			thousand was made to MET GALA, an annual fund-raising dinner.
	102-13	Membership of associations	Confindustria
GRI 102: General Disclosures 2016 – Strategy	**102-14**	Statement from senior decision-maker	p. 2
GRI 102: General Disclosures 2016 - Ethics and integrity	**102-16**	Values, principles, standards, and norms of behavior	The Company pursues excellence in serving its customers, with a view to creating value for its shareholders and all other stakeholders, maintaining and developing relations based on the principles of integrity, transparency, legality, impartiality and prudence. These guidelines are included in the Code of Ethics, which is an integral part of the Organization, Management and Control Model pursuant to Decree 231/01, available on the website www.aeffe.com
GRI 102: General Disclosures 2016 – Governance	**102-18**	Governance structure	pp. 93-94
GRI 102: General Disclosures 2016 - Stakeholder engagement	**102-40**	List of stakeholder groups	p. 89
	102-41	Collective bargaining agreements	p. 100
	102-42	Identifying and selecting stakeholders	p. 89
GRI 102: General Disclosures 2016 - Reporting practice	**102-45**	Entities included in the consolidated financial statements	p. 90
	102-46	Defining report content and topic boundaries	pp. 89, 91-92
	102-47	List of material topics	pp. 91-92
	102-48	Restatements of information	N.a.
	102-49	Changes in reporting	N.a.
	102-50	Reporting period	01.01.2018 - 31.12.2018
	102-51	Date of most recent report	21 March 2018

	102-52	Reporting cycle	Annual
	102-54	Claims of reporting in accordance with the GRI Standards	p. 88
	102-55	GRI content index	pp. 112-116
	102-56	External assurance	pp. 118-120
GRI 103: Management approach 2016	**103-1**	Explanation of the material topic and its boundary	pp. 91-92
	103-2	Management managerial approach and its components	pp. 95, 97, 104, 107-108, 109-110
GRI 201: Economic performance 2016	**201-1**	Direct economic value generated and distributed	pp. 111-112
GRI 204: Procurement practices 2016	**204-1**	Proportion of spending on local suppliers	pp. 110 Partial indicator, in the absence of definitions it was considered preferable to provide the number of suppliers rather than the percentage.
GRI 205: Anti-corruption 2016	**205-3**	Confirmed incidents of corruption and actions taken	p. 108
GRI 301: Materials 2016	**301-1**	Materials used by weight or volume	p. 111
GRI 302: Energy consumption in 2016	**302-1**	Energy consumption within the organization	pp. 105-106
GRI 302: Reduction in energy consumption in 2016	**302-4**	Reduction in energy consumption	pp. 105-106
GRI 303: Water withdrawal by source 2016	**303-1**	Water withdrawal by source	p. 106

GRI 305: Emissions 2016	**305-1**	Direct greenhouse gas emissions (Scope 1)	p. 106
GRI 306: Effluents and waste 2016	**306-2**	Waste by type and disposal method	pp. 106-107
GRI 308: Rating environmental issues suppliers 2016	**308-1**	New suppliers that have been evaluated according to criteria environmental	p. 110
GRI 401: Employment 2016	**401-1**	New employee hires and employee turnover	p. 100
GRI 403: Occupational health and safety 2016	**403-2**	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	p. 103
	403-3	Workers with high incidence or high risk of diseases related to their occupation	p. 98
GRI 404: Training and education 2016	**404-1**	Average hours of training per year per employee	pp. 102-103
GRI 405: Diversity and equal opportunity 2016	**405-1**	Diversity of governance bodies and employees	pp. 96, 101
GRI 406: Non-discrimination 2016	**406-1**	Incidents of discrimination and corrective actions taken	p. 96
GRI 412: Human rights assessment 2016	**412-1**	Operations that have been subject to human rights reviews or impact assessments	The risks relating to human rights have not been the subject of systematic assessment, since all activities are carried out in countries in which the safeguarding of human rights is guaranteed by current local regulations.
GRI 414: Social assessment of suppliers 2016	**414-1**	New suppliers evaluated on based on social criteria	p. 110

GRI 416: Customer health and safety 2016	**416-2**	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 111
GRI 417: Marketing and labeling 2016	**417-1**	Requirements for product and service information and labeling	pp. 109-110
GRI 419: Socioeconomic compliance 2016	**419-1**	Non-compliance with laws and regulations in the social and economic area	No cases of non-compliance with laws and regulations in the social and economic area

*(in accordance with the Referenced level of application)

Tel: +39 051 27.15.54
Fax: +39 051 46.86.021
www.bdo.it

Corte Isolani, 1
40125 Bologna

Independent Auditors' Report
on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of article 5 of CONSOB Regulation n. 20267 of January 18, 2018

To the Board of Directors of
AEFFE S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree") and to article 5 of the CONSOB Regulation n. 20267 of January 18, 2018, we have been engaged to perform a limited assurance engagement on the Consolidated Non-Financial Statement of AEFFE S.p.A. and subsidiaries (the "Group") as of December 31, 2018 prepared in accordance with article 4 of the Decree, and approved by the Board of Directors on March 12, 2019 (hereinafter the "NFS").

Directors' and Board of Statutory Auditors' responsibility for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards").
The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the Directors are responsible for the identification of the content of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the Group' business and characteristics, to the extent necessary to ensure an understanding of the Group's business, performance, results and the related impacts.

Finally, the Directors are responsible to design a business management model for the organisation of the Group's activities, as well as, with reference to the topics identified and reported in the NFS, for the policies for the identification and management of the risks generated or undertaken by the Group.
The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, compliance with the provisions set out in the Decree.

Auditors' Independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control that includes directives and procedures concerning compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

BDO Italia S.p.A. - Sede Legale: Viale Abruzzi, 94 - 20131 Milano - Capitale Sociale Euro 1.000.000 i.v.
Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013
BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

Auditors' responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the requirements of the Decree and the GRI Standards. We carried out our work in accordance with the criteria established in the *International Standard on Assurance Engagements 3000 (Revised) ~ Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised")*, issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with *ISAE 3000 Revised*, and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.
The procedures performed on the NFS are based on our professional judgement and include inquiries, primarily of the company's personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence, as appropriate.

Specifically, we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the process in place for the selection process in the light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. If applicable: comparison of data and financial economic disclosures presented in the NFS with those included in the Group's consolidated financial statements.
4. Understanding of the following matters:
   - Business management model of the Group's activity, with reference to the management of the topics set out in article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics set out in article 3 of the Decree, achieved results and related key performance indicators;
   - Main risks generated and/or undertaken, in connection with the topics set out in article 3 of the Decree.

   With reference to these matters, we compared them with the disclosures presented in the NFS and carried out the procedures described in point 5, letter a).
5. Understanding of the processes underlying the origination, recording and management of significant qualitative and quantitative information disclosed in the NFS.
   Specifically, we carried out interviews and discussions with the management of AEFFE S.p.A. and with its the employees. We also performed limited documentary verifications, in order to gather information on the processes and procedures supporting the collection, aggregation, processing and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, with respect to significant information, taking into consideration the Group's business and characteristics, at parent company's and subsidiaries level:

a) with regards to qualitative information included in the NFS, and specifically with reference to the business model, policies applied and main risks, we carried out interviews and gathered supporting documentation to check for consistency with available evidence;

b) with regards to quantitative information, we carried out both analytical and limited procedures to ensure, on a sample basis, the correct aggregation of data.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of AEFFE Group as of December 31, 2018 has not been prepared, in all material respects, in accordance with the requirements of article 3 and 4 of the Decree and the Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards").

Bologna, March 26, 2019

Signed by
BDO Italia S.p.A.

Gianmarco Collico
Partner

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

STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2018

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which Aeffe S.p.A. has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

The global economy has continued to grow in recent months, but signs have emerged of a deterioration in cyclical conditions in many advanced and emerging economies. The prospects for world trade continued to weaken after the slowdown in the first part of last year. The uncertainties over economic conditions have had repercussions on the international financial markets, lowering long-term interest rates and share prices. The risk factors weighing on global economic prospects include the possible repercussions of a negative outcome to the trade negotiations between the United States and China, the worsening of financial tensions in the emerging economies and the arrangements for the United Kingdom's withdrawal from the European Union.

In the euro area, economic activity grew at a slower pace; in November industrial production fell sharply in Germany, France and Italy. Inflation decreased as a result of the deceleration in energy prices, though it was still firmly in positive territory. The ECB Governing Council confirmed its intention to maintain ample monetary stimulus for an extended period of time.

In Italy, the available cyclical indicators point to a possible decline in economic activity in the last three months of the year after the interruption in growth in the third quarter. The decline in the summer months was partly attributable to the fall in domestic demand, especially investment, and to a slight reduction in household spending. The survey carried out by the Bank of Italy in collaboration with Il Sole 24 Ore points to a slowdown in investments planned by industrial and service firms owing to the uncertainty surrounding political and economic factors and trade tensions.

The performance of Italian exports remained favourable in the second half of the year. However, the slowdown in global trade influenced firms' assessments of foreign orders.

Supply conditions remain relaxed overall; interest rates on loans increased slightly compared with May, before the emergence of tensions on the government bond market. However, persistently higher yields on government bonds and rising bank funding costs would increase the cost of credit. In the latest business surveys, firms indicated a tightening in credit access conditions.

The central projection for GDP growth is 0.6 per cent this year, 0.4 points lower than the previous projection. The downward revision was on account of three main considerations: new information pointing to a sharper cyclical slowdown in the last part of 2018, which reduced the carry-over effect on growth by 0.2 points; the cutback in firms' investment plans, as confirmed by recent surveys; and the expected slowdown in global trade. The agreement reached between the Government and the European Commission has had moderately positive effects on growth: the positive stimulus provided by the lower long-term interest rates will amply compensate the direct effects of the revision in the budgetary measures. In the two years 2020-21, the central projection for growth is 0.9 and 1.0 per cent respectively. These are the central values of a probability distribution which has a particularly large dispersion.

Inflation is expected to increase gradually, from 1.0 per cent in 2019 to 1.5 per cent on average in the next two years, following an acceleration in private sector wages and a gradual alignment in inflation expectations.

In addition to the global factors fuelling uncertainty, downside risks to growth also stem from the possibility of renewed increases in interest rates on government bonds, of a faster deterioration in private sector borrowing conditions and of a sharper drop in firms' propensity to invest. On the other hand, the growth rate might actually exceed this projected scenario if sovereign spreads diminish further.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

As for Altagamma Worldwide Luxury Market Monitor, carried out by Bain & Company, the personal luxury goods market recorded a solid performance in 2018, with a rise of 2% in Euros, and 6% at constant rates: so growth was unchanged growth in percentage real terms compared to the previous year. A positive performance was recorded in all geographical areas, except for the Middle East, which was stable; China saw a highly positive trend, driven by the repatriation of purchases due to lower Chinese tourist flows to Europe, and in the rest of Asia, sustained by both local consumption and renewed acquisitions by the Chinese in neighbouring countries. The online channels confirmed their acceleration, reaching a 10% penetration of the global market; as regards physical channels, the best performances were reported by airports, retail and outlets.

The forecasts, albeit difficult to make in the current context, remain positive: from now to 2025, an average annual market growth of 3 to 5% in real terms is forecast, driven by solid fundamentals and the attitudes of global consumers to this type of consumption. We can't rule out encountering some minor turbulence in the short-term (including a soft recession in the US, and a slight slowdown in the Chinese economy), which does not deflect from the strong market potential in the future.

The forecasts for 2019 confirm a solid 5% growth: higher growth for leather, footwear and accessories (7%) and for perfumes and cosmetics (5%). Healthy growth for Hard Luxury, lower growth for clothing (2%). Art de la Table stable. Markets: Asia is expected to be the market with the most rapid growth (10%), also due to the lowering of excise duties in China. Followed by Japan (5%) and North America (4%), the latter in the first half in particular. Good prospects also for Europe (3%).

2. TREND OF THE COMPANY MANAGEMENT

INCOME STATEMENT

	Full year 2018	% on revenues	Full year 2017	% on revenues	Change 2018/17	%
REVENUES FROM SALES AND SERVICES	**175,976,102**	**100.0%**	**157,527,014**	**100.0%**	**18,449,088**	**11.7%**
Other revenues and income	5,875,841	3.3%	5,623,268	3.6%	252,573	4.5%
TOTAL REVENUES	**181,851,943**	**103.3%**	**163,150,282**	**103.6%**	**18,701,661**	**11.5%**
Changes in inventory	(503,416)	(0.3%)	4,934,794	3.1%	(5,438,211)	(110.2%)
Costs of raw materials, cons. and goods for resale	(65,440,897)	(37.2%)	(62,094,018)	(39.4%)	(3,346,880)	5.4%
Costs of services	(51,212,321)	(29.1%)	(47,770,721)	(30.3%)	(3,441,600)	7.2%
Costs for use of third parties assets	(17,074,777)	(9.7%)	(15,700,433)	(10.0%)	(1,374,343)	8.8%
Labour costs	(29,244,784)	(16.6%)	(27,363,982)	(17.4%)	(1,880,802)	6.9%
Other operating expenses	(2,085,716)	(1.2%)	(1,750,622)	(1.1%)	(335,093)	19.1%
Total Operating Costs	(165,561,911)	(94.1%)	(149,744,982)	(95.1%)	(15,816,929)	10.6%
GROSS OPERATING MARGIN (EBITDA)	**16,290,032**	**9.3%**	**13,405,300**	**8.5%**	**2,884,732**	**21.5%**
Amortisation of intangible fixed assets	(464,657)	(0.3%)	(404,459)	(0.3%)	(60,197)	14.9%
Depreciation of tangible fixed assets	(1,553,832)	(0.9%)	(1,456,414)	(0.9%)	(97,419)	6.7%
Revaluations (write-downs)	(215,000)	(0.1%)	(800,000)	(0.5%)	585,000	(73.1%)
Total Amortisation and write-downs	(2,233,489)	(1.3%)	(2,660,873)	(1.7%)	427,384	(16.1%)
NET OPERATING PROFIT / LOSS (EBIT)	**14,056,543**	**8.0%**	**10,744,427**	**6.8%**	**3,312,116**	**30.8%**
Financial income	156,023	0.1%	638,768	0.4%	(482,745)	(75.6%)
Financial expenses	(993,085)	(0.6%)	(1,523,221)	(1.0%)	530,136	(34.8%)
Total Financial Income / (expenses)	(837,063)	(0.5%)	(884,453)	(0.6%)	47,390	(5.4%)
PROFIT / LOSS BEFORE TAXES	**13,219,481**	**7.5%**	**9,859,974**	**6.3%**	**3,359,507**	**34.1%**
Current income taxes	(4,190,910)	(2.4%)	(3,388,387)	(2.2%)	(802,522)	23.7%
Deferred income / (expenses) taxes	(247,958)	(0.1%)	345,963	0.2%	(593,922)	(171.7%)
Total Income Taxes	(4,438,868)	(2.5%)	(3,042,424)	(1.9%)	(1,396,444)	45.9%
NET PROFIT / LOSS	**8,780,613**	**5.0%**	**6,817,550**	**4.3%**	**1,963,063**	**28.8%**

Revenues from sales and services

In 2018 revenues amount to EUR 175,976 thousand compared to EUR 157,527 thousand of the year 2017, showing an increase of 11,7% (12% with constant exchange rates). Such increase has mainly interested the brand Moschino and the two owned brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

48% of revenues are earned in Italy while 52% come from foreign markets.

Labour costs

Labour costs move from EUR 27,364 thousand in 2017 to EUR 29,245 thousand in 2018, increasing by 6.9%.

Gross Operating Margin (EBITDA)

EBITDA moves from 13,405 thousand in 2017 to 16,290 thousand in 2018.

In percentage terms MOL changes from 8.5% in 2017 to 9.3% in 2018.

Net operating profit (EBIT)

Net operating profit moves from 10,744 thousand in 2017 to 14,057 thousand in 2018.

Profit / loss before taxes

Result before taxes rises from EUR 9,860 thousand in 2017 to EUR 13,219 thousand in 2018, showing a growth of EUR 3,359 thousand.

This improvement was due to both revenues growth and lower incidence of the operating costs and financial expenses, in turn closely linked to the Company'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 6,818 thousand in 2017 to EUR 8,781 thousand in 2018, improving for EUR 1,963 thousand.

BALANCE SHEET

(Values in units of EUR)	31 December 2018	31 December 2017	Change 2018/2017	%
Trade receivables	56,940,977	56,076,722	864,255	1.5%
Stock and inventories	32,801,798	33,423,398	(621,600)	(1.9%)
Trade payables	(77,254,483)	(73,760,637)	(3,493,846)	4.7%
Operating net working capital	**12,488,292**	**15,739,483**	**(3,251,191)**	**(20.7%)**
Other short term receivables	14,508,652	12,973,798	1,534,854	11.8%
Tax receivables	4,247,159	3,571,420	675,739	18.9%
Other short term liabilities	(7,851,064)	(7,682,293)	(168,770)	2.2%
Tax payables	(4,650,390)	(1,824,903)	(2,825,487)	154.8%
Net working capital	**18,742,649**	**22,777,505**	**(4,034,855)**	**(17.7%)**
Tangible fixed assets	43,463,022	42,230,144	1,232,879	2.9%
Intangible fixed assets	3,822,429	3,734,072	88,357	2.4%
Equity investments	141,182,870	139,858,853	1,324,017	0.9%
Other fixed assets	2,159,476	2,356,080	(196,604)	(8.3%)
Fixed assets	**190,627,796**	**188,179,149**	**2,448,648**	**1.3%**
Post employment benefits	(3,652,806)	(3,942,800)	289,994	(7.4%)
Provisions	(118,715)	(122,521)	3,806	(3.1%)
Long term not financial liabilities	(620,289)	(694,674)	74,386	(10.7%)
Deferred tax assets	2,577,452	2,565,163	12,289	0.5%
Deferred tax liabilities	(7,609,227)	(7,483,304)	(125,923)	1.7%
NET CAPITAL INVESTED	**199,946,860**	**201,278,517**	**(1,331,657)**	**(0.7%)**
Share capital	25,371,407	25,371,407	-	0.0%
Other reserves	115,815,296	108,939,800	6,875,496	6.3%
Profits/(Losses) carried-forward	2,347,959	2,347,959	-	0.0%
Profits/(Loss) for the period	8,780,613	6,817,550	1,963,063	28.8%
Shareholders' equity	**152,315,275**	**143,476,716**	**8,838,559**	**6.2%**
Cash	(4,560,795)	(7,612,077)	3,051,282	(40.1%)
Long term financial liabilities	18,926,237	22,667,879	(3,741,643)	(16.5%)
Short term financial liabilities	33,266,144	42,745,999	(9,479,855)	(22.2%)
NET FINANCIAL POSITION	**47,631,586**	**57,801,801**	**(10,170,215)**	**(17.6%)**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**199,946,860**	**201,278,517**	**(1,331,657)**	**(0.7%)**

NET CAPITAL INVESTED

Net capital invested decreases by 0.7% since 31 December 2017.

Net working capital

Net working capital amounts to EUR 18,743 thousand at 31 December 2018 compared with EUR 22,778 thousand at 31 December 2017.

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

- the operating net working capital decreases by 20.7%, 3,251 thousand in absolute terms. Such change is mainly due to the increase of trade payables, determined by the growth of the revenues occurred in 2018;

- the sum of other short term receivables and payables changes in all of EUR 1,704 thousand mainly due to higher deferral of sample and stylistic costs;
- the sum of tax receivables and tax payables changes in all of EUR 3,501 thousand. This change is mainly due to the increase of tax payable for IRES generated in the period by Aeffe S.p.A. and as a consequence of the fiscal consolidation and of the higher V.A.T. Group receivable.

Fixed assets

Fixed assets increase by EUR 2,449 thousand since 31 December 2017. The changes in the main items are described below:

- tangible fixed assets increase of EUR 1,233 thousand as a consequence of:
  - depreciations for EUR 1,553 thousand;
  - disposals for EUR 15 thousand in plant and machinery;
  - investments for EUR 2,802 thousand for buildings, leasehold improvements, information tools and general and specific plant and machinery;
- intangible fixed assets increase of EUR 88 thousand as a consequence of:
  - investments for EUR 553 thousand in software;
  - amortisations for EUR 465 thousand;
- equity investments increase of EUR 1,324 thousand after the subscription of 100% owned Aeffe Shanghai, a company managing the store in Shanghai who sells clothing and accessories for the Alberta Ferretti label.

NET FINANCIAL POSITION

The Company's net financial position moves from EUR 57,802 thousand as of 31 December 2017 to EUR 47,632 thousand as of 31 December 2018. The decrease of net financial position is mainly attributable to the improvement in operating cash flow.

SHAREHOLDERS' EQUITY

Total shareholders' equity increases by EUR 8,839 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 19,726 thousand, have been charged to the 2018 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 8 March 2018 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 2018:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.r.l.	24.410%
Tullio Badioli	3.000%
Other shareholders(*)	35.203%

(*) 5.5% of own shares held by Aeffe S.p.A.

6. TREASURY SHARES

As of 31 December 2018, 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 2018 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 36 and 37 of the Financial Statements at 31 December 2018.

8. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

Regarding the information relative to personnel and environment, please refer to the indicated in the consolidated non-financial statement.

9. INFORMATION PURSUANT TO ART.1, PARAGRAPH 125, THIRD PERIOD, L. 124/2017

Nature Benefit	Amount
GSE incentive rate	204,979
Credit for energy requalification	60,000
TOTAL BENEFITS	**264,979**

10. SIGNIFICANT EVENTS OF THE PERIOD

No significant events have to be reported for the period.

11. 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.

12. OUTLOOK

In the light of the good results of the 2018 financial year, the Company continues its commitment in terms of research, creativity and high quality manufacturing with the aim of strengthening the positioning of the portfolio's brands, such as Alberta Ferretti, Philosophy di Lorenzo Serafini, Moschino , Pollini, Jeremy Scott and Cédric Charlier, with particular attention to proprietary brands.

In a mature and highly competitive market such as fashion and luxury industry, the high and constant attention to quality, creativity and distinctiveness are the cornerstones of the medium-long term strategy.

In terms of geographical areas, AEFFE carefully monitors the evolution of high potential markets, in particular the Far East area, evaluating the optimization of the franchise network development plan and selective openings of monobrand directly operated stores (DOS). Furthermore, following the internalization of online store management of proprietary brands completed in the third quarter of 2018, the Company expects further synergies deriving from the multi-channel distribution approach, ie the integration of the various sales channels, physical and on-line, also with a view to customizing the customer experience.

13. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE RESULT FOR THE YEAR 2018

Shareholders,
In presenting the financial statements as of 31 December 2018 for your approval, we propose to allocate the profit of the year of EUR 8,780,613 as follows:

- legal reserve EUR 439,030
- extraordinary reserve EUR 8,341,583

12 March 2019

For the Board of Directors

Chairman Massimo Ferretti

Financial Statements

BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2018	31 December 2017	Change 2018/17
NON-CURRENT ASSETS				
Intangible fixed assets				
Trademarks		3,022,910	3,148,672	(125,762)
Other intangible fixed assets		799,518	585,400	214,118
Total intangible fixed assets	(1)	3,822,429	3,734,072	88,357
Tangible fixed assets				
Lands		16,944,871	16,944,871	-
Buildings		22,860,124	21,871,389	988,735
Leasehold improvements		1,049,585	1,206,481	(156,896)
Plant and machinary		1,797,330	1,528,038	269,292
Equipment		110,988	62,959	48,029
Other tangible fixed assets		700,124	616,406	83,718
Total tangible fixed assets	(2)	43,463,022	42,230,144	1,232,879
Other fixed assets				
Equity investments	(3)	141,182,870	139,858,853	1,324,017
Other fixed assets	(4)	2,159,476	2,356,080	(196,604)
Deferred tax assets	(5)	2,577,452	2,565,163	12,289
Total other fixed assets		145,919,797	144,780,096	1,139,701
TOTAL NON-CURRENT ASSETS		**193,205,248**	**190,744,312**	**2,460,937**
CURRENT ASSETS				
Stocks and inventories	(6)	32,801,798	33,423,398	(621,600)
Trade receivables	(7)	56,940,977	56,076,722	864,255
Tax receivables	(8)	4,247,159	3,571,420	675,739
Cash	(9)	4,560,795	7,612,077	(3,051,282)
Other receivables	(10)	14,508,652	12,973,798	1,534,854
TOTAL CURRENT ASSETS		**113,059,381**	**113,657,415**	**(598,034)**
TOTAL ASSETS		**306,264,630**	**304,401,727**	**1,862,903**

(*) 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 36 and 37.

BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2018	31 December 2017	Change 2018/17
SHAREHOLDERS' EQUITY				
Share capital		25,371,407	25,371,407	-
Share premium reserve		71,240,251	71,240,251	-
Other reserves		33,034,754	26,558,081	6,476,673
Fair Value reserve		7,742,006	7,742,006	-
IAS reserve		1,085,602	1,085,602	-
Legal reserve		3,335,678	2,994,800	340,878
Remeasurement of defined benefit plans reserve		(622,995)	(680,940)	57,945
Profits / (Losses) carried-forward		2,347,959	2,347,959	-
Net profit / loss		8,780,613	6,817,550	1,963,063
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**152,315,275**	**143,476,716**	**8,838,559**
NON-CURRENT LIABILITIES				
Provisions	(12)	118,715	122,521	(3,806)
Deferred tax liabilities	(5)	7,609,227	7,483,304	125,923
Post employment benefits	(13)	3,652,806	3,942,800	(289,994)
Long term financial liabilities	(14)	18,926,237	22,667,879	(3,741,643)
Long term not financial liabilities	(15)	620,289	694,674	(74,386)
TOTAL NON-CURRENT LIABILITIES		**30,927,274**	**34,911,178**	**(3,983,905)**
CURRENT LIABILITIES				
Trade payables	(16)	77,254,483	73,760,637	3,493,846
Tax payables	(17)	4,650,390	1,824,903	2,825,487
Short term financial liabilities	(18)	33,266,144	42,745,999	(9,479,855)
Other liabilities	(19)	7,851,064	7,682,293	168,770
TOTAL CURRENT LIABILITIES		**123,022,081**	**126,013,832**	**(2,991,751)**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**306,264,630**	**304,401,727**	**1,862,903**

(*) 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 36 and 37.

INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full year 2018	Full year 2017
REVENUES FROM SALES AND SERVICES	**(20)**	**175,976,102**	**157,527,014**
Other revenues and income	(21)	5,875,841	5,623,268
TOTAL REVENUES		**181,851,943**	**163,150,282**
Changes in inventory		(503,416)	4,934,794
Costs of raw materials, cons. and goods for resale	(22)	(65,440,897)	(62,094,018)
Costs of services	(23)	(51,212,321)	(47,770,721)
Costs for use of third parties assets	(24)	(17,074,777)	(15,700,433)
Labour costs	(25)	(29,244,784)	(27,363,982)
Other operating expenses	(26)	(2,085,716)	(1,750,622)
Amortisation and write-downs	(27)	(2,233,489)	(2,660,873)
Financial Income / (expenses)	(28)	(837,063)	(884,453)
PROFIT / LOSS BEFORE TAXES		**13,219,481**	**9,859,974**
Income Taxes	(29)	(4,438,868)	(3,042,424)
NET PROFIT / LOSS		**8,780,613**	**6,817,550**

(*) 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 36 and 37.

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2018	Full Year 2017
Profit/(loss) for the period (A)		**8,780,613**	**6,817,550**
Other comprehensive income that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plans		57,945	(26,277)
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)		**57,945**	**(26,277)**
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)		**57,945**	**(26,277)**
Total Comprehensive income / (loss) (A) + (B)		**8,838,558**	**6,791,273**

CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2018	Full Year 2017
OPENING BALANCE		**7,610**	**2,633**
Profit before taxes		13,219	9,860
Amortisation		2,233	2,661
Accrual (+)/availment (-) of long term provisions and post employment benefits		(294)	(501)
Paid income taxes		(1,365)	(7,435)
Financial income (-) and financial charges (+)		837	884
Change in operating assets and liabilities		786	2,083
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**15,416**	**7,552**
Increase (-)/ decrease (+) in intangible fixed assets		(553)	(380)
Increase (-)/ decrease (+) in tangible fixed assets		(2,787)	(816)
Investments (-)/ Disinvestments (+)		(1,324)	(450)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(4,664)**	**(1,646)**
Other variations in reserves and profits carried-forward of shareholders' equity		58	(26)
Proceeds (+)/repayments (-) of financial payments		(13,221)	(4,551)
Increase (-)/ decrease (+) in long term financial receivables		197	4,533
Financial income (+) and financial charges (-)		(837)	(884)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(13,804)**	**(929)**
CLOSING BALANCE		**4,558**	**7,610**

(*) 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 36 and 37.

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 2017	**25,371**	**71,240**	**24,930**	**7,742**	**1,086**	**2,909**	**(656)**	**2,348**	**1,715**	**136,685**
Allocation of 2016 profit			1,629			86			(1,715)	-
Total comprehensive income/(loss) of 2017							(26)			(26)
Profit/(loss) of 2017									6,818	6,818
BALANCES AT 31 December 2017	**25,371**	**71,240**	**26,558**	**7,742**	**1,086**	**2,995**	**(681)**	**2,348**	**6,818**	**143,477**

(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 2018	**25,371**	**71,240**	**26,558**	**7,742**	**1,086**	**2,995**	**(681)**	**2,348**	**6,818**	**143,477**
Allocation of 2017 profit			6,477			341			(6,818)	-
Total comprehensive income/(loss) of 2018							58			58
Profit/(loss) of 2018									8,781	8,781
BALANCES AT 31 December 2018	**25,371**	**71,240**	**33,034**	**7,742**	**1,086**	**3,336**	**(623)**	**2,348**	**8,781**	**152,315**

Report of the Board of Statutory Auditors to the Shareholders' Meeting of AEFFE S.p.A. on the 2018 financial statements

pursuant to article 153 of Italian Legislative Decree 58/98

Shareholders,

The Board of Statutory Auditors of AEFFE S.p.A. (hereafter also "Aeffe" or "the Company"), pursuant to Art. 153 of Decree No. 58/1998 (hereafter also "CFA" - Consolidated Finance Act), has prepared this report to the Shareholders Assembly called to approve the Financial Statements, regarding the work performed and any omission or censurable facts that were identified.

The present report regards the work carried out by the Board of Auditors of Aeffe S.p.A. during the year ended on 31 December 2018.

Introduction

During the year ended 31 December 2018, the Board of Statutory Auditors carried out the monitoring activities required by law, taking account of the principles of conduct established by the Italian Accounting Profession and the Co.N.So.B. provisions concerning the audit of companies and the activities of Boards of Statutory Auditors.

The activities described below are also recorded in the minutes of 12 meetings of the Board of Auditors carried out in the course of 2018.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors and the meetings of the Internal Audit Committee, through its Chairman or a delegated member.

Monitoring activity pursuant to Art. 149 of the CFA

Pursuant to Art. 149 of the CFA, the Board of Statutory Auditors monitors:

- compliance with the law and the Articles of Association;
- compliance with the principles of proper administration;
- the existence of adequate company structures and internal auditing system, and reliable accounting systems that correctly represent the results of operations;
- the implementation of governance rules and Self-Regulatory Codes by which the Company publicly states to abide;
- the adequacy of the instructions given by the Company to its subsidiaries pursuant to Art. 114.2 of the CFA.

Compliance with the law and the Articles of Association.

The Board of Statutory Auditors acquired the information needed to perform its statutory duties through attendance at the meetings of the Board of Directors and individual committees, interviews with Managers of the Company and the Group, meetings with the external auditors, analyses of the information flows acquired by the corresponding structures and Boards of the Group's companies, and through other activities.

The Board of Statutory Auditors:

- gathered regular information from the directors, at least every three months, on company activities and the most significant economic and financial transactions, as well as the Group's key strategy. The Board of Statutory Auditors can reasonably guarantee that all measures established and executed by the Company are in compliance with the law and Articles of Association, and they are not imprudent, risky, in conflict of interest or in contrast with deliberations of the Shareholders' Meeting or likely to compromise the integrity of the company's share capital. No atypical or unusual operation was identified;

- pursuant to Art. 151.1 and .2 of Decree No. 58/1998, information was exchanged with the Board of Auditors of the subsidiaries, regarding their operations during 2018;

- held regular meetings with the external auditors in order to exchange relevant information and data in the exercise of their duties, pursuant to Art.150.3 of the CFA. No significant data and information emerged from the aforesaid meetings that should be pointed out in this report;

Regarding corporate bodies and functions, the Board of Statutory Auditors reports the following:

- the board of Directors met 6 times in 2018;
- the Internal Audit Committee met 6 times in 2018;
- the Remuneration Committee met 1 times in 2018;
- the Supervisory Body pursuant to Decree 231/2001 met 4 times in 2018.

The Board of Statutory Auditors did not receive any complaint pursuant to Art. 2408 of the Civil Code, nor any denunciation;

The Board of Statutory Auditors did not release any opinions during 2018.

Supervision on the principles of proper administration and the adequacy of the organizational structure.

The Board of Statutory Auditors:

- acquired knowledge and exercised supervision over the adequacy of the organizational structure of the Company and the principles of proper administration through direct observation, information collected from the managers of the relevant company functions and meetings with the external auditors to exchange information and data; on this matter there are no observations to report, and the Company's organizational structure appears to be adequate for the company's needs and appropriate for the principles of proper administration;

- also assessed and monitored the adequacy of the administrative and accounting systems, as well as their reliability in terms of properly presenting the results of operations, by obtaining information from the relevant managers, examining company documentation and analyzing the results of the work performed by the auditing firm; it has no further observation to report on these matters.

The Board of Statutory Auditors observed that the documentation supporting items discussed at the meetings of the Board of Directors was made available to Directors and Auditors in advance of the meeting.

Based on the information acquired, the Board of Statutory Auditors finds that management decisions are based on the principle of correct information and reasonableness, and the Directors are aware of the risks and effects associated with the company's operations.

The Board of Statutory Auditors did not find any atypical or unusual operation carried out by the Company, the Group or any related party.

The Board also evaluated the adequacy of the information contained in the Report on Operations regarding atypical or unusual operations.

Supervisory activity on the actual implementation of Company governance rules.

Pursuant to Art. 149.1 c-bis of the CFA regarding the Board of Statutory Auditors' supervision over "the actual methods of implementing the corporate governance rules laid down in codes of conduct drawn up by regulated market authorities or trade associations, by which the Company publicly abides", the Board of Statutory Auditors monitored:

- the implementation of corporate governance rules and Self-Regulatory Codes by which the Company publicly states to abide. Pursuant to Art.123-bis of the CFA, the Company prepared its yearly Report on Corporate Governance and Share Ownership for 2018, approved on 12 March 2019, providing information on

(i) the corporate governance practices actually implemented by the Company (ii) the key characteristics of the existing risk management and internal control systems, also related to financial and consolidated disclosure; (iii) the functioning of the Shareholders' Meeting, its main powers, the rights of Shareholders and their exercise; (iv) the composition and functioning of the administrative and supervisory bodies and their committees, and any other information under Art. 123-bis of the CFA;

- on the adoption of the Policy for Remuneration of Directors and Managers with strategic functions, in line with the provisions of the Code of Self-Regulation for publicly quoted companies issued by Borsa Italiana S.p.A. and Report on Remunerations pursuant to Art. 123-ter of the CFA.

Furthermore, the Board of Statutory Auditors declares the following: (i) pursuant to the recommendations of the Code of Self-Regulation of Borsa Italiana S.p.A., they have checked the independence of the Directors as required by the Code above; (ii) they have found that the Board of Directors correctly applied the criteria and procedures adopted to assess the actual independence of independent Directors, and the Board of Directors based its assessment on the substance of the profiles, in a consistent manner with the decisions made when dealing with Third Parties related to Aeffe, and have no observations to report on this matter.

Monitoring the adequacy of provisions imparted by the Company to its subsidiaries.

Pursuant to Art. 114.2 of the CFA: (i) Listed Issuers impart the necessary provisions for the Subsidiaries to supply all the information required to comply with the statutory communications duties; (ii) subsidiaries transmit the required information in a timely manner.

The Board of Statutory Auditors monitored the adequacy of the provisions issued to subsidiaries, after finding that the Company is able to discharge its communication duties under the law in a timely and regular manner. The Company collects information from the Managers of the various functions and via regular meetings held to exchange relevant information with the external auditing company. There are no observations to report on this matter.

Furthermore, Directors and/or Managers of the Parent company are also appointed to the Board of Directors of the subsidiaries, thus ensuring a consistent management and appropriate flow of news, also supported by suitable accounting information.

Inter Group and Related Party Transactions.

Pursuant to Art. 2391-bis of the Civil Code and Co.N.So.B. decision No. 17221 of 12 March 2010, which established the “Regulation of Transactions with Related Parties” modified by Co.N.So.B. decision No. 19974 of 27 April 2017, on 10 November 2010, the Board of Directors of Aeffe adopted its “Procedure for Transactions with Related Parties”.

Pursuant to Art. 4 of the Regulations above, we find that the procedure adopted by the Company is (i) consistent with the principles of the Regulations and (ii) is published on the Company's website.

A number of transactions with Related Parties took place during 2018. In light of our monitoring and as far as we are aware, such transactions were carried out in compliance with the procedure and regulations adopted by Aeffe. The inter-group transaction examined were ordinary in nature, as they essentially amounted to sales and mutual administration, finance and organizational support. These relationships were regulated by standard conditions, reflecting the actual delivery of services carried out in the Company's interest. Transactions with Related Parties are reported in the Notes to the Company's Financial Statements and to the Consolidated Financial Statements, which also report on their economic effects. In our opinion, all transactions were carried out in the Company's interest.

Supervision in accordance with the Consolidated Act on Statutory Auditing.

Pursuant to the Consolidated Act on Statutory Auditing (Art. 19 of Decree No.39/2010 as amended by Decree No.135/2016) the Board of Statutory Auditors (in the Consolidated Act defined as the "Committee for Internal Control and Statutory Auditing") shall:

(i) inform the Board of Directors of the audited company of the outcome of the statutory auditing and provide it with the additional reports under Art. 11 of the European Regulations (EU Reg. No. 537/2014), with any further information;

(ii) monitor the process of financial disclosure;

(iii) supervise the effectiveness of the internal controls, auditing and risk management;

(iv) monitor the annual Financial Statements and Consolidated Financial Statements audits;

(v) verify and monitor the independence of the external Auditors or Auditing Firm, pursuant to Art. 10, 10-bis, 10-ter, 10-quater and 17 of the above mentioned Decree and Art. 6 of EU Regulations, particularly regarding the supply of additional services to the audited company, in compliance with Art.5 of the Regulations;

(vi) be responsible for the selection of the external auditors or auditing firm and the recommendation of auditors to be considered pursuant to Art. 16 of the EU Regulations.

The Board of Statutory Auditors and the Internal Audit Committee within the Board of Directors coordinated their activities to avoid overlapping work.

With reference to the provisions of the Consolidated Act on Statutory Auditing, we point out as follows.

Disclosing the outcome of the statutory audit to the Board of Directors and the additional report pursuing to Art. 11 of EU Regulations.

Pursuant to Art. 19 of Decree 39/2010, the Board of Statutory Auditors reported the outcome of the statutory audit to the Board of Directors, together with the additional report pursuant to Art.11 of EU Regulations No. 537/2014, issued by the Auditing firm on 26 March 2019.

Monitoring the process of financial disclosure.

The Board of Statutory Auditors verified the process through which financial disclosures are formed and disseminated. The Report on Corporate Governance and Share Ownership establishes the guidelines for setting up and managing the administrative and accounting procedures for Aeffe and the consolidated companies, regulating its various stages and responsibilities.

Assisted by the Director in charge of financial reporting, the Board of Statutory Auditors examined the procedures guiding the preparation of the Financial Statements and Consolidated Financial Statements, as well as other financial documentation. Furthermore, the Board of Statutory Auditors monitored the process governing the preparation of corporate and financial documentation underpinning the statements issued by the Chairman of the Board of Directors pursuant Art. 154-Bis of the Decree.

The Board of Statutory Auditors was informed on the administrative and accounting procedures used to prepare the Financial Statements and any other financial disclosure: these procedures are supervised by the Director in charge of financial reporting, who verifies their adequacy and actual application in the Financial Statements and six-monthly financial report, with the Chairman of the Board of Directors.

Based on the plan approved by the Internal Audit Committee, the Internal Audit function monitors the design and operation of the processes for corporate control.

Therefore, the Board of Statutory Auditors finds that the process of financial disclosure is adequate and there are no further comments for the Shareholders.

Supervising the effectiveness of the internal controls, auditing and risk management.

The Board of Statutory Auditors held regular meetings with the Manager in charge of internal auditing and the Internal Audit Committee, and was kept informed on all the activity carried out to check the Company's internal control system, compliance with the law, corporate procedures and processes, as well as the implementation of any relevant improvement plan. It also evaluated the Audit Plan for the 2017-2019 period, which was approved by the Internal Audit Committee and the Board of Auditors in charge, at the meeting of

8 November 2017, with constant updates on the Plan's progress and any subsequent amendment. Furthermore, the Board received the 2018 Report of the Manager in charge of Internal Audit.

The Internal Audit Committee reported to the Board every six months.

Pursuant to Decree 231/01, the Board of Statutory Auditors was kept informed by the Supervisory Body on the Organization, Management and Control Model, monitoring the design process used to update the Model, whose latest version was approved by the Company's Board of Directors on 27 July 2018. Any further update on the Model shall be monitored by the Supervisory Body, in accordance with the law.

Therefore, the Board of Statutory Auditors finds that the system of internal control, overall, is adequate and there are no further comments for the Shareholders.

Monitoring the annual Financial Statements and Consolidated Financial Statements reports.

- external audit was provided by Auditing Firm RIA GRANT THORNTON S.p.A., appointed by the Shareholders Meeting of 12 April 2017 for the years 2017-2024:

- the Board of Statutory Auditors held regular meetings with Auditing Firm RIA GRANT THORNTON S.p.A. and no relevant facts emerged from these meetings regarding auditing or any significant issue in the internal control system, in particular regarding financial disclosures;

- Today RIA GRANT THORNTON S.p.A. issued its report on the Financial Statements and Consolidated Financial Statements prepared in compliance with the International Accounting Standards/International Financial Reporting Standards adopted by the European Union, and with the provisions of Art. 9 of Decree No. 38/05, and expressed its opinion on the consistency of the Report on Operations and the Report on Corporate Governance and Share Ownership with the Financial Statements. The Report contains no particular remarks. The Report also mentions that the Directors approved the Non-Financial Disclosure.

Independence of the external Auditing Firm, particularly regarding non-auditing services.

In regard to the yearly confirmation of the Auditors' independence pursuant to Art. 17.9, letter A, of Decree 39/2010, the Board of Statutory Auditors received a written confirmation from the Auditing Firm together with the additional report issued today, pursuant to Art.11 of the EU Regulations.

The Board of Statutory Auditors monitored the independence of the Auditing Firm, acquiring evidence of any task, other than auditing, that should be assigned (or is assigned under specific lawful provisions) to the Auditing Firm.

As emerges from the Consolidated Financial Statements of the Aeffe Group, during 2018 RIA GRANT THORNTON S.p.A. carried out the following activities on behalf of the Group:

• Auditing	€	124,000
• Affixing conformity mark on VAT statement	€	1,000

The Board of Statutory Auditors finds the fees reported above to be adequate in view of the size, complexity and characteristics of the tasks at hand, while the other assignments (and fees) for services rendered do not undermine the independence of the Auditing Firm. The Board further checked that the tasks assigned to the Auditing Firm were not included in the list of forbidden services for the serving Auditors under the Regulations

The Board of Statutory Auditors did not find any appointment was given to individuals connected to the Auditing Firm.

The Board of Statutory Auditors states that auditors RIA GRANT THORNTON S.p.A. today issued the Additional Report pursuing Art. 11 of the EU Regulations, which reports no significant issues with the internal control and/or accounting systems.

Consolidated Non-Financial Disclosure (DNF).

As a Public Interest Entity (PIE) and large Group, from 2017 Aeffe is required to report Non-Financial information pursuant to Decree 254/2016 implementing Directive 2014/EU in force since 25 January 2017.

Pursuant to the rules mentioned above, the Aeffe Group prepared its NFD, which is designed to provide an understanding of the Group's activities, its development, results and the impact of its products, covering all relevant issues under Art. 3 of Decree 254/2016, in compliance with the GRI Standard guidelines issued by the Global Reporting Initiative in 2016.

The DNF encompasses topics such as: corporate governance, Company policies, the corporate Management and Organization Model, the results achieved by the Company in the areas of Human Resources, Environment, Fight against Corruption and Human Rights, and other material topics (Responsible Management of the Supply Chain; Recyclability of Products and Packaging; Quality of Raw Materials and Product Safety; Customer Satisfaction; Customer Health and Safety; Research and Development; Responsible Marketing and Communication; Financial Performance; Territorial Presence and Markets Served; Economic Impact: Value Added Distribution).

Regarding the consolidated Non-Financial Disclosure in particular, the Board of Statutory Auditors monitored compliance with the provisions of Decree 254/2016, within the scope of its statutory powers. On this matter, it is further stated that:

- pursuant to Art. 3.10, of Decree 254/2016 and Art. 5 of Co.N.So.B. Regulations No. 20267, the Company appointed BDO ITALIA S.p.A. to examine the Consolidated Non-Financial Disclosure of the Aeffe Group;
- the Board of Statutory Auditors obtained regular updates on the development of Non-Financial Disclosure;
- On 26 March 2019 BDO ITALIA S.p.A. issued its report on the DNF, stating that it is compliant with the relevant laws and regulations and with the accounting standards adopted;
- Today RIA GRANT THORNTON S.p.A. issued its report containing its opinion on the compliance of the Financial Statements and Consolidated Financial Statements, which also confirms that the preparation of the NFD had been checked.

Therefore, the Board of Statutory Auditors finds that the process of financial disclosure is adequate and there are no further comments for the Shareholders.

Financial Statements, Consolidated Financial Statements and Report on Operations.

The Financial Statements of Aeffe were approved by the Company's Board of Directors on 12 March 2019 and were prepared in compliance with the IAS/IFRS international standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, they are also compliant with the measures implementing the provisions of Art. 9 of Decree

No. 38/2005.

Several new provisions modifying the international accounting standards have come into force since 1 January 2018, which issued by IASB and approved by the European Union: IFRS 15 (Revenues from Customer Contracts), IFRS 9 (Financial Instruments), Amendment to IFRS 4 (Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts), Amendment to IFRS 2 (Classification and measurement of share-based payment transactions).

Proposals to the Shareholders regarding the Financial Statements (Art. 153.2 of Decree 58/98)

1. Financial Statements as of 31 December 2018.

Having regard also for the work of the Auditing Firm, the Board of Statutory Auditors hereby express their favorable opinion for approval of the Financial Statements as of 31 December 2018, and has no objections to the proposals forwarded by the Board of Directors regarding the distribution of profits.

2. Company's Remuneration Policy.

The Board of Statutory Auditors has no objections to the Remuneration Policy submitted to the Shareholders Meeting.

Final considerations

The Board of Statutory Auditors has no remarks regarding the information it obtained and the controls it carried out; it found no omissions, censurable facts or irregularity or any circumstance that would warrant reporting in this Report or to the Supervisory Authority.

San Giovanni in Marignano, 21 March 2018

Board of Statutory Auditors

Angelo MIGLIETTA (President)

Fernando CIOTTI (Statutory Auditor)

Carla TROTTI (Statutory Auditor)

"Free translation from the original in Italian".

Ria Grant Thornton

Independent auditors' report
in accordance with article 14 of Legislative Decree
n. 39 of January 27, 2010 and article 10 of EU Regulation n. 537/2014

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

T +39 051 6045911
F +39 051 6045999

To the shareholders of
Aeffe S.p.A.

Report on the Audit of the financial statements

Opinion

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005.

Basis for opinion

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

Key Audit Matters

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

Equity investments

The statutory financial statements include equity investments of Euro 141,2 million as of 31st December 2018.

As described in Explanatory notes, investments in subsidiary and associated companies are recorded at historical cost, and subsequently written down by any impairment recognized pursuant to IAS 36. Their original value is reinstated in subsequent years if the reasons for write-downs cease to apply.

As for the previous periods, the Directors have performed an impairment test to estimate the recoverable amount of certain equity investments in subsidiaries that are deemed material, in order to verify the consistency of the book value. For the investments that have been tested, the recoverable amount has been determined using the Discounted Cash Flows' method.

The impairment test requires complex assumptions, with particular reference to the estimates of:

- cash flow projections expected from every individual entity, keeping into account past financial results, the general macroeconomic scenario, underlying sector trends, as well as the Group budgets prepared by Management;
- appropriate discount factors, applicable to the above-mentioned cash-flows.

Relevant information regarding equity investments has been disclosed by the Company in Note 3 of the financial statements, as well as in note on the accounting principles adopted by the Company and in the paragraph describing the use of estimates.

Due to the complexity of such estimates, we considered the valuation of the equity investments a key audit matter in the context of our audit of the statutory financial statements as a whole.

Auditing procedures performed in response to key audit matter

As part of our audit of the financial statement as of 31st December 2018, we performed the followings procedures in response to key audit matters.

- We reviewed and understood the process underlying the preparation of the impairment test related to equity investments, approved by the Board of Directors of Aeffe S.p.A.

- We reviewed and understood the process underlying the preparation of the multi-year budget projections prepared by the Management.

- For the main subsidiaries, we verified the mathematical accuracy and the veracity of the data that flowed into the consolidated financial statements, as well as the correspondence of these data with those used for impairment test purposes.

- In our audit procedures we estimated recoverable values using the enterprise value (operative value, gross of financial debt) that was obtained using a multiple of EV/EBITDA on the main value of the components subjected to test. For conservative reasons, we used as reference the EBITDA achieved in 2018. The result obtained from this calculation has been adjusted for the net financial position at the date of the test. These procedures were performed with the support of Grant Thornton network specialists experienced in valuation.

Responsibilities of Directors and Board of statutory auditors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n.38 dated February 28, 2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standard on Auditng (ISA Italia), we have exercised professional judgment and maintain professional skepticism throughout the audit. We have also:

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Other information pursuant to article 10 of EU Regulation n.537/14

We were initially engaged by the shareholders of Aeffe S.p.A. on April 16, 2016 to perform the audits of the financial statements and the consolidated financial statements of each fiscal year starting from December 31, 2016 to December 31, 2024.

We declare that we did not provide prohibited non-audit service, referred to article 5, par.1, of EU Regulation 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report, prepared in accordance with the article 11 of the EU Regulation 537/2014, submitted to the Board of Statutory Auditors.

Report on compliance with other Laws and Regulations

Opinion pursuant to article 14, par.2, subpar. e), of D.Lgs. 39/10 and of article 123-bis, par.4, of D.Lgs. 58/98

The Directors of Aeffe S.p.A. are responsible for the preparation of the Director's Report and of the Report on Corporate Governance and Ownership Structure Aeffe S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required by auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the Director's Report 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, with the financial statements of Aeffe S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Director's Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Aeffe S.p.A. as at December 31, 2018 and are compliant with the applicable laws and regulations.

With reference to the assessment pursuant to art.14, par.2, subpar. e), of Legislative Decree n.39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Bologna, March 26, 2019

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):
8) Storage in Tamerici 9 street – San Giovanni in Marignano (RN);
9) Storage in Santarcangiolese 6 street – Poggio Torriana (RN);
10) Storage in Pietro Colletta 31 street – Reggio Emilia (RE);
11) Storage in Chieri 107 street – Andenzeno (TO).

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 2018. 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 Ria Grant Thornton 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 CO.N.SO.B 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 POLICIES

The accounting policies adopted in the preparation of this financial statement are the same used as those used in the preparation of the financial statement as of December 31, 2017, except for the following interpretations and amendments to the accounting principles that have been mandatory since January 1, 2018.

Accounting standards, amendments and interpretations approved by the European Union, applicable from 1 January 2018, which were applied for the first time in the yearly financial statements of the AEFFE Company closed as at 31 December 2018

- **IFRS 15 "Revenues from contracts with customers"**: issued in May 2014, introduces a new five-phase model that will apply to revenues deriving from contracts with customers and replaces all the current requirements in the IFRS for the recognition of revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). IFRS 15 provides for the recognition of revenues for an amount that reflects the consideration that the entity deems to be entitled in exchange for the transfer of goods or services to the customer. The standard is effective for annual periods beginning on or after 1 January 2018, with full or modified retrospective application.

  The Group has applied the new standard from the mandatory effective date that, in the case of the AEFFE Company, is from 1 January 2018. In 2017, the Company carried out an assessment of the impact of IFRS 15 simulating the application of the standard to contracts belonging to the main revenue flows identified at Company level; considering the nature of the business, the impacts have been estimated as non-material for the Company. It should also be noted that the Company has chosen, for the transition, the modified retrospective application method and therefore the comparative data will not be changed (year 2017).

  In applying IFRS 15, the Company has considered the following points:

  Retail and Wholesale Sales: the application of IFRS 15 to contracts with customers in which the sale of goods is the only obligation did not have an impact on the Company, especially with regard to retail flows. Revenue recognition takes place when the control of the activity has been transferred to the customer, generally at the time of delivery of the asset, similarly to what happens according to the currently applicable standards. As part of the process of identifying the various performance obligations, the right to return was identified as an element that could result in deferred recognition of revenues compared to the present accounting treatment. In particular, when a contract with a customer provides for a right of return of the goods, the Company currently accounts for the right of return (albeit of non-material amount) using an approach based on the return forecast, similar to the expected value method provided by IFRS 15.

- **IFRS 9 "Financial instruments"**: on 22 November 2016 the European Union issued Regulation no. 2016/2067 which approved IFRS 9 (Financial Instruments), which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 brings together all aspects related to the subject accounting for financial instruments: classification and measurement, loss of value and hedge accounting.
- **Amendment to IFRS 4**: "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". Amendments issued by the IASB on 12 September 2016, endorsed by the European Union on 3 November 2017 and applicable with effective date as from 1 January 2018. The amendment deals with concerns arising in the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. In addition, two options are provided for companies that underwrite insurance contracts with reference to IFRS 4: i) an option that allows companies to reclassify from the income statement to the statement of comprehensive income some revenues or costs deriving from certain financial assets; ii) a temporary exemption from the application of IFRS 9 whose main activity is the signing of contracts as described by IFRS 4. The adoption of this standard did not have any impact on the Company's financial statements;
- **Amendment to IFRS 2**: "Classification and measurement of share-based payment transactions (Amendments to IFRS 2)". Amendments published by the IASB on 20 June 2016. The document contains some clarifications regarding the recognition of the effects of vesting conditions in the presence of cash-shared share-based payments, the classification of share-based payments with net settlement characteristics and the accounting for changes. the terms and conditions of a share-based payment that modify the classification from cash-settle to equity-settled. The amendments apply as of January 1, 2018. The adoption of this standard did not have any impact on the Company's financial statements;

New accounting standards and interpretations approved by the European Union and effective from financial years after 31 January 2018

- **IFRS 16 "Leases"**: on 13 January 2016, the IASB published the new IFRS 16 - Leases. The document will replace the previous IAS 17 standard no longer suitable for the representation of leasing in the current economic context. The new accounting standard provides that all leasing contracts must be recognized in the balance sheet as assets and liabilities, whether they are "financial" or "operational".

  Leasing contracts with a duration of 12 months or less and those with low-value items are excluded from application of IFRS 16. IFRS 16 applies from financial years beginning on or after 1 January 2019. Early application is permitted for companies that also adopt IFRS 15 (Revenue from contracts with customers). The Company decided not to opt for the early application of IFRS 16 therefore the effects of this principle will be reflected starting from 01/01/2019.

  It was therefore decided to use a retrospective application, without restatement of the comparative information. The cumulative effect will be recognized as a reduction in the new opening earnings. The incremental borrowing rate will be the one on the application date of the principle excluding the initial direct costs from the valuation of the right to use the asset.

  At 12/31/2018, operating lease commitments amounted to approximately € 16,9 million.

  Assuming that the latter remain substantially in line at 12/31/2018, the effect that will be reflected at 01/01/2019 (opening balance sheet object of the transition) will concern:

  - Leasing liabilities with an estimated increase of approximately € 15.5 million (Financial liabilities)
  - Assets deriving from the right to use the asset with an estimated increase of approximately € 14.4 million (Fixed assets)

The application of the new standard will also lead to the cancellation of operating lease installments, recognized as costs for services, which will be recalculated amortization of "Right of use Assets" and financial charges linked to the amortized cost valuation of the financial debt for leasing. This will therefore lead to an increase in EBITDA, which for 12/31/2018 is expected to amount to approximately € 2.1 million.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union

Description	Effective date foreseen by the principle
IFRS 14 Regulatory Deferral Accounts	**(*)**
IFRS 17 Insurance Contracts	01/01/2021
Interpretations	01/01/2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	01/01/2018
IFRIC 23 Uncertainty over Income Tax Treatments	01/01/2019
Amendments	01/01/2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until completion of the IASB project on the *equity method*
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01/01/2018
Annual Improvements to IFRS Standards 2015-2017 Cycle	01/01/2019
Amendments to IAS 40: Transfers of Investment Property	01/01/2018
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	01/01/2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	01/01/2019

(*) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the approval process pending the new accounting principle on "rate-regulated activities”.

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 brand Alberta Ferretti, 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 the brand 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 this intangible asset, for a period equal to residual useful life. To calculate the value, the management has used the Group budget starting from the year 2019. For the remaining periods the management has used an increase in turnover with a compound annual growth rate ("CAGR") of 1.09%. As royalty rates we used the averages for the sector (10%) and as discount rate we used the average cost of capital (WACC) which is 6.39% (5.63% at 31 December 2017).

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 2018 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%
Photovoltaic systems	9%
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 2018, 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 it proceeded with the estimation of the recoverable amount of some equity investments in subsidiaries of particular importance in order to verify the consistency of the book value.

The recoverable value is defined as the higher value between the fair value of the asset, less costs for its sale, and the value in use. In order to calculate the recoverable value correctly, Aeffe Spa uses the value in use defined as the value of the future cash flows expected to originate from the asset.

For the calculation of the value in use, the Company refers to the following elements:

- Economic plan drawn up by the management (budget 2019 + projection of the following 4 years) for the determination of cash flows;
- Use of a specific discounting rate of these flows that reflects the current valuations of the time value of money and the specific risks associated with the activity carried out by the company.

The method used is that of estimating the present value of cash flows in accordance with the principle established by IAS 36 to respect the consistency and homogeneity between the book value and the recoverable value.

The management uses the budget (2019) as the basis for calculation and prepares on the basis of the latter a further 4 forecast years (Economic Accounts and Balance Sheet). In relation to the plans, a schedule of post-tax operating cash flows is then prepared which, on the basis of an estimated post-tax discounting rate (WACC of 6.39%), is subsequently discounted.

In order to assess the value in use of the investment with the discounted cash flow method, the management proceeded to estimate the value of the terminal flow using the perpetuity formula, taking account of the cash flow of the last year of the plan.

Finally, to estimate the recoverable value of the investment, the management proceeded to add to the present value of the cash flows relating to the explicit forecast period of the plan, the terminal value discounted net of the net financial position. It was basically carried out an estimation to estimate the equity value.

For the companies subjected to impairment test, Aeffe Retail S.p.A., Pollini S.p.A., Velmar S.p.A., Aeffe France S.a.r.l., Aeffe USA Inc. and Aeffe Shanghai, 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 from sales and services derive mainly from the sale of goods with the recognition of "at poin in time" revenues when the asset was transferred to the customer. This is provided for both the Wholesale distribution (shipment of goods to the customer, and for retail distribution when the asset is sold through a physical store. With regard to the export of goods, the control can be transferred in various stages depending on the type of product). Incoterm applied to the specific customer. This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

Most of the Company's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return

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).

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 2019, by the Group budget. It has been also estimated cash flow projections for the years 2020, 2021, 2022 and 2023 at an average growth flat of 5%. 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 2023. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC), equal to 6.39% (5.63% last year).

<u>Equity investment in Aeffe Retail S.p.A., Velmar S.p.A., Aeffe France S.a.r.l., Aeffe USA Inc. and Aeffe Shanghai</u>: the evaluation emerges from the cash flow analysis of each single company. The cash flows have been gathered, for the year 2019, by the Group budget. It has been also estimated cash flow projections for the years 2020, 2021, 2022 and 2023 at a growth rate basically stable compared to the one used in the budget 2019. 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 2023. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC) equal to 6.39% (5.63% 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 1.55%;
– The annual rate in increase of the severance indemnity fund foreseen is 2.625%;
– The expected Company's turn-over of employees is 6%.

- **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 1.13%;

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 2018 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 45 thousand annually (EUR 90 thousand as of 31 December 2017).

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 2018 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 2018	31 December 2017	Change Δ	%
Trade receivables	56,941	56,077	864	1.5%
Other current receivables	14,509	12,974	1,535	11.8%
Total	**71,450**	**69,051**	**2,399**	**3.5%**

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 2018, overdue but not written-down trade receivables amount to EUR 24,863 thousand (EUR 29,222 thousand in 2017). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
By 30 days	3,454	4,297	(843)	(19.6%)
31 - 60 days	3,769	3,527	242	6.9%
61 - 90 days	915	647	268	41.4%
Exceeding 90 days	16,725	20,751	(4,026)	(19.4%)
Total	**24,863**	**29,222**	**(4,359)**	**(14.9%)**

The decrease of overdue commercial receivables of EUR 4,359 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 01.01.17	**3,274**	**484**	**3,758**
Increases externally acquired		419	419
Disposals		(39)	(39)
Amortisation	(126)	(279)	(405)
Net book value as of 01.01.18	**3,149**	**585**	**3,734**
Increases externally acquired		553	553
Disposals			-
Amortisation	(126)	(339)	(465)
Net book value as of 31.12.18	**3,023**	**799**	**3,822**

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 24 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:

(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 01.01.17	**16,945**	**22,370**	**1,289**	**1,682**	**46**	**538**	**42,870**
Increases		65	199	249	45	264	822
Disposals			(6)				(6)
Depreciation		(564)	(276)	(403)	(28)	(186)	(1,457)
Net book value as of 01.01.18	**16,945**	**21,871**	**1,206**	**1,528**	**63**	**616**	**42,229**
Increases		1,556	145	716	90	295	2,802
Disposals				(15)			(15)
Depreciation		(567)	(301)	(432)	(42)	(211)	(1,553)
Net book value as of 31.12.18	**16,945**	**22,860**	**1,050**	**1,797**	**111**	**700**	**43,463**

Tangible fixed assets have changed as follows:

- Increases of EUR 2,802 thousand for new investments. These mainly comprise buildings, leasehold improvements, information tools and general and specific plant and machinery.
- Disposals of EUR 15 thousand in plant and machinery.
- Depreciation of EUR 1,553 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 Co.N.So.B, is presented in Attachment I.

Equity investments increase of EUR 1,324 thousand after the subscription of 100% owned Aeffe Shanghai, a company managing the store in Shanghai who sells clothing and accessories for the Alberta Ferretti label.

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 2018 and 2017:

(Values in thousands of EUR)	Receivables		Liabilities	
	2018	2017	2018	2017
Tangible fixed assets			(17)	(17)
Intangible fixed assets			(130)	(130)
Provisions	369	440		
Costs deducible in future periods	1,346	1,105		
Income taxable in future periods			(158)	(132)
Tax losses carried forward		158		
Other tax assets (liabilities) from transition to IAS	863	863	(7,304)	(7,204)
Total	**2,578**	**2,566**	**(7,609)**	**(7,483)**

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	(17)			(17)
Intangible fixed assets	(130)			(130)
Provisions	440	(78)	7	369
Costs deducible in future periods	1,105	248	(7)	1,346
Income taxable in future periods	(132)	(26)		(158)
Tax losses carried forward	158	(158)		-
Other tax assets (liabilities) from transition to IAS	(6,341)	(82)	(18)	(6,441)
Total	**(4,917)**	**(96)**	**(18)**	**(5,031)**

The negative variation of EUR 96 thousand in the income statement mainly refers to the deferred tax assets on the previous losses definitively used.

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 2018	31 December 2017	Change Δ	%
Raw, ancillary and consumable materials	4,463	4,584	(121)	(2.6%)
Work in progress	6,404	6,206	198	3.2%
Finished products and goods for resale	21,909	22,611	(702)	(3.1%)
Advance payments	26	22	4	18.2%
Total	**32,802**	**33,423**	**(621)**	**(1.9%)**

The decrease by EUR 621 thousand in inventories is mainly related to the sales of the previous collections' stock. Raw materials and work in progress products mainly concern the Spring/Summer 2019 collections.

Finished products mainly relate to the Autumn/Winter 2018 and to the Spring/Summer 2019 collections and to the Autumn/Winter 2019 samples collections.

Inventories are valued at the lower of cost and net realizable value.

7. *Trade receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Customers receivables	9,892	12,671	(2,779)	(21.9%)
Subsidiaries receivables	47,794	44,322	3,472	7.8%
Parent Company receivables	4	-	4	n.a.
(Allowance for doubtful receivables)	(749)	(916)	167	(18.2%)
Total	**56,941**	**56,077**	**864**	**1.5%**

Trade receivables amount to EUR 56,941 thousand at 31 December 2018, showing a growth by 1.5% compared to the value at 31 December 2017, mainly as a result of the increase in receivables from subsidiaries due to the VAT receivables and to the Group income tax receivables.

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 2017 has been used for the amount of EUR 382 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 215 thousand to allowance for doubtful receivables.

8. *Tax receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
VAT	3,063	2,722	341	12.5%
Corporate income tax (IRES)	1,104	816	288	35.3%
Local business tax (IRAP)	5	-	5	n.a.
Other tax receivables	75	33	42	125.2%
Total	**4,247**	**3,571**	**676**	**18.9%**

The variation of tax receivables is mainly due to the increase of VAT and IRES receivables.

9. *Cash*

This caption comprises:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Bank and post office deposits	4,512	7,594	(3,082)	(40.6%)
Cheques	30	-	30	n.a.
Cash in hand	18	18	-	2.2%
Total	**4,561**	**7,612**	**(3,051)**	**(40.1%)**

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 2018, cash and cash equivalents are EUR 3,051 thousand lower 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 2018	31 December 2017	Change Δ	%
Credits for prepaid costs (costs of producing collections)	11,481	10,454	1,027	9.8%
Advances for royalties and commissions	191	226	(35)	(15.5%)
Advances to suppliers	614	333	281	84.4%
Accrued income and prepaid expenses	517	597	(80)	(13.4%)
Other	1,706	1,364	342	25.1%
Total	**14,509**	**12,974**	**1,535**	**11.8%**

Credits for prepaid costs are related to the costs incurred to design and make samples for the Spring/Summer 2019 and Autumn/Winter 2019 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 2018 are described below.

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ
Share capital	25,371	25,371	-
Legal reserve	3,336	2,995	341
Share premium reserve	71,240	71,240	-
Other reserves	33,034	26,558	6,476
Fair value reserve	7,742	7,742	-
IAS reserve	1,086	1,086	-
Reamisurement of defined benefit plans reserve	(623)	(681)	58
Profits/(Losses) carried-forward	2,348	2,348	-
Net profit / (loss)	8,781	6,818	1,963
Total	**152,315**	**143,477**	**8,838**

Share capital

Share capital as of 31 December 2018 (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 2018 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 3,336 thousand at 31 December 2018. The increase of 341 thousand is determined by the 5% allocation of the net profit.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2017.

Other reserves

The caption records a positive variation as a consequence of the previous year's profit allocation for EUR 6,476 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, increases of EUR 58 thousand compared to the value at 31 December 2017.

Profits/(Losses) carried-forward

The Profits/(losses) carried-forward at 31 December 2018, amounting to EUR 2,348 thousand, is not changed compared to 31 December 2017.

Net Profit /loss

This caption highlights a net profit of EUR 8,781 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	3.336	B				
Share premium reserve:						
- including	69.502	A,B,C	69.502			
- including	1.738	B				
Other reserves:						
- inc. extraordinary reserve	32.630	A,B,C	32.630			
IAS reserve (art.6 D.Lgs. 38/2005)	1.086	B				
Fair Value reserve (art. 6 D.Lgs. 38/2005)	7.742	B				
Remeasurement of defined benefit plans reserve	(623)	B				
Merger reserve	404	B				
Profit/(losses) carried-forward	2.348	A,B,C	2.348			
Total	**143.534**		**104.480**	-	-	-

KEY: A (for share capital increases); B (to cover losses); C (for distribution to shareholders)

Restricted Reserves

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 2018 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 2017	Increases	Decreases	31 December 2018
Pensions and similar obligations	123	1	(5)	119
Total	**123**	**1**	**(5)**	**119**

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 2017	Increases	Decreases / Other changes	31 December 2018
Post employment benefits	3,943	94	(384)	3,653
Total	**3,943**	**94**	**(384)**	**3,653**

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 2018	31 December 2017	Change Δ	%
Loans from financial institutions	15,834	20,548	(4,714)	(22.9%)
Amounts due to other creditors	3,092	2,120	972	45.8%
Total	**18,926**	**22,668**	**(3,742)**	**(16.5%)**

The entry "Loans from financial institutions" relates to the portion of bank loans due beyond 12 months. It 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. 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 amounts due to other creditors mainly refer to bearing loans obtained from the American subsidiary Aeffe Usa Inc. during 2016, 2017 and 2018.

The following table details the bank loans outstanding as of 31 December 2018, including both the current and the non-current portion:

(Values in thousands of EUR)	Total amount	Current portion	Non-current portion
Bank borrowings	28,268	12,434	15,834
Total	**28,268**	**12,434**	**15,834**

There are no amounts due beyond five years.

15. Non-current not financial liabilities

Non-current not financial liabilities refers mainly 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.

CURRENT LIABILITIES

16. Trade payables

This caption is analysed below on a comparative basis:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Payables with subsidiaries	40,613	39,590	1,023	2.6%
Payables with third parties	36,642	34,171	2,471	7.2%
Total	**77,254**	**73,761**	**3,493**	**4.7%**

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

The variation of this caption is mainly due to the sales growth in 2018.

17. Tax payables

Tax payables are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Local business tax (IRAP)	90	137	(47)	(34.3%)
Corporate income tax (IRES)	3,166	326	2,840	871.2%
Amounts due to tax authority for withheld taxes	1,394	1,362	32	2.3%
Total	**4,650**	**1,825**	**2,825**	**154.8%**

The variation of Tax payables is mostly due to the increase of payable for IRES 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 2018	31 December 2017	Change Δ	%
Due to banks	33,266	42,746	(9,480)	(22.2%)
Total	**33,266**	**42,746**	**(9,480)**	**(22.2%)**

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 2018	31 December 2017	Change Δ	%
Current bank loans	20,832	33,330	(12,498)	(37.5%)
Current portion of long-term bank borrowings	12,434	9,416	3,018	32.1%
Total	**33,266**	**42,746**	**(9,480)**	**(22.2%)**

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 2018	31 December 2017	Change Δ	%
Due to total security organization	2,075	1,979	96	4.9%
Due to employees	2,556	2,445	111	4.5%
Trade debtors - credit balances	2,474	2,238	236	10.5%
Other	747	1,020	(273)	(26.8%)
Total	**7,851**	**7,682**	**169**	**2.2%**

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 2018 revenues amount to EUR 175,976 thousand compared to EUR 157,527 thousand of the year 2017, showing an increase of 11.7% (12% at constant exchange rates). Such increase has mainly interested the brand Moschino and the two owned brands Alberta Ferretti and Philosophy di Lorenzo Serafini.

48% of revenues are earned in Italy while 52% come from foreign markets.

Revenues are analysed by geographical area below:

Accounting Policy:

Revenues from sales and services derive mainly from the sale of goods with the recognition of "at point in time" revenues when the asset was transferred to the customer. With regard to the export of goods, the control can be transferred in various stages depending on the type of Incoterm applied to the specific customer. This premise leads to a limited judgment on the identification of the control passage of the asset and the consequent recognition of the revenue.

Determination of the transaction price:

Most of the Group's revenues derive from list prices that can vary depending on the type of product, brand and geographical region. Some contracts with the Group's Retail Companies provide for the transfer of control with the right of return.

Breakdown of revenues from sales and services (IFRS 15)

(Values in thousands of EUR) Full Year 2018	Prêt-à porter Division	Footwear and leather goods Division	Total
Geographical area	**149,187**	**26,790**	**175,976**
Italy	73,427	11,402	84,829
Europe (Italy excluded)	28,408	3,253	31,661
Asia and Rest of the World	40,293	11,062	51,355
America	7,059	1,072	8,131
Brand	**149,187**	**26,790**	**175,976**
Alberta Ferretti	24,173	2,546	26,719
Philosophy	17,544	1	17,545
Moschino	102,998	24,240	127,238
Pollini	17	-	17
Other	4,455	2	4,457
Distribution channel	**149,187**	**26,790**	**175,976**
Wholesale	149,187	26,790	175,976
Timing of goods and services transfer	**149,187**	**26,790**	**175,976**
POINT IN TIME (transfer of significant risks and benefits connected to the property of the asset)	149,187	26,790	175,976

21. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Rental income	3,531	3,509	22	0.6%
Other income	2,345	2,114	231	10.9%
Total	**5,876**	**5,623**	**253**	**4.5%**

The caption other income, which amounts to EUR 2,345 thousand in 2018, mainly refers to exchange gains on commercial transactions, 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 2018	Full Year 2017	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	65,441	62,094	3,347	5.4%
Total	**65,441**	**62,094**	**3,347**	**5.4%**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.

The increase in this caption is mainly due to the sales growth in 2018.

23. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Subcontracted work	22.115	20.541	1.574	7,7%
Consultancy fees	9.053	7.694	1.359	17,7%
Advertising	4.756	4.512	244	5,4%
Commission	6.568	6.587	(19)	(0,3%)
Transport	1.868	1.745	123	7,0%
Utilities	551	561	(10)	(1,9%)
Directors' and auditors' fees	2.549	2.254	295	13,1%
Insurance	196	193	3	1,6%
Bank charges	250	304	(54)	(17,8%)
Travelling expenses	988	1.006	(18)	(1,8%)
Sundry industrial services	809	916	(107)	(11,7%)
Other services	1.509	1.457	52	3,6%
Total	**51.212**	**47.771**	**3.441**	**7,2%**

Costs of services increase from EUR 47,771 thousand in the year 2017 to EUR 51,212 thousand in the year 2018, by 7.2%. 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, Alberta Ferretti and Philosophy di Lorenzo Serafini brands.

24. Costs of use of third parties assets

This caption comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Rental expenses	2,808	2,642	166	6.3%
Royalties	13,627	12,574	1,053	8.4%
Hire charges and similar	640	484	156	32.2%
Total	**17,075**	**15,700**	**1,375**	**8.8%**

The entry cost of use of third parties assets increase of EUR 1,375 thousand from EUR 15,700 thousand in 2017 to EUR 17,075 thousand in 2018. This change is mainly attributable to the higher costs for royalties as a result of the growth in the brand Moschino's sales.

25. Labour costs

This caption comprises:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017	Change Δ	%
Labour costs	29,245	27,364	1,881	6.9%
Total	**29,245**	**27,364**	**1,881**	**6.9%**

Labour costs move from EUR 27,364 thousand in 2017 to EUR 29,245 thousand in 2018 with an increase of EUR 1,881 thousand.

During 2018, the Company has mostly invested in the Research and Development, in commercial and communication/marketing departments.

The applicable national payroll agreement is the textile and clothing sector contract of July 2017.

The average number of employees as of 31 December 2018 is analysed below:

(Average number of employees by category)	31 December 2018	31 December 2017	Change Δ	%
Workers	147	136	11	8.1%
Office staff - supervisors	402	389	13	3.3%
Executive and senior managers	13	13	-	n.a.
Total	**562**	**538**	**24**	**4.5%**

26. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Taxes	320	322	(2)	(0.5%)
Gifts	407	217	190	87.7%
Other operating expenses	1,358	1,211	147	12.1%
Total	**2,086**	**1,750**	**336**	**19.2%**

The caption other operating expenses moves from EUR 1,750 thousand in 2017 to EUR 2,086 thousand in 2018.

27. Amortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Amortisation of intangible fixed assets	465	405	60	14.9%
Depreciation of tangible fixed assets	1,554	1,456	98	6.7%
Write-downs	215	800	(585)	(73.1%)
Total	**2,233**	**2,661**	**(427)**	**(16.1%)**

28. Financial income/ expenses

The caption “Financial income” comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Interest income	146	341	(195)	(57.2%)
Financial discounts	10	11	(1)	(9.1%)
Foreign exchange gains	-	287	(287)	(100.0%)
Total	**156**	**639**	**(483)**	**(75.6%)**

The caption “Financial expenses” comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2018	2017	Δ	%
Interest expenses	629	1,069	(440)	(41.2%)
Foreign exchange losses	122	-	122	n.a.
Other expenses	243	454	(211)	(46.5%)
Totale	**993**	**1,523**	**(530)**	**(34.8%)**

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 2018.

29. Income taxes

This caption comprises:

(Valori in migliaia di Euro)	Full Year 2018	Full Year 2017	Change Δ	%
Current income taxes	4,191	3,388	803	23.7%
Deferred income (expenses) taxes	248	(346)	594	n.a.
Totale imposte sul reddito	**4,439**	**3,042**	**1,397**	**45.9%**

The changes in deferred income (expenses) taxes are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2017 and 2018 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Profit before taxes	13,219	9,860
Theoretical tax rate	24.0%	24.0%
Theoretical income taxes (IRES)	**3,173**	**2,366**
Fiscal effect	519	29
Total income taxes excluding IRAP (current and deferred)	**3,692**	**2,395**
IRAP (current and deferred)	**747**	**647**
Total income taxes (current and deferred)	**4,439**	**3,042**

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 absorbed in 2018 amounts to EUR 3,052 thousand.

(Values in thousands of EUR)	Full year 2018	Full year 2017
OPENING BALANCE (A)	**7,610**	**2,633**
Cash flow (absorbed)/generated by operating activity (B)	15,416	7,552
Cash flow (absorbed)/generated by investing activity (C)	(4,664)	(1,646)
Cash flow (absorbed)/generated by financing activity (D)	(13,804)	(929)
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**(3,052)**	**4,978**
CLOSING BALANCE (F)=(A)+(E)	**4,558**	**7,610**

30. Net cash flow (absorbed)/generated by operating activity

The cash flow generated by operating activity during 2018 amounts to EUR 15,416 thousand.

The cash flow from operating activities is analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Profit before taxes	13,219	9,860
Amortisation	2,233	2,661
Accrual (+)/availment (-) of long term provisions and post employment benefits	(294)	(501)
Paid income taxes	(1,365)	(7,435)
Financial income (-) and financial charges (+)	837	884
Change in operating assets and liabilities	786	2,083
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**15,416**	**7,552**

31. Net cash flow (absorbed)/generated by investing activity

The cash flow absorbed by investing activity during 2018 amounts to EUR 4,664 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Increase (-)/ decrease (+) in intangible fixed assets	(553)	(380)
Increase (-)/ decrease (+) in tangible fixed assets	(2,787)	(816)
Investments (-)/ Disinvestments (+)	(1,324)	(450)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(4,664)**	**(1,646)**

32. Net cash flow (absorbed)/generated by financing activity

The cash flow absorbed by financing activity during 2018 amounts to EUR 13,804 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2018	Full Year 2017
Other variations in reserves and profits carried-forward of shareholders' equity	58	(26)
Proceeds (+)/repayments (-) of financial payments	(13,221)	(4,551)
Increase (-)/ decrease (+) in long term financial receivables	197	4,533
Financial income (+) and financial charges (-)	(837)	(884)
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(13,804)**	**(929)**

OTHER INFORMATION

33. 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.

34. Net financial position

As required by Co.N.So.B 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 2018 is analysed below:

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change
A - Cash in hand	48	18	30
B - Other available funds	4,512	7,594	(3,082)
C - Securities held for trading			
D - Cash and cash equivalents (A) + (B) + (C)	*4,561*	*7,612*	*(3,051)*
E - Short term financial receivables			
F - Current bank loans	(20,832)	(33,330)	12,498
G - Current portion of long-term bank borrowings	(12,434)	(9,416)	(3,018)
H - Current portion of loans from other financial istitutions			
I - Current financial indebtedness (F) + (G) + (H)	*(33,266)*	*(42,746)*	*9,480*
J - Net current financial indebtedness (I) + (E) + (D)	*(28,705)*	*(35,134)*	*6,429*
K - Non current bank loans	(18,926)	(22,668)	3,742
L - Issued obbligations			
M - Other non current loans			
N - Non current financial indebtedness (K) + (L) + (M)	*(18,926)*	*(22,668)*	*3,742*
O - Net financial indebtedness (J) + (N)	***(47,631)***	***(57,802)***	***10,171***

Short-term financial liabilities include advances from banks that mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

35. Earnings per share

Basic earnings per share:

(Values in thousands of EUR)	31 December 2018	31 December 2017
Earnings for the period	8,781	6,818
Medium number of shares for the period	101,486	101,486
Basic earnings per share	**0.0865**	**0.0672**

36. 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 2018 and 2017 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 2018	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	23,200	659	107	3,341	13,092	7	(60)
Pollini Group	642	2,606	20,862	31	6	4	125
Aeffe Retail Group	18,256	810	75	175			
Velmar S.p.A.	92	345	101	54			(1)
Aeffe Usa Inc.	5,005	3		353		3	(86)
Aeffe UK L.t.d.	1,019	3	60	250		10	
Aeffe France S.a.r.l.	729	3	130	858		12	9
Aeffe Shanghai	589			370		7	
Total Group companies	**49,533**	**4,427**	**21,335**	**5,433**	**13,098**	**43**	**(12)**
Total income statement	175,976	5,876	65,441	51,212	17,075	(2,086)	(837)
Incidence % on income statement	**28.1%**	**75.3%**	**32.6%**	**10.6%**	**76.7%**	**(2.0%)**	**1.5%**

(Values in thousands of EUR) Year 2017	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	15,464	668	246	3,504	12,020	6	(69)
Pollini Group	693	2,621	20,422	36	5		308
Aeffe Retail Group	14,505	830	123	177			
Velmar S.p.A.	103	341	472	75			
Aeffe Usa Inc.	5,542	3		886		3	(48)
Aeffe UK L.t.d.	1,007	11	55	250			
Aeffe France S.a.r.l.	844	6	84	738			22
Total Group companies	**38,157**	**4,479**	**21,403**	**5,664**	**12,025**	**9**	**214**
Total income statement	157,527	5,623	62,094	47,771	15,700	(1,751)	(884)
Incidence % on income statement	**24.2%**	**79.7%**	**34.5%**	**11.9%**	**76.6%**	**(0.5%)**	**(24.2%)**

RECEIVABLES AND PAYABLES

(Values in thousands of EUR) Year 2018	Other fixed assets	Trade receivables	Trade payables	Non-current financial liabilities
Moschino Group		3,908	26,938	
Pollini Group		23,934	5,864	390
Aeffe Retail Group		6,259	2,820	
Velmar S.p.A.		2,181	1,374	1,636
Aeffe Usa Inc.			1,130	3,057
Aeffe UK L.t.d.		5,882	7	
Aeffe France S.a.r.l.	1,411	3,653	850	
Aeffe Japan Inc.	30	474		
Aeffe Shanghai		1,503		
Total Group companies	**1,441**	**47,794**	**38,983**	**5,083**
Total balance sheet	2,159	56,941	77,254	18,926
Incidence % on balance sheet	**66.7%**	**83.9%**	**50.5%**	**26.9%**

(Values in thousands of EUR) Year 2017	Other fixed assets	Trade receivables	Trade payables	
Moschino Group		3,201	28,451	
Pollini Group		27,202	7,775	390
Aeffe Retail Group		4,868	218	
Velmar S.p.A.		935	1,121	6
Aeffe Usa Inc.			1,336	2,085
Aeffe UK L.t.d.		4,896	250	
Aeffe France S.a.r.l.	1,411	2,898	439	
Aeffe Japan Inc.	30	322		
Total Group companies	**1,441**	**44,322**	**39,590**	**2,481**
Total balance sheet	2,356	56,077	73,761	22,668
Incidence % on balance sheet	**61.2%**	**79.0%**	**53.7%**	**10.9%**

37. 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 2018	31 December 2017	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.A.			
Contract for the sale of artistic assets and design	1,000	751	Cost
Commercial	-	205	Payable
Ferrim with Aeffe S.p.A.			
Property rental	1,805	1,789	Cost
Commerciale Valconca with Aeffe S.p.A.			
Revenues	1,390	1,350	Revenue
Cost of services	73	73	Cost
Property rental	50	50	Cost
Commercial	638	735	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 2018 and 31 December 2017:

(Values in thousands of EUR)	Balance 2018	Value rel. party 2018	%	Balance 2017	Value rel. party 2017	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	175,976	1,390	0.8%	157,527	1,350	0.9%
Costs of services	51,212	1,123	2.2%	47,771	874	1.8%
Costs for use of third party assets	17,075	1,805	10.6%	15,700	1,789	11.4%
Incidence of related party transactions on the balance sheet						
Trade receivables	56,941	638	1.1%	56,077	735	1.3%
Trade payables	77,254		0.0%	73,761	205	0.3%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activity	15,416	(1,646)	n.a.	7,552	(1,080)	n.a.
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	(47,632)	(1,646)	3.5%	(57,802)	(1,080)	1.9%

38. Atypical and/or unusual transactions

Pursuant to Co.N.So.B 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 2018.

39. Significant non-recurring events and transactions pursuant to the Co.N.So.B regulation of 28 July 2006

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

40. Guarantees and commitments

(Values in thousands of EUR)	31 December 2018	31 December 2017	Change Δ	%
Guarantees given				
- on behalf of third parties	9,488	7,679	1,809	23.6%
Total	**9,488**	**7,679**	**1,809**	**23.6%**

41. 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.

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.

42. Information pursuant to art. 149-duodecies of Co.N.So.B's Issuers' Regulations

The following schedule, prepared pursuant to art. 149-duodecies of Co.N.So.B's Issuers' Regulation, shows the fees incurred in 2018 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	2017 fees
Audit	RIA GRANT THORNTON S.p.A.	79
Audit non-financial statement (DNF)	BDO Italia S.p.A	10
Assistance European Regulation 679/2016	BDO Italia S.p.A	25
Total		**114**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I

List of investments in subsidiary companies

requested by Co.N.So.B 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 31/12/17			8,585,150	1,937,332	10,778,284	100%	8,585,150	26,593,345
At 31/12/18			8,585,150	2,826,797	13,605,081	100%	8,585,150	26,593,345
Moschino S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/17			66,817,108	(178,435)	71,194,304	70%	14,000,000	46,857,175
At 31/12/18			66,817,108	(574,248)	70,620,056	70%	14,000,000	46,857,175
Pollini S.p.A.	**Gatteo (FC) Italy**							
At 31/12/17			6,000,000	5,163,389	31,001,416	100%	6,000,000	41,945,452
At 31/12/18			6,000,000	9,915,367	40,916,783	100%	6,000,000	41,945,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/17			120,000	2,139,325	2,595,718	100%	60,000	8,290,057
At 31/12/18			120,000	3,853,318	6,449,037	100%	60,000	8,290,057
Foreign companies								
Aeffe France S.a.r.l.	**Paris (FR)**							
At 31/12/17			50,000	(174,840)	63,739	100%	n.d. *	5,018,720
At 31/12/18			50,000	(654,143)	(590,404)	100%	n.d. *	5,018,720
Aeffe UK L.t.d.	**London (GB)**							
At 31/12/17		GBP	310,000	(916,753)	(2,537,526)	100%	n.d. *	
			349,414	(1,033,310)	(2,860,151)	100%	n.d. *	478,400
At 31/12/18		GBP	310,000	(1,221,368)	(3,758,894)	100%	n.d. *	
			346,562	(1,365,420)	(4,202,229)	100%	n.d. *	478,400
Aeffe USA Inc.	**New York (USA)**							
At 31/12/17		USD	600,000	(263,879)	11,663,163	100%	n.d. *	
			500,292	(220,028)	9,724,975	100%	n.d. *	10,664,812
At 31/12/18		USD	600,000	(67,300)	11,595,863	100%	n.d. *	
			524,017	(58,777)	10,127,391	100%	n.d. *	10,664,812
Aeffe Japan Inc.	**Tokyo (Japan)**							
At 31/12/17		JPY	3,600,000	(2,613,232)	(281,241,809)	100%	n.d. *	-
			26,665	(19,356)	(2,083,118)	100%	n.d. *	-
At 31/12/18		JPY	3,600,000	(3,095,264)	(284,337,073)	100%	n.d. *	-
			28,605	(24,595)	(2,259,333)	100%	n.d. *	-
Aeffe Shanghai	**Shanghai (China)**							
At 31/12/18		CNY	10,000,000	(6,532,798)	3,467,202	100%	n.d. *	
			1,269,825	(829,551)	440,274	100%	n.d. *	1,324,017
Total interests in subsidiaries:								**141,171,978**

* quota

List of investments in other companies

requested by Co.N.So.B 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 31/12/17								109
At 31/12/18								109
Caaf Emilia Romagna								
At 31/12/17						0.688%	5,000	2,600
At 31/12/18						0.688%	5,000	2,600
Assoform								
At 31/12/17						1.670%	n.d. *	1,667
At 31/12/18						1.670%	n.d. *	1,667
Consorzio Assoenergia Rimini								
At 31/12/17						2.100%	n.d. *	516
At 31/12/18						2.100%	n.d. *	516
Effegidi								
At 31/12/17								6,000
At 31/12/18								6,000
Total interests in other companies:								**10,892**
* quota								
Total interests:								**141,182,870**

ATTACHMENT II

Balance Sheet Assets, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2018	of which related parties	31 December 2017	of which related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Trademarks		3,023		3,149	
Other intangible fixed assets		800		585	
Total intangible fixed assets	(1)	3,822		3,734	
Tangible fixed assets					
Lands		16,945		16,945	
Buildings		22,860		21,871	
Leasehold improvements		1,050		1,206	
Plant and machinery		1,797		1,528	
Equipment		111		63	
Other tangible fixed assets		700		616	
Total tangible fixed assets	(2)	43,463		42,230	
Other fixed assets					
Equity investments	(3)	141,183	141,172	139,859	139,848
Other fixed assets	(4)	2,159	1,441	2,356	1,441
Deferred tax assets	(5)	2,577		2,565	
Total other fixed assets		145,920		144,780	
TOTAL NON-CURRENT ASSETS		**193,205**		**190,744**	
CURRENT ASSETS					
Stocks and inventories	(6)	32,802		33,423	
Trade receivables	(7)	56,941	48,432	56,077	45,057
Tax receivables	(8)	4,247		3,571	
Cash	(9)	4,561		7,612	
Other receivables	(10)	14,509		12,974	
TOTAL CURRENT ASSETS		**113,059**		**113,657**	
TOTAL ASSETS		**306,265**		**304,402**	

ATTACHMENT III

Balance Sheet Liabilities, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2018	of which related parties	31 December 2017	of which related parties
SHAREHOLDERS' EQUITY					
Share capital		25,371		25,371	
Share premium reserve		71,240		71,240	
Other reserves		33,035		26,558	
Fair Value reserve		7,742		7,742	
IAS reserve		1,086		1,086	
Legal reserve		3,336		2,995	
Remeasurement of defined benefit plans reserve		(623)		(681)	
Profits / (Losses) carried-forward		2,348		2,348	
Net profit / loss		8,781		6,818	
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**152,315**		**143,477**	
NON-CURRENT LIABILITIES					
Provisions	(12)	119		123	
Deferred tax liabilities	(5)	7,609		7,483	
Post employment benefits	(13)	3,653		3,943	
Long term financial liabilities	(14)	18,926	5,083	22,668	2,481
Long term not financial liabilities	(15)	620		695	
TOTAL NON-CURRENT LIABILITIES		**30,927**		**34,911**	
CURRENT LIABILITIES					
Trade payables	(16)	77,254	38,983	73,761	39,795
Tax payables	(17)	4,650		1,825	
Short term financial liabilities	(18)	33,266		42,746	
Other liabilities	(19)	7,851		7,682	
TOTAL CURRENT LIABILITIES		**123,022**		**126,014**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**306,265**		**304,402**	

ATTACHMENT IV

Income Statement, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full year 2018	of which related parties	Full year 2017	of which related parties
REVENUES FROM SALES AND SERVICES	**(20)**	**175,976**	**50,923**	**157,527**	**39,507**
Other revenues and income	(21)	5,876	4,427	5,623	4,479
TOTAL REVENUES		**181,852**		**163,150**	
Changes in inventory		(503)		4,935	
Costs of raw materials, cons. and goods for resale	(22)	(65,441)	(21,335)	(62,094)	(21,403)
Costs of services	(23)	(51,212)	(6,556)	(47,771)	(6,538)
Costs for use of third parties assets	(24)	(17,075)	(14,903)	(15,700)	(13,814)
Labour costs	(25)	(29,245)		(27,364)	
Other operating expenses	(26)	(2,086)	(43)	(1,751)	(9)
Amortisation and write-downs	(27)	(2,233)		(2,661)	
Financial income/(expenses)	(28)	(837)	(12)	(884)	214
PROFIT / LOSS BEFORE TAXES		**13,219**		**9,860**	
Income taxes	(29)	(4,439)		(3,042)	
NET PROFIT / LOSS		**8,781**		**6,818**	

ATTACHMENT V

Cash Flow Statement, with related parties

Pursuant to Co.N.So.B Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2018	of which related parties	Full Year 2017	of which related parties
OPENING BALANCE		**7,610**		**2,633**	
Profit before taxes		13,219		9,860	
Amortisation		2,233		2,661	
Accrual (+)/availment (-) of long term provisions and post employment benefits		(294)		(501)	
Paid income taxes		(1,365)		(7,435)	
Financial income (-) and financial charges (+)		837		884	
Change in operating assets and liabilities		786	4,187	2,083	(5,555)
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**15,416**		**7,552**	
Increase (-)/ decrease (+) in intangible fixed assets		(553)		(380)	
Increase (-)/ decrease (+) in tangible fixed assets		(2,787)		(816)	
Investments (-)/ Disinvestments (+)		(1,324)	(1,324)	(450)	(450)
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**(4,664)**		**(1,646)**	
Other variations in reserves and profits carried-forward of shareholders' equity		58		(26)	
Proceeds (+)/repayment (-) of financial payments		(13,221)	(5,083)	(4,551)	(2,481)
Increase (-)/ decrease (+) in long term financial receivables		197		4,533	4,188
Financial income (+) and financial charges (-)		(837)		(884)	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**(13,804)**		**(929)**	
CLOSING BALANCE		**4,558**		**7,610**	

ATTACHMENT VI

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2017

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2017	STATUTORY FINANCIAL STATEMENTS 2016
BALANCE SHEET		
ASSETS		
Intangible fixed assets	86,926	127,574
Tangible fixed assets	2,052,505	2,248,163
Equity investments	65,742,281	63,397,878
Non current assets	**67,881,712**	**65,773,615**
Trade receivables	1,051,210	1,391,856
Tax receivables		
Cash	140,134	21,753
Other receivables	3,966	3,308
Current assets	**1,195,310**	**1,416,917**
Total assets	**69,077,022**	**67,190,532**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	61,594,665	62,529,081
Other reserves	15,038	15,038
Approximations		
Net profit/(loss)	(318,691)	(934,416)
Shareholders' equity	**61,391,012**	**61,709,703**
Provisions	160,625	184,132
Long term financial liabilities		
Non-current liabilities	**160,625**	**184,132**
Trade payables	7,525,385	5,296,697
Current liabilities	**7,525,385**	**5,296,697**
Total shareholders' equity and liabilities	**69,077,022**	**67,190,532**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income	357,701	366,894
Total revenues	**357,701**	**366,894**
Operating costs	(386,881)	(305,149)
Costs for use of third parties assets		(215,672)
Amortisation and write-downs	(236,307)	(165,803)
Other operating expenses	(16,864)	(15,112)
Financial income (expenses)	55,514	47,040
Profit (loss) from affiliates		
Financial assets adjustments	(150,722)	(717,550)
Extraordinary profit/(loss)		
Profit before taxes	**(377,560)**	**(1,005,352)**
Income taxes	58,869	70,936
Net profit/(loss)	**(318,691)**	**(934,416)**

Certification of the Financial Statements pursuant to art.81-ter of Co.N.So.B 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 2018.

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.

12 March 2019

President of the board of directors	Manager responsible for preparing Aeffe S.p.A. financial reports
Massimo Ferretti	Marcello Tassinari